

Canon
Sustainability
Report
2007





For a Prosperous World and Sustainable Society

To Our Readers

The Canon Sustainability Report is published annually to ensure accountability to Canon stakeholders by informing them of how our global business activities are helping to bring about a sustainable society. The report is also intended to promote two-way communication with stakeholders for the sake of further improving these activities.

The report has been structured to reflect the needs of a broad range of stakeholders and to systematically summarize Canon's activities in a way that is easy to understand across a wide audience. It is available in both Japanese and English.

- "P00 ▶" indicates pages with additional reference material.
- The "WEB" symbol shown below indicates that more detailed information is available on Canon's website (canon.com/environment/report/sustainability.html).



Reporting Scope

In principle, this report covers Canon's economic, social and environmental activities within the scope of consolidated accounting for the 2006 fiscal year (January 1 to December 31, 2006).

The scope of environmental activities is not limited just to Canon's on-site business activities (development, production and sales operations), but covers every stage of the lifecycle, including raw material and parts manufacturing by suppliers, as well as product usage by customers. (Details are provided in the Mid-Term Environmental Goals on page 34.)

In addition, please see page 53 for a list of activities at operational sites covered in this report. Also, please note that supplemental information on important targets and initiatives prior to fiscal 2005 and beyond fiscal 2007 are also referenced

in this report. Any information limited to certain regions or organizations is indicated as such.

Third-Party Opinions

Since 2002, Canon has elicited third-party opinions with the help of SustainAbility Ltd. of the United Kingdom in order to improve the objectivity of this report. Included in this year's report are opinions received from two expert groups, each with a different perspective, so that readers may develop an opinion of Canon and its activities based on comprehensive information. **P69 ▶**

Reference Guidelines

- GRI Sustainability Reporting Guidelines
- Environmental Reporting Guidelines (2003 version) from Japan's Ministry of the Environment
- Environmental Accounting Guidelines (2005 version) from Japan's Ministry of the Environment

Feedback from Readers

Canon welcomes feedback on this report from readers. The thoughts and opinions of readers will be used to enhance future sustainability initiatives. Please feel free to e-mail or fax us your comments using the questionnaire at the end of the report. (E-mail: eco@web.canon.co.jp, Fax: +81-3-3758-8225)

Other Information

Data disclosed in past reports has been revised to reflect changes in calculation methods and the expanded scope of sites covered. Accordingly, some of the data in this report differs with the data presented in last year's report.

Main Features of the Canon Sustainability Report 2007

Structure

- (1) A new section, entitled "2006 Highlights" has been added to each page that begins a new topic, indicating new initiatives and results.
- (2) As this is an annual report, attention has been focused on including policies for 2006 and the future, taking PDCA trends into account. Detailed information and articles that remain intact are disclosed on Canon's website.
(canon.com/environment/report/sustainability.html)

Contents

(1) Vision and Strategy

- As Phase III of the Canon Group's medium- to long-term management plan, known as the Excellent Global Corporation Plan, commenced in 2006, major strategies and their progress are included.
- The report indicates our state of progress toward Factor 2, the overriding indicator of our global environmental Vision for 2010.

(2) People-Friendly, Environmentally Conscious Products

- "Consideration for the environment and accessibility" has been included for all products as part of the life cycle of "produce," "use" and "recycle."

(3) Management Systems

- The report describes the status of our responses to the Sarbanes-Oxley Act, and initiatives in disaster risk management.

(4) Canon and the Environment

- The report shows the results of efforts toward our Mid-Term Environmental Goals (2006-2008), and also includes response evaluations.

Company Overview (As of May 15, 2007)

Company Name:	Canon Inc.
Establishment:	August 10, 1937
Headquarters:	30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo, Japan
Chairman and CEO:	Fujio Mitarai
President and COO:	Tsuneji Uchida
Capital:	¥174,603 million (As of December 31, 2006)
Group Companies:	219 consolidated subsidiaries, 14 companies accounted for under the equity method (As of December 31, 2006)

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Disclaimer

This report contains not only past and present facts about Canon, but also future forecasts based on plans, prospects, management policies and strategies as of the publication date. These future forecasts are assumptions or estimations based on information available at the time the report was prepared. Due to a range of variables, however, the results or circumstances of our future business activities may vary from the forecasts contained herein. We ask for the understanding of the readers in this regard.

Vision and Strategy

People-Friendly,
Environmentally Conscious Products

Management Systems

Canon and the Environment

Canon and Stakeholders

In keeping with our philosophy of *kyosei*, we will continue to pursue global environmental and social sustainability as we progress through the next 100, and even 200, years.

In 2006, Canon launched Phase III of the Excellent Global Corporation Plan, our mid- to long-term management plan. While maintaining the high-profit structure achieved during Phases I and II, we aim to expand further, pursuing a course of sound growth to achieve by 2010 consolidated net sales of ¥5,500 billion and a net income to sales ratio of 10% or more. Additionally, we plan to join the ranks of the world's top 100 companies in terms of every major management indicator. We are thus pleased to report that in this inaugural year of Phase III, Canon posted its seventh consecutive year of sales and profit growth.

Our main objective under the Excellent Global Corporation Plan is to become a truly excellent global corporation that is admired and respected the world over. We aim to achieve this by constantly promoting innovation and technologies that support the progress and development of industry and society. Fulfilling our social responsibilities as a global corporate citizen and pursuing sustainability are natural obligations in this pursuit.

Canon's corporate philosophy of *kyosei*, or living and working together for the common good, is the foundation for this approach. *Kyosei* aspires to a society characterized by sustainable prosperity in which all people, regardless of race, region or culture, harmoniously live and work together into the future. As Canon extends its range of business and areas of activity, the number of stakeholders that its corporate behavior attracts, as well as the sphere of its social influences expand on a daily basis. Based on this understanding, we are actively pursuing activities to reinforce our stakeholders' trust.

As a manufacturer, product quality and safety are issues of vital importance to Canon. A quality issue can instantly erase the reputation for reliability that a company has built up over many years, and more important, it puts stakeholders to great inconvenience. We are continually reassessing the importance of quality and promoting

quality improvement activities to ensure that problems stemming from a lack of diligence or inattention do not occur.

Also, we cannot overlook the precarious state of the global environment, which is of direct concern to stakeholders and society. Canon pursues the maximization of resource efficiency in a way that balances environmental concerns and economic development by targeting the entire product lifecycle, including the usage stage, as well as the company's business operations worldwide. In 2003, we established the overriding indicator Factor 2 as our Vision for 2010 in order to put these ideas into concrete practice. Our Group companies are united worldwide in stepping up environmental measures as we approach the First Commitment Period of the Kyoto Protocol, the international treaty on climate change.

Canon's activities are underpinned by each employee's adherence to our guiding principle of the "Three Selves" (self-motivation, self-management, self-awareness), which dates back to the company's founding. With this ideal firmly in mind, we will continue to promote a broad range of reforms while cultivating a spirit of compliance befitting a truly excellent corporation.

In 2007, we will celebrate the 70th anniversary of Canon's founding. Acting as a responsible corporate citizen, we will reinforce our corporate governance structure as we move forward with our valued stakeholders in our journey toward realizing a sustainable society. Canon will continue to pursue innovations in all business operations, leading to sustained development and prosperity for the next 100, and even 200, years.

We thank you for your continuing understanding and support.

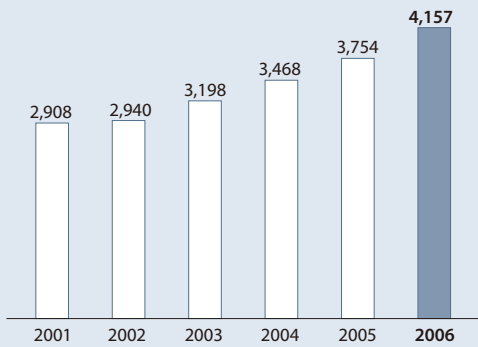


Canon Inc.
Chairman and CEO: Fujio Mitarai

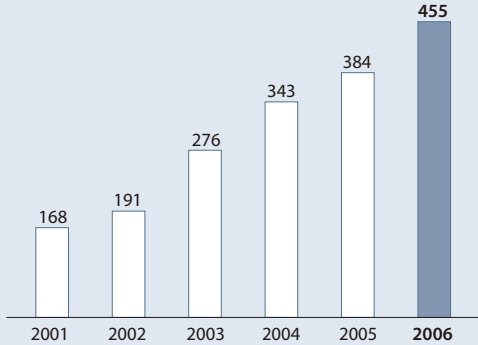
Canon Inc.
President and COO: Tsuneji Uchida

Diversification and Globalization — Two Basic Strategies of the Canon Group

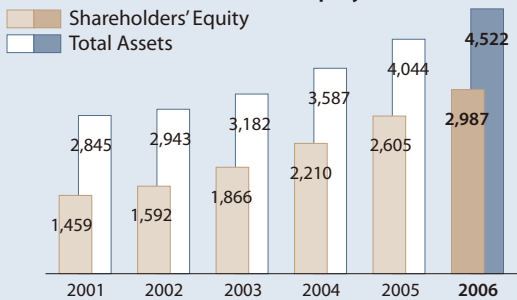
Net Sales (¥ billion)



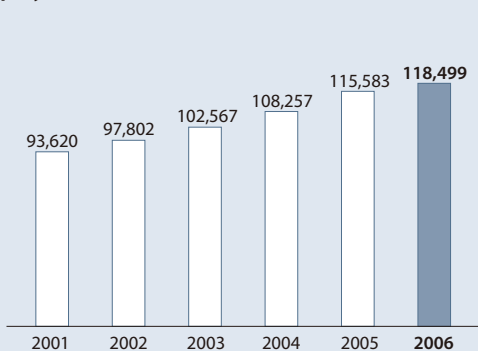
Net Income (¥ billion)



Total Assets & Shareholders' Equity (¥ billion)



Employees



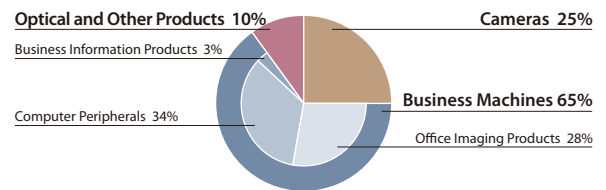
* The above data is calculated on a consolidated basis.

Diversification Businesses and Products

Taking the Trusted Canon Brand into Various Fields

Since developing Japan's first prototype of a 35 mm focal-plane shutter camera in 1934, Canon has not only grown as a camera manufacturer, but has leveraged optical technologies to develop businesses in such areas as medical equipment and business machines. Furthermore, we actively promote diversification of businesses based on our proprietary technologies, taking the trusted Canon brand into various fields, including consumer products, business, industry and medicine.

• Net Sales by Product

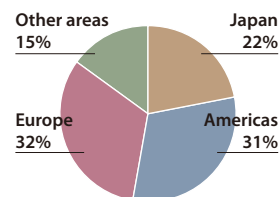


Globalization Markets and Locations

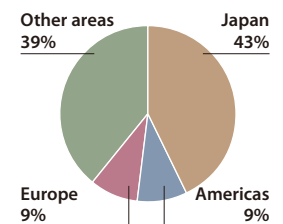
Developing Regional Activities on a Global Scale

Canon, with sights set on global development since its founding in 1937, has established sales, production and R&D sites in the Americas, Europe and Asia. In line with our corporate philosophy of *kyosei*, we actively promote activities rooted in the regional community. As of December 31, 2006, Canon maintained 219 consolidated subsidiaries around the world.

• Net Sales by Region



• Employees by Region



Personal-Use Products

- Digital single-lens reflex (SLR) cameras
- Compact digital cameras
- Digital video camcorders
- Compact photo printers
- Film cameras
- Lenses
- Binoculars
- Image scanners
- Personal-use and digital plain-paper copiers
- Inkjet printers
- Inkjet all-in-ones



Digital SLR camera



Inkjet all-in-one

Business Products

- Office color/monochrome network multifunction devices (MFDs)
- Digital color production systems
- Color and monochrome laser beam printers
- Toner, photosensitive drums, toner cartridges
- Document solutions package software
- Internet services
- Large-format inkjet printers
- LCD projectors
- Visual communication products
- Facsimile machines



Office color MFD

Industry Products

- Semiconductor exposure equipment
- Liquid crystal exposure equipment
- Broadcasting equipment
- Digital radiography systems
- Ophthalmic equipment
- Components



Digital radiography system



Stepper

Japan, Asia & Oceania

In Japan, we are focused on cultivating new businesses while working, through Canon Marketing Japan Inc. to strengthen relations with our customers. In other Asian countries and regions, we are bolstering sales, production and development activities with a particular focus on China. In Oceania, we are engaged in building solutions businesses as well as developing digital imaging technologies.



Canon Marketing Japan Inc.

Americas

As our headquarters for North and South America, Canon U.S.A. is subdividing sales areas in an effort to strengthen customized sales to respond to the individual needs of customers. The company is also pursuing regional independence through the establishment of localized R&D bases and production sites.



Canon U.S.A., Inc.

Europe, Africa, & the Middle East

Canon Europe is spearheading efforts to expand business operations in Europe as a whole, while also working to develop markets in Russia, the Middle East and Africa. Focusing on production activities and regionally based R&D, we aim to establish independent businesses in these markets.



Canon Europe Ltd.



Vision and Strategy

Becoming a Truly Excellent Global Corporation

In 2006, Canon entered Phase III of its Excellent Global Corporation Plan, a mid- to long-term management plan that outlines the company's vision of continuing to contribute to society through technological innovation in accordance with its philosophy of *kyosei*, while aiming to be a corporation worthy of admiration and respect worldwide. During Phase III, under the theme of sound growth, we will further cultivate our global business in digital imaging while maintaining a highly profitable structure and sound financial balance. By 2010, the final year of the plan, we intend to become a top 100 company globally in terms of key business indicators. At the same time, we will further bolster initiatives that facilitate our philosophy of *kyosei*, as we work to become a Truly Excellent Global Company that contributes to the development of a sustainable society.

Corporate Philosophy:

Kyosei

Living and Working Together
for the Common Good

The Excellent Global Corporation Plan

Canon will continuously contribute to society through technological innovation while striving to become a company worthy of admiration and respect worldwide.

Phases I and II

1996-2005

Building
a Strong Financial Structure
Becoming No. 1 in the World
in All Major Areas of Business

Phase III

2006-2010

"Innovation and Sound Growth"

Pursuing Sustainability

Phases I and II (1996-2005) Developments

Phase I (1996-2000)

Targeting a Strong Financial Structure

In 1995, while Canon posted just under ¥2.9 trillion in consolidated net sales, it had ¥840.0 billion in borrowings and an interest-bearing debt ratio of 33.6%. The company's financial position made it difficult for it to sustain the kind of long-term investment in research and development that is required in the manufacturing industry.

Phase I of the Excellent Global Corporation Plan pivoted on building a strong financial structure. First changing the company's mindset—from partial optimization to total optimization and from a focus on sales to profit—we initiated management reforms designed to address common issues concerning all of the company's businesses, including production methods, development infrastructure and global logistics.



Change of Mindset

To achieve total optimization of Group management, we shifted from a focus on individual business divisions to a consolidated business performance evaluation system that encompasses subsidiaries and affiliated companies. As the pursuit of profit is essential to the sustained growth and development of a company, we implemented cash-flow management and switched our mindset from a sales orientation to a focus on profits.



Production Reform

We eliminated conveyor-belt assembly processes at all plants worldwide and introduced the cell production system, in which an individual worker performs multiple processes. Driven by the applied expertise of individual employees, including their workplace and process knowledge, this system has increased productivity dramatically. The cell production system also contributed to the introduction of supply chain management, allowing greater flexibility in high-mix low-volume production and changes in production volumes.

Phase II (2001-2005)

Becoming No. 1 in All Major Areas of Business

Under Phase II, we worked to bolster product strength thoroughly by initiating various reforms among our business divisions and affiliates worldwide with the goal of becoming No. 1 in the world in all our major areas of business. As a result, 2005 marked our sixth consecutive year of sales and profit growth. To deliver new value in an increasingly networked world, we have stepped up efforts to digitize our products. Compared with 1995, the year before we launched our management innovation activities, net sales have increased 1.8 times, net income has expanded 6.2 times, and ROE has jumped from 6.5% to 16.8%.



Development Innovations

By 2001, we had completed the introduction of 3D computer-aided design (CAD) systems throughout the company. Aiming for a "prototype-less" model with a substantially reduced number of physical prototypes, we bolstered our computer measurement, analysis and simulation technologies. As a result, we progressed to using computer simulations to create virtual prototypes and perform virtual trials, substantially accelerating product development times, reducing costs and raising quality and safety levels.



Development of Key Components and Devices

Supporting the high added value of its products, Canon develops a steady flow of proprietary key components and devices—such as the CMOS sensors and DIGIC image processors used in digital cameras, the Full-photolithography Inkjet Nozzle Engineering (FINE) units used in inkjet printers, and the iR controller used in digital multifunction devices. In the era of digital networking, such developments have proven a key driver of company growth.

Phase III (2006-2010) Developments

Phase III (2006-2010)

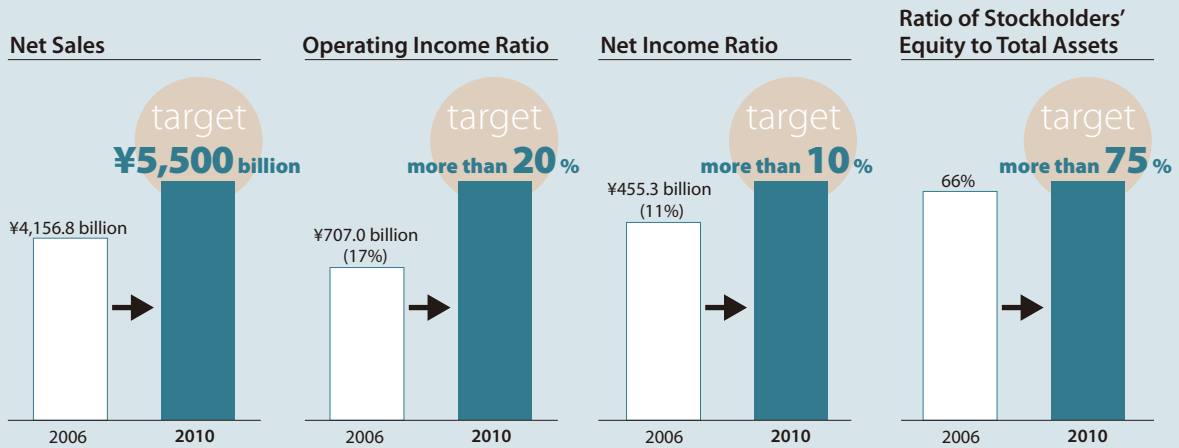
Becoming a Top 100 Global Company

In 2006, Canon began Phase III of its Excellent Global Corporation Plan. During Phase III, we intend to achieve sound growth by steadily advancing innovation, taking into account such trends as ongoing economic globalization and the worldwide spread of broadband networks, while enhancing the sound profit structure and financial balance we have established over the past decade. To this end, we have established five key strategies through which we aim to become a top 100 company globally in terms of all key management indicators by 2010.



2010 Targets (Consolidated)

Achieve Global Top 100 Ranking in Key Management Indicators



1 Achieve the Overwhelming No. 1 Position in Existing Businesses and Establish Three New Display Businesses

Achieving further expansion in our existing core businesses will drive us toward our Phase III objective of sound growth. In our aim to capture or maintain the No. 1 position worldwide for all existing business areas, we will focus more intensively on the development of key devices and components, which are essential determiners of product performance, and reinforce platform technologies. At the same time, we are preparing to commercialize SEDs*, organic LED displays, and projection displays.

Realizing more than ever the importance of product quality, we will redouble efforts to improve the quality of the ever-increasing number of Canon products launched to markets worldwide to prevent any situation that could irrevocably damage our brand image, which we have carefully nurtured over many years.

* SED: Surface-conduction Electron-emitter Display



55-inch SED prototype attracts attention at CEATEC JAPAN 2006



Organic LED prototype

2 Establish New Production Systems to Sustain International Competitiveness

As demand for Canon products continues to expand, we realize that strengthening product performance and developing production systems that improve the cost of sales ratio are essential to maintaining a competitive edge in the global market.

Canon is working to automate production by integrating product development, production engineering, and manufacturing know-how. We have already begun seeing the benefits of an automated toner cartridge assembly system, and we will persevere in our efforts to achieve full automation.

We are also making efforts to evolve the cell production system utilized at all of our production facilities worldwide, including logistical improvements aimed at reducing inventories and lessening our environmental impact. Moreover, by sharing 3D CAD data throughout the Company we are building an efficient SCM system that uses IT to link all processes, from development to manufacturing and sales.



Automated production of toner cartridges



Automated production of ink cartridges

Phase III (2006-2010) Developments

3 Expand Business Operations through Diversification

Canon is pursuing diversification to ensure sound growth.

Canon entered the digital commercial print (POD) market as a new business area with the launch of the imagePRESS series of production color printing systems, and in 2007 we plan to expand our presence in the commercial large-format printer market.

Companies throughout the Canon Group are also growing independent businesses. For example, Canon Finetech Inc. has begun manufacturing its own monochrome MFPs, while Canon Electronics Inc. is pursuing M&A activities as part of its development of an information security business.

Our regional marketing headquarters in Europe and the United States are effectively employing their human resources and capital to develop independent new businesses that make the most of regional characteristics and technical expertise, producing unique products to export all around the world.



An imagePRESS digital color production



A Canon large-format inkjet printer

4 Identify New Business Domains and Accumulate Required Technologies

Canon's business activities grow increasingly diverse as it works to continue contributing to society through technological innovation. We are constantly on the lookout for new business domains that hinge on our proprietary technologies.

To this end, in 2004 we established the New Business Domain Committee, which explores new fields of business for development beyond 2010. As an example, Canon aims to establish a business in medical-related fields by further cultivating and expanding the advanced imaging technologies the company has accumulated over many years. We are also pursuing research in the fields of robotics and safety assurance.

With regard to R&D activities, we are actively engaged in basic research and leading-edge technical development at our leading-edge technology research center in Tokyo, completed in 2005. We are also expanding our participation in global research projects, strengthening academic/industry collaborations through partnerships with such world-leading universities and research institutes as Stanford University, Tokyo Institute of Technology, and Kyoto University.



Collaborative research at Massachusetts Institute of Technology (MIT) in the United States



Developing a DNA chip

5 Nurture Truly Autonomous and Strong Individuals to Ensure Sustainable Corporate Innovation

In keeping with Canon's founding principle of the "Three Selves," **P63** and as befits a Truly Excellent Global Company, Canon focuses on nurturing strong, autonomous business professionals that are trusted by society.

In May 2006, we established the Canon Global Management Institute in Tokyo as a training facility for future Group executives. Our aim is to cultivate insightful global leaders and business managers who actively contribute not only to progress at Canon, but also to the business world and society as a whole.

On another front, we proactively train service personnel and production engineers at Group companies throughout the world, developing a professional cadre that will drive our growth.

Recognizing the fact that a company's social responsibilities grow in proportion to the scale of its expansion, we are enhancing our compliance and corporate governance training through various means.



The Canon Global Management Institute



Service training at Canon China

Global Rankings in 2006-2007

FORTUNE Global 500*1

- **170th** Global ranking, revenues
- **114th** Global ranking, profits

(July 24, 2006 issue)



*1 Evaluation of five performance measures for fiscal 2005, including total sales, profits, and total assets.
*FORTUNE Global 500® is a registered trademark of Time Inc., in the United States.

FORTUNE The World's Most Admired Companies 2007*2

- **46th** on All-Stars List
- **6th** in the Computers, Office Equipment sector

(March 19, 2007 issue)



*2 Survey of analysts and executives at the world's major corporations comprising nine areas of evaluation, including long-term investment and social responsibility.

BusinessWeek Best Global Brands *3

- **35th** Overall ranking

(August 7, 2006 issue)



*3 Fiscal 2006 brand value ranking based on future earnings potential.

Financial Times FT Global 500*4

- **102nd** Global ranking
- **9th** in the Technology, Hardware and Equipment sector

(June 10, 2006 edition)



*4 2006 market capitalization (the number of shares issued and outstanding multiplied by the price per share) ranking.

Inclusion in Sustainability Investment Indexes*5

- FTSE4Good Global 100 Index
- Dow Jones Sustainability World Index

Other **P60**

*5 Companies are selected for these indexes based not only on their financial soundness, but also on environmental and social criteria.

Pursuing Sustainability

Canon strives for harmony with the global environment and its stakeholders in its drive to be a truly excellent global corporation.

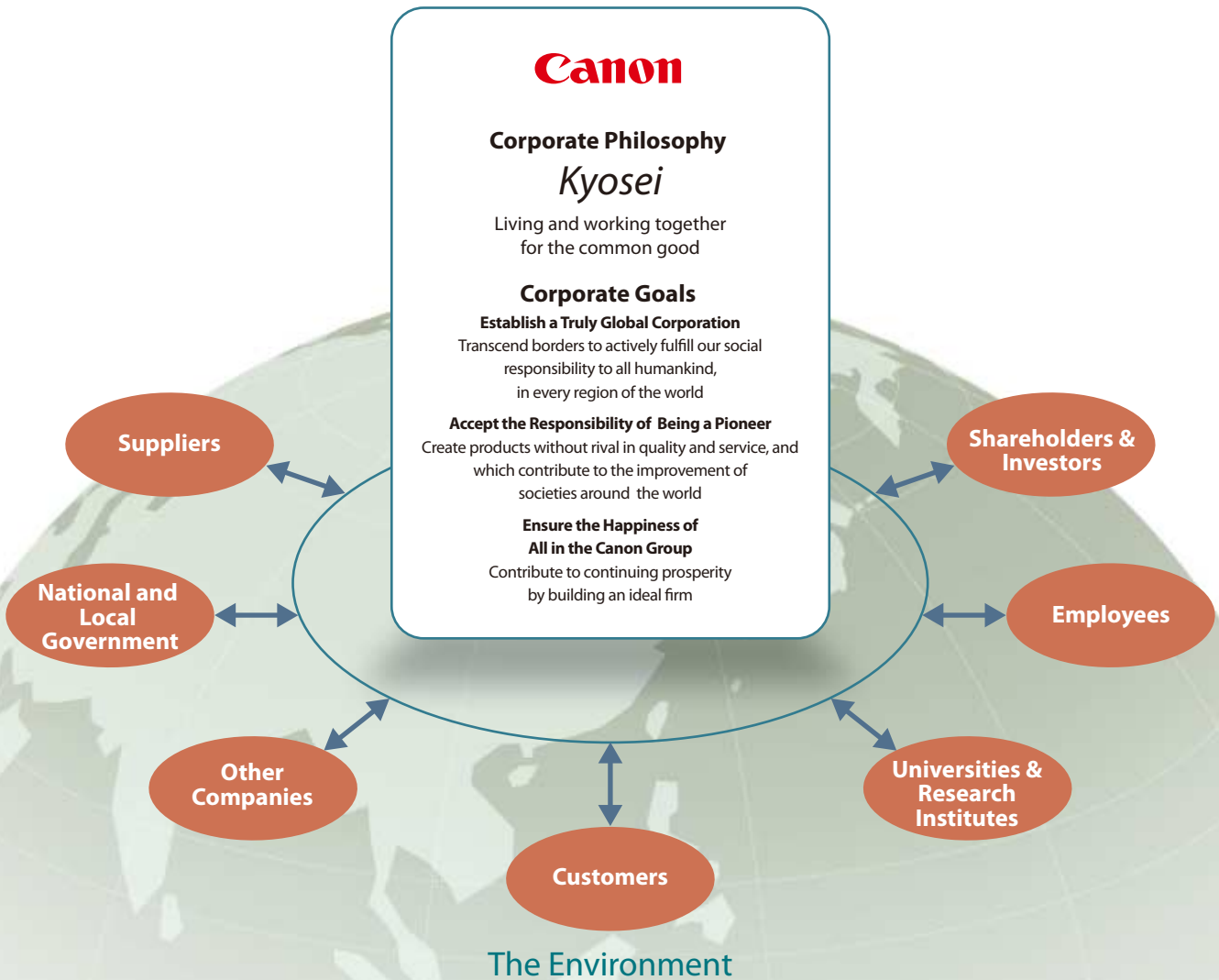
Canon introduced its philosophy of *kyosei* in 1988, the 51st year since the Company's founding. This philosophy clarifies Canon's stance on partnership with its stakeholders around the world as the Company strives to grow globally.

In 1996, we introduced the Excellent Global Corporation Plan. This plan is based on the clear recognition that as Canon's operations become more diverse and international, the impact of its cor-

porate activities on the people of the world and the global environment will grow commensurately. We created stronger initiatives to address various aspects of our social responsibilities, including compliance, security, personnel training, and conservation of the global environment.

Canon began emphasizing environmental assurance activities in its approach to worldwide sustainability, specifically from the view-

Canon Stakeholders



point of such environmental issues as global warming and resource depletion. Formulated in 1993, the Canon Group Environmental Charter serves as the basis for these activities.

The charter addresses the theme of maximizing resource efficiency from the dual approaches of environmental assurance and economic activities, considers overall product lifecycles, and clearly sets forth environmental assurance activities for the entire Group.

As worldwide awareness of environmental issues has increased, environmental laws and regulations have been rapidly enacted and made stricter. As compliance is both the most fundamental and the most important facet of environmental assurance activities, we have sought out the latest available information and mounted efforts to achieve ISO 14001 consolidated certification for the Canon Group and to strengthen environmental management.

Canon Group Environmental Charter

(Established in 1993, revised in 2007)

Corporate Philosophy: *Kyosei*

Achieve corporate growth and development while contributing to the prosperity of the world and the happiness of humankind.

Environmental Assurance Philosophy

In the interest of world prosperity and the happiness of humankind, pursue maximization of resource efficiency, and contribute to the creation of a society that practices sustainable development.

Fundamental Policies for Environmental Assurance

Seek to harmonize environmental and economic interests in all business activities, products and services (the EQCD concept); offer products with lower environmental burden through innovative improvements in resource efficiency, and eliminate anti-social activities that threaten the health and safety of mankind and the environment.

EQCD Concept

- E: Environment (environmental assurance) Companies are not qualified to manufacture goods if they are incapable of environmental assurance.
- Q: Quality Companies are not qualified to market goods if they are incapable of producing quality goods.
- C: Cost Companies are not qualified to compete if they are incapable of meeting cost and delivery requirements.
- D: Delivery

1. Optimize the organizations for promoting the Canon Group's global environmental efforts, and promote environmental assurance activities for the Group as a whole.
2. Assess the environmental impact of entire product lifecycles and explore ways to minimize environmental burden.
3. Promote the research and development of technologies and materials essential for environmental assurance and share the achievements with society.
4. Comply with all applicable laws in each country/region and other requirements the Canon Group agrees upon with stakeholders, and promote energy and resource conservation and elimination of hazardous substances in all corporate activities.
5. In procuring and purchasing necessary resources, give priority to materials, parts and products with lower environmental burden.
6. Establish an Environmental Management System (EMS) and establish and periodically review environmental objectives and targets to prevent environmental pollution and damage, and steadily reduce environmental burden.
7. Actively disclose to all stakeholders information on environmental burden and keep them updated on the progress of environmental measures.
8. Raise the environmental awareness of employees and educate them to take the initiative in environmental protection.
9. Maintain close relationships with governments, communities, and other interested parties, and actively support and participate in environmental protection activities.

Maximizing Resource Efficiency and Setting Factor 2 as the Overriding Indicator

Our drive to maximize resource efficiency means that we will raise environmental efficiency (value divided by environmental impact) throughout the entire product lifecycle while increasing the quality of our products and services. In other words, we will strive to derive maximum value from minimum resources.

In 2003, we set forth the overriding indicator Factor 2 in our Vision for 2010 to put resource efficiency maximization into more concrete practice. The Group's emission volumes are compiled for Canon lifecycle CO₂, the major greenhouse gas, and environmental efficiency is taken to be the ratio of consolidated net sales to these emissions (consolidated net sales divided by lifecycle CO₂ emissions). By 2010, we aim to double this basic unit, compared with the 2000 level, resulting in a factor of two.

As our mid-term environmental goal (2006–2008) **P34**, we have set Factor 1.7 as our target. To achieve this goal, we have set targets for every operating segment of the Company and each operational site of the Group's companies, and Canon is pursuing environmental assurance activities to this end.

2006 Factor

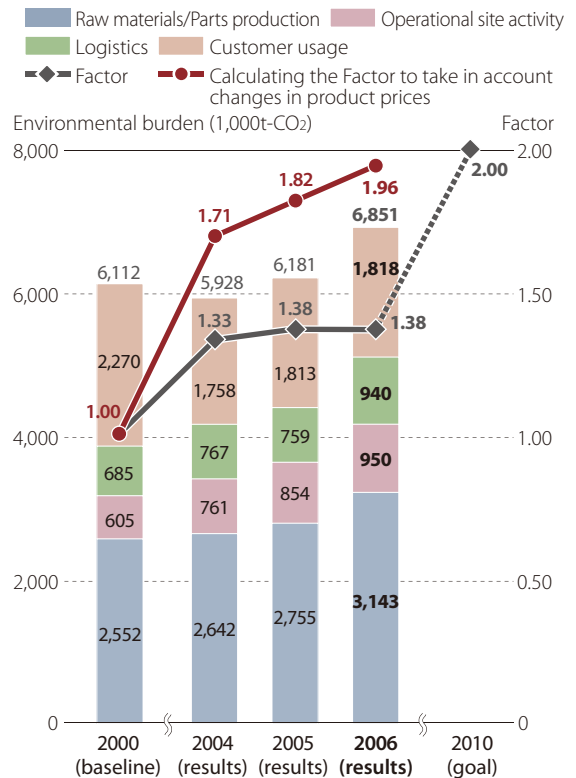
In 2006, we posted a factor of 1.38, the same as in the preceding year, through efforts to make products more energy-efficient, smaller and lightweight, and to reduce the environmental burdens from customer usage and the manufacture of raw materials and parts by suppliers. As a result of higher product shipments, CO₂ emission volumes rose from the benchmark figure of 6,112 thousand tons in 2000, to 6,851 thousand tons in 2006, an increase of 739 thousand tons, against stagnant growth in consolidated net sales as the result of increased competition and lower market unit prices. Had selling prices remained the same, we would have achieved a factor of 1.96*.

To achieve Factor 2, Canon will conduct scenario reviews across all areas of its activities. Furthermore, we are conducting factor research to establish and institute a more appropriate calculation methodology.

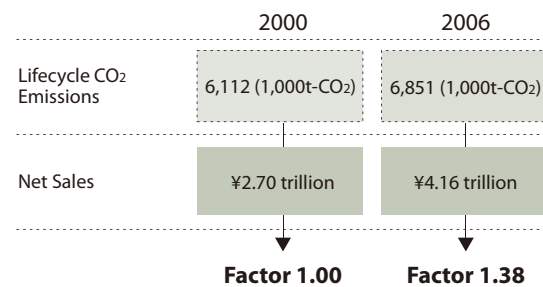
* The Factor is determined as follows.

- (1) Calculate average product prices by segment.
- (2) Incorporate the rate of change in these average product prices versus the prices in 2000 (baseline year) into sales figures for each segment and adjust overall net sales.
- (3) Calculate the Factor from the required values (environmental efficiency) by dividing adjusted overall net sales by lifecycle CO₂ emissions.

Environmental Burden, Factor 2 Targets and Achievements



* Some data was omitted from the calculation of the factor of 1.41 announced for 2005. Therefore, the figure is different from that reported in the Canon Sustainability Report 2006.



Basic Approach to CO₂ Calculations

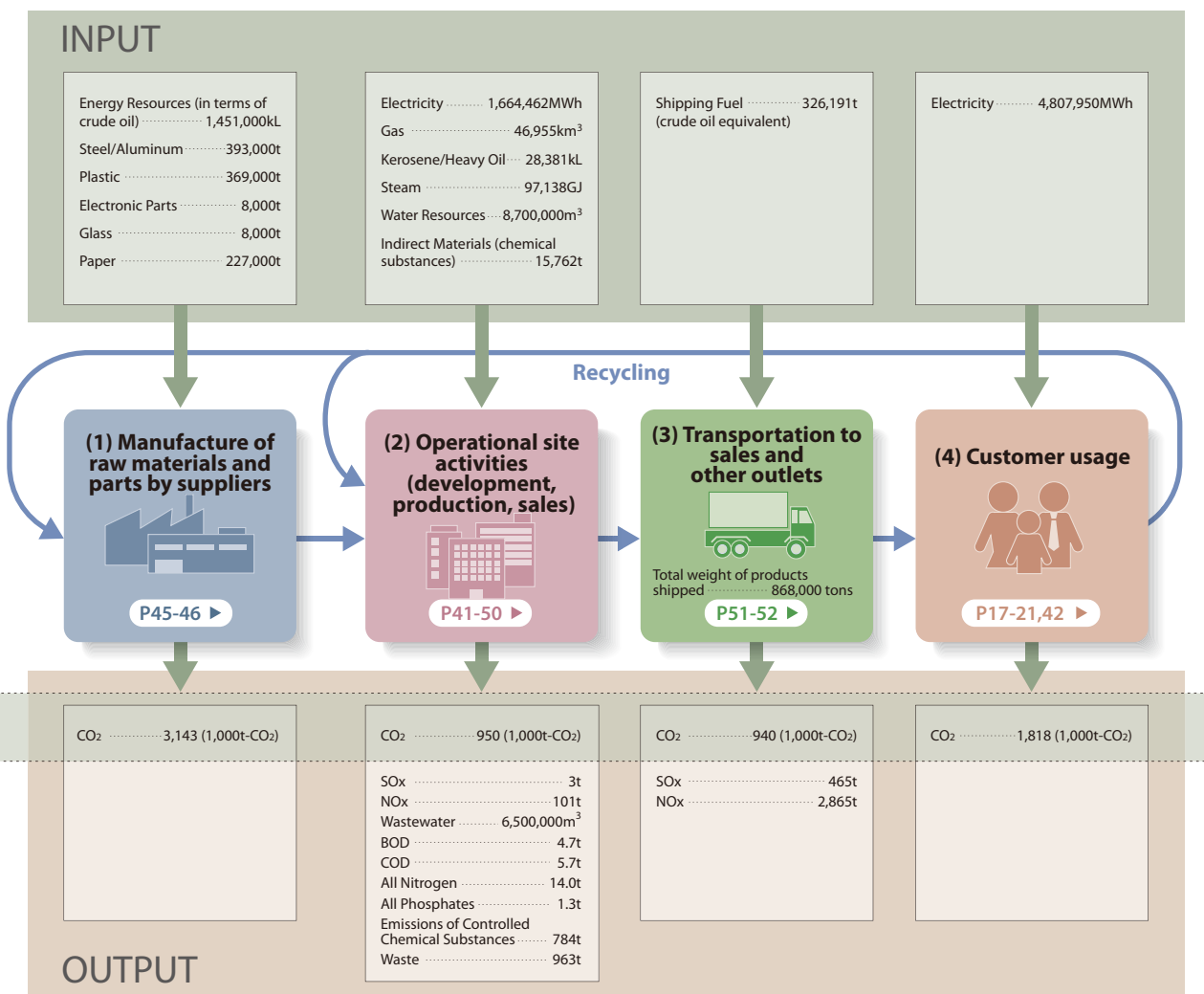
Of the greenhouse gases designated by the Kyoto Protocol, we compile data for CO₂, an energy-derived greenhouse gas. The baseline year is 2000, but past data may be revised, including in the baseline year, due to improvements in the precision of data calculations. Also, the figures for 2000 are estimated based on shipping weights because there is no data on the environmental burden associated with overseas

Material Balance in the Product Lifecycle

The product lifecycle in Canon's business activities comprises four principal stages: 1) the manufacture of raw materials and parts by suppliers, 2) Canon's operational site activities (development, production, and sales), 3) transportation to

sales outlets and other locations (logistics), and 4) customer usage. For 2006, the material balance of our environmental burdens was as follows.

2006 Material Balance CO₂ Emissions



logistics for that year.

We use different CO₂ conversion coefficients for each region and year. In Japan, coefficients are supplied by the Ministry of the Environment and the Federation of Electric Power Companies. Overseas coefficients are provided on a region-by-region basis by the International Energy Agency. (The activities of all the operational sites listed on page 53 are included in the calculations,

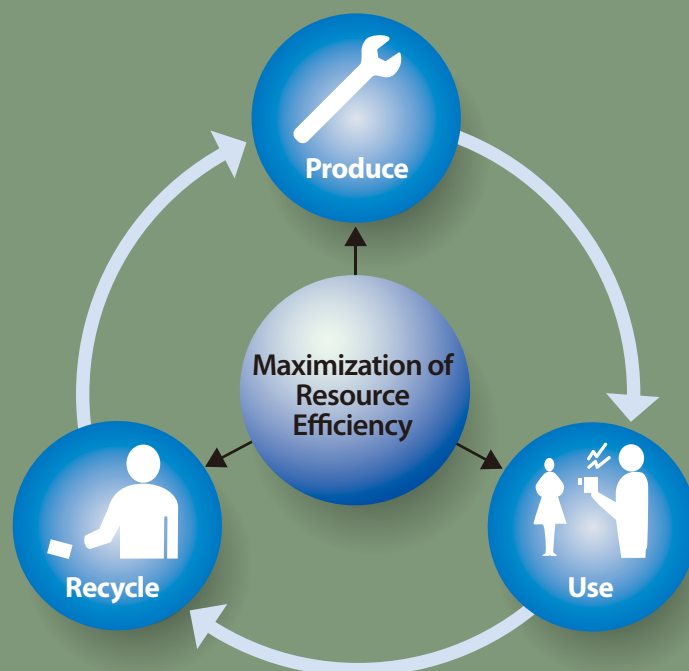
except for marketing companies.) With regard to customer usage, the amount of power consumed by products shipped in a given year over their average lifespan is converted to CO₂ using coefficients released by the Ministry of the Environment in Japan in 2000. Other CO₂ coefficients are provided by the JEMAI-LCA life-cycle assessment software from the Japan Environmental Management Association for Industry.



People-Friendly, Environmentally Conscious Products

Canon strives to make products that are environment- and people-friendly throughout the entire product lifecycle.

Canon aims to reduce the environmental burdens in all stages of a product's lifecycle. We also strive to create people-friendly products that are usable and accessible for all users. We will continue to create products that are considerate to people and the global environment.



PowerShot G7 Compact Digital Camera

Canon pursues high-quality images and advanced usability as well as smaller camera bodies, adopting new technology to facilitate resource savings.

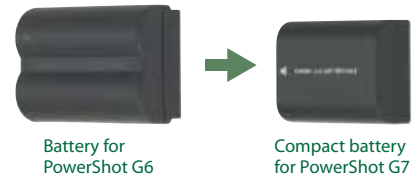


Thinner and Lighter Camera Body

Overall advancement in PowerShot G7:

- 6x optical zoom (4x for PowerShot G6)
- Built-in Optical Shift-method Image Stabilizer

Also, the PowerShot G7 has a body that is approximately 30 mm thinner and 16% lighter than the previous model as the result of a newly designed lens and lens barrel and using smaller batteries.



Newly Developed DIGIC III Imaging Engine Realizes High-Quality Photos

Newly developed high-performance DIGIC III imaging engine improved the basic features. The engine also uses advanced new Face priority AF/AE and noise reduction technologies, making it easier than ever to take high-quality photos.

Face priority AF/AE detects the faces in a scene to ensure the best focus and exposure quickly and automatically. Using a high ISO 1600 speed setting can help control camera shake and prevent subject blurring while shooting.



Good Visibility with Large LCD Monitor

The PowerShot G7's large 2.5-inch, approximately 207,000-pixel LCD monitor makes for good visibility. A wide viewing angle allows users to frame shots easily and check and search images accurately. The highly illuminated backlight allows the monitor to display images sharply and clearly.



Vision and Strategy

People-Friendly, Environmentally Conscious Products

Management Systems

Canon and the Environment

Canon and Stakeholders

MP600 Inkjet MFP

We design our inkjet MFPs with the environment in mind. This means conserving resources by making them smaller and lighter and making sure their operations are energy-efficient. At the same time, we strive to improve printer function and performance in terms of speed and image quality.



Smaller and Lighter through Compact Design

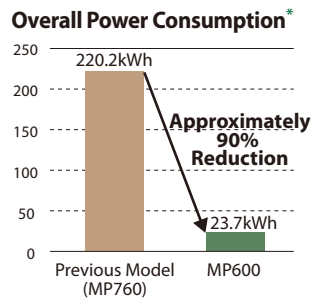
By making units like the scanner and printer smaller and lighter, Canon has made the MP600 approximately 44% more compact and 19% lighter than its predecessor (MP760). The scanner unit is

smaller, thanks to a small LED light source and simplified, compact mechanisms. Improved designs for the printer head and printer head contact part allow the printer unit to be smaller.



Dramatic Power Savings with On-Demand Operation Technology

With on-demand operation technology, a control unit provides power separately to the copy, print, and scan functions. When any one of these modes is used, the control section gives it only as much power as is needed. The MP600 incorporates on-demand operation technology for operation mode and energy-efficiency technologies for standby and power off modes. These combine to give an approximate 90% overall saving in power consumption over the previous model (MP760).



*** Calculation of power consumption**
Power off for one day is taken as 16 hours. Of the remaining eight hours, operation time is taken as the time of continuous printing, scanning, and copying of five sheets of color and five sheets of black-and-white output, with the remaining time designated as standby mode. Total power consumption = [One day's power consumption] x Days of use per year (240 days = 20 days x 12 months) x Number of years of use (five years).



CanoScan LiDE 600F for Environmentally Conscious Image Scanning

Canon also strives to make its image scanners as environmentally friendly as possible. Using LiDE (LED InDirect Exposure) image reading technology with a compact LED for the light source, we have made dramatic energy saving over previous models. At the same time, resources are saved through a simpler and smaller mechanism for the document scanning section. Furthermore, the three-way design allows users to easily place the scanner in the location or position of their choice.



iR C3380/C3380i Color MFPs

We focus on promoting superior energy efficiency in standby mode while still offering usability and security features.



Proprietary On-Demand Fixing Technology Reduces Power Consumption

Canon's proprietary on-demand fixing technology^{*1} is put to use for the first time ever in a color printer/MFP, giving a short warm-up time of 30 seconds^{*2}, and recovery from sleep mode in 15 seconds or less. Sleep mode power consumption has been reduced to just 3 watts and power consumption in standard use has been cut by approximately 80%^{*3}. Despite all this energy saving, users still get speeds of 30 ppm for color and 33 ppm for black-and-white printing.

*1 On-demand fixing technology

A proprietary film fixing technology in which a ceramic heater directly heats a thin film, it allows instantaneous heat transfer to the fixing point. By using a rubber layer on the surface of the fixing film in color machines, Canon offers both stable fixing and energy efficiency.

*2 For iR C3380 (38 seconds for the iR C3380i)

*3 Calculated using the energy consumption efficiency measurement method stipulated by Japan's Law Concerning the Rational Use of Energy.



Promoting Remanufacturing through Development and Production of the First Color Machines in the Refreshed Series

Canon is involved in remanufacturing and carries out sales of copying machines at sites in Japan, the Americas, and Europe. Used digital copying machines are recycled and remanufactured into the Refreshed Series in Japan. We developed and released the first color products in the Refreshed Series early in 2007, and four models (iR 3310F-R, iR 3310FL-R, iR 6010-R, and iR C3200N-R) are on sale (in Japan only).

iR C3200N-R

With Canon's recycling technologies introduced in Japan, exterior parts that were previously difficult to reuse because of dirty surfaces can now be reused, and now up to approximately 83% of parts (by weight) can be reused in new products. This refreshed model reduces the environmental burden (converted to CO₂ emissions) by approximately 76% up to the manufacturing stage, compared with the same model assembled with all-new parts.



iR C3200N-R

Vision and Strategy

People-Friendly, Environmentally Conscious Products

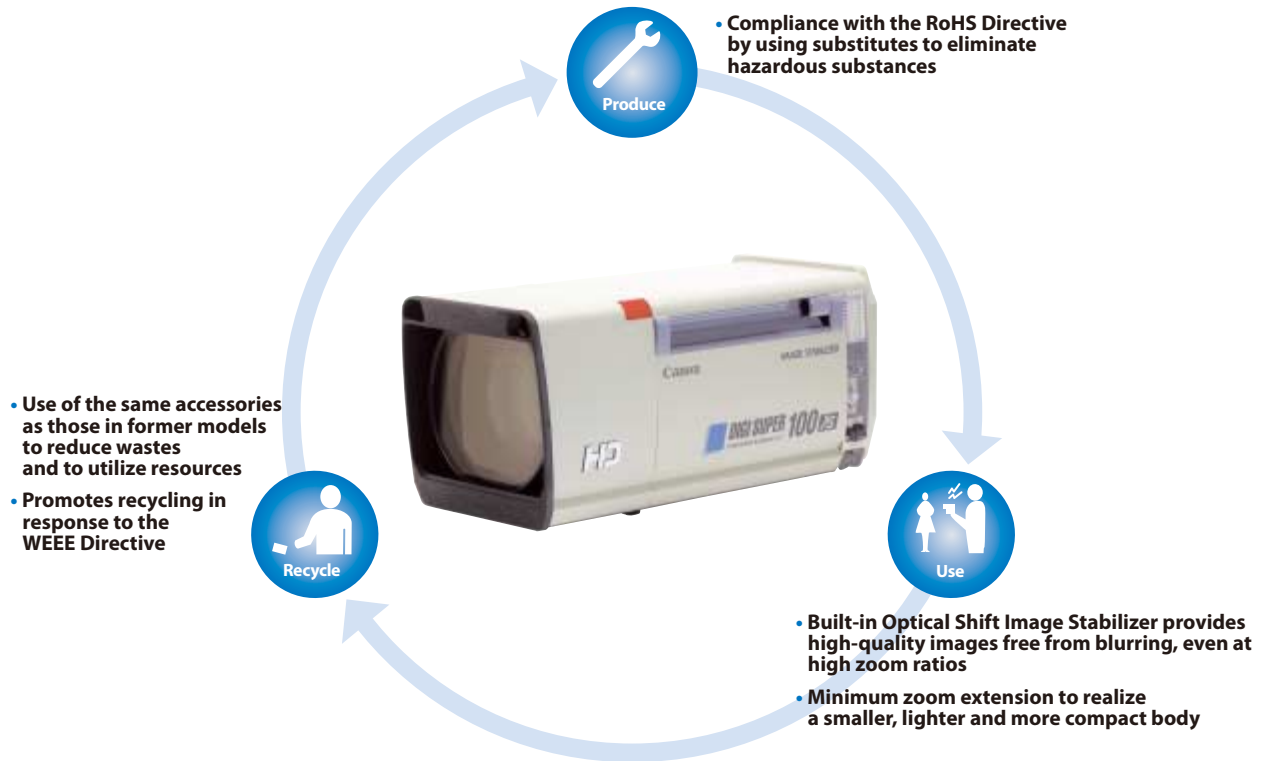
Management Systems

Canon and the Environment

Canon and Stakeholders

DIGISUPER 100xs–HDTV Broadcasting Zoom Lens

The DIGISUPER 100xs has a smaller, lighter and more compact body to facilitate resource savings as well as usability with improved performance as TV broadcast lens for HDTV.



Built-in Optical Shift Image Stabilizer for Blurring-Free Images Even at High Zoom Ratios

The DIGISUPER 100xs uses the Optical Shift Image Stabilizer developed by Canon. This function provides higher precision and higher performance stabilization. Its effectiveness was demonstrated in other single-lens reflex cameras (EOS series), and the stabilizer has been optimized for broadcasting. As a result, less blurry images are possible even at the telephoto end of the range, and the camera is ideal for broadcasting sports, such as baseball, soccer and golf.

As TV broadcast lenses have higher zoom ratios than regular single-lens reflex cameras, their optical image stabilization systems are generally larger and bulkier. However, the DIGISUPER 100xs is compact and offers improved usability.



Relay of soccer action using the DIGISUPER 100xs



Minimum Zoom Extension to Realize a Smaller, Lighter and More Compact Body

The DIGISUPER 100xs features a 100x zoom ratio, 16% higher than the DIGISUPER 86xs, which was developed in 2000. Nevertheless, the new model is the same size and weight-only 23.5 kg.

The DIGISUPER 100xs improves the accuracy of Canon's unique

optical element that compensates for large aberrations. In addition, by adapting Power Optical System, the model uses the newly developed optical element in the most effective way, so chromatic aberration during telephoto use is less than that of 86x model.

Management Systems

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Vision and Strategy

People-Friendly,
Environmentally Conscious Products

Management Systems

Canon and the Environment

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Corporate Governance

Canon is striving to strengthen its corporate governance structure by creating an auditing framework and establishing various specialized committees in order to promote sound and transparent corporate management.

2006 Highlights

- Confirmed that our internal control over financial reporting in relation to Section 404 of the Sarbanes-Oxley Act was effective

Governance Structure

Canon's basic governance structure consists of an Executive Committee, in which all executive officers participate, special management committees dedicated to key issues, as well as the General Meeting of Shareholders, the Board of Directors, and the Board of Corporate Auditors, which are required under the Company Law of Japan. All these bodies work together to ensure the appropriate management of the Company through an independent internal auditing structure, and information disclosure.

Directors

Canon Inc.'s Board of Directors comprises 27 members, all of them inside directors. The Directors aim for a rational and efficient decision-making process whereby important matters are decided at regular meetings of the Board of Directors, which they all attend, and meetings of the Executive Committee. The Executive Committee convenes as necessary to take up important matters tabled by the Management Strategy Committee. All corporate officers attend Executive Committee meetings together with division personnel with responsibility for the matters under deliberation to determine specific action plans.

Various special cross-divisional management committees have also been established to address important management themes.

Each committee works to accelerate and rationalize the decision-making process while supporting product group operations and fulfilling a checking function.

Auditing

● Corporate Auditors

The Board of Corporate Auditors of Canon Inc. is made up of five auditors, three of whom are external auditors with no personal, capital or business affiliations with Canon or other interests of any kind in the Canon Group. The auditors conduct strict audits in accordance with established auditing policies and their assigned duties. These involve attending meetings of the Board of Directors, Executive Committee, and various special management committees; receiving business reports from the directors and others; carefully examining documents related to important decisions; and examining the company's business and assets.

● External Auditing

We are introducing a pre-approval system for the content of external audit contracts and the amounts involved. To this end, regulations related to the pre-approval of policies and procedures for both auditing and non-auditing services are being established to promote the segregation of audit operations from other outsourced operations, thus reinforcing the independence of accounting firms.

● Internal Auditing

The Corporate Audit Center is responsible for Canon's internal auditing. It monitors risk management and internal control systems, provides evaluations, and makes recommendations. The Corporate Audit Center and various administrative divisions also work closely together to monitor product quality, environmental conservation, security, personal information protection, security export control management, and other areas.

In line with our objective of strengthening governance, in 2006 we increased to 48 the number of personnel involved with the

Corporate Governance Structure (As of April 1, 2007)



*1 **Management Strategy Committee**
Deliberates on capital investment and other key issues by receiving reports from executive managers on the current status of their respective operations and discussing problems, solutions, and future direction.

*2 **New Business Development Committee**
Meets to approve or reject new business proposals and to monitor newly formed businesses over their first three years of operation to determine whether they should be continued.

*3 **Disclosure Committee**
Deliberates in order to promote the dissemination of accurate and comprehensive information to shareholders and the capital markets in accordance with related laws and regulations, and stock exchange disclosure rules.

internal auditing system. Moreover, we set up a special division, which is also subject to audit, to handle the IT system that forms the backbone for all of our business.

Divisions Responsible for Internal Audits

Corporate Audit Center	Auditing of management functions, operations, accounting, internal control over financial reporting for response to the Sarbanes-Oxley Act, and compliance (focusing on compliance with laws, internal regulations, social customs and morals), etc.
Quality Management Headquarters	Quality assurance
Global Environment Promotion Headquarters	Environmentally conscious management and its results
Information & Communication Systems Headquarters	Information security in IT, etc.
General Affairs Headquarters	Physical security
Global Manufacturing & Logistics Headquarters	Security assurance for export management
Global Procurement Headquarters	Compliance with procurement rules

Activities of Specialized Committees

Corporate Ethics and Compliance Committee

The Corporate Ethics and Compliance Committee, inaugurated in 2004, is a body of executives and representatives from each headquarters/product group that operates under the chairmanship of the President of Canon Inc. The Committee meets four times a year to discuss and approve compliance and corporate ethics policy and measures for the Canon Group. In light of the nature of the Committee, a corporate auditor attends the meetings as an observer.

The primary objectives of the Corporate Ethics and Compliance Committee are: 1) to instill a consciousness of compliance and ethics universally throughout the Group, and 2) to enhance the transparency and soundness of business activities while fostering a corporate spirit that motivates employees to unflinchingly consider compliance and ethics when making business decisions.

In addition to the regular members, once a year the Committee also invites the presidents of regional headquarters worldwide and all the presidents of Group companies in Japan to attend meetings. In 2006, the expanded committee reached a consensus



Expanded Corporate Ethics and Compliance Committee

on how to prevent scandals; each member of top management must have a clear grasp of on-site situations and, if a compliance-related issue arises, play a lead role in solving it. Canon is working as a group to thoroughly implement corporate ethics and compliance.

Internal Control Committee

The Internal Control Committee was established in 2004 to oversee the internal control structures and activities for the Group. All top executives of Canon Inc. and the top management of all Group companies serve on the committee under the chairmanship of the President of Canon Inc.

The Committee's main task is to ensure the reliability of financial

reporting by SEC filers under Section 404 of the Sarbanes-Oxley Act* of 2002. It also conducts comprehensive reviews of the Group's internal control measures as a way to verify the true effectiveness and efficiency of the Group's business operations and support compliance with all related laws, regulations, and internal rules.

Ahead of the 2006 application of Section 404, the committee concentrated on strengthening and improving specific operational processes and documentation related to ensuring the reliability of financial statements. As a result, we concluded that the Group's internal control over financial reporting related to Section 404 was effective. Looking ahead, the committee will work to raise its activity levels still further by creating a system to maintain and manage these processes and documents with a view to establishing a more efficient operational flow.

* Sarbanes-Oxley Act (U.S. Public Company Accounting Reform and Investor Protection Act of 2002)

Passed into U.S. law in July 2002 following a series of corporate accounting scandals, the law aims to restore investor trust in the stock markets by strengthening the effectiveness of corporate governance and reinforcing the independence of auditing boards and independent auditors, while adding new penalties for corporate management in the event of accounting misconduct.

Global Legal Affairs Coordination Committee

Major working themes of the Global Legal Affairs Coordination Committee, established in 1987, involve correspondences to various major legal regulations worldwide. Working groups formed around each of these themes investigate and analyze related issues, form guidelines and publish guidebooks on legislative movements (IT, the environment and China), raise the level of companywide awareness of legal issues facing the Group, and support the relevant divisions at Group companies in their responses to legal issues.

The committee's recent activities include full-scale preparations for the implementation of the EU's REACH effective from June 2007.

Principal Working Themes of the Global Legal Affairs Coordination Committee

- Export regulations
- Personal information protection
- Trade secret management
- IT
- The environment (REACH, WEEE, RoHS, etc.)
- Product liability
- International tax law
- Antimonopoly law
- Local law (United States, Europe, China, etc.)
- Disability law
- After-sales service
- Changes in copyright law
- Promoting the smooth utilization of open-source software (OSS)
- Product safety regulations, etc.

Disclosure Committee

In 2005, we established the Disclosure Committee, which is chaired by Canon Inc.'s president. The committee's purpose is the swift, accurate and comprehensive disclosure of important company information, in accordance with related laws and regulations, and stock exchange rules. Division personnel who are in charge of the information disclosure working group report to this committee information that requires timely disclosure.

Compliance

Canon promotes awareness of corporate ethics and legal compliance to employees while striving for early discovery and prevention of illegal behavior.

2006 Highlights

- Established compliance hotlines at all Group companies in Japan and principal Group companies outside Japan
- Produced and distributed a compliance education booklet to all Canon employees in Japan

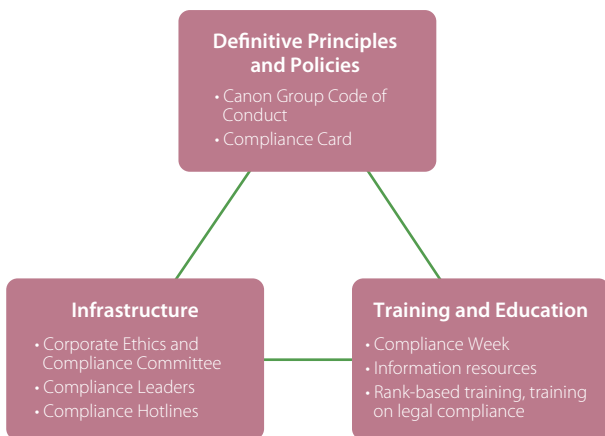
A Shared Understanding of Compliance

To become a Truly Excellent Global Corporation, each Canon Group executive and employee must recognize the necessity to conduct business fairly, sincerely, and in full compliance with laws and regulations. Canon's compliance promotion activities strengthen the basis for reaching this goal.

Canon Inc. ensures that all company executives and employees share common values with regard to legal compliance and corporate ethics, and maintain appropriate business activities by taking action to 1) clearly define principles and policies, 2) establish compliance infrastructure, and 3) carry out comprehensive training and education. Canon Group companies in Japan also undertake similar activities.

At Canon Group companies overseas, compliance promotion activities are carried out in accordance with local laws and customs.

Overview of Compliance Promotion Activities



Canon Group Code of Conduct

In 2001, Canon Inc. rewrote the 1992 Code of Conduct from a global perspective and introduced it as the Canon Group Code of Conduct. The Code sets the standards that Group executives and employees must observe when going about their business.



The Canon Group Code of Conduct

In addition to Japanese, the Group Code of Conduct has been translated into 10 different languages, including English, French, and Chinese, facilitating more widespread employment across the entire Canon Group.

Overview of Canon Group Code of Conduct

Management Stance

Contribution to Society

- Provision of excellent products
- Protection of consumers
- Preservation of the global environment
- Social and cultural contributions
- Communication

Fair Business Activities

- Practice of fair competition
- Observation of corporate ethics
- Appropriate disclosure of information

Code of Conduct for the Executives and Employees

1. Compliance with Corporate Ethics and Laws

- Fairness and sincerity
- Legal compliance in performance of duties
- Appropriate interpretation of applicable laws, regulations and company rules

2. Management of Corporate Assets and Property

- Strict management of assets and property
- Prohibition against improper use of company assets and property
- Protection of the company's intellectual property rights

3. Management of Information

- Management in compliance with rules
- Prohibition against personal use of confidential and proprietary information
- Prohibition against insider trading
- Prohibition against the unlawful acquisition of confidential or proprietary information pertaining to other companies
- Appropriate use of confidential and proprietary information pertaining to other companies

4. Conflicts of Interests/Separation of Personal and Company Matters

- Avoidance of conflicts of interests
- Prohibition against seeking, accepting or offering improper gifts, entertainment, or other benefits
- Prohibition against acquisition of Pre-IPO shares

5. Maintenance and Improvement of Working Environment

- Respect for the individual and prohibition against discrimination
- Prohibition against sexual harassment
- Prohibition against bringing weapons or drugs to the company workplace

WEB Compliance Promotion System

Promoting Employee Awareness

Compliance Week

Canon Inc. and its Group companies in Japan hold a Compliance Week twice a year—one in each half of the fiscal calendar—providing employees the opportunity to contemplate the meaning



Compliance Week poster

of compliance and corporate ethics and reflect on how it affects them personally.

During Compliance Week, employees take part in workplace meetings to discuss issues related to compliance and corporate ethics that may arise in actual operations. In addition to allowing individual employees the chance to examine and confirm daily activities in their own areas of responsibility, these meetings provide a practical opportunity to check for compliance violations in the workplace.

Department managers prepare reports on the issues and opinions raised at these meetings, and submit the reports to their respective division heads. Summaries of these reports are provided to the Corporate Ethics and Compliance Committee via the Corporate Ethics and Compliance Administration Office. Employees receive feedback on the report analyses, which are then used to make improvements.

Compliance Education

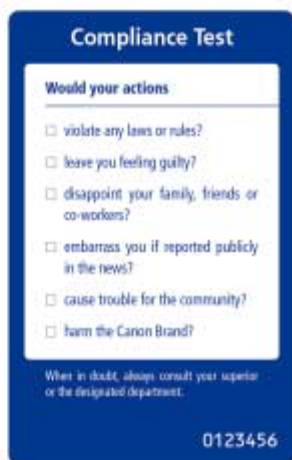
Canon Inc. carries out a range of other initiatives to instill a high sense of corporate ethics and compliance in its workforce.

● Canon Compliance Card

Canon has adhered to the "San-ji" spirit **P63** —as a guiding principle since the company's founding. The "San-ji," or "Three Selves," are self-motivation, self-management, and self-awareness. We distribute Compliance Cards to all executives and employees of the Canon Group worldwide and ask that they carry the card with them at all times to reinforce the importance of demonstrating a high level of personal conduct and a strict sense of compliance. The card, which is produced in 17 languages, contains a definition of the "San-ji" spirit on one side and a compliance test on the other.



Canon Compliance Card



● Rank-Based Training

Each January and July, Canon Inc. provides newly appointed managers with compliance training that enables them to approach their work with a strong awareness of key issues.



Training for newly hired employees

Canon provides compliance education for newly hired employees each April and offers classes for new mid-career hires at the beginning of each month, thus teaching incoming employees about Canon's strict approach to compliance and the importance of abiding by the law.

WEB • Information via Intranet

Establishment and Monitoring of a Compliance Hotline

Canon Inc. maintains a Compliance Hotline and is working to employ self-regulation methods to prevent illegal behavior. The Compliance Hotline guarantees strict confidentiality, and ensures that a caller's career is not jeopardized in any way. Employees may also contact any director or corporate auditor by e-mail, not just the departments in charge of compliance.

Some Group companies in Japan had such hotlines in place prior to the enactment of the country's Whistleblower Protection Act in 2006. In response to the new regulation, Canon setup hotlines at all of its Group companies throughout Japan. We also set up hotlines at all principal Group companies outside Japan.

Canon Inc. regularly monitors the correspondence and disclosures made through the hotlines. Issues that have the potential to have a material impact on management are reported to the Corporate Ethics and Compliance Committee.

TOPICS

Distribution of Compliance Education Booklet

As one facet of their employee compliance education activities, Canon Inc. and its Group companies in Japan produced and distributed a booklet of case studies, entitled *Practice! A Corporate Ethics Reader*, to all Canon employees in Japan. This booklet gives many examples of compliance infringements and ethical improprieties that employees might face in their activities and provides guidelines for handling actual cases.



Compliance Education booklet

The booklet provided the basis for discussion during Compliance Week meetings held in the second half of 2006. Some employees commented that the booklet was helpful in reviewing their daily duties because the sample cases were practical and realistic. Canon continues to use the booklet for other compliance education programs.

Security

To eliminate a wide variety of risks that could be damaging to its business activities, Canon is undertaking a number of security measures, including those related to physical security, information security, and the protection of personal data.

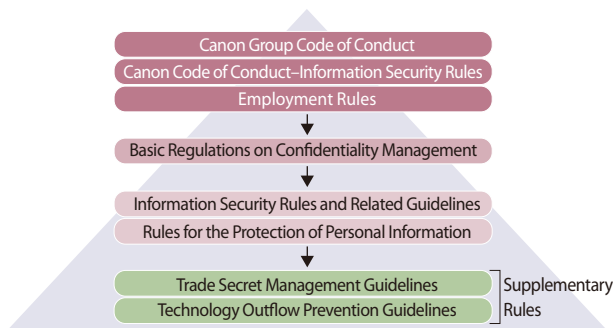
2006 Highlights

- Drew up confidential information management guidelines in three languages and strengthened measures to manage the prevention of technology outflow
- As of March 31, 2007, 27 companies had earned Privacy Mark certification, and nine others had either completed the application process or undergone preliminary testing

Approach to Security

Canon is implementing a comprehensive security management system to protect its companies and employees from increasingly diverse risks and maintain the trust of our stakeholders and society, while at the same time establishing a crisis management system to ensure a swift and flexible response should an incident occur.

System of Security Rules



Strengthening Information Security

● Basic Policies and Priorities

Such regulations as the Protection of Personal Information Law in Japan and the Sarbanes-Oxley Act highlight the growing importance of information management. In this environment, companies have the vital responsibility of protecting personal and customer information from leaking.

In light of this situation, Canon has set three objectives: strengthen measures to prevent information leaks; raise the awareness of all employees regarding information security; and strengthen our security management system at the global level. We are working to bolster information security in accordance with these objectives.

- WEB • Ongoing Review and Implementation of Information Security Measures
- Bolstering a Global Information Management System

● Preventing Information Leaks and Raising Employee Awareness

To prevent incidents involving information leaks, Canon has developed rules for computer and email use, and conducts employee training programs through e-learning. As part of our efforts to raise awareness of this topic among all employees, we also created an information security site that spells out in easy-to-understand terms



Information Security Handbook

the importance of Internet information security and specific actions to achieve security.

In December 2005, we published the Information Security Handbook. We used this manual in various activities in 2006 to reinforce to employees the importance of security in their immediate surroundings. Going forward, we will examine case studies from other companies, utilizing such knowledge in our efforts to prevent the outflow or leakage of information.

TOPICS

Formulating a Business Continuity Plan

Business continuity plans, which commonly comprise disaster prevention and recovery plans, are increasingly attracting interest as a means to mitigate many business risks by preventing the suspension of business activities or ensuring rapid recovery in the event of suspension. At the Central Disaster Prevention Council meeting hosted by the Japanese Cabinet Office in 2005, Business Continuity Guidelines were established. On the other side, the Nippon Keidanren, Japan's foremost business federation, established a Committee on Risk Management.

As part of its measures to ensure business continuity in the event of a disaster, Canon is upgrading the earthquake resistance of older buildings, concluding disaster prevention agreements with local entities, and creating a structure to gather and report information. We developed a disaster contingency plan based on the outcome of an

earthquake with an intensity of five or higher on the Japanese scale, taking into account the economic, social and environmental impact on each of our operational locations. Given the key role of our Shimomaruko offices in Tokyo as the company's global headquarters, we have reconstructed all the buildings on site, set up backup generators, stockpiled facilities, fuel, equipment and supplies, and established a multiplex communication system to ensure that communications continue even if disaster strikes. In 2005, Canon set up a disaster recovery center to back up its information systems, providing a fail-safe structure for its mainframe system. For external communications, the Company has assembled a public relations team to transmit and share information in times of disaster. We also plan to be proactive in providing community support in the case of disaster, in line with the Disaster Agreement for Ota Ward, Tokyo.

Protecting Personal Information

Canon Inc. launched a project in 2002 for protecting personal information, and in 2003 acquired Privacy Mark certification. We subsequently revised our manual on protecting personal information, developing internal rules for each division. Since 2005, we have been working to maintain or improve management levels by starting an e-learning-based employee education program.

Thirty-seven of our major Group companies in Japan are currently taking steps to acquire Privacy Mark certification, and as of March 31, 2007, 27 companies had been certified, while nine others had either completed the application process or undergone testing. The remaining company is making preparations with a view to applying in December 2007.

To move forward in our efforts to ensure unified management of personal information throughout the Canon Group, we established in 2006 a global personal information protection policy and action plan. In line with these plans, our personal information management activities are also being taken up by our subsidiaries outside Japan.

In 2007, we also intend to update our Privacy Mark certification to the JIS Q15001: 2006 standard.

Trade Secret and Technology Outflow Prevention Management

Canon conducts diverse business in various regions around the world, so we consider the appropriate protection and management of trade secrets and technological information an important element of our business performance. Our activities in this field are described below.

● Trade Secret Management

Canon creates trade secret rankings, promotes the reinforcement of information systems and other infrastructure, and works to prevent information leaks and outflows. Canon has drawn up trade secret management guidelines for each Group company worldwide and is working to develop a firm Groupwide trade secret management system.

Trade Secret Management Movements and Canon's Activities

2003	Ministry of Economy, Trade and Industry announced a policy on managing trade secrets (complying with the Unfair Competition Prevention Law in Japan)
2004	Drew up Trade Secret Management Guidelines
2005	Created an intracompany trade secret management system
2006	Created English version of the Trade Secret Management Guidelines Canon Europe began formulating pan-European guidelines

● Technology Outflow Prevention Management

In 2004, Canon drew up guidelines for the prevention of technology outflow. In 2006, the company established Confidential Information Management guidelines in Japanese, English and Chinese, which it distributed to Group manufacturing companies in Asia, and promoted the full-fledged local adoption of these guidelines at production companies. In addition, Canon introduced education programs for employees being sent to manufacturing companies in Asia.

Canon's Activities to Manage the Prevention of Technology Outflow

2002	Began holding regular meetings on the prevention of technology outflow, attended by the presidents of manufacturing companies in Asia and key executives of Canon Inc.
2003	Ministry of Economy, Trade and Industry announced a policy to prevent the outflow of technology (preventing technology from flowing to countries where systems to protect intellectual property have not been established)
2004	Drew up Technology Outflow Prevention Management Guidelines
2005	Began training and raising the awareness of employees being sent to manufacturing companies in Asia
2006	Prepared confidential information management guidelines in Japanese, English and Chinese Began training local managers at Canon Dalian Business Machines, Inc.

Strengthening Physical Security

● Basic Policies

As one aspect of the company's efforts to strengthen security, Canon is working to bolster physical security systems according to the needs of each operational site, based on the following three policies:

- 1) Establish and put into practice an overall design at operational sites from the viewpoint of disaster prevention, crime prevention, and health and safety to optimize entry and exit routes for everyone who enters.
- 2) Fully implement onsite and rigorous peripheral security to comprehensively prevent company assets (objects, information, etc.) from being removed, suspicious objects from being brought in, and suspicious individuals from entering.
- 3) Limit entry to onsite rooms to people who have been authorized by management, and build mechanisms that enable the integrated management of room entry and exit logs.

- WEB Physical Security Promotion System
- Integrated Entry and Exit Management System

Complying with Security Trade Control

Countries with a high concern for international peace and security strictly control, in accordance with international agreements, the export of goods and technologies for civil use that could be diverted for use in weapons of mass destruction or conventional weaponry. Japan controls such exports under the Foreign Exchange and Foreign Trade Control Law.

Canon Inc. considers compliance with export control regulations an important management matter. Therefore, Canon Inc. has established structures and rules to assure compliance with these regulations. Specifically, related divisions and the export control administrative division double check whether goods and technologies are controlled and whether business partners are engaged in the development of weapons of mass destruction. In addition to these regular activities, Canon promotes education and awareness among employees by means of various seminars and events. Moreover, in 2007 the Company plans to make available such learning tools as a new guidelines booklet and e-learning courses.

Canon Inc. also supports Group companies in the creation of administrative structures and management rules to match their type of business. In the future, Canon Inc. will continue to ensure thorough security trade control management across the entire Canon Group.

Intellectual Property Activities

Since Canon regards intellectual property rights as vital to supporting business development, the Company is devoted to developing organizational structures and rules for not only protecting its own intellectual property, but also respecting the rights of third-parties.

2006 Highlights

- Number of patents issued for Canon in the United States exceeded 2,000
- Canon won its first lawsuit in China for infringement of a design patent

Basic Policy on Intellectual Property Issues

Canon has engaged in proactive research and development since the time of its foundation, and has been highly successful as an R&D-oriented company in creating new markets and new customer segments by developing products that incorporate proprietary technologies. This historical background underpins the company's belief that the results of R&D activities are products and intellectual property rights. Canon clearly believes that the purpose of intellectual property activities is to support business development, which includes entering new areas to diversify its business, and diversifying and developing production and marketing on a global scale. In fact, every aspect of its business activities is promoted with an awareness of effective utilization of intellectual property rights. Partnerships with other companies and outside research institutes, such as cross-licensing and joint research projects, are some of those activities.

We have devised and implemented protective safeguards and policies to guard against counterfeit products and other forms of intellectual property infringement that pose a threat to our business. At the same time, we have established product development regulations and other clearly stated rules, and conduct searches on third-party rights from the R&D stage in order to ensure the intellectual property rights of other companies are respected and that our products do not infringe upon any of those rights.

In this way, Canon is aiming to contribute to the healthy development of industry as an R&D-oriented company, not only by protecting its own intellectual property, but also by respecting the intellectual property rights of other companies, organizations and individuals, and handling any related issues in an appropriate manner.

Basic Policy on Intellectual Property Activities

- The results of R&D activities are products and intellectual property.
- Intellectual property activities are vital to supporting business development.
- In addition to protecting its own intellectual property rights, Canon respects the intellectual property of other companies, and handles related issues appropriately.



Research and development activities at Canon

Culture of Intellectual Property Activities

In order to proactively protect its own intellectual property rights and to respect those of others, Canon asks its employees participating in R&D "to formulate patents (invention proposals) rather than reports," and "to read patent publications rather than research literature." Employees are encouraged to put these requests into practice in conjunction with their daily research and development activities.

Formulating an invention proposal involves comparing one's own R&D activities with prior art technologies, objectively understanding them, systematically summarizing related technologies, and progressing toward acquisition of a patent (intellectual property). On one hand, patent publications as technological information provide background on unresolved technical issues in relevant fields as well as viewpoints on potential solutions. Patent publications also give information on prior art technologies, competitor activities in relevant fields, and trends. On the other hand, patent publications as information on intellectual property rights alert us to the existence of rights holders we need to be aware of in the course of our business development.

At Canon, we have established a corporate culture that constantly spurs higher development objectives, with each and every researcher recognizing and acutely sensing the significance of intellectual property issues.

Emphasizing Patents for Solution Services

The integration of society in a network has escalated with the use and expansion of Internet technologies. The functions of individual machines and terminals are being superseded by the value of solution services provided by network devices.

In this environment, Canon is moving its focus from inventions centered on the conventional areas of machinery and devices in pursuit of ideas and inventions geared toward generation of client-based solutions. Furthermore, while carrying out the invention of machinery and devices necessary for delivery of such solutions, we are focusing on intellectual property rights from a new standpoint.

Management System for Intellectual Property

In order to carry out its activities related to intellectual property under a unified strategy, Canon has built a centralized intellectual property rights management system under the direction of the Corporate Intellectual Property and Legal Headquarters at Canon Inc. (See chart below).

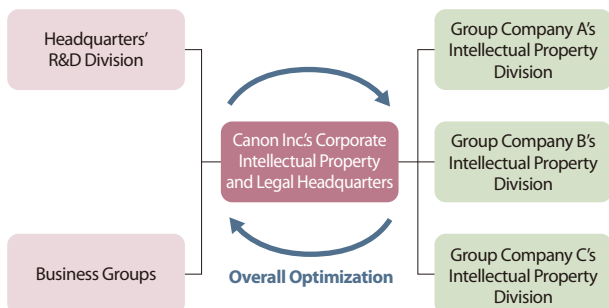
Specifically, the intellectual property rights of Canon Inc.'s R&D Headquarters and other business groups, along with Canon Group companies are managed from the perspective of optimizing the overall intellectual property portfolio. For example, when concluding a patent licensing agreement with another company (third-party), the Corporate Intellectual Property and Legal Headquarters gives approval only after considering overall coordination. By taking this step, we ensure that the Group maintains the proper intellectual property portfolio.

Global management rules have been established for Canon Group companies clarifying the respective roles and responsibilities of intellectual property divisions at Canon Group companies and Corporate Intellectual Property and Legal Headquarters, as well as the process for formulating policies for IP-related activities. These rules are contained in our Basic Policy on Canon Global Inventions and Know-how and Basic Policy on Canon Global Trademark Rights (including Service Marks).

Moreover, twice a year we hold an IP Summit in order to facilitate information-sharing throughout the Group. This is intended to serve as a forum to communicate information and perspectives on social trends relating to intellectual property initiatives by various companies. It also ensures that quick action is always taken when an intellectual property related issue arises.

In addition, in recent years, staff members of the Corporate Intellectual Property and Legal Headquarters have been transferred to Canon Group companies in order to further bolster global intellectual property activities and develop personnel.

Centralized Management System for Intellectual Property



Improving Invention Quality

At Canon, Patent Grade-up Activities, or PGA, are undertaken to ensure close coordination between researchers and intellectual property staff, based on the belief that intellectual property activities are vital to supporting business development.

These activities involve discussion between development staff and intellectual property staff at each development site over proposed inventions to confirm whether the essence of an invention is firmly grasped, whether the invention can be expressed with a higher grade technological concept, and whether the specific, workable content of the invention has been disclosed. Through such activities, Canon works to improve the quality of inventions from the idea stage.

When filing patent applications, we use our proprietary patent search system, P/Net II, to search for prior art. In 2006, we incorporated an English–Japanese translation function into this search system to allow efficient searches for the U.S. patents as prior art, as well. In addition, we employ Canon Technology Information Services Inc.—a Canon Group company specializing in technology search and translation services—to perform prior art searches.

Through such measures, Canon works to improve the quality of its patent applications and contributes to faster and more effective examinations as promoted by the Ministry of Economy, Trade and Industry through its Plan 2007 for Accelerating Patent Examination Reform Toward Innovation.

Initiatives against Counterfeits

Counterfeits of genuine products like toner, ink cartridges, camera batteries and so forth, produced and sold largely in Asia are becoming a serious social problem. Not only do these counterfeits cause lost sale opportunities for genuine products, customers who purchase them thinking that they are genuine products may be inconvenienced by quality-related problems, and there is potentially the serious problem of a brand's credibility being substantially diminished.

Given this understanding of the issue, Canon cooperates in individual countries' and regions' anti-counterfeit arrangements based on trademark rights, as a matter of course. But we also aggressively press national customs bureaus to stop the importation of counterfeit products because of the fact that the sale of such products is expanding and transcending national borders.

In recent years, to prevent recurrence in countries where detection of counterfeits is prevalent, more severe penalties are being imposed upon criminal detection. Also, more importance is placed on detecting such activity when export products pass through customs as they are bound for other countries. Furthermore, we actively promote joint activities on an industrywide level.

Intellectual Property Activities

Patent Applications

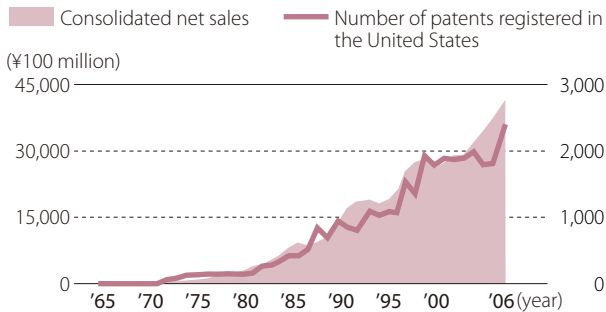
As a company that has promoted the globalization of business activities from early in its history, Canon puts a greater emphasis on patent applications outside Japan.

As a result, as of the end of 2006, Canon possessed approximately 77,000 patents and utility models globally, of which around 25,000 were for Japan, 24,000 for North America, 21,000 for Europe, and 7,000 for other regions.

Our approach to filing patent applications outside Japan involves the development of detailed business strategies based on in-depth investigation of the technology and product trends in each region where the patents are necessary.

We are devoting efforts to patent applications in the United States, in particular, for the sake of expanding operations and advancing technology partnerships, as that country is home to many high-tech companies and a large consumer market. We have also prioritized the filing of patent applications in Asia, where technological innovation is advancing rapidly. In particular, we are stepping up our filing activities in China due to its development as an enormous production site and a major consumer nation.

Consolidated Net Sales and U.S. Patents Issued to Canon Inc.



- Top 10 Companies Acquiring U.S. Patents (2006)
- Trends in Number of Chinese Laid-Open Patents (2004-2006) by Major Companies

Cooperating with the Government on Intellectual Property

In 2003, the Japanese government established the Intellectual Property Policy Headquarters^{*1} for the purpose of creating, protecting, and utilizing intellectual property in order to strengthen the international competitiveness of Japanese industry. Canon Inc. Chairman & CEO Fujio Mitarai served as a member of this body from 2003 through 2006, collaborating in the drafting of numerous policies.

Nobuyoshi Tanaka, group executive of the Corporate Intellectual Property and Legal Headquarters at Canon Inc., is a member of the Task Force on the Intellectual Creation Cycle, a special committee of the Intellectual Property Strategy Headquarters that was launched in November 2005. He contributes to the creation of national policy, providing his opinion on issues relating to IP creation, protection and utilization, general strategies for training people specialized in intellectual property, and the establishment of international rules to respond to the rise of intellectual property.

In addition, Shigeru Ohno, deputy group executive of the Corporate Intellectual Property and Legal Headquarters, is a member of the research committee on Intellectual Property Skill Standards formed by the Ministry of Economy, Trade and Industry for establishing Intellectual Property Skill Standards (IPSS)^{*2}.

Many employees of Canon Inc. also serve as committee members for the Japan Intellectual Property Association and various industry groups, demonstrating our commitment to building a system for strengthening the competitiveness of Japanese industry from the perspective of intellectual property.

*1 Intellectual Property Policy Headquarters

The mission of the headquarters is to promote policies related to the creation, protection and utilization of intellectual property. Its membership is made up of Cabinet Ministers and leading experts, with the Prime Minister serving as Director-General.

*2 Intellectual Property Skill Standards (IPSS)

A project of the Ministry of Economy, Trade and Industry from 2005 through 2006, IPSS is an intellectual property personnel training measure that is considered necessary for corporate intellectual property.

TOPICS

Canon's First Successful Lawsuit in China for Infringement of a Design Patent

Canon filed a lawsuit with the Beijing People's Court alleging that the design of a video camera manufactured and marketed by Queen Lines (Xiamen) Camera Co., Ltd. and Amoi Camera Co., Ltd. infringed upon its design rights. Canon sought an injunction against its manufacture and sale, as well as recovery of damages. A ruling in Canon's favor was first granted in the lower court, and then, in December 2006, the same ruling was granted at the higher court. Under China's judicial system, this dual passage represents a final judgment, which makes it Canon's first successful case against the infringement of intellectual property rights (design rights) in China.

In another case in Japan, the Intellectual Property High Court in January 2006 repealed a lower court's decision, ruling in favor of Canon over infringement of the company's patent rights on proprietary ink cartridges, which had been independently collected, re-filled, imported for resale by Recycle Assist Co., Ltd., who. In future, Canon will continue to protect its profits through strict observance of intellectual property issues in its business, while contributing to the establishment of global standards and regulations, and the healthy development of industry.



Canon showcases its environmental initiatives and introduces environmentally conscious products at trade shows in Japan and overseas.



The MP600, an inkjet MFP, features greatly reduced power consumption.



We are promoting a modal shift to reduce overall CO₂ emissions.



We hold outreach courses for local elementary and junior high school students.



The iR C3380/C3380i color MFP employs our proprietary on-demand and other technologies to reduce power consumption by 80%.



Canon Giessen GmbH's new energy provision system wins the Innovation Award 2006 of the German Gas Industry.

Canon and the Environment

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Environmentally Conscious Management System

Based on the Mid-Term Environmental Goals, the entire Group is working to lower its environmental burden at Canon's worldwide bases.

2006 Highlights

- In its drive for ISO 14001 consolidated certification, 13 of Canon Inc. operational sites and 66 affiliated companies have received certification.
- We received a special prize at the 2006 Eco-Efficiency Awards for the promotion of material flow cost accounting.

Environmentally Conscious Management System

Maximizing Resource Efficiency

Companies must promote environmental management to contribute to a society where sustainable development is possible. Canon's environmental management aims to maximize resource efficiency and sets concrete goals under overriding indicator Factor 2 in its Vision for 2010. To this end, we have built an environmental management system (shown in the diagram below) and are raising the level and efficiency of all our environmental assurance activities, in addition to pursuing specific targets.

Under environmentally conscious management, we follow the Plan-Do-Check-Act cycle: we carry out environmental assurance activities (Do) through our Mid-Term Environmental Goals (Plan), which are reflected in our business targets; we also implement the Environmental Evaluation System (Check) to assess performance and then work to improve and enhance our environmental assurance activities (Act).

By linking this PDCA cycle to the activities of the Company's operating segments (the operational sites of the Company's operating segments and Group companies), we can accelerate the environmental assurance activities of the entire Group.

Mid-Term Environmental Goals (2006-2008)

In 2005, Canon set a goal of Factor 1.7 for 2008 as a milestone on the way to achieving Factor 2. Since 2006, we have been focusing on reinforcing our environmental assurance activities and attaining industry-leading levels for energy efficiency, model size, and weight reduction and managing chemical substances throughout our product range. In 2006, the first year of this phase, we recorded Factor 1.38.

In product-related environmental activities, we largely achieved our goals for making most new products more energy-efficient, smaller and lighter. We also operate a system for managing chemical substances in products to comply with the EU's RoHS Directive, the Chinese version of RoHS and other regulations.

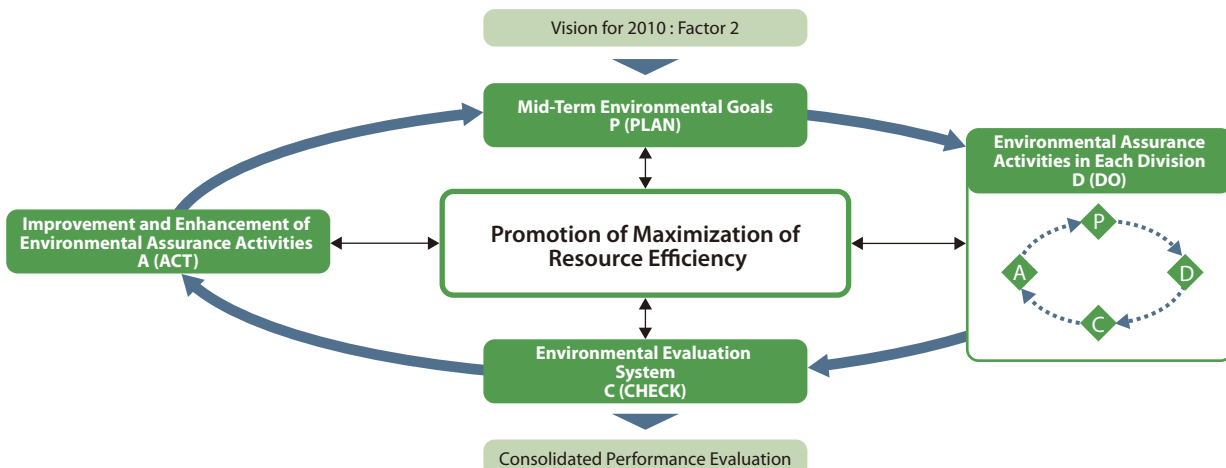
At operational sites, energy-saving measures, such as the introduction of high-efficiency facilities, have enabled us to reduce greenhouse gas emissions (CO₂ equivalent) by 9% per unit of sales compared with 2000.

To strengthen the Group's environmental management, in 2005 we commenced a three-year plan to acquire ISO 14001 consolidated certification for the Group. By the end of 2006, this had extended to 13 Canon Inc. operational sites and 66 affiliated companies.

● In the Future

We must reconsider strategies for achieving factor targets and promote measures to attain our goals. Specifically, the entire Canon Group is working as one through such measures as designing more energy efficient, smaller and lighter products, reducing energy consumption and waste amounts at operational sites, and cutting back on the use of air freight in distribution activities.

Canon's Environmentally Conscious Management System



Mid-Term Environmental Goals and Results for 2006

Item	Target Achievement Year	Results for 2006	Further Details		
Overriding Indicator					
Factor 2	More than 1.7 times the ratio of net sales to lifecycle CO ₂ emissions, using 2000 as the baseline year	2008	Achieved Factor 1.38 (1.96 had selling prices remained the same)	×	P15-16
Environmental Management Goals					
Environmental Assurance System	Establish an environmental assurance system throughout the lifecycle of the products	2007	Created and implemented a system and rules for the expansion of product EMS (Developed product chemical substance assurance system, revised and established rules to counter product environmental risk, etc.)	◎	—
	Expand the scope of ISO 14001 consolidated certification (Step 3)	2007	Proceeding with acquisition of ISO 14001 consolidated certification (three-year plan: 2005-2007) Completed Step 2 of consolidated certification (13 Canon Inc. sites, and 66 subsidiaries and affiliates)	◎	P35
Material Flow Cost Accounting	Globally implement material flow cost accounting	2007	Newly introduced to Canon Suzhou and Canon Dalian (total Japan: 12 sites, overseas: 8 sites)	◎	P37
Product Environmental Goals					
Eco-products	Establish a new information disclosure system	2007	<ul style="list-style-type: none"> Product Environmental Information Provision System: In February 2007, inkjet printers product information was publicized on the Web site of Japan's Ministry of the Environment J-Moss Mark: In February 2006, was an industry leader in displaying this mark on products 	◎	P41
Global Warming Prevention and Energy Conservation	Achieve top-level energy conservation in each product group	2008	Goals achieved for new products in 2006 (cameras, copying machine, laser beam printers, inkjet printers, optical products (2 product lines), large-format inkjet printers, medical equipment)	◎	P42
Resource Conservation	Achieve top-level size and weight reduction in each product group	2008	Goals achieved for new products in 2006 (cameras, copying machine, laser beam printers, inkjet printers, optical products (2 product lines), large-format inkjet printers, medical equipment)	◎	P43
	Revise 3R design standards	2007	Carried out regular revision of environmental consideration design guidance	○	
Chemical Substance Management	Fully operate product chemical substance management systems	2006	Confirmed state of compliance with RoHS Directive, all relevant products from all business groups confirmed as compliant for Europe. Confirmed state of compliance with China RoHS.	◎	P45-P46
	Grasp total volume of 24 environmental impact substances and perform phased-in reductions	2008	Implemented worldwide survey of amount of 24 substances contained in products	○	—
Paper	Promotion of environmentally conscious paper	2008	Sold forest certification paper, recycled paper, ECF (elemental chlorine free) bleached paper	○	WEB
Operation Site Environmental Goals					
Global Warming Prevention and Energy Conservation	Reduce operational site CO ₂ emissions per unit of net sales by 10% or more from 2000 level	2008	9% reduction (Calculated using coefficient for converting electricity to CO ₂ in Japan from 2000)	◎	P47
Resource Conservation	Reduce waste consigned to outside processing company per unit of net sales by 44% from 2000 level *1	2008	Waste consigned to outside processing company was 64,573 tons, a reduction of 33% per unit of net sales from 2000 level	○	P48
	Deploy Phase 2 of zero landfill waste activity (Reduce landfill of general waste produced by business activities by 20% from 2004 level)	2008	Waste to landfill was 963 tons, a 47% reduction from 2004 level	◎	
	Reduce water use per unit of net sales by 25% from 2000 level	2008	Water use was 8.7 million m ³ , a 22% reduction per unit of net sales from 2000 level	◎	WEB
	Reduce paper use in offices per unit of net sales by 10% from 2005 level	2008	Paper use was 770 tons, a 3.7% reduction per unit of net sales from 2005 level	◎	—
Chemical Substance Management	Reduce discharge volume of controlled chemical substances by 60% from 2000 level	2008	Discharge volume of controlled chemical substances was 784 tons, a 37% reduction from 2000 level	○	P49
	Reduce discharge volume of PRTR substances by 78% from 2000 level	2008	Discharge volume of PRTR substances was 84 tons, a 78% reduction from 2000 level	◎	
	Reduce discharge volume of priority-control chemical substances by 15% from 2004 level (Chlorobenzene, toluene, methanol, IPA)	2008	Discharge volume of priority-control chemical substances was 395 tons, a 33% increase from 2004 level	×	WEB
	Establish a controlled chemical substances management system for regional HQ sales companies	2007	Grasped state of management of chemical substances	○	—
Eco-factory	Set up a Canon Eco-factory certification system and expand it globally	2007	Established a proposal for certification standards and intend to implement on trial basis starting in 2007	○	—
Common Environmental Goals					
Employee Training	Globally, provide environmental training through e-learning	2007	<ul style="list-style-type: none"> Started Global Environmental Education Self-Awareness Program (in Japanese, English, and Chinese) Started environmental training for sales and marketing divisions (in Japanese and English) 	◎	WEB
	Carry out environmental professional staff developing programs	2008	Created new content for environmental management training for managers	◎	WEB
Green Procurement	Revise the Green Procurement Standards (purchased goods) and achieve full compliance	2008	Introduced globally revised proposal considerations	—	—
Transportation	Reduce CO ₂ emissions in transportation by 20% per unit of net sales from 2000 level (global)	2008	11% reduction against 2000 level	○	P51
	Increase the rate of introducing low-emission commercial vehicles to 90% (in Japan) *2	2008	96% are low-emission vehicles; 237 low-emission vehicles, including 22 hybrids, in use.	◎	WEB

Evaluation of results for 2006: 100% or more achieved=◎, 70% or more achieved=○. For qualitative goals: comprehensive achievement=◎; in progress (improved over previous year)=○

*1 Excluding used products collected from the market and internally recycled waste.

*2 Outside Japan: Set a voluntary goal where low-emission vehicles are defined by national standards.

Vision and Strategy

People-Friendly, Environmentally Conscious Products

Management Systems

Canon and the Environment

Canon and Stakeholders

Environmentally Conscious Management System

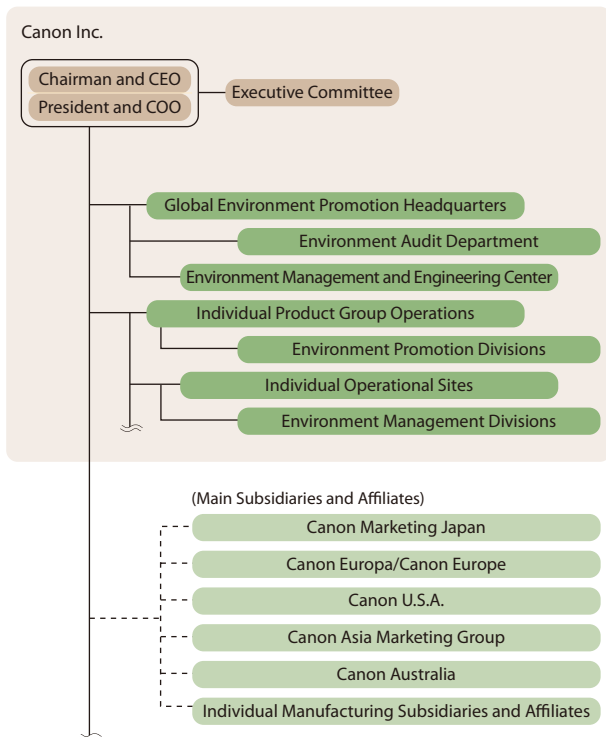
Global Environmental Promotion System

To promote environmental management in accordance with Group companies worldwide, Canon established the Environmental Audit Department in 1993 to supervise the running of the Environmental Management System throughout the Group. This establishment has been pivotal in reinforcing the Environmental Management System.

Furthermore, we established the Global Environment Promotion Headquarters in 2002. The Headquarters directly oversees the Environmental Management and Engineering Center, which plans and promotes environmental strategy and furthers the development of environment-related technologies.

There are also departments and personnel in charge of promoting environmental assurance activities for each operating segment, at each operating site and in all major affiliated companies. Their duties include checking the status of progress toward the Mid-Term Environmental Goals set by the Global Environment Promotion Headquarters and compliance with various internal environmental assurance rules, and ensuring that environmental management is being thoroughly executed. Information from each Group organization is gathered by the Global Environment Promotion Headquarters to facilitate prompt and appropriate decision-making.

Global Environmental Promotion System



Environmental Evaluation System

Canon operates an Evaluation System on a consolidated basis, which assesses the management status of Company operating segments and Group companies. Since 2001, we have incorporated environmental evaluation into operational activities under this system to ensure more aggressive and autonomous promotion of environmental assurance activities across these operating segments and companies.

In this environmental evaluation, the Global Environment Promotion Headquarters evaluates and scores how well the Environmental Management System (EMS) is being applied, how much of an environmental burden Canon is generating and the results of reduction strategies. This accounts for about 10% of total points in evaluation on a consolidated basis. The results of these evaluations are announced every quarter within the Group.

Through the introduction of new evaluation criteria and other measures, Canon will continue to revise and improve the system to raise the level of the Company's environmental management.

Acquiring ISO 14001 Consolidated Certification

In 1995, Canon became the first company in Japan to be certified for BS7750, the predecessor to ISO 14001, as part of its drive to reduce its environmental burden. We have subsequently built environmental management systems at manufacturing sites and sales companies in Japan and around the world.

In 2005, we began a three-year plan to gain ISO 14001 consolidated certification to speed up previously implemented activities and to boost Group environmental management.



Certificate for ISO 14001

In 2005, Step 1 certification covered 13 Canon operational sites, 22 affiliated companies in Japan, and six sales companies in Europe. This was followed by Step 2 in 2006, with the certification of two additional companies in Japan and 37 more overseas. The certifying body made two key comments.

- (1) There were cases of insufficient understanding and operation of the newly introduced environmental management systems.
- (2) There was insufficient sharing of environmental information within the Group.

Assimilating these directives, we plan to complete consolidated certification for Canon and 103 affiliated companies (40 in Japan, 63 overseas) in 2007 (Step 3), the final year of the three-year plan.

Environmental Auditing

In 1994, Canon inaugurated a dual system of environmental auditing by operational sites and environmental auditing by Canon Headquarters. Since 2003, in advance of gaining ISO 14001 consolidated certification we established the Group Audit Management Division, which oversees the internal environmental audits of the Canon Group. In 2005, we started conducting Product Environmental Audits of Canon operating segments and key regional sales companies.

2006 Internal Environmental Audits

In 2006, we set out an environmental auditing policy for the entire Group for confirming legal compliance and achievement of Mid-Term Environmental Goals, the auditing competence of our auditors and other criteria. This policy was the basis for internal audits. Below are the nonconformities found as a result of these audits.

Some hazardous substances were found to exceed the amount allowed by the Fire Law of Japan, but this situation was promptly remedied by reducing amounts stored and thoroughly enforcing rules related to quantitative checks.



Internal audit in process

Some nonconformities arose, such as ambiguous evaluation of compliance* assessment procedures, but guidelines were published and measures are being taken to prevent the recurrence of such problems.

* Evaluation of compliance

One of the required criteria of ISO 14001, this stipulates procedures for periodically evaluating compliance, implementing evaluation compliance and keeping records of the results of evaluations in accordance with the legal and other requirements agreed upon by the organization.

- WEB** • Canon Group Internal Environmental Audit
- Environmental Audits of Suppliers and Subcontractors

Management of Environmental Risk and Compliance with Product Environmental Regulations

Canon understands that response to environmental laws and regulations is essential and that awareness of this issue is a part of

its business activities.

When choosing possible locations for new operational sites that are necessary for business expansion, Canon carries out surveys of the environmental infrastructure and surrounding environment, and conducts soil and groundwater assessments that take into consideration the past uses of the land.

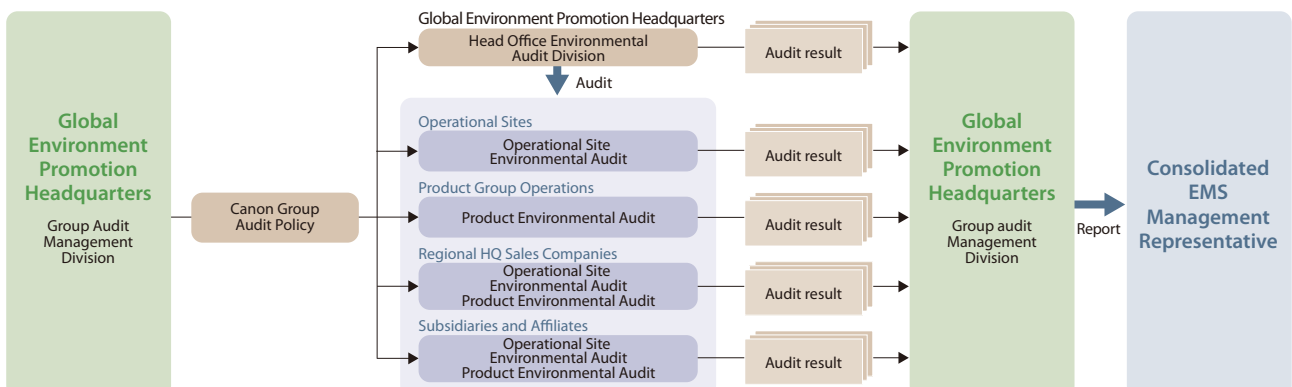
Regional headquarters also constantly monitored how Canon products are affected by current laws and legislative processes. This information is gathered by the Global Environment Promotion Headquarters, and after analysis it is used to determine response methods. In turn, this serves as feedback to the design and development arms of each operating segment to ensure their thorough understanding.

Measures in Response to Major Global Environmental Laws and Regulations

Environmental Areas	Environmental Laws, Regulations or Initiatives		Canon's Actions	Details
	Name	Content		
CO ₂ Reductions (Energy Conservation)	Kyoto Protocol	International treaty to mitigate climate change	Focusing on lifecycle CO ₂ reduction, we are aiming to achieve our Factor 2 target in 2010.	P15-16, P33
	EUP Directive	Improving the efficiency of energy use	Canon is proactively introducing energy-saving measures, such as on-demand fixing technology.	WEB
Recycling (Resource Conservation)	WEEE	Law for promoting recycling of electronic waste in European union (EU)	When implementing this law, Canon joined in formulating recycling schemes in EU member states. Canon has also developed its own cartridge recycling system on a global scale. We also employ a thorough recyclability evaluation from the product design stage.	P44
Management of Chemical Substances	RoHS	Restrictions on the use of hazardous substances in the EU. Similar legislation is being introduced in other countries such as Japan and China.	Ahead of the 2006 implementation of this EU directive, in 2004 we started introducing compliant products globally.	P45
	REACH	Regulation on Registration, Evaluation and Authorization of Chemicals (Chemicals contained in products are also regulated.)	In addition to continuing to manage chemicals as we have done in the past, we are preparing toward REACH with collaboration among industries.	—
	IEC TC111 Material Declaration	Standardization of green procurement	We are promoting standardization in Japan through the Green Procurement Survey Standardization Initiative (chaired by Canon) and globally through the International Electrotechnical Commission.	P46
Provision and Disclosure of Environmental Information	Eco-Declarations	Format for providing customers and other parties with environmental information about products	We participate actively in discussions on formats, such as the European IT Eco Declaration (IT ECO).	P41

- WEB** • Environmental Risk Communication

Internal Audit Systems



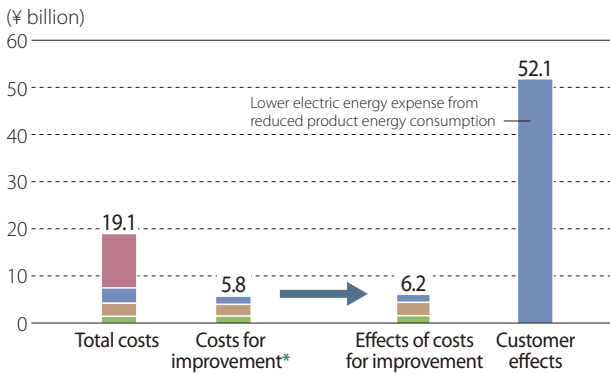
Environmentally Conscious Management System

Environmental Accounting

Since introducing environmental accounting in 1983, Canon has expanded its scope of application and raised its precision. We use environmental accounting to help us judge whether management resources are being optimally invested.

During 2006, Canon's environmental accounts show investment of ¥19.1 billion in environmental protection, including ¥5.8 billion for improvements designed to obtain economic benefits from environmental protection. This investment generated benefits of ¥6.2 billion.

Environment Accounting Results for 2006



* included in the total cost of ¥19.1 billion

Promoting the Introduction of Material Flow Cost Accounting

A method of environmental managerial accounting, material flow cost accounting (MFCA) enables the calculation and management of quantity and cost data for losses incurred in the manufacturing process. This model asserts the final shipped product of the manufacturing process as "positive products," and emissions and waste along the way as "negative products." The material costs associated with negative products, processing and waste treatment costs are determined as "negative product costs." Analyzing the quantity of negative products and reducing the number of negative products enables to reduce our environmental burden and costs.

Canon began introducing MFCA at its Japanese manufactur-

ing sites in 2002 and at overseas sites in 2004. As of December 2006, MFCA was being used by a total of 12 sites in Japan and eight overseas. A joint MFCA project between Canon and its raw material suppliers was initiated in 2004, with both sides working together to reduce environmental burden and costs.

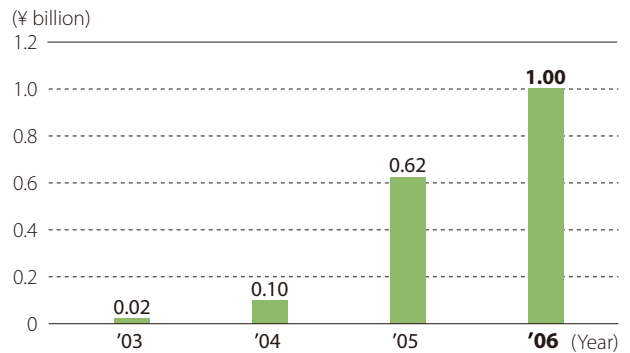


Canon receives a special prize in the 2006 Eco-Efficiency Awards for MFCA

The economic effect of these efforts at major manufacturing sites in Japan was ¥620 million in 2005 and ¥1.0 billion in 2006.

These pioneering MFCA measures and their results were recognized by a special MFCA prize in the 2006 Eco-Efficiency Awards.

Economic Effect of MFCA



Note: Totals are the economic effects from reduced purchasing of raw materials (main and secondary materials).

Building a Workplace-Centered Environmental Assurance System

At workplaces that have introduced MFCA, managers have led efforts to help employees recognize the amount and cost of the negative products that are generated in the production process of each workplace, and to analyze exactly how these losses occur. Working to improve implementation of MFCA has enabled each workplace to build an autonomous environmental assurance system that meets its specific needs.

Such moves to make environmental activities a daily part of manufacturing activities in the workplace enhance employee awareness and stimulate Groupwide environmental assurance activities.

Environmental Education

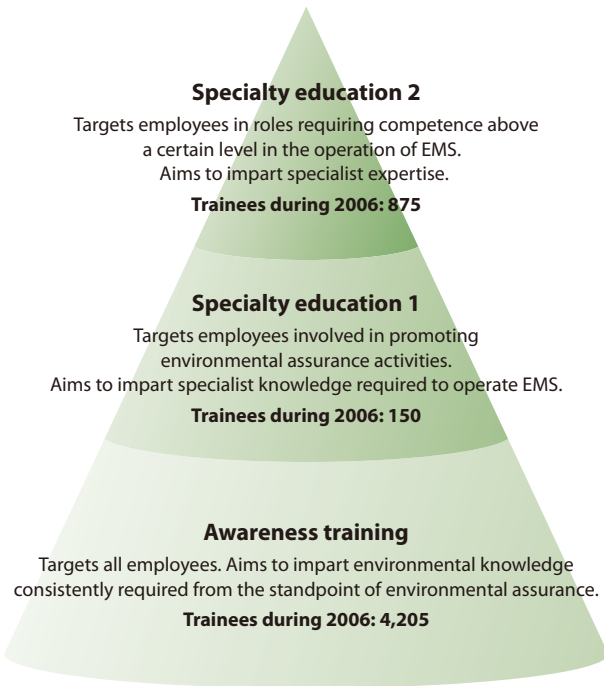
Since 1989, Canon has promoted environmental education with the goal of having all Group employees understand and recognize the importance of environmental assurance and encouraging autonomous environmental action in their daily jobs.

Canon's environmental education includes head office training by head office departments and site training conducted in accordance with needs sites have individually specified.

There are three kinds of head office training: awareness training, specialty education 1, and specialty education 2 (see table below). Site training includes awareness training specific to the site, with specialized training that refers to regional ordinances and regulations.

In addition, we conduct the Canon Ecology Person Diagnosis via e-learning to test and raise the environmental awareness of each employee.

Head Office Training System



-  **Introducing Awareness Education Worldwide**
- Promoting Specialty Education**

Environmental Communication

Basic Concept

Canon takes advantage of every possible opportunity to present environmental information to its various stakeholders through constructive, two-way communication activities.

We will continue our energetic drive to develop activities that contribute to building a society where people harmoniously live and work together into the future.

● Exhibiting at Environmental Expos

Canon takes part in an array of environmental exhibitions in Japan and overseas to showcase its environmentally considerate products and initiatives.

During 2006, we introduced our CO₂ emission reduction activities throughout product lifecycles, on the theme of "produce, use, recycle," at Japan's largest environmental expo, Eco-Products 2006, and at Enviro Shiga 2002 (International Environmental Business Exhibition held at Lake Biwa).



Eco-Products 2006

Overseas, we participated in the Eco-Products International Fair 2006 (Singapore), which hosts exhibits of environmentally conscious products from the Asia-Pacific region.

● Contributions to the Environmental Education Books Fund

Canon Inc. believes that raising awareness among as many people as possible is vital to solving global environmental problems. Since 2003, we have supported the Sustainable Environment Education Support Project 2007 (responsible editor: Prof. Yamamoto, Tokyo



Environmental education books

University), sponsored by Diamond Co., Ltd. Through this project, four environmental textbooks were published and donated to approximately 40,000 elementary and high school students across Japan by March 2007.

Environmentally Conscious Management System

● **Lessons on Demand for Regional Elementary Schools**

Canon offers environmental education opportunities to regional elementary and middle schools with the objective of exploring the question of “What can children do to protect the environment?”

During 2006, sessions were conducted at Tamagawa Elementary School, Ota-ku, Tokyo, on the themes of global warming and 3R (Reduce, Reuse and Recycle). An inkjet printer was dismantled to provide hands-on experience of recycling.

We will continue our activities to bring to schools participatory lessons that stimulate pupil interest, while improving and revitalizing the program.



Children dismantle a printer as part of an on-demand school environmental lesson.

● **Development of Environmental Advertising**

Canon has placed environmental advertisements in Japanese newspapers and magazines since 1995. The objective of such moves is to publicize the Company’s environmental activities to as broad a public as possible.

We made inroads into television commercials during 2006, with an appeal for CO₂ emission reduction throughout product life-cycles.



Environmental advertisements

● **Various Lectures on Environmental Themes**

Canon presents lectures on an array of themes through seminars and forums in Japan and overseas.

Events in Japan during 2006 presented such original Canon initiatives as measures to raise environmental efficiency using Factor 2 case studies and the introduction of material flow cost accounting. Overseas, the Chairman of Canon Dalian gave a lecture at the



Lecture at Beijing University

University of Beijing, China, on “Sustainable development for China—the present and the future,” featuring environmental measures that are underway at this Canon subsidiary.

● **Measures for International Standardization to Link Companies throughout the Industry**

Canon is cooperating with other manufacturers to reduce their collective environmental burden by raising efficiency in various aspects of business. Areas targeted for international standardization include:

- (1) RoHS Compliance Assessments
- (2) Product Inspection Methods
- (3) Supplier Assessments

● **Promotion of Internet Environmental PR**

Canon’s website introduces the Company’s environmental policies and many initiatives based on them. The site also provides environmental labeling, material safety data sheets (MSDSs), and other information to ensure our customers’ peace of mind when choosing Canon products.



Canon’s environmental website (canon.com/environment/index.html)

WEB • **Publication of Canon Sustainability Report**

Canon Environmental Solutions

Environmental Businesses Utilizing Canon's Environmental Management Technologies

Canon Group companies are developing Canon Environmental Solutions so that customers can benefit from the wealth of environmental technologies and expertise that Canon has built up over the years.

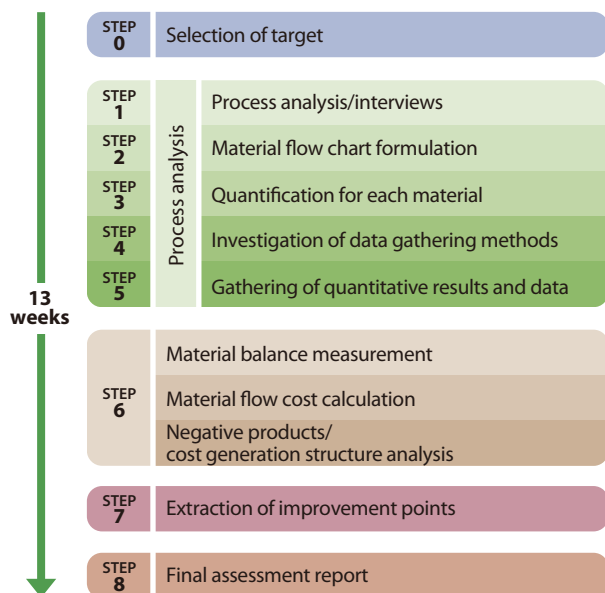
Through consultation on operating environmental management systems and environmentally related IT systems, Canon helps companies progress in their environmental management.

● Material Flow Cost Accounting (MFCA) Business

Material flow cost accounting (MFCA) is an accounting method for effectively raising material productivity and reducing costs in manufacturing industries.

In 2006, Canon Marketing Japan (Canon MJ) began using Canon's accumulated knowledge to offer consulting services to manufacturing companies looking to introduce MFCA. The company is also developing Japan's first Material Flow Cost Accounting Analysis Support System with aims for its release in the first half of 2007. This system allows the comprehensive management and prompt reporting of such data as resources used and costs incurred, thus vastly improving upon the efficiency of conventional MFCA systems that use spreadsheets and other methods.

MFCA Support Process



● CSR and Environmental Reports Production Support Service

Since 2005, Canon MJ has made use of Canon's expertise in corporate communications to offer corporate customers support in creating environmental and corporate social responsibility (CSR) reports.

Canon MJ does more than just help companies create the reports. It also advises them on how to overcome a variety of related problems and thus contributes to progress in environmental management in the manufacturing industry.

● Green Procurement Survey Support System

Canon MJ has offered the Green Procurement Survey Support System since 2004 to help customers conduct green procurement more efficiently and manage data on the scientific properties of products and parts more effectively.

In 2006, the company released a new version of the system compatible with the industry-standard Japan Green Procurement Survey Standardization Initiative (JGPSSI) Ver. 3, for sale to customers mainly in the electrical and electronic parts fields. Using the information and know-how gathered through its experience in marketing support activities, Canon MJ is expanding its range of consulting services with offerings like the System for the Management of Chemical Substances in Products.

● IA-Lab Supports Green Procurement

Canon Anelva Technix developed the IA-Lab, a fast and reliable device for measuring additives in resins, thus doing away with time-consuming, complicated preparation. This breakthrough reduces measurement time to less than one-tenth that of conventional methods. After its successful application to the inspection of brominated flame retardants (PBBs and PBDEs) covered by the RoHS Directive, the IA-Lab's use has now been expanded to such stabilizers and plasticizers as chlorinated paraffin and phthalate esters.

A portable version for measuring volatile organic compounds (VOCs) is currently being tested and is expected to see widespread use in the management of green procurement.



IA-Lab environmental analysis device

WEB Procurement and Sales of Environmentally Conscious Paper

Environmentally Conscious Products

Canon designs and develops products under a strategy that emphasizes consideration of their entire lifecycles, particularly at the raw material / parts manufacturing and product use stages, which create the greatest environmental burden.

2006 Highlights

- Canon achieved top-level energy saving performance by product segment.
- We received the Minister of Economy, Trade and Industry's award for our toner cartridge recovery and recycling activities.

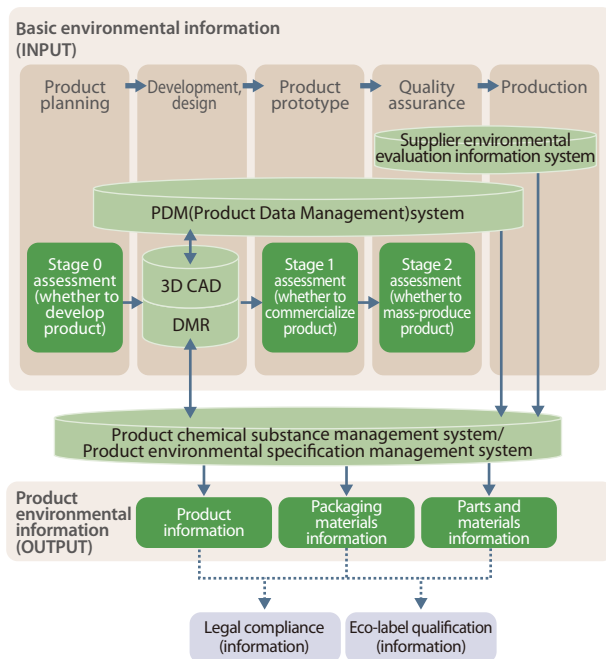
Managing and Providing Product Environmental Information

Product Environmental Information System

Canon has built a product environmental information system from product-related data spanning all stages of development: product planning, development and design, prototype creation, quality assurance, and manufacturing. Available on the Canon intranet, this system allows all development, planning, procurement, and manufacturing divisions to share product environmental data and to use this data to develop environmentally conscious products.

Development and design divisions have introduced 3D CAD systems, support tools using digital data to evaluate functions such as ease of assembly and disassembly, usability, safety and drive mechanisms, and digital mock-up reviews (DMRs). These systems effectively reduce the number of prototypes needed.

Product Environmental Information System



Along with these support tools, we have developed environmental impact assessment software that can be applied from the early development and planning stages to evaluate compliance with regulations like the WEEE and RoHS Directive, application of various eco-labels, life cycle assessment (LCA) and life cycle cost (LCC) assessment and product assessment.

● Provision of Product Environmental Information

Canon actively discloses a variety of environmentally related product information in Japan. Under the Eco-Leaf* program, begun in 2002, we release quantitative data on the environmental burden during the product lifecycle. However, the detailed nature of this disclosure of environmental impact requires a certain level of specialist knowledge to comprehend.

To supplement this method with easy-to-understand environmental information using simplified indicators, we employ the Product Environmental Information Provision System backed by the Ministry of the Environment. Since February 2007, we have presented information on this basis.

In Europe, we began providing environmental information through the IT Eco Declaration (IT ECO) in the late 1990s. This system discloses information on a number of aspects of a product's environmental performance and thus makes it easy for the reader to understand the product's overall environmental burden. It also facilitates simple comparisons between selected environmental aspects of one product with another, which has resulted in IT ECO's widespread use in public tendering across Europe.

Canon took part from the initial stages in the Swedish IT Industry Association's IT ECO investigative commission, helping to create criteria and promoting the spread of its use. In 2006, it was agreed to unify the format for IT ECO and ECMA's TR70, an international industry-based standards organization. This confluence spawned the ECMA-370 Eco Declaration, which is expected to spread beyond Europe. In 2007, an IT ECO format was created for printer consumables and covers various aspects including safe product use.

Canon will continue to further pursue ideal and more appropriate product information disclosure and look for ways to make data on environmentally considerate products easier to understand.

* Eco-Leaf

This eco-label is promoted by the Japan Environmental Management Association for Industry (JEMAI). Eco-Leaf uses the life cycle assessment (LCA) method to quantitatively show the environmental burden of a product throughout its life cycle, from extraction of resources to manufacturing, use, and recycling.

Qualified Environmentally Conscious Products

Standards Compliance in 2006

From the product planning stage, Canon emphasizes compliance with regulations like Japan's Law on Promoting Green Purchasing^{*1} and with programs like International ENERGY STAR® Program^{*2} and the Eco Mark^{*3}.

The table below shows the 2006 rate of compliance for Canon's main products and products covered by various standards. We achieved an extremely high rate of compliance, with many product groups at 100% compliance.

The International ENERGY STAR® Program issued revised Energy Efficiency Standards Ver. 1 for imaging equipment as of April 1, 2007, and Canon is making sure that its products meet the increasingly strict stipulations of this new standard.

Canon is also hard at work qualifying under eco label programs outside Japan. In 2006, 10 MFP models were certified for the German Blue Angel^{*4} program.

*1 Law on Promoting Green Purchasing

An abbreviation of the Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and other Entities, this law was enacted in April 2001. The national government and other public organs stipulate that goods purchased should be environmentally conscious.

*2 International ENERGY STAR® Program

This energy efficiency program was announced in 1993 by the U.S. Environmental Protection Agency (EPA). Products that meet energy efficiency standards bear the ENERGY STAR® logo.

*3 Eco Mark

The mark or label is given to products certified as protecting the environment or reducing environmental burden throughout the product lifecycle. Begun in 1989, it is the only type I eco label in Japan consistent with ISO14024.

*4 Blue Angel

This German environmental labeling system began in 1978.

Meeting Standards for Environmentally Conscious Products in 2006

	Law Promoting Green Purchasing (Japan)	Eco Mark (Japan)	International ENERGY STAR® Program
Copying Machines/MFDs	20/22 (91%)	18/22 (82%)	20/22 (91%)
Facsimile Machines	2/2 (100%)	-	2/2 (100%)
Laser Beam Printers (LBPs)	6/7 (86%)	6/7 (86%)	6/7 (86%)
Inkjet Printers	16/16 (100%)	15/16 (94%)	18/18 (100%)
Large-format Printers	6/6 (100%)	0/6 (0%)	6/6 (100%)
Image Scanners	4/4 (100%)	-	2/2 (100%)
Total	54/57 (95%)	39/51 (77%)	54/57 (95%)

Note 1: Values show the number of on-spec. models out of the number of models on sale, with the conformance ratio in brackets.

2: Facsimile machines and image scanners are outside the scope of Eco Mark specification.

Global Warming Prevention and Energy Efficiency

Reducing Product Energy Consumption

Canon aims for top-level energy efficiency in all product groups.

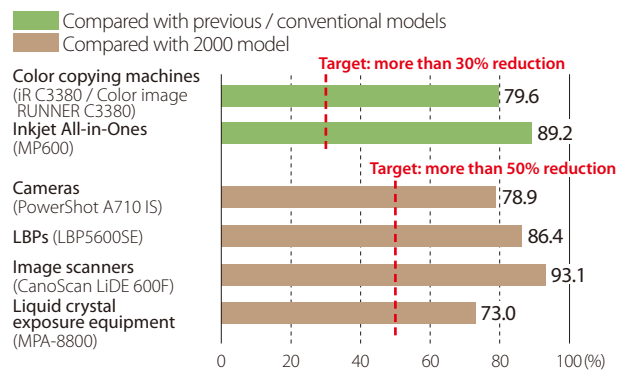
Under Canon's Mid-Term Environmental Goals (2006–2008), the Company has set goals to reduce energy consumption of products in operation and standby modes by more than 30% over previous models and by more than 50% from 2000 levels. We achieved these goals for major products sold in 2006: cameras, copying machines, MFPs, laser beam printers, inkjet printers, optical products, large-format printers and medical equipment, among others.

● Increasing the Number of Energy-Efficient Products

Canon uses energy-efficient technologies like on-demand fixing and induction heating (IH) to shorten the warm-up time, and thus reduce energy consumption, in copying machines, MFPs and laser beam printers. We have expanded the scope of these technologies to cover high-speed and color machines.

The iR C3380 and iR C2880 series, for which sales volumes increased in 2006, are color MFPs that boast top-class energy-saving performance. In the area of personal-use products, we expanded our energy-saving lineup of iP series inkjet printers and MP series inkjet MFPs, both of which incorporate technologies for saving energy during operation, when powered off and when in standby mode.

Power Consumption Reduction Rates in Energy Consumption for Major Products



Note: Canon calculates reduced rates of energy consumption for major products by setting conditions for the measurement of each product.



- Canon's Proprietary Energy-Efficient Technologies in Office Equipment
- Economic Effects of Energy Efficiency

Environmentally Conscious Products

Resource Conservation

Conserving Resources in Making Products

To help build a recycling-oriented society, Canon focuses on the development of resource-conserving products. These products have such features as being smaller, lighter, and easy to recycle.

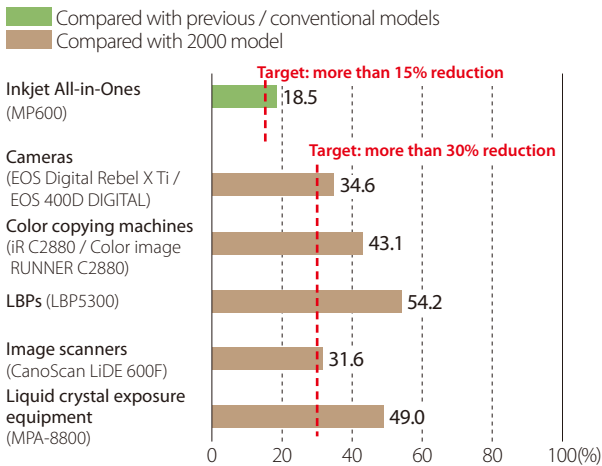
We disassemble and sort used products collected from customers to promote high-efficiency recycling. Part of this is inverse manufacturing (IM), an integrated process in which collected products, units and parts are cleaned and inspected for reuse in production lines. We are working to build recycling systems throughout the regions where we operate to elevate these activities to a global level.

Smaller, Lighter Products

To improve on product functions and usability yet use fewer resources, Canon focuses on reducing weight and size right from the development stage. By extending this approach beyond business equipment to include mirror projection aligners and medical equipment, Canon is reducing model size and weight while solving issues related to design and expansion of functions.

By 2008, we aim to reduce product weight by more than 15% over previous models, or by more than 30% compared to 2000 levels. During 2006, Canon achieved this goal for its major new product lines.

Rate of Size and Weight Reduction for Main Products



Recycle-Conscious Design

From the development and design stages, Canon strives to make products 75% recyclable by mass (for reuse and material recycling) and 85% recoverable by mass (including thermal recycling).

In 2006, we confirmed at the design stage the achievement of 65% recyclability and 75% recoverability for all products, as stipulated by the EU's Waste Electrical and Electronic Equipment Directive (WEEE Directive)*.

In 2007, we are revising our 3R design standards, which cover such items as product recoverability at the time of design, the percentage of parts common to multiple products, and improve the ease of product disassembly. These efforts are helping us to design easy-to-recycle products.

* WEEE Directive

This EU directive requires manufacturers to recover or recycle devices after use to prevent environmental pollution caused by waste electrical and electronic equipment.

TOPICS

Canon Receives 3R Awards from Japan's Minister of Economy, Trade and Industry for Toner Cartridge Collection and Recycling Activity

Canon pioneered the collection and recycling of used toner cartridges in 1990. Over the ensuing 16 years, Canon has promoted and expanded the activity around the world and nowadays achieves a 0% landfill ratio.



For these efforts, Canon received the Awards for Achievement in Promoting Reduce, Reuse, Recycle Activities (the 3R Awards) from Japan's Minister of Economy, Trade and Industry in 2006.

WEB

- Promoting the Recovery of Collected Products
- Use of Reused Parts and Recycled Plastics
- Introduction of IM Information Management System

Recycling Systems Around the World

As is the responsibility of a manufacturer expanding worldwide, Canon is building recycling systems in all regions where its sites are located.

● Compliance with the WEEE Directive

The WEEE Directive went into effect in February 2003 in the European Union. Participating countries are establishing and amending relevant laws and building the infrastructure to collect, reuse and recycle spent products.

Against this background, Canon has responded to the WEEE Directive through such efforts as labeling products that are to be collected separately and providing users with recycling information.

In addition, under the management of Canon's European regional headquarters, sales companies responsible for each of the EU countries are promoting the participation in national recycling consortiums and the creation of their own recycling schemes for commercial and consumer products. These companies register as producers in accordance with national laws and contribute to collection and recycling system costs.

For parts and materials that the WEEE Directive designates must be separated, collected, and properly treated in used products, the manufacturer must provide the recycler (intermediate processing contractor) with information on the hazardous substances contained in the parts and materials that make up the product and in the product itself. Accordingly, Canon's European sales companies are building systems to respond to recyclers' demands for such information.

● Establishing Collection and Recycling Sites in Japan

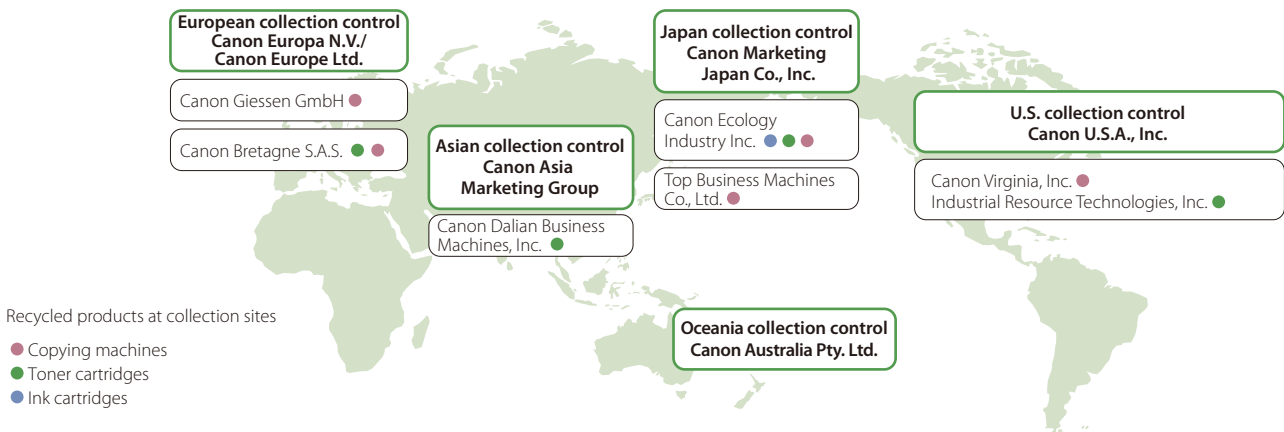
In Japan, Canon has nine collection centers for used products, primarily targeting office equipment.

Since April 2006, we have gained regional industrial waste accreditation for the instigation of the Canon Green Recycling Service. This initiative helps reduce the customer's workload in issuing and managing slips when used Canon office equipment is processed as industrial waste. The knock-on effect is to boost the recovery rate for used products.

Canon used to outsource to a number of contractors the recycling of used products that were collected in Japan. Since 2004, this system has been consolidated into domestic sites that span Japan, operated by four companies: Group companies Canon Ecology Industry Inc. and Top Business Machines Co., Ltd., along with one recycling contractor in Hokkaido and one in Okinawa.

WEB Canon Bretagne S.A.S. Recycling Business

Canon Global Collection and Recycling System



Environmentally Conscious Products

Management of Chemical Substances in Products

Eliminating Hazardous Substances from Products

Canon is building a Groupwide environmental assurance system for managing chemical substances in products. We are also developing products based on in-house standards that are stricter than laws and industry voluntary restrictions.

● Eliminating and Replacing Designated Hazardous Substances

Since 1997, Canon has been working to eliminate designated hazardous substances by determining and controlling the substances contained in its products and developing substitution technologies as necessary. Canon was one of the first companies to comply with the EU's RoHS Directive, which obligates companies to eliminate or replace six specified hazardous substances. In the spring of 2004, we were the first in the industry to release products complying with the RoHS Directive. We have since proactively developed new products to eliminate hazardous substances from products ahead of the scheduled dates for RoHS Directive compliance.

Other regulations being enacted around the world carry the same requirements as the RoHS Directive. In Japan, J-Moss (a new JIS standard on the marking of the presence of specific chemical substances for electrical and electronic equipment) was formally published in December 2005. Canon carries out proactive measures and information disclosure based on J-Moss stipulations.

Furthermore, in China the Management Methods for Control-

ling Pollution Caused by Electronic Information Products Regulation (China RoHS), was enacted in March 2007. This law extends beyond electronic information products to include production equipment, components, parts and packaging, and has its own labeling obligations. Canon is advancing with preparations to meet the stipulations of this law. We will continue to respond swiftly and steadily to regulations.

WEB • Reducing Number of Plastic Types Used and Promoting Unification of Plastic Casing Materials

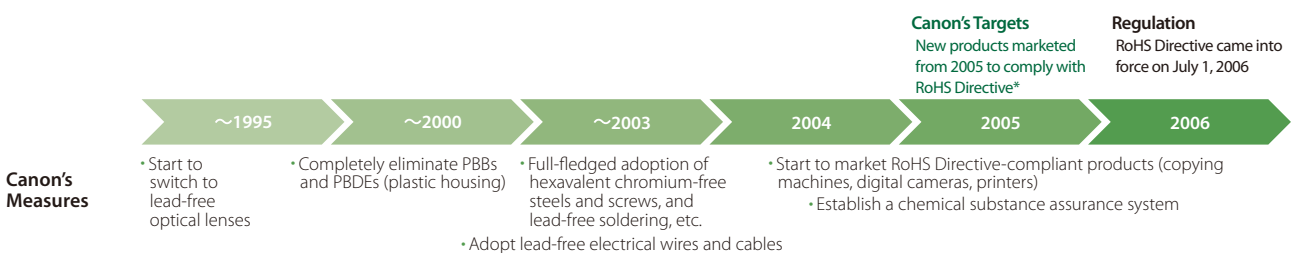
Assurance System for Chemical Substances in Products

In 1997, Canon distributed its Green Procurement Standards to approximately 3,000 suppliers with the aim of having them comply with rules for specific chemical substances in parts and materials. Canon purchases from suppliers the parts and materials that best abide by these standards. To comply with the RoHS Directive on hazardous substances established by the EU in 2003 and with future laws and regulations, we have reinforced our assurance system for chemical substances under which compliance with our Green Procurement Standards is a condition for dealing with suppliers.

To ensure that suppliers are thoroughly aware of and abide by these Green Procurement Standards, we hold explanation meetings in regions around the world each time there are revisions to the standards and have officers responsible for regional assessments carry out audits of suppliers.

WEB • Confirmation and Guidance at Plating Companies

Canon's Compliance with the RoHS Directive



* Compliance with the RoHS Directive
Compliance excludes products, parts and materials that are excluded in the RoHS Directive. Canon's own standards, formulated with reference to legal standards relating to existing regulations on chemical substances, apply to items of the Directive for which details are under deliberation.

● Dual-Tracked Assessment

To ensure proper management of chemical substances in products, Canon carries out assessments of primary suppliers' structures and assessment of parts and materials.

In assessments of primary suppliers' structures, Canon evaluates suppliers to ensure that they have a system for managing chemical substances, including in their own products, and conducts environmental assessments of businesses partners as specified in the Green Procurement Standards. Canon will only do business with suppliers that pass this assessment.

As for the assessment of parts and materials, Canon requests that suppliers carry out surveys of the chemical substances contained in parts and materials, with the results going into a common Canon Group database that can be used in developing new products.

For parts and materials with manufacturing processes that make them susceptible to infiltration by specified hazardous chemicals, Canon carries out in-house analyses as well as regular assessments of parts and materials.

Improving Reliability of Supplier Information and Reducing the Burden on Suppliers

Manufacturers like Canon require their suppliers to carry out individual chemical substance surveys and build management systems. However, this can lead to an extra burden of labor for suppliers. To resolve these problems, Canon is working on the following measures with other companies.

● Japan Green Procurement Survey Standardization Initiative and Introduction of Consistent Survey Criteria

Canon called on other companies in the industry to cooperate over a uniform 24 survey substances under the Japan Green Procurement Survey Standardization Initiative (JGPSSI), inaugurated in 2001, and to standardize the survey format.

Discussions between the JGPSSI and electronics industry associations in the United States and Europe with the aim of making these guidelines an international standard resulted in May 2005 agreement on the 24 survey substances and unified survey criteria.

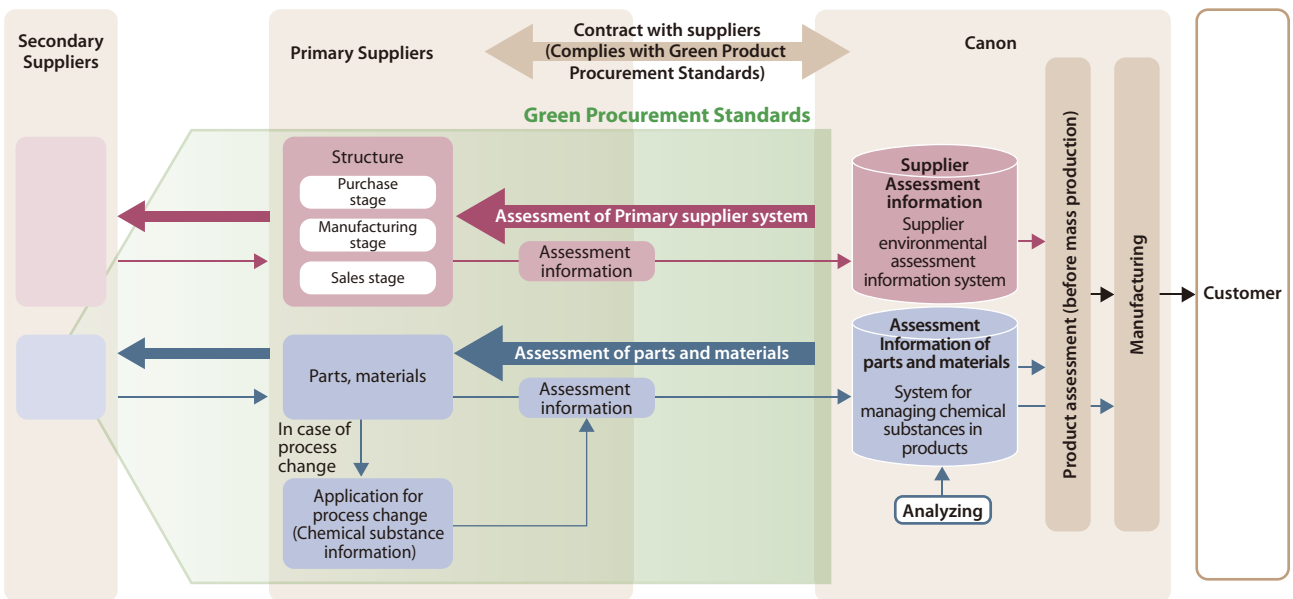
Related site [Green Procurement canon.com/procurement/green.html](http://canon.com/procurement/green.html)

● Specifying to Suppliers Common Guidelines on Managing Chemical Substances in Products

In 2005, the JGPSSI committee established the Guidelines for the Management of Chemical Substances in Products, which standardize the target chemical substances in the survey, as well as the survey format, and define a system for suppliers to manage chemical substances.

In August 2006, these guidelines were incorporated into our Green Procurement Standards with the aim developing activities to spread the use of the guidelines among like-minded electrical and electronic equipment manufacturers and to further strengthen management throughout the supply chain. Canon intends to call on the industry to make these guidelines an international standard in the near future.

Assurance System for Chemical Substances in Products



Environmental Activities at Operational Sites

Canon has set targets under the individual themes of global warming prevention and energy efficiency, resource efficiency, managing chemical substances, and preventing pollution, thereby working to reduce the environmental impact of its manufacturing activities.

2006 Highlights

- Canon Giessen GmbH (Germany) received the Innovation Award 2006 of the German Gas Industry for its introduction of a new energy supply system.

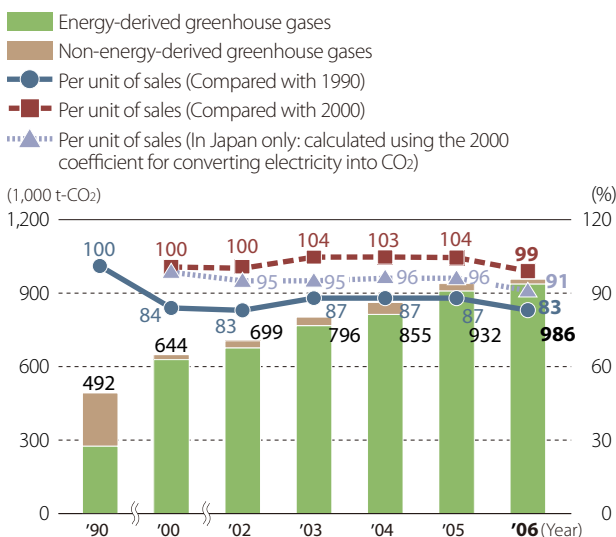
Global Warming Prevention and Energy Efficiency

Reducing Greenhouse Gas Emissions

Canon has long understood the importance of preventing global warming. In 1996, before the adoption of the Kyoto Protocol, we established the Operational Site Energy Efficient Special Committee under the Global Environment Promotion Committee. Since then, we have promoted energy conservation activities across the Group, which have included developing technologies to prevent global warming, as well as making improvements to production facilities and air conditioning equipment that consume substantial amounts of energy.

In 1998, we established the Countermeasure Sub-Committee on PFCs, and by 1999 we had successfully eliminated PFCs, HFCs, and SF₆, non-CO₂ greenhouse gases used as cleaners, solvents,

Total Amount of Greenhouse Gas Emissions



Note: Calculation of total greenhouse gas emissions

This calculation provides a total of the greenhouse gases designated in the Kyoto Protocol: the energy-derived greenhouse gas, CO₂, and the non-energy-derived greenhouse gases, PFCs, HFCs, SF₆, and N₂O. The conversion to CO₂ is made using annual coefficients for each region. Coefficients supplied by the Ministry of the Environment and the Federation of Electric Power Companies of Japan are used for site activities in Japan, and coefficients supplied by the International Energy Agency are used for site activities in regions outside Japan.

* There were partial omissions in total greenhouse gas emission volumes, so figures differ from data disclosed in the Canon Sustainability Report 2006.

and aerosol propellants. We have also been reducing greenhouse gases emitted in the semiconductor manufacturing process by installing combustion-type removal devices.

Further, in 2005 we established medium- and long-term goals for the reduction of greenhouse gases for individual operating segments. These segments are conducting activities to achieve their targets, working in cooperation with related operating sites.

However, under the Excellent Global Corporation Plan medium-term management concept, we are establishing new operational sites and expanding facilities with the aim of starting new businesses, increasing production, and restructuring. As a result, total greenhouse gas emissions in 2006 were up 5.7% over the previous year, at 986,000 tons of CO₂. Emissions per unit of sales have decreased 1% against 2000 values; this figure would be 9% but for the increased CO₂ emissions from electricity generation arising from the long-term partial shutdown of nuclear power facilities. Emissions per unit of sales have fallen 17% against 1990 levels.

- **Chart: Energy Consumption by Region in 2006**
- **Achieving Voluntary Targets by the Electrical and Electronics Industry in Japan**
- **Chart: Results of Canon's 2006 Energy-reduction Policy**

TOPICS

Canon Giessen (Germany) Introduces New Energy Supply System

Canon Giessen GmbH has been using increasing amounts of energy after expanding its clean room facilities along with the start of recycling of semiconductor exposure equipment. From the second half of 2004, the company made plans with an energy supply company and a university to introduce a new energy supply system.

Based on this plan, the old system, which involved large losses in energy due to the distribution and separation of cooling devices and ducts, was superseded from October 2005 by a cogeneration system fuelled by natural gas and an absorption chiller. Excess energy (electricity and heat) generated by the cogeneration system can also be sold to the local heating network (local heaters and coolers) or to a power generation company.

By introducing this new energy supply system, in 2006 the company reduced CO₂ emissions by 1,347 tons (a 45% reduction) compared with extrapolated figures for the year had the previous system continued to run. This translates to an economic gain of ¥26 million.

For these efforts, Canon Giessen was acclaimed for environmentally friendly energy usage and technologies contributing to energy conservation by the German Association for the Effi-



ASUE award ceremony

cient and Environmentally Friendly Use of Energy (ASUE). Moreover, the company received the Innovation Award 2006 of the German Gas Industry.

Resource Efficiency

Reducing Waste

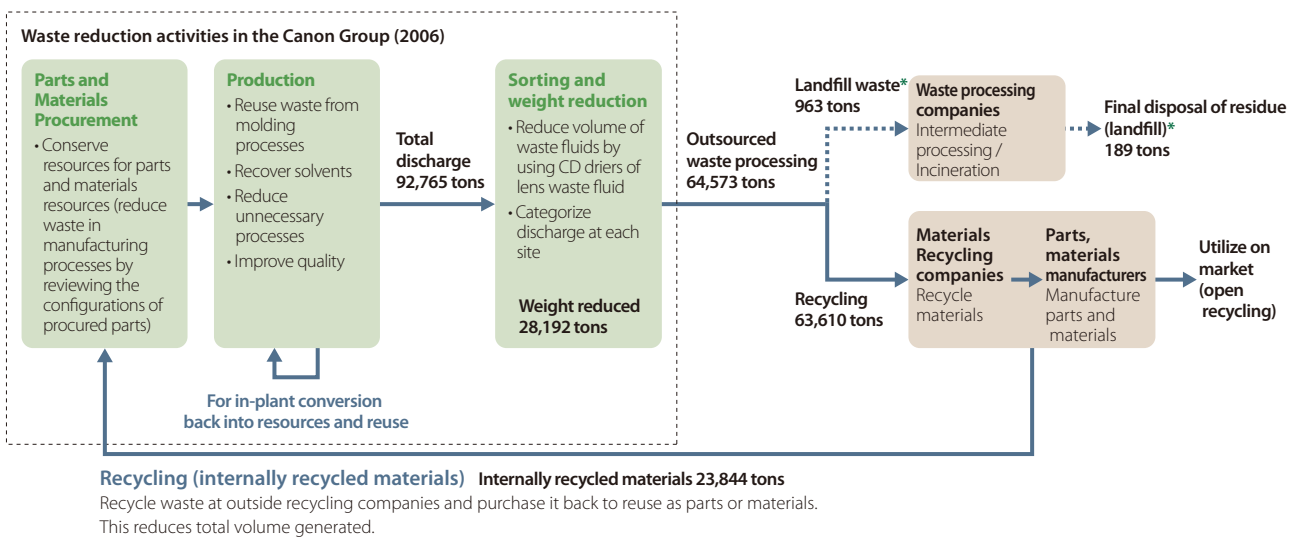
In 1990, Canon's Japanese operational sites alone generated 35,000 tons of landfill waste. In 2001, we began our zero landfill waste campaign, and as a result of 3R efforts since then to recycle waste by sorting and collecting it by material type, all manufacturing sites in Japan succeeded in generating zero landfill waste*¹ as of December 2003. This goal was also achieved by all 17 manufacturing sites outside Japan as of December 2005.

Under phase 2 of our zero landfill waste campaign in our Mid-Term Environmental Goals (2006-2008), we have set a goal of reducing landfill of general waste produced by business activities by 20% against 2004 levels. In 2006, we were able to reduce this amount by 47% against 2004 as a result of controlling waste generation and separating waste wherever possible.

Also under our Mid-Term Environmental Goals (2006-2008), we set a goal of reducing the amount of waste outsourced for recycling*² by 44% per unit of sales against 2000 and have begun to work toward this goal by reducing the amount of waste generated. In 2006, we reduced the amount of waste outsourced for recycling per unit of sales by 33% against 2000 figures as a result of such efforts as revising the management of sludge from wastewater treatment and changing the way we use returnable cases and cardboard pallets for parts transport.

We will continue to work towards these goals by cooperating across the entire Canon Group to improve management efficiency. Specific efforts will include reducing sludge and waste fluids, creating ways to circulate waste in-house, using computers to do away with wasteful prototype building and introducing material flow cost accounting to more sites.

Waste Treatment Flow



* Items for which, in line with administrative guidance, Canon is not allowed to establish its own routes for conversion back to resources.

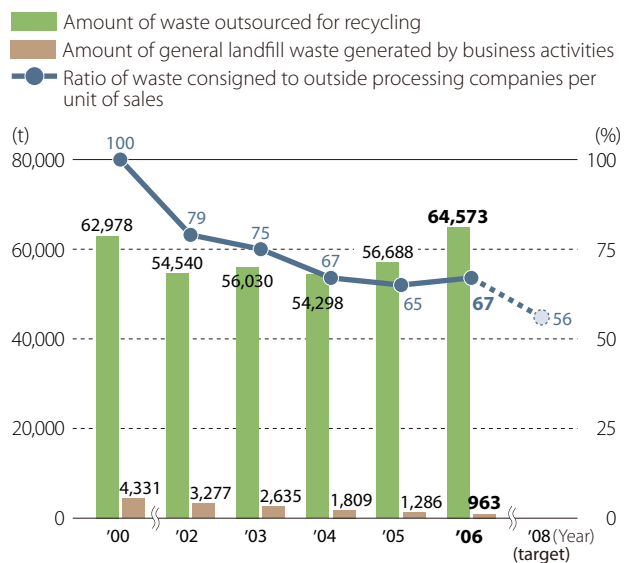
*1 Zero landfill waste

All waste generated from operational sites is recycled. Zero landfill waste is not considered to be achieved if even a small amount of residue after intermediate processing is landfilled. (Note that this does not include waste material for which Canon cannot independently determine the method of recycling due to government directions.)

*2 Amount of waste outsourced for recycling

The total amount of recyclable waste, valuable resources and landfill waste excludes used products collected from consumers and waste reused through internal recycling.

Amount of Waste Outsourced for Recycling and General Landfill Waste Generated by Business Activities



- Reducing Use of Water Resources
- Waste Processed by Category in 2006 (Japan)

Environmental Activities at Operational Sites

Managing Chemical Substances, Preventing Pollution

Reducing Emissions of Controlled Chemical Substances

Canon strives to eliminate and reduce harmful chemical substances used in the manufacturing process. For substances difficult to eliminate or reduce, our policy is to ensure they do not enter the atmosphere or public waterways.

Approximately 2,000 controlled chemical substances*¹ that we handle are classified and accordingly managed in three categories: A) Elimination of use; B) Reduction of use; C) Reduction of emission.

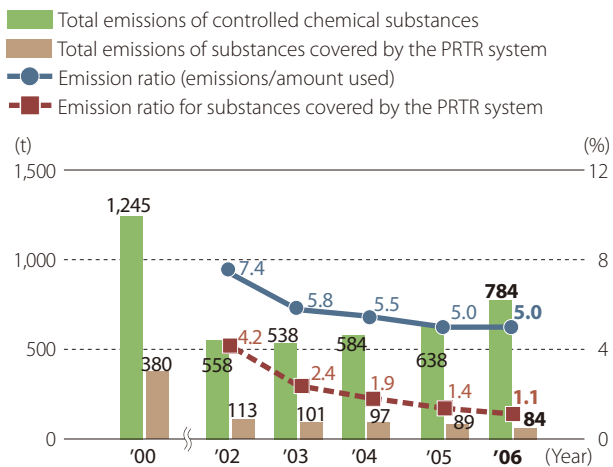
Under our Mid-Term Environmental Goals (2006–2008) established in 2005, to step up emission reductions of chemical substances that are difficult to eliminate, we set goals of achieving a 60% reduction from 2000 figures in controlled chemical substances and achieving a 78% reduction from 2000 figures for chemical substances covered by the PRTR system*².

In 2006, emissions of controlled chemical substances increased to 784 tons as a result of growth in manufacturing volumes. However, we reduced the emission ratios (emissions/amount used) for controlled substances. In addition, we reduced emissions of substances covered by the PRTR system 78% from the 2000 figure by replacing substances and improving the painting and cleaning processes.

From 2007, we are beginning to introduce devices for the removal of controlled chemical substances at operational sites that emit these substances.

To meet our Mid-Term Environmental Goals (2006–2008), we will continue to reduce controlled chemical substances and substances covered by the PRTR system across the entire Canon Group.

Emissions of Controlled Chemical Substances



- WEB** • Priority Controlled Chemical Substance Emission Reduction Measures
- PCB Waste Management
- Effect on Atmosphere and Public Waterways

*1 Controlled chemical substances

These are chemical substances covered by some restriction on use and management. These substances include those harmful to people, inflammable substances and substances that are harmful to the environment (such as those that contribute to global warming).

*2 PRTR system

The Pollutant Release and Transfer Register (PRTR) system requires the notification and public disclosure of the amount of chemical substances released into the environment and transferred as waste.

Remediation of Soil and Groundwater

Since the 1980s, Canon has focused on soil and groundwater protection by carrying out regular voluntary surveys of soil and groundwater, using records of past hazardous substances as reference.

Since 1994, it has been obligatory to carry out continuous monitoring of pollution using monitoring wells*. If amounts of pollutants in groundwater are found to exceed legal standards, we respond aggressively by implementing required measures. We also carry out soil surveys and implement pollution prevention measures whenever we acquire new land.

Further, Japan's Soil Contamination Countermeasures Law, enacted in 2003, stipulates the monitoring of specified areas for two years following cleanup work with subsequent confirmation of cleaning. Canon carries out its own monitoring to check for the presence of land and groundwater pollution at all sites in Japan.

* Monitoring wells

Wells used to monitor the state of groundwater (water quality, water level, etc.).

The Canon Group's Basic Policy on Soil and Groundwater Pollution

The Canon Group considers all aspects of pollution—air, water and soil—in its operational activities based its basic policy of integrating *kyosei* (living and working together for the common good) and the global environment. The following procedures are in place for the eventuality of detection of soil or groundwater pollution:

1. Instigate measures that prioritize protection of people's health
2. Prevent the escape and spread of polluted groundwater
3. Be active in communicating risks to citizens and local governments

Review of Soil and Groundwater Surveys in 2006

Reconstruction arising from our site relocation plan during 2006 gave us the opportunity to survey the soil and groundwater of three operational sites that were previously inaccessible because they were beneath buildings. As a result of surveys based on the Soil Contamination Countermeasures Law and in-house standards, we ascertained that the Shimomaruko Headquarters and the Utsunomiya site exceeded environmental standards for soil pollution, as did the Tamagawa site for soil and groundwater pollution.

After an excess of pollutants was discovered in an upstream well at the Kosugi site, a survey based on the Soil Contamination Countermeasures Law revealed pollutants within the site premises.

All these cases were reported to the proper authorities and remediation measures by excavation and chemical treatment were carried out. Relevant information was also disclosed to the public after deliberations with local authorities.

Furthermore, reporting to the authorities and the investigation of countermeasures based on the results of repeat surveys conducted at the time of redevelopment at the Yokoze Plant of Canon Electronics Inc., the Yamada Plant of Canon Electronics Inc. and Canon Anelva are underway.

● Future Cleanup Efforts

In line with its basic policies, Canon is currently implementing firm re-

mediation measures at sites with pollution issues outstanding in 2006.

The Company is also assessing risk regarding soil and groundwater pollution at its sites in Japan, and is striving to reduce risk by determining the status of use of specified hazardous substances and reinforcing its system of monitor wells.

As of the end of 2006, Canon had completed remediation measures at six of the 14 sites with pollution issues.

■ Status of soil and groundwater cleanup activities

Operational Site	Current Status				Measure	Year officially reported
	Soil		Groundwater			
Shimomaruko	Class I designated harmful substances (trichloroethylene, etc.)	Measures complete	Class I designated harmful substances (cis-1, 2-dichloroethylene, etc.)	Measures complete	R Building: Chemical feed	2003
					Former CD wing: Excavation and elimination, chemical feed	2005
	Class I designated harmful substances (trichloroethylene, etc.) Class II designated harmful substances (lead and lead compounds, etc.)	Measures complete	Class I designated harmful substances (cis-1, 2-dichloroethylene, etc.)	Measures complete	Former L wing: Excavation and elimination, chemical feed	2006
Meguro (Training Center)	Class I designated harmful substances (tetrachloroethylene, etc.)	Measures complete	Class I designated harmful substances (cis-1, 2-dichloroethylene, etc.)	Measures complete	Chemical feed	2003
Meguro (Dormitory)	Class I designated harmful substances (tetrachloroethylene, etc.)	Measures complete	Class I designated harmful substances (cis-1, 2-dichloroethylene, etc.)	Measures complete	Chemical feed	2004
Tamagawa	Class I designated harmful substances (tetrachloroethylene, etc.)	Cleanup in progress	Class I designated harmful substances (tetrachloroethylene, etc.)	Cleanup in progress	Excavation and elimination, chemical feed	2005
	Class II designated harmful substances (lead and lead compounds, etc.)	Cleanup in progress	Not contaminated		Excavation and elimination	2006
Utsunomiya	Class I designated harmful substances (tetrachloroethylene, etc.) Class II designated harmful substances (lead and lead compounds, etc.)	Cleanup in progress	Not contaminated		Excavation and elimination, hot soil	2006
Kanuma	Class I designated harmful substances (tetrachloroethylene, etc.)	Cleanup in progress	Class I designated harmful substances (tetrachloroethylene, etc.)	Cleanup in progress	Pumping, aeration, soil flushing	1990
Toride	Class I designated harmful substances (trichloroethylene, etc.)	Cleanup in progress	Class I designated harmful substances (trichloroethylene, etc.)	Cleanup in progress	Pumping, aeration, soil flushing, chemical oxidation method	1998
	Class II designated harmful substances (hexavalent chromium and its compounds)	Adjusting countermeasures	Class II designated harmful substances (hexavalent chromium and its compounds)	Observing progress	Monitoring	2007
Kosugi	Class I designated harmful substances (tetrachloroethylene, etc.)	Measures complete	Class I designated harmful substances (tetrachloroethylene, etc.)	Measures complete	Chemical feed	2006
Canon Electronics, Yokoze	Class I designated harmful substances (trichloroethylene, etc.)	Confirmation required	Class I designated harmful substances (trichloroethylene, etc.)	Adjusting	Monitoring	1999
Canon Electronics, Yamada	Class I designated harmful substances (trichloroethylene, etc.)	Confirmation required	Class I designated harmful substances (trichloroethylene, etc.)	Adjusting	Monitoring	Not implemented
Canon Semiconductor Equipment (Iwai)	Class I designated harmful substances (1,1-dichloroethylene, etc.)	Cleanup in progress	Class I designated harmful substances (1,1-dichloroethylene)	Cleanup in progress	Covering, excavation and elimination, pumping, aeration	2002
	Class II designated harmful substances (lead and lead compounds, etc.)	Measures complete				2006
Fukushima Canon	Not contaminated		Class I designated harmful substances (cis-1, 2-dichloroethylene)	Measures complete	Pumping, aeration	1990
Canon Anelva (Fuchu)	Class I designated harmful substances (trichloroethylene, etc.)	Adjusting countermeasures	Class I designated harmful substances (trichloroethylene, etc.)	Adjusting countermeasures	Monitoring	2007
Nisca (Shikishima)	Cleanup complete		Cleanup complete		Excavation and elimination	2004

Note 1: "Measures complete" means that measures to halt diffusion have been implemented and monitoring is underway to ensure that levels are below those stipulated by environmental standards.
Note 2: "Cleanup complete" means that diffusion has been stopped, cleanup measures have been implemented and a report has been submitted to the government.

Waste Problems at Nagahama Canon Inc.

Results of a soil survey conducted at our production affiliate in Shiga Prefecture, Nagahama Canon Inc., from November 2006 to February 2007 confirmed soil contamination by such waste products as process sludge and spent toner. This is a legacy from improper treatment of waste by this company in 2002 and 2003.

At present (June 2007), restorative work is underway based on governmental guidance. To prevent recurrence of such a state of affairs, we are further investigating causes as a Groupwide concern and reinforcing our management system.

Environmentally Conscious Logistics

To lower the environmental burden of its logistics processes, Canon is increasing transportation efficiency to reduce CO₂ emission volumes and introducing packaging materials with a low environmental burden.

2006 Highlights

- CO₂ emissions per unit of sales were reduced 29% (in Japan) from their 2000 values as a result of such factors as shorter transportation routes and the promotion of modal shifts.
- CO₂ emissions per unit of sales were reduced 11% (worldwide) from their 2000 values as a result of such factors as modal shifts and shorter transportation routes (direct shipment).

Eco Logistics

CO₂ Emission Reduction in Transportation

In 2002, Canon established the Environmental Logistics Working Group with the goal of reducing CO₂ emissions per unit of sales in logistics processes 20% by 2006, compared with 2000 levels. The Working Group is continuously striving throughout Japan to promote modal shifts*, improve loading efficiency and implementing other measures through five subgroups. These measures cover parts procurement logistics, manufacturing site logistics, product artery logistics, customer sales logistics and packaging.

As a result of these activities, total CO₂ emissions associated with domestic logistics were 34,900 tons in 2006, which represented a reduction of 29% against 2000's results in emissions per unit of sales.

To reduce global CO₂ emissions from logistics processes for the entire worldwide Canon Group, since 2003 we have carried out aggregate calculations of CO₂ emissions from international transportation, such as between production and sales sites, and for transportation within overseas regions. Based on estimates of standard values for 2000 from relative production volumes, we are conducting activities to propel us toward our Mid-Term Environ-

mental Goals (reducing global CO₂ emissions per unit of sales by 20% by 2008, compared with figures for 2000).

During 2006, air shipments of international freight increased dramatically to meet demand for products overseas. As a result, CO₂ emissions were up 12% compared with the previous year. Nevertheless, we achieved an 11% reduction compared to 2000 by promoting modal shifts, streamlining logistics and introducing individual environmental strategies in the countries where we operate.

* Modal shifts

This phrase describes switching to modes of transportation that place a lesser burden on the environment. The amount of CO₂ emissions generated by transporting one ton of freight over one kilometer by rail is approximately one-eighth that of truck transportation, while maritime transportation produces approximately one-quarter the emissions.

Logistics-Related CO₂ Emissions (Japan)

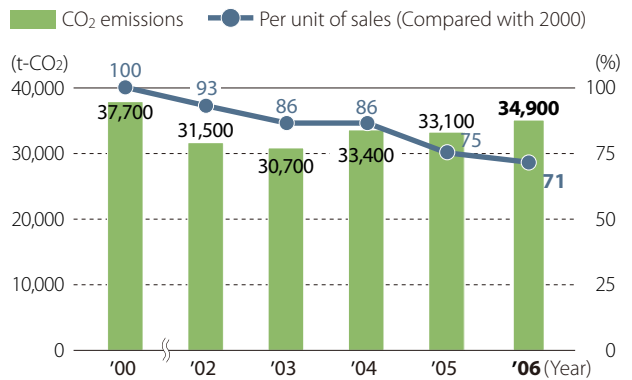
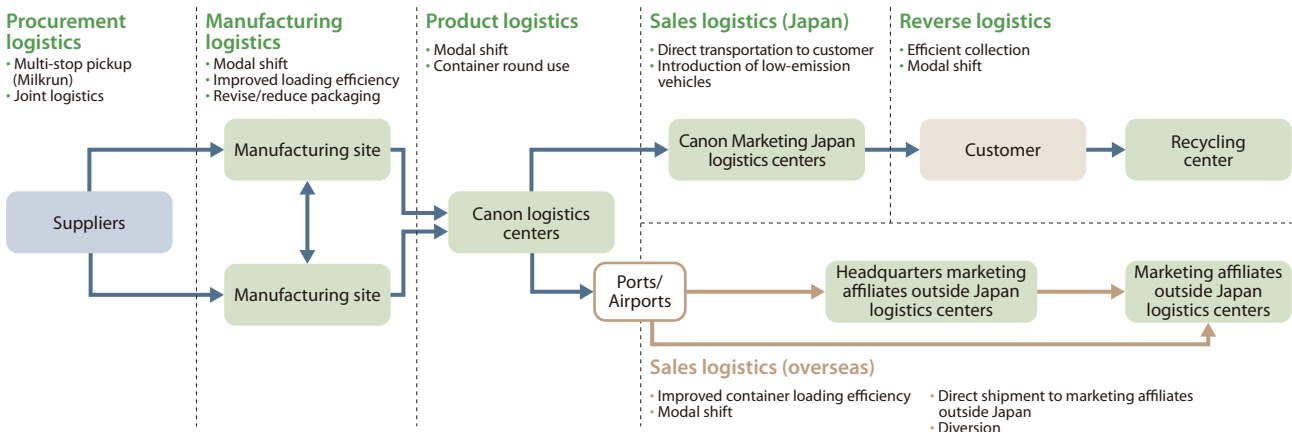


Chart: Logistics-Related CO₂ Emissions (Global)

- Using Air Freight Only When Necessary for International Shipments
- Shortening Transportation Distances by Using Multi-Stop Pickup (Milkrun)
- Promoting Direct Shipments to Reduce Unnecessary Transportation
- Promoting Diversion (changing of destinations) to Reduce Transportation between Warehouses
- Utilizing Low-Emission Vehicles
- Introducing Freight Containers Made of Eco-Materials

Environmental Activities in Logistics (example of distribution of products made in Japan)



● Shortening Transportation Distances by Changing Logistics Sites and Distribution Routes

To lessen its environmental burdens by streamlining logistics, Canon is working to shorten transportation routes by reviewing locations of logistics sites.

In North America, previously we had one mid-continent logistics site to store consumer products, including some imports. From this base, products were delivered throughout the United States. However, we established a new logistics base on the West Coast in the second half of 2004, radically shortening the transportation distance to this major market.

In Japan, we are using regional ports to shorten the transportation distances for imported products. Formerly, we primarily distributed nationwide from one location in the Kanto (Tokyo) region, but from the second half of 2005 we began importing via a port in the Kinki region for products bound for the western part of Japan, thus shortening transportation distances.

We also reviewed delivery routes for large mirror projection aligners, which require specialized transportation with control of temperature, humidity, vibration and other parameters. These products were taken by special trucks from their production site in the Kanto region to a port in Kyushu for export by ferry to other parts of Asia. By coordinating with shipping companies, we implemented a system from the first half of 2006 that facilitated export by ferry from a port in Kanto instead, thus reducing the overland transportation distance.

Products manufactured in Aomori Prefecture in the far north of Japan used to be transported midway to Kanto by truck to Sendai, where they were picked up by a mother ship. They are now driven to Hachinohe, a local port in Aomori Prefecture, from where they are shipped to Kanto for transfer to the mother ship, thus shortening the overland transportation distance.

● Promoting Modal Shifts

Canon strives to reduce total CO₂ emissions through modal shifts in Japan and around the world.

Since 2002 in Japan, we have been using vessels and railroads as much as possible for parts logistics between Group manufacturing sites, and for product logistics to regional logistics centers. For logistics of used products collected for recycling as well, we use railroads for some of the transportation from collection sites to recycling sites. We have especially focused on using rail for a greater percentage of our transportation, working with logistics companies to develop specially made large containers for product artery logistics. As a result of these efforts, in 2005 Canon became one of the first companies in Japan to acquire corporate certification for the Eco Rail Mark* system, which is being promoted by Japan's Ministry

of Land, Infrastructure and Transport. In 2006, we were able to shift approximately 5,500 large truckloads worth of cargo to rail transport, thus reducing CO₂ emissions by 3,280 tons.

Furthermore, we are promoting rail transportation in Europe to move

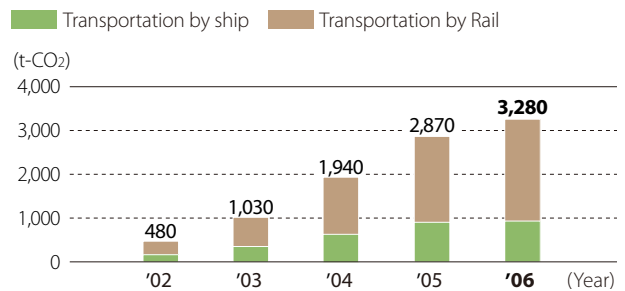


products from the logistics center of our regional headquarters marketing affiliates in the Netherlands to warehouses in various countries. For some products imported to Europe, we bypass the logistics center and transport directly from the port of entry to the warehouses in each country by rail and feeder boats.

* Eco Rail Mark system

Companies acquiring the Eco Rail Mark are recognized for their efforts in using rail transport to contribute to curbing global warming.

CO₂ Reductions Due to Modal Shifts (Japan)



TOPICS

Compliance with the Revised Law Concerning the Rational Use of Energy in Japan

In April 2006, the Revision of the Rationalization in Energy Use Law was enacted in Japan, partially amending the law on the rationalization of energy use to include new measures for the transport industry. Under the revised law, in addition to transport companies all shippers above a specified size are obligated to implement and report energy-saving measures.

In 2005, Canon inaugurated a Group inter-responsive organization, established rules for reporting performance, created new guidelines and took other steps to prepare a system to comply with the Revision of the Rationalization in Energy Use Law. The smooth progression of this system was largely attributable to early efforts to determine the environmental burden of logistics under the Environmental Logistics Working Group formed in 2002.

While responding to the revised law, Canon will revise its estimates for CO₂ emissions by using a new conversion coefficient for truck emissions designated in the revised law. (We previously used a truck CO₂ emission conversion coefficient described in the Assessment Report on the Impact of Increased Use of Plastic Products on the Global Environment of 1993 by the Plastic Waste Management Institute.) Revised values will be used in our reporting of results from 2006.

Revised Values of CO₂ Emissions Using the New Coefficient

	2000	2006 (previous coefficient)	2006 (new coefficient)
CO ₂ emissions (t-CO ₂)	37,700	34,900	36,200
Per unit of sales (%)	100	71	76

Operational Sites Covered in the Environmental Section

name	Location	Activities
Canon Inc. (14 operational sites)		
Headquarters	Tokyo	R&D, corporate administration, operations and other functions
Yako Office	Kanagawa	Development of inkjet printers and large-format printers, inkjet chemical products
Tamagawa Plant	Kanagawa	Development of quality management technologies
Kosugi Office	Kanagawa	Development of software for office imaging products
Hiratsuka Development Center	Kanagawa	R&D of displays, manufacturing of semiconductor devices
Ayase Office	Kanagawa	R&D and manufacturing of semiconductor devices
Fuji-Susono Research Park	Shizuoka	R&D in electrophotographic technologies
Utsunomiya Plant	Tochigi	Manufacturing of EF lenses, video camcorder lenses, broadcasting lenses, lenses for business machines, LCD projector lenses, other specialized optical lenses
Toride Plant	Ibaraki	Manufacturing of office imaging products and chemical products; R&D, mass-production trials and support in electrophotographic technologies
Ami Plant	Ibaraki	Development of factory automation equipment, development of ultra-precision machining and measurement technologies and manufacturing of related devices, manufacturing of liquid crystal exposure equipment
Utsunomiya Optical Products Plant	Tochigi	R&D, manufacturing and servicing of semiconductor equipment; development of mirror projection aligners
Optics R&D Center	Tochigi	R&D in optical technologies, development and sales of broadcasting equipment
Kamisato Office	Saitama	Development of devices for medical equipment
Tsukuba Parts Center	Ibaraki	Storage of parts and management of shipping within and outside Japan

Marketing Subsidiaries and Affiliates in Japan

Canon Marketing Japan Inc.	Tokyo	Marketing of Canon products and related solutions
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Manufacturing Subsidiaries and Affiliates in Japan (19 companies, 28 operational sites)

Canon Electronics Inc. Headquarters, Chichibu Plant	Saitama	Magnetic components, manufacturing equipment
Canon Electronics Inc. Misato Plant	Saitama	Document scanners, business machine components
Canon Electronics Inc. Akagi Plant	Gunma	LBP's
Canon Finetech Inc. Headquarters, Ibaraki Plant	Ibaraki	Business machines, business machine peripherals, industrial-use printers and chemical products
Canon Finetech Inc. Mitaka Office	Tokyo	Development and sales of inkjet printers
Canon Finetech Inc. Fukui Office	Fukui	Development and production of photosensitive paper and chemical products
Nisca Corporation	Yamanashi	Business machines, optical equipment
Top Business Machines Co., Ltd.	Shiga	Recycling of business machines
Canon Precision Inc. Headquarters, Kitawatoku Plant	Aomori	Toner cartridges
Canon Precision Inc. Kitawatoku Second Plant *1	Aomori	Toner cartridges
Canon Precision Inc. Ishiwatari Plant	Aomori	Micromotors; production of sensors
Canon Chemicals Inc. Headquarters, Tsukuba Plant	Ibaraki	Toner cartridges
Canon Chemicals Inc. Iwama Plant	Ibaraki	Toner cartridges
Canon Chemicals Inc. Ishige Plant	Ibaraki	Rubber parts for business machines
Oita Canon Inc. Headquarters, Aki Plant	Oita	SLR cameras, digital cameras, digital video camcorders, EF lenses
Oita Canon Inc. Oita Plant *1	Oita	SLR cameras, digital cameras, digital video camcorders
Miyazaki Daishin Canon Co., Ltd.	Miyazaki	Digital cameras, electronics packaging
Canon Optron, Inc.	Ibaraki	Optical crystals (for steppers, cameras, telescopes) and vapor deposition materials
Canon Components, Inc.	Saitama	Image sensor units, printed circuit boards, inkjet cartridges, medical equipment
Nagahama Canon Inc.	Shiga	LBP's, toner cartridges, A-Si drums
Oita Canon Materials Inc.	Oita	Chemical products for copying machines and printers
Canon Semiconductor Equipment Inc.	Ibaraki	Development and production of semiconductor production-related equipment
Canon Ecology Industry Inc.	Ibaraki	Recycling of toner cartridges; repair and recycling of business machines
Ueno Canon Materials Inc.	Mie	Chemical products for copying machines and printers
Fukushima Canon Inc.	Fukushima	Production of inkjet printers, print heads/ink tanks; analysis of software
Canon Mold Co., Ltd. *2	Ibaraki	Design and production of precise plastic molding
Canon ANELVA Corporation *1	Tokyo	Development, production, sales and maintenance of semiconductor, electronic and R&D equipment
Canon Machinery Inc. *1	Shiga	Semiconductor and precision automation equipment

name	Country / Region	Activities
Manufacturing Subsidiaries and Affiliates Outside Japan (17 companies, 17 operational sites)		
Canon Virginia, Inc.	U.S.A.	Toner cartridges, toner for copying machines, OEM products and mold die
Industrial Resource Technologies, Inc.	U.S.A.	Recycling of toner cartridges
Canon Giessen GmbH	Germany	Production and remanufacturing of copying machines; refilling of toner cartridges; refurbishing of semiconductor equipment
Canon Bretagne S.A.S.	France	Cartridge manufacturing and recycling; PCB (Printed Circuit Board) speaker; medical peripherals
Canon Inc., Taiwan	Taiwan	SLR and compact cameras, EF and other lenses, precision-metal molds
Canon Opto (Malaysia) Sdn. Bhd.	Malaysia	Digital cameras, EF lenses, optical lens parts
Canon Electronics (Malaysia) Sdn. Bhd. *1	Malaysia	Magnetic components
Canon Hi-Tech (Thailand) Ltd.	Thailand	Inkjet printers, facsimile machines, MFPs
Canon Ayutthaya (Thailand) Ltd. *1	Thailand	PCB (Printed Circuit Board) units for inkjet printers
Canon Engineering (Thailand) Ltd.	Thailand	High precision molding dies, plastic injection molding parts
Canon Dalian Business Machines, Inc.	PRC	Production and recycling of toner cartridges; production of LBP's
Canon Zhuhai, Inc.	PRC	Digital cameras, LBP's, MFP's, contact image sensors
Canon Vietnam Co., Ltd.	Vietnam	Inkjet printers, LBP's
Canon Zhongshan Business Machines Co., Ltd.	PRC	LBP's
Canon (Suzhou) Inc.	PRC	Color and monochrome MFP's, color LBP's
Canon Finetech (Suzhou) Business Machines Inc.	PRC	Business machines, business machine peripherals
Canon Finetech Industries Development Co., Ltd. *1	PRC	Business machines, business machine peripherals

Marketing Subsidiaries and Affiliates Outside Japan (29 companies)

Canon U.S.A., Inc.	U.S.A.	All products
Canon Canada, Inc.	Canada	All products
Canon Business Solutions-West, Inc.	U.S.A.	Business machines
Canon Business Solutions-Central, Inc.	U.S.A.	Business machines
Canon Business Solutions-East, Inc.	U.S.A.	Business machines
Canon Financial Services, Inc.	U.S.A.	Commercial lease financing for all Canon products
Canon Latin America, Inc.	U.S.A.	All products
Canon Panama, S.A.	Panama	All products except cameras
Canon do Brasil Indústria e Comércio Limitada	Brazil	Copying machines, facsimile machines, image filing, digital cameras
Canon Chile, S.A.	Chile	All products
Canon Mexicana S.de R.L. de C.V.	Mexico	All products
Canon Europa N.V.	Netherlands	All products
Canon (UK) Ltd.	U.K.	All products
Canon Deutschland GmbH	Germany	All products
Canon France S.A.S.	France	All products
Canon Italia S.p.A.	Italy	All products
Canon (Schweiz) A.G.	Switzerland	All products
Canon Nederland N.V.	Netherlands	All products
Canon Danmark A/S	Denmark	All products
Canon España, S.A.	Spain	All products
Canon Svenska AB	Sweden	All products
Canon Norge AS	Norway	All products
Canon Oy	Finland	All products
Canon Belgium N.V./S.A.	Belgium	All products
Canon GmbH	Austria	All products
Canon Singapore Pte. Ltd.	Singapore	All products
Canon Hongkong Co., Ltd.	Hong Kong	All products
Canon (China) Co., Ltd.	PRC	All products
Canon Australia Pty. Ltd.	Australia	All products

Data on operational site activities were gathered from the above list of companies. For marketing subsidiaries and affiliates outside Japan, the data cover only "product collection and recovery" and "ISO 14001 Consolidated Certification data."

*1 Canon Precision Inc. Kitawatoku Second Plant, Oita Canon Inc. Oita Plant, Canon ANELVA Corporation, Canon Machinery Inc., Canon Electronics (Malaysia) Sdn. Bhd., Canon Ayutthaya (Thailand) Ltd. and Canon Finetech Industries Development Co., Ltd. have been added to the companies covered in this report.

*2 Name changed from Igari Mold Co., Ltd. as of January 1, 2007.

Note: Canon Finetech Inc. Kofu Office was closed in June, 2006.



Canon is pursuing a high-accuracy color management system to realize Unified Canon Color.



Our call centers provide high level customer support.



Canon hosts periodic briefing sessions for individual investors.



Canon operational sites and manufacturing subsidiaries regularly hold procurement briefings for suppliers.



Various training courses are held throughout the world to raise employee skill levels.



Through its partnership with the Red Cross, Canon provides support for a wide range of youth projects.

Canon and Stakeholders

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Relations with Customers

Canon has established a global quality assurance system based on the Canon Quality standard.

2006 Highlights

- Canon commissioned a third-party association to conduct product assessment tests
- Canon U.S.A. received the AFB Access Award
- Canon products selected as Reader's Choice in PC Magazine reader survey

Realizing Canon Quality

Canon's Quality Target

Our company objectives include creating world-class products, providing optimal quality and service, and contributing to the improvement of global culture. To meet these aims, we constantly work to improve quality by

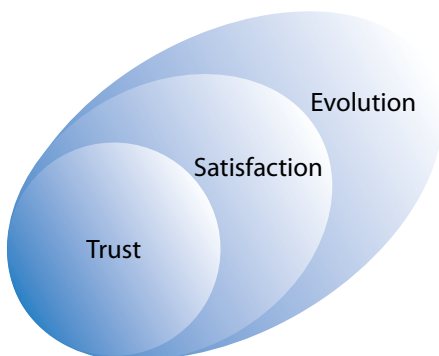
- 1) utilizing the latest technology to deliver exceptional, high-quality products and prompt service based on a careful assessment of customer needs
- 2) making every effort to prevent consumers and their property from being harmed or damaged by a product or service malfunction

To earn the trust and loyalty of customers, we must improve product durability and safety while at the same time offer user-friendly products and services that satisfy diverse customer needs. It is also vital to provide high-quality service and aftercare support. Moreover, the quality of our products and services must evolve to remain relevant in a constantly changing world and meet the needs of tomorrow.

Canon Quality embodies these three guiding principles of trust, satisfaction and evolution. We promote on a global scale quality assurance activities based on these principles at every stage—

Realizing Canon Quality

Canon aims for product quality that gives customers a sense of trust and satisfaction, working together with customers to achieve sustainable prosperity



from planning, development, and production through to sales and service.

Global Quality Assurance System

In order to realize Canon Quality, it is crucial that the entire Group shares the same quality-related objectives and conducts quality assurance activities in unison.

As such, in 2004 we established our Global Quality Policy, a system of rules to improve product quality based on the quality-assurance activities we had undertaken thus far.

● Optimizing Quality Assurance Systems to Local Conditions

Based on the Global Quality Policy, Canon's group companies have built their own quality assurance systems in tune with the characteristics of their respective countries and regions.

In order to support and enhance these systems, the Quality Management Headquarters of Canon Inc. dispatches personnel to key regions to develop optimal quality-assurance systems while carrying out exchange activities with local staff members.

● Quality Awareness Education Activities

To raise quality awareness and ensure that each and every employee in the Canon Group has a sufficient understanding of Canon Quality, we carry out a variety of training programs with instruction ranging from basic quality control to specialized knowledge.

Our ongoing education and training activities include revision and publication as needed of various guidebooks relating to quality control, as well as the hosting of annual presentations showcasing quality-improvement activities, lectures and in-house forums. We commend the efforts and activities of employees through such programs as the Quality Award, which recognizes outstanding contributions to quality improvement.

The Group Executive in charge of the Quality Management Headquarters regularly visits operational sites in Japan and Group companies worldwide to discuss quality-related issues in an effort to further improve awareness and understanding.

Instilling Trust

Quality that Brings a Feeling Trust

Product safety and durability are the keys to establishing customer trust.

We have established our own product safety technical standards that not only meet legally stipulated safety standards, but consider customer perspectives on product use. We conduct rigorous safety control in design, evaluation and manufacturing to ensure “substantial safety”—a level of safety that meets these standards.

Canon's Substantial Safety Policy*



* **Substantial Safety**
An approach to ensuring safety by anticipating various usage scenarios from customer perspectives, even though it is not prescribed in the laws and regulations.

Approach to Quality Risk

Canon's definition of quality risk includes not only problems related to product safety, but all potential problems that can arise in relation to the quality of products and services provided to customers.

Based on this approach, we have established a system to prevent problems that could result in physical injury and property damage, as well as the degradation of the Canon brand. This system also ensures a prompt response in the event of such problems.

Responding to Quality Risk

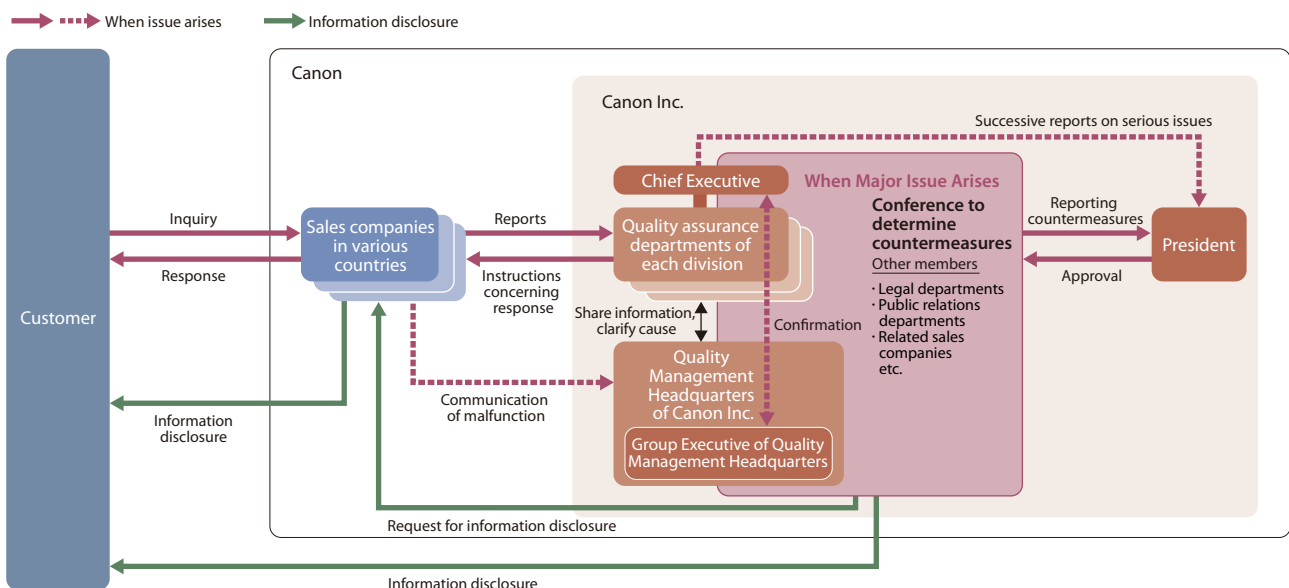
In the event of a problem related to product quality or safety, we promptly disclose information on our website in the Important Notices section. Regarding problems that are judged to substantially impact customers, we widely publicize information through various newspapers.

During 2006, we became aware of a potential problem in some of our PC80, PC100 and PC7 personal copying machines wherein a faulty connection involving the power cord for the fixing unit heater may have occurred at the time of manufacture or during servicing. While the likelihood was quite remote it was judged that this could present a risk of smoke emission or fire. Accordingly, an advisory notice, which asked customers to check their units and provided information on how to respond in the event of a problem, was issued in various newspapers. Moreover, our response to 10 other instances of malfunctions involving our electronic dictionaries, digital cameras and other products was to post advisories on our website in the Important Notices section.

Related site Product Advisory Statement
<http://www.canon.com/press/2006/p2006pcfc.html>

- WEB** • Safety Assessments at our Chemical Emissions Testing Laboratory
- Safety Verification through Genotoxicity Testing
- Improving the Quality of Procured Parts
- Computer Simulation Evaluation

Flowchart of Countermeasures to Product Malfunction or Quality Issues



Relations with Customers

Customer Satisfaction—
Further Evolution of Quality

In Pursuit of People-Friendly Products

As a manufacturer in the electronics industry, which is characterized by the successive launch of increasingly high-quality, multifunctional products, Canon does not merely pursue product performance and function, but seeks to create people-friendly products that offer functionality, operability and convenience to meet user needs.

For example, we enlist senior citizens and individuals with disabilities to evaluate display fonts, warning sounds and voice guidance used on product control panels. We then analyze the results to define what types of fonts are easy to read and what sounds are easy to hear. The analyses are compiled into technical guidance reports, which are utilized in product development. We conduct Accessibility Training for employees involved in product planning, development and evaluation to raise their level of awareness and knowledge of usability, such as the positioning and layout of control panels.

● **Quantifying Human Sensibility to Pursue the Most Pleasing Images and Sounds**

Quantitatively measuring and analyzing color is said to be difficult because the images people find beautiful differ depending on the photographic subject, purpose and environment.

Canon, however, launched a company-wide development project that succeeded in quantifying beauty and comfort as sensed by people. We are currently putting to practical use development tools, evaluation techniques and measurement technologies to achieve uniform, high-quality color reproduction across our entire lineup of products, from input to output, including digital cameras, copying machines, printers or other products.

With respect to sound, we have researched the auditory impact on users of sounds from product operations and surrounding noise, and have created sounds that are the most pleasing to the



Conducting research and development on color management

ear. We have also been working to develop quiet products with minimal operating noise.

● **Consumer Research and Product Testing**

In 2006, Canon started contracting a third-party organization to carry out product assessment tests, in addition to in-house testing, in order to better grasp customer needs.

Through comparative testing of compact digital camera models from four of our competitors during 2006, we came to better understand the positioning of Canon products as well as our strengths and weaknesses, thus enabling us to identify ways to improve. We plan to continue with such test activities, utilizing comparative



Product test

examination of market information (customer opinions) and product assessments, to ascertain customer values (what customers are truly looking for) and then reflect these findings in future products.

TOPICS

Canon U.S.A. Receives AFB Access Award

Canon U.S.A. was recognized with a 2006 AFB Access Award from the American Foundation for the Blind (AFB)*, a U.S. nonprofit organization enabling blind or visually impaired people to achieve equality and access. The Access Awards honor individuals, corporations, and organizations that are eliminating or substantially reducing inequities faced by people who are blind or visually impaired.

Canon was recognized for the voice operation, audio guidance, and remote operation features available as options for selected models in the company's lineup of multifunction office systems, which enable easy access for users with visual impairments.

The awards ceremony took place at the Josephine L Taylor Leadership Institute in Dallas, Texas, on March 23, 2007.

* **The American Foundation for the Blind**
The foundation was established in 1921 as a non-profit organization to provide support for visually impaired soldiers returning to the United States following World War I. The foundation provides support activities to expand the possibilities for visually impaired Americans.



AFB Access Award ceremony

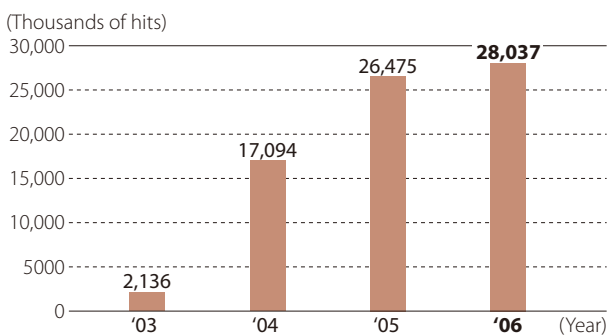
Customer Support Online

Canon instituted the Web Self-Service System (WSSS) in order to provide online customer support services to its customers.

Through WSSS, we provide such information as answers to FAQs and troubleshooting inquiries from our website, product specifications, user manuals, and driver download methods. This enables customers to solve problems themselves by accessing the site whenever problems arise while using our products. During 2006, WSSS had 28 million hits worldwide.

Aiming to raise the level of service (the ratio of inquiries resulting in a solution), in 2007 we plan to make improvements to enable customers to more easily search the site and swiftly resolve problems. Furthermore, site usage will be continually monitored with feedback going to the respective product business divisions, enabling them to make appropriate improvements to the contents.

WSSS Access Figures (Global)



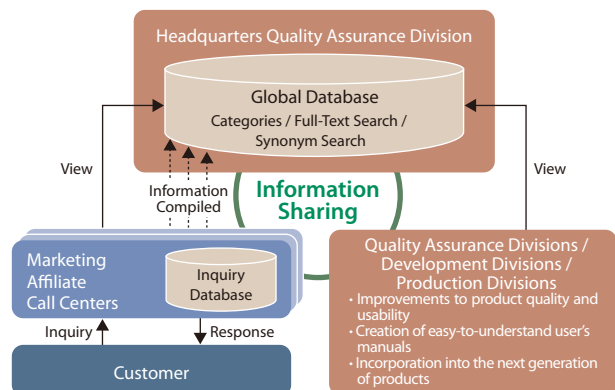
Incorporating Customer Opinions into Product Development

Canon constantly listens to the opinions of customers and actively incorporates those opinions into the development of its products, with the aim of generating quality from the customer's perspective.

Call centers have been established at our marketing affiliates around the world to respond to customer inquiries and provide comprehensive support. Our Call Analysis Tracking System (CATS), which compiles information from our call centers around the world into a global database at our company headquarters, is effectively utilized by the divisions in charge of development and production along with our regional marketing companies to improve the quality of our products and user manuals, and develop new products.

In addition to these measures, we conduct surveys to gauge customer satisfaction levels and user needs in order to better understand the demands of our customers.

Call Analysis Tracking System (CATS)



TOPICS

Top Spot in US Digital Technology Magazine Reader Survey

For the third consecutive year, Canon scored top marks as Reader's Choice in the printer category of the annual Reader Satisfaction Survey carried out by PC Magazine, a leading publisher of information on digital electronics in the United States for the past 25 years.

In the survey, which covered a wide range of digital products, including PCs, printers, digital cameras, mobile phones, MP3 players, readers were asked to rate their level of satisfaction based on such

criteria as product reliability, technical support, repairs, incidence of repairs, and willingness to recommend products to others.

The 2006 printer ratings were based on an online questionnaire completed in May by more than 6,500 readers. Canon products achieved a high satisfaction rating overall, with particular commendations for low rate of incidence for repairs, and cost of ink relative to other manufacturers.

Relations with Shareholders and Investors

Canon promotes the fair and prompt disclosure of information and actively works to return profits to shareholders.

2006 Highlights

- Conducted a three-for-two stock split of common shares
- Raised the full-year dividend per share by ¥25 (calculated on pre-stock-split basis)

Dialogue with Shareholders and Investors

Appropriate and Swift Information Disclosure

As of December 31, 2006, Canon Inc. was listed on the Tokyo, New York, Frankfurt, Osaka, Nagoya, Fukuoka and Sapporo exchanges, had approximately 1,333 million outstanding shares and approximately 120,000 shareholders.

To disclose information on its management strategy, business strategy and performance to shareholders, investors and securities analysts in an accurate, fair and timely manner, Canon Inc. holds regular IR events and posts the latest information and various types of disclosure materials, including sound and video information, on its website.

Main IR Activities

Main Events

- Corporate strategy conference hosted by a Representative Director for institutional investors and analysts (annually, about 150 participants)
- Financial results conference for institutional investors and analysts (quarterly, about 180 participants)
- Financial results conference calls for institutional investors outside Japan (quarterly)
- Individual visits to institutional investors in Japan to discuss financial results (quarterly)
- Business conference for institutional investors and analysts (semiannually)
- Conference for individual investors (annually, about 400 participants)
- Small meetings of investors hosted by securities companies (as needed)
- Visits to major institutional investors outside Japan to discuss management policy (North America, Europe)
- Company briefings to salespersons of securities companies for individual investors (as needed)

Daily Activities

- Responding to institutional investor and analyst enquiries by conducting interviews (more than 400 a year)
- Responding to phone enquiries
- Responding to survey requests regarding SRI (socially responsible investment)

As part of its efforts to ensure the fair and prompt disclosure of information, Canon also established its own Disclosure Guidelines concerning the standards, procedures and methods to be used for disclosing information. In April 2005, Canon formed a Disclosure Committee to ensure strict compliance with the disclosure rules laid down by stock exchanges, creating a framework for the comprehensive and accurate disclosure of all necessary information.

Through these efforts, Canon endeavors to gain the trust of capital markets and thus ensure appropriate assessment of the company's corporate value and proper stock price formation. We have also created systems to feed back the opinions and requests received from shareholders and investors to the relevant internal divisions as occasion demands. In 2000, we began publishing a monthly IR report, which is distributed to Canon Inc. executives and the presidents of principal Group companies, to help improve the management of the Company and its businesses.

Related site Canon Inc. Investor Relations
www.canon.com/ir/

Dialogue with Individual Investors

Canon Inc. has put in place various measures to encourage broader participation in the Company by individual investors. Among recent activities, on May 6, 2004, the share trading unit for Canon Inc. stock was lowered from 1,000 to 100 shares, and on July 1, 2006, the Company conducted a 3-for-2 stock split of its common shares. The objective of these measures was to reduce the unit investment amount, making it easier for individuals and others to invest in the company's shares.

At the same time, Canon created a special portal for individual investors on its IR website and started holding briefings for individual investors on the company's activities. In 2006, briefings were held in Tokyo and Osaka, with some 400 individual investors attending each session.



October 2006 briefing for individual investors in Osaka

Dialogue with Investors Outside Japan

The percentage of Canon Inc. shares owned by non-Japanese investors is high, at 46.9% as of December 31, 2006.

Canon Inc. therefore makes strenuous efforts to maintain close communication with non-Japanese institutional investors. In addition to holding conference calls to explain financial results and traveling abroad to discuss management policy with institutional investors outside Japan, Canon has also created IR bases in Europe and the United States.



English-language IR site

Furthermore, the company maintains an English-language IR website with effectively the same content as that published on its Japanese-language website, thereby ensuring that investors inside and outside Japan have access to the same information.

Return to Shareholders

Policy on Shareholder Return

As part of the company's ongoing efforts to be more proactive in returning profits to shareholders, Canon Inc. announced in February 2007 a new policy regarding return to shareholders.

Canon formerly endeavored to raise its dividend per share in line with its policy to provide a stable dividend. Under the new policy, however, it will actively work to return profits to shareholders, with more focus on dividends, by raising the consolidated payout ratio to 30% while taking into consideration planned future investments and free cash flow.

In accordance with this policy, Canon raised its full-year dividend for the year ended December 31, 2006, to ¥125, an increase of ¥25 per share (calculated on a pre-stock-split basis).

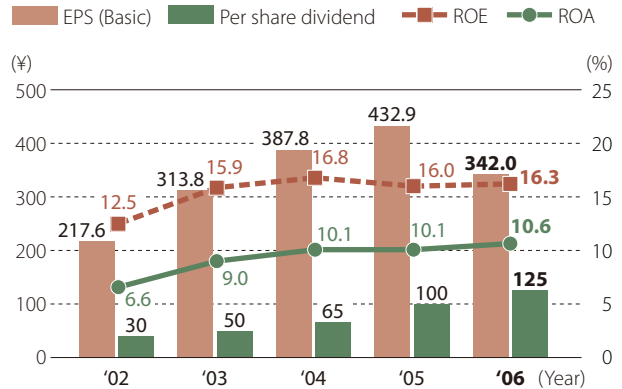
TOPICS

First Acquisition of Canon's Own Shares

In 2007, Canon Inc. put in place measures to acquire its own shares for the first time, acquiring 31 million shares in two tranches through March 23, 2007, for a total of approximately ¥200 billion. In addition to raising the company's capital efficiency, these acquisitions enable a flexible capital strategy that provides for such transactions as share exchanges.

Canon will continue to employ measures for such purposes, taking into account future investment and capital plans.

Trends in EPS and Dividends



Note: EPS (basic) and dividends per share are shown at pre-stock-split value.

External Corporate Assessments

Credit Rating

Canon Inc. is rated by one Japanese and two U.S. credit rating agencies. The current high ratings are a testament to our strong financial position.

Ratings by Key Agencies

Credit Rating Agencies	Long-Term Credit Rating	Short-Term Credit Rating
Standard & Poor's	AA	A-1+
Moody's	Aa2	-
Rating and Investment Information	AA+	-

(As of April 30, 2007)

Canon's Inclusion in Sustainability Investment Indexes

In areas such as investment trust management, there is growing interest not only in corporate performance and financial condition, but also in socially responsible investment (SRI), which takes into account environmental, social and other criteria when evaluating investments.

Canon Inc. has received high marks from SRI evaluation bodies worldwide, and is included in the following indexes.

Key Sustainability Investment Indexes

Sustainability Investment Indexes	Management Body
FTSE4-Good Global 100 Index	FTSE (U.K.)
Dow Jones Sustainability World Index	Dow Jones (U.S.A.)
Ethibel Sustainability Index Global	Ethibel (Belgium)
Morningstar Socially Responsible Investment Index	Morningstar Japan K.K. (Japan)

Relations with Suppliers

From the selection of suppliers to the procurement of materials and parts, Canon builds good relations with suppliers based on fair and transparent business transactions.

2006 Highlights

- Procurement division began conducting internal audits at manufacturing sites outside Japan
- Promoted introduction of electronic ordering system and electronic estimate system worldwide

Promoting Fair and Transparent Business Transactions

Fundamental Procurement Policies

The cooperation of suppliers is essential to implementing Canon's EQCD concept^{*1}, which stipulates the timely delivery of high-quality products at reasonable prices to customers around the world, while exercising environmental concerns.

This idea underpins our Fundamental Procurement Policies. We promote good relations with suppliers based on a thorough understanding of our approach to procurement.

Since 1997, Canon has promoted a policy of Green Procurement^{*2} P45. As an extension of this strategy, we are currently considering the introduction of CSR (corporate social responsibility) Procurement, which encompasses not only environmental concerns, but social welfare issues as well.

***1 The EQCD concept**

This is Canon's basic product development policy. "E" stands for "Environment": "Companies are not qualified to manufacture goods if they are incapable of environmental assurance." "Q" stands for "Quality": "Companies are not qualified to market goods if they are incapable of producing quality goods." "C" and "D" stand for "Cost" and "Delivery": "Companies are not qualified to compete if they are incapable of meeting cost and delivery requirements."

***2 Green Procurement**

Favoring the procurement of materials and products that have a lower burden on the environment.

Fundamental Procurement Policies

1. In all of our procurement activities, Canon endeavors to contribute to society and observe the law while maintaining our focus on protecting the environment and natural resources.
2. In all of our procurement activities, Canon shall work together with our suppliers to realize our corporate philosophy of *kyosei* and work together for the common good.
3. Canon will open its door equally to suppliers worldwide and do business with excellent and reliable suppliers in accordance with our corporate philosophy of *kyosei*.



Green procurement briefing for suppliers

Reinforcing Compliance in Procurement

In 2004, Canon established the Canon Group Procurement Code of Conduct to ensure fair and transparent business transactions with suppliers and strict compliance with laws and regulations on procurement.

This code falls under the wider Canon Group Code of Conduct P25 and stipulates that employees of the procurement divisions fully understand and abide by its content.

Canon has also established a special department within its procurement division to ensure observance of procurement ethics and compliance and reinforce fair business transactions from the development stage by conducting internal audits P23. Such internal audits have been extended to manufacturing sites outside Japan from 2006 as part of our efforts to strengthen and expand the internal audit system.

Partnership with Suppliers

Cooperative Activities with Suppliers

Canon holds regular briefings for suppliers at its operational sites as well as its manufacturing subsidiaries and affiliates to explain the company's business plans and procurement policies. Through such initiatives, we aim to promote understanding and cooperation with suppliers.



Procurement policy briefing at Nagahama Canon

Moreover, to strengthen partnerships with suppliers, we aggressively pursue cooperative activities with the aim of fostering mutual growth.

Related site Canon's procurement information <http://www.canon.com/procurement/>

Development of Procurement Information Infrastructure

In cooperation with suppliers, Canon is promoting the redevelopment of infrastructure through such initiatives as the introduction of electronic ordering and estimate systems to further exchange and sharing of procurement information. Such initiatives will contribute to increased productivity and greater time savings in day-to-day business dealings between Canon and its suppliers.

Renewal of electronic ordering systems for all manufacturing sites in Japan was completed by the end of 2006. Expansion to overseas manufacturing sites will commence in 2007. In addition gradual introduction of electronic estimate systems is currently underway at domestic manufacturing sites.

Promotion of Open Procurement

Canon introduced the Suppliers Proposal Site to its procurement information website in 2001.

This site solicits marketing information, including products handled and manufacturing consignment information, from companies worldwide (excluding intellectual property such as designs, ideas, and inventions). In addition, an Exhibit Parts list announces parts and materials that Canon is seeking to purchase through open tender.

From 2006, we strengthened operation of the Suppliers Proposal Site by raising in-house awareness of marketing information. Products posted on this site have actually started to be utilized in Canon products.

Related site Suppliers Proposal Site
<http://www.canon.com/procurement/>



Canon's Suppliers Proposal Site

Fair and Transparent Selection of Suppliers

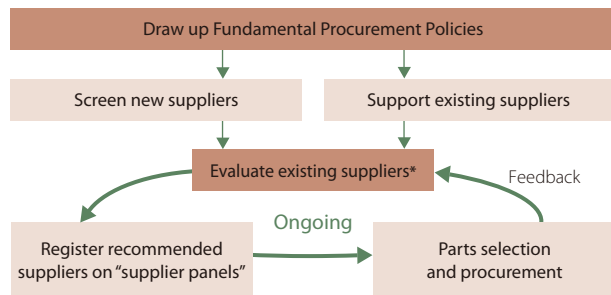
Mechanism for Supplier Selection

Before initiating transactions with a new supplier, Canon assesses whether it satisfies the criteria Canon has laid down for suppliers with respect to global environment protection, parts supply system, and financial position.

Canon also subjects existing suppliers to regular assessments ("supplier assessments") of their product quality, cost, delivery schedules, technical capabilities, and service capabilities. Based on the results of these assessments, Canon registers recommended suppliers on "supplier panels" from which operational sites and manufacturing subsidiaries and affiliates then make their selections.

Moreover, starting in 2005, satisfying the Canon Green Procurement Standards has been made a condition for doing business with Canon to ensure that green procurement is adopted for all direct production materials used in Canon products.

Mechanism for Parts Selection and Procurement



* Carry out evaluator training to standardize evaluation criteria and adjust variations between evaluators

Introducing Training for Supplier Evaluators

In 2005, Canon introduced supplier evaluator training to ensure that its assessments of suppliers are fair and transparent. Designed to standardize evaluation criteria and adjust variations between evaluators, the system aims to raise evaluator levels by fostering evaluation knowledge using sample evaluations by virtual suppliers.

Suppliers' strengths and weakness are understood through appropriate evaluations based on these activities. By sharing the evaluation results with suppliers, Canon uses the supplier evaluation mechanism so that both Canon and its suppliers can grow and develop together.

Relations with Employees

In accordance with our philosophy of *kyosei* and such guiding principles as meritocracy and the “Three Selves” spirit, we provide training for employees and conduct fair and impartial performance evaluations.

2006 Highlights

- Established the Canon Global Management Institute training facility
- Formed the Promotion of Proper External Personnel Management Committee
- Three Canon Group companies acquired OSHMS certification

Canon’s Employment Concept

Basic Human Resources Policy

To become a truly excellent global company, we must build fair employee-management relations and foster “excellent employees” who are motivated by open communication and practical education.

Based on awareness of this objective, Canon works to foster a corporate culture that encourages an enterprising spirit by guaranteeing respect for the human values of ambition, responsibility, and mission, and by guaranteeing fair and impartial evaluation based on merit. At the same time, Canon focuses on educating the next generation of leaders through employee and management training.

Guiding Principles and the “Three Selves” Spirit

Since the company’s founding, employee education has been based on the guiding principles of the “*San-Ji*,” or “Three Selves,” spirit. All employees are urged to pursue excellence in their day-to-day activities, demonstrating (1) self-motivation: proactively taking the initiative; (2) self-management: conducting oneself responsibly and with accountability and (3) self-awareness: knowing one’s position, roles, and circumstances.

Guiding Principles

Three Selves

Adhere to the principles of self-motivation, self-management, and self-awareness in day-to-day activities

Meritocracy

Make Vitality (V), Specialty (S), Originality (O), and Personality (P) daily pursuits

Internationalism

Strive to become a culturally sensitive, internationally minded, sincere and active person

Familism

Strengthen trust and understanding of others, and work together in a spirit of harmony

Health First

Live by the motto “healthy and happy,” and work to cultivate character

Supporting Personal Growth and Skill Development

Supporting Employee Career Advancement

Canon employees gain motivation and specialized skills through various training schemes, as well as through recognition and award programs.

In recent years, we have worked to develop strong individuals and a strong organization by focusing on management-level employees through programs that include rank-based training for all managers appointed to new positions. We are also diversifying our training format and content through the active implementation of such initiatives as e-learning.



- International Training
- Canon Educational System

Recognition and Award Programs

Canon supports recognition and award programs to honor employees for their outstanding achievements.

The Canon President Award of the Year honors employees who have made a major contribution to the development of the company or an outstanding contribution to business in either the Activities Category, (management, technology, production, marketing, etc.) or the Product Category (hit products, key components, etc.).

Other awards include the Invention Award in recognition of contributions to inventions and the company’s intellectual property; the recognition of engineers demonstrating outstanding talent as members of the Canon Academy of Technology; the Production Innovation Award for outstanding technology and production-related innovations; the Canon Expert (Excellent Craftsman) Award and the Meister (Multi-Skilled Worker) Award to recognize individual specialties that contribute to superior production; and the Quality Award for contributions to quality improvement.

Career Matching System Activities

Canon has a career matching system (internal recruiting system) aimed at prompt and prioritized action on matters related to reinforcing operational and departmental staffing, stimulating the company’s internal organization, helping individuals achieve satisfying careers, and matching the right people to the right jobs.

The existing system was revamped in April 2005 to realize an organization that encourages individuals to further their careers and promotes mobility of human resources within the Company. Specifically, we introduced systematic posting of vacancies, and renovated our interviewing system to support the selection process.

In 2006, 241 Canon Inc. employees submitted applications through the system.

Creating a Comfortable Work Environment

Employment and Employee-Management Relations

The Canon Group has approximately 119,000 employees worldwide. Of these, approximately 20,000 work for Canon Inc., with Japanese employees accounting for about 43% of all Group employees.

Also, in recent years there has been an increase in employees from other parts of Asia as Canon moves more of its manufacturing to these regions. With this change in the employee make-up, each Canon Group company is establishing and operating its own human resource management system that respects the laws, working environment, culture and other facets of the host country and region. Also, sincere efforts are made to work amicably with labor unions and other such organizations.

In Japan, in addition to maintaining positive employee-management relations through the Canon Workers Union, Group companies have formed the Canon Group Workers' Union Conference. In Europe, group companies in EU countries join the Labor-Management Council Meeting at the Pan-European Level.



Canon Inc. Employee-Management Relations

Eliminating Child Labor and Forced/Compulsory Labor

All Canon Group companies manage human resources in compliance with the laws and social norms of each country and region in which they operate, as well as Canon's own company regulations. No Group company has ever been in violation of laws relating to child labor, forced labor, or compulsory labor anywhere in the world.

Ensuring and Furthering Diversity

The Canon Group Code of Conduct promotes individual respect and prohibits discrimination and sexual harassment.

We strive to maintain a fair, comfortable, and safe working environment by having zero tolerance for any discrimination based



Production training at Canon (Suzhou) Inc. (China)

on race, religion, nationality, sex or age. This applies to all management and non-management employees, no matter what their rank or duties, and to all matters of human resource policy.

Supporting Success for Women

Besides hiring and treating employees in a fair manner regardless of gender, Canon makes no distinction between career-track employees and general employees. We also place importance on fostering the careers and activities of women, and are actively promoting the creation of an environment in which motivated women can flourish over the long term.

As of the end of 2006, the average length of service at Canon was 16.3 years for men and 16.4 for women. There are also 144 women who hold positions at the level of assistant manager or higher, a 14.3% increase over the previous year.

Measures to Support Working Women (and Measures that Include Men) at Canon Inc.

- Childcare leave
- Reduced workday for mothers with small children
- Sexual harassment consultation office
- Pregnancy Support System (from April 2007)
 - (1) Fertility Treatment Cost Assistance System
 - (2) Fertility Treatment Leave System
- Prenatal Protection System (from April 2007)
 - (1) Maternity Leave
 - (2) Reduced Workday during Pregnancy

TOPICS

Pan-European Training Systems

Canon offers training programs to meet the individual needs of each Group company. Canon Europe, for example, conducts Pan-European rank-based training and promotes e-learning.

Rank-based training the "Leading@Canon" program for executives and the "Managing@Canon" program for managers. During 2006, approximately 70 executives across 17 countries participated in "Leading@Canon" programs, which focus on leadership training to effectively maximize the performance of subordinates. Approxi-

mately 150 management-level personnel in 17 countries took part in "Managing@Canon" seminars, which aim to assist managers develop staff-cultivation skills (motivation and encouragement, teamwork, etc.), promote codes of conduct, and build in-house personnel networks.

Pan-European e-learning covers all of the 17 countries in the region and targets all employees through a curriculum of approximately 100 courses, spanning such topics as business skills, operation of various in-house systems, and workplace-specific skills.

Relations with Employees

● **Making Subsidiaries and Affiliates a Part of the Local Community**

In efforts to build locally based management systems, Canon is appointing appropriate personnel, regardless of nationality, as presidents of marketing companies. As of the end of 2006, about 80% of subsidiaries and affiliates in Europe had locally hired presidents.

● **Hiring the Physically Challenged**

With respect for the ideal of normalization as advocated by the United Nations, Canon does its utmost to include the physically challenged when hiring new graduates and mid-career workers. These workers are employed in companies throughout the Canon Group, where they work with other employees in a cooperative environment that brings out the best of their abilities. Canon Inc. has maintained its percentage of physically challenged employees in excess of the 1.8% figure required under employment laws.

● **Re-employment After Retirement**

Canon Inc., which in 1977 became one of the first companies in Japan to set the retirement age at 60, introduced in 1982 a system for re-employing retired employees until the age of 63. In 2000, we revised our recruitment system for re-employment, and boosted this upper limit to 65 in 2007.

Through the aggressive promotion of such strategies, we seek to build a workplace environment that enables veteran employees to put valuable years of experience and knowledge to work and attain vitality in their later years.

In 2006, 73 of the 211 who reached retirement age chose re-employment, and by the end of that year 177 were working under this system.

WEB Employee Survey at Canon Europe

Promotion of Proper External Personnel Management

Canon Inc. operates under the maxim of prioritizing compliance in all its operations. In recent years problematic employment practices, known as “deceptive contracting,” have become a growing social issue in Japan. In August 2006, Canon Inc. established the Promotion of Proper External Personnel Management Committee, headed by the President, to ensure proper management of contract workers.

The committee considers optimal employment structures as one of its activities, and has begun reviewing manufacturing divisions’ direct employment plans.

Manufacturing divisions have been proactive in their efforts to employ personnel directly, in order to pass on manufacturing technologies and skills and ensure or improve product quality. By 2008, we will conduct an overall review of direct employment plans and substantially expand this practice. We have decided to hire a total of 5,000 direct employees at production sites across the Group by the end of 2008. Employment will be offered after a general examination to determine each applicant’s skills and suitability.

In addition, to maintain and improve relations with the contract-

ing and dispatch companies that support Canon’s production, we will continue to promote the appropriate employment of external personnel as well as implementing direct employment measures.

Compensation System

In order to create a system that aims for fairness and impartiality based on equal opportunity, in 2001 Canon Inc. implemented a position-based pay system for all employees at the managerial level and above. In 2005, the system was expanded to include all employees.

In a position-based pay system, employees are compensated according to what their job entails. Pay scales are based on the ranking of a person’s job title, which depends on such factors as the level of difficulty and amount of responsibility. Where employees fall within the pay scale depends on individual performance, not age or seniority. There is also a bonus system linked to individual and company performance.

Canon U.S.A. and Canon Europe, and other group companies in North America and Europe, have implemented a pay system based on job duties that is compatible with local culture and practices. This is being gradually introduced at Asian operational sites as well.

Canon Inc. Employee Data

	2001	2002	2003	2004	2005	2006
People who have taken child-care leave	138	113	107	113	86	94
People who have taken nursing-care leave	25	12	18	7	12	9
Internal recruiting/non-management	107	163	128	120	49	64
Internal recruiting/management*	4	24	7	2	7	13

* The internal recruiting system for management positions was introduced in October 2001.

TOPICS

Establishment of a Global Leader Training Center

An important strategy of Phase III of the Excellent Global Corporation Plan is the cultivation of global leaders. To this end, in May 2006 we established the Canon Global Management Institute in Meguro, Tokyo, as a training center for Group executives.

The facility is outfitted with 11 classrooms of various sizes along with rooms arranged for group discussion, facilitating efficient delivery of a variety of training and education programs. In addition, the institute boasts a library, simultaneous interpreting booths and other features to provide a dedicated training environment for Group employees from around the globe.



Canon Global Management Institute

The Canon Global Management Institute will serve as a field to cultivate a new generation of leaders to carry Canon into the future.

Enhancing Occupational Health and Safety

Protecting the Health and Safety of Employees

Canon works together with employees to ensure occupational safety and improve the health of employees. This is carried out under the company's principle of "conducting workplace activities with safety and health as a top priority."

Policy and Slogans of Central Health and Safety Activities

Central Health and Safety Policy

- Conducting workplace activities with safety and health—the basis of business management—as a top priority
- Acting in unison to raise the safety and health standards of the Canon Group

Slogans

- To evolve from accident-free to danger-free workplaces
- To become strong, independent individuals of sound health

Health and Safety Measures

Although workplace accidents have been declining year by year, rapidly changing environments arising from technological innovations increase latent hazards.

Canon is promoting occupational safety and health activities, centered on the Health and Safety Committee, which is made up from management and regular employees, with the aim of establishing a preemptive safety system that can respond to these changes in environment.

● Promoting the Introduction of an Occupational Safety Management System

Canon Inc. began introducing an Occupational Safety Management System in 2000 and established an internal auditing system in 2003. These are currently being implemented at all of our production sites. The system is being introduced under OSHMS^{*1} Guidelines of the International Labour Organization (ILO). We are also actively working to acquire JISHA OSHMS Certification^{*2}.

In December 2006, Oita Canon Materials Inc. was designated as a JISHA OSHMS certified company, followed by Canon Components Inc. and Nagahama Canon Inc. in January 2007.

*1 OSHMS

Occupational Safety and Health Management Systems.

*2 JISHA OSHMS Certification

The Japan Industrial Safety and Health Association (JISHA) evaluates companies on request to determine whether their OSHMS meets the JISHA OSHMS standards.

Occupational Safety and Health Management Systems Introduced at Manufacturing Sites in Japan

Status	Sites/Group companies
Certified	1 site, 5 Group companies
Introduced	1 site, 4 Group companies
Introduction planned	2 sites, 5 Group companies

(As of January 31, 2007)

Note: "Certified" refers to sites or companies that have been inspected and passed by the certifying body; "Introduced" refers to sites or companies where the system has been introduced, inspection by the certifying body usually being conducted approximately one year later.

● Implementing Health and Safety Auditing and Appropriate Risk Assessment

In 2005, we established the Health and Safety Auditing Standard to monitor compliance with related laws at our R&D sites. We commenced safety and health auditing from 2006.

We also conduct risk assessments, primarily at production sites. These will be extended to research and development sites in compliance with amendments to the Occupational Health and Safety Law from April 2006, which make risk assessment measures for the prevention of workplace accidents mandatory.



- Other Health and Safety Activities
- Occupational Accident Rate
- Number of Occupational Accidents during 2006

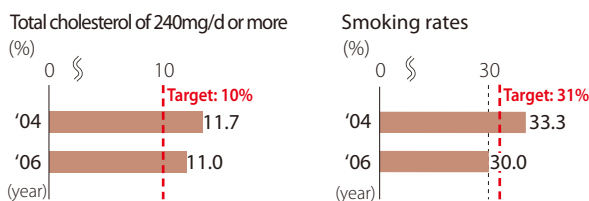
Improving Employee Health

Since its founding, Canon has promoted "Health First" as one of its Guiding Principles. We consider maintaining employee health pivotal to corporate and individual prosperity. Based on this awareness, Canon promotes personnel training for independent health management (self-care) and strategies to bolster employee well-being and mental healthcare.

● Prevention of Lifestyle-Related Diseases

With the enactment of such laws as Health Japan 21 and the Health Promotion Law, lifestyle checks and tests are performed during periodic medical examinations. Based on these exam results, all Group companies in Japan have set common numerical targets with the aim of preventing lifestyle-related diseases.

Targets and Performance (Canon Inc.)



- Other Health-Promotion Measures
- Promoting Mental Healthcare

Relations with the Local and Global Community

Canon puts *kyosei* into action on a worldwide scale, engaging in activities that contribute to society in an effort to facilitate rich and fulfilling lives for all people.

2006 Highlights

- Canon Europe concluded partnership agreement with the Red Cross
- Contributed to disaster relief efforts on the islands of Leyte (the Philippines) and Java (Indonesia), and in southern Malaysia, providing needed supplies and participating in rescue missions.

Social Contribution Activities

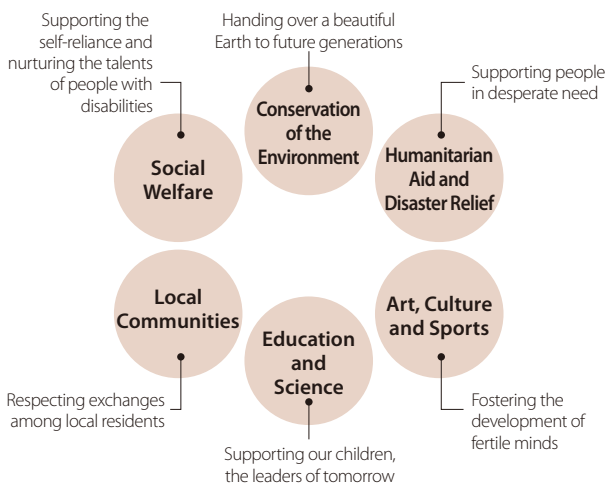
Policy on Social Contribution Activities

Canon is involved in activities that make a contribution to society in order to fulfill its social responsibilities as a good corporate citizen in areas outside of its business operations. These activities are divided into six areas: humanitarian aid and disaster relief; conservation of the environment; social welfare; local communities; education and science; and art, culture and sports.

We carry out a wide range of activities, such as forming partnerships with organizations whose practices we approve, and matching the donations raised by our employees.

Related site Social and Cultural Support Activities
www.canon.com/scsa

Main Areas of Canon's Social and Cultural Support Activities



Humanitarian Aid and Disaster Relief

Canon provided disaster relief donations to areas affected by the landslide that struck Leyte Island in the Philippines on February 17, 2006. Canon also sent corporate donations and charity funds donated by employees to victims of the earthquake that rocked the Indonesian island of Java. Both Canon Marketing Malaysia and

Canon Opto Malaysia provided support for the people of southern Malaysia who were affected by flood damage due to heavy rains in December. Employees of these companies volunteered to staff on-site facilities and brainstormed other ways to provide support. An idea put into action by individual employees was to circulate through the affected region, donating essential relief items that they had purchased.



Employee fund-raising activities



Providing physical assistance in areas of southern Malaysia affected by the flood

Conservation of the Environment

September 2006 marked Canon Europe's ninth anniversary as a Conservation Partner of the World Wildlife Fund (WWF). Since becoming the WWF's first corporate partner in 1998, the company has supported the WWF's efforts in numerous ways. Canon also cooperates with the WWF in the operation of various environmental protection programs in parts of Asia.

An educational and research program, Eyes on Yellowstone, made possible by Canon, assists with scientific research and breaks



The WWF's Polar Bear Tracker project

new ground in conservation, endangered species protection and the application of cutting-edge technology essential to managing park wildlife and ecosystems.

Social Welfare

Since 1997, Canon U.S.A. has been working with the National Center for Missing & Exploited Children, an organization dedicated to the problems of child abduction and exploitation, providing funding and equipment to support the center's activities.

Canon Inc. invites disabled children to matches of the Japan Professional Football League (J. League). Encouraging them to enjoy sports, these activities, conducted each year since 2003



A commemorative group photo of participants in the Canon Enjoy J. League Program

through the Canon Enjoy J. League Program, include visiting the pitch, interacting with players, viewing matches, and taking souvenir photos.

● Local Communities

In 2006, Canon Europe concluded a partnership agreement with the Red Cross to support youth-oriented projects run by the Red Cross in 13 European countries. For example, the company provides economic support and volunteer assistance in Denmark for activities that support young volunteers at schools for disabled children, and youth education activities in Spain related to HIV and AIDS.

At Canon U.S.A., a group of employees, called the Canon Clean Earth Crew, participate in local volunteer activities. Since 1996, this group has participated in environmental preservation activities at



Canon Clean Earth Crew

local parks, coastal areas, and nature reserves.

In 2006, the crew helped out with the Old Bethpage Village Restoration, pruning trees in the apple orchard, fixing fences and assisting with other repairs.

● Education and Science

Canon U.S.A. sponsors the Canon Envirothon, the largest high school environmental competition in North America. Each year, more than 500,000 high school students and volunteers from the United States and Canada join in this competition to learn more about the environment.



Canon Envirothon

To promote cultural ties and deepen trust-based relationships between Japan and China, Canon Dalian has held the "Canon Cup"—a Japanese speech contest—in cooperation with the Dalian International Friendship Society since 1990. The contest attracts the participation of many people in Dalian, both students and adults.

Canon Inc. also supports educational programs for local elementary school children. For example, we created a course on lens-making and another that sends employees to schools to teach students about environmental activities.

● Art, Culture and Sports

To proactively commemorate the Japan–China Exchange Year of Culture and Sports 2007, Canon has assumed the chairmanship of the executive committee. As 2007 marks the 35th anniversary of the normalization of diplomatic relations between Japan and China, this year provides an opportunity to deepen bilateral understanding by involving the citizens of both countries in various cultural and sporting events.

In March 2007, Canon launched a Cultural Heritage Inheritance Project, also known as the TSUZURI Project, to preserve Japanese cultural assets for future generations using the latest digital technologies. As part of this project, Canon will create data of folding screens, paper sliding doors and other important cultural assets,



Goodwill ambassadors of the Japan-China Exchange Year of Culture and Sports 2007 pay a courtesy call on the Prime Minister of Japan.

and then print them out in full size on large-format Canon printers, decorating them as necessary with gold leaf and other finishes. This fusion of digital technologies and traditional handicrafts will allow near-perfect reproduction of original items. The project also involves the provision of better environments to protect the original cultural assets from deterioration.

In addition, since 1991, Canon Inc. has promoted the "New Cosmos of Photography," an open competition with the goal of discovering, nurturing and supporting new photographers who are attempting to pursue new avenues of photographic expression.

Canon Europe has supported various activities of the World Press Photo Foundation, headquartered in the Netherlands, since 1992, such as sponsoring the World Press Photo Contest.

● Volunteer Activities by Employees

For the past three consecutive years, Canon Hongkong has sponsored the Hoi Ha Charity Walk, a WWF Hong Kong initiative to raise environmental protection awareness, as well as the Mai Po Charity Walk, which supports the eponymous waterfowl wetland refuge of recognized international importance. Employees also participate in these events.

In addition, Canon Inc. has held annually since 1997 a charity



Mai Po Charity Walk 06

sale of books, CDs and DVDs donated by its employees. Canon adds matching funds and donates the total amount to NPOs and NGOs that promote education and provide healthcare support in Asia.

Third-Party Opinions

Third-Party Opinion from Volker Türk, Wuppertal Institute



Project Manager New Technologies,
Sustainable Production and
Consumption Department,
Wuppertal Institute for
Climate, Environment and Energy,
URL: www.wupperinst.org

Volker Türk

The 2007 sustainability report features several improvements compared to last year. “Highlight boxes” help inform the reader about what Canon considers key achievements in the different chapters, and the “stakeholder chapter” has been expanded. The report is also more transparent in terms of “lowlights”, i.e. information on those areas where performance did not live up to the corporation’s own targets, standards or expectations.

Canon has also taken its commitment to third-party engagements one step further. A face to face discussion about the overall third party engagement process and expectations for this year’s report took place early in the reporting process.

However, Canon’s objective of becoming an excellent global corporation and their commitment of fulfilling their social responsibilities and pursuing sustainability as expressed by the top management should be better reflected in the corporation’s vision and strategy. Sustainability can be a powerful driving force for innovation and value generation, which other corporations have proven.

So far, there is hardly any mention of how sustainability is embedded in their mid- to long-term business plan, nor is sustainability addressed in any of the key management indicators.

Although improvements have been made over previous years, the published management approaches, targets and the reporting on social and human rights issues still lag behind environmental issues and appear less systematic. It is encouraging to learn, however, that Canon is investigating expanding their policy of green procurement with societal considerations. We look forward to learning more about this in next year’s report.

The engagement process with “third party stakeholders” should, according to Canon, help to inform the report reader as well as Canon. By displaying their reactions on the comments that were made during the past few years at the company’s website, Canon is taking a step in that direction. However, the engagement process could be taken forward another step. Hosting a roundtable session with senior management who represent different corporate functions could facilitate the process of assuring material issues for Canon. Ideally, other stakeholders in addition to the two organisations involved in the third-party opinion process would participate in such a meeting.

Canon has improved its sustainability reporting and management year after year. We believe Canon is ready to take the next challenging steps forward.

About the Third-Party Opinions

This Canon Sustainability Report 2007 contains third-party opinions* from the same two stakeholder groups (hereinafter referred to as “commentators”) who have contributed to each edition since the 2004 report. As a result, the commentators are able to offer opinions from a medium- to long-term perspective on how well this report meets their expectations regarding the information included in the report, the quality of performance it conveys, and its usefulness for meaningful engagement.

To enhance our exchange of opinions with stakeholders, we have adopted a proactive approach toward our dialog with the commentators. In addition to the dialog session at the time of preparing the third-party opinions held since the previous report, we have also introduced additional dialog session at the planning stage of this report period and reflected the commentators’ sug-

gestions in this report as much as possible. (See the right table for details.) These third-party opinion pages include the main items discussed with the commentators; specifically, the items worthy of praise and the key issues that need to be addressed over the long term.

Based on the issues raised by commentators and opinions from other stakeholders, Canon is stepping up its sustainability activities and striving for more complete information disclosure through this report and other media. For more information on the third-party opinion process and a summary of commentator’s opinions over the past four years along with Canon’s responses, see the Canon website (URL: canon.com/environment).

*These third-party comments are the personal views of the authors and do not imply any endorsement from their organizations.

Third-Party Opinion from David St. Maur Sheil, ASrIA



Director,
ASrIA (Association for Sustainable and
Responsible Investment in Asia),
URL: www.asria.org
David St. Maur Sheil

Once more I would like to congratulate Canon on improving the overall quality of their reporting. With respect to the content of the report, the continuing efforts of Canon to achieve an improvement by a factor of 2 on their carbon impact over the life-cycle of their products via a multitude of efficiency improvements to their products and operations is impressive. As also are their efforts to meet and exceed the challenging requirements of the RoHS and WEEE standards and to engage in and lead industry initiatives related to such standards. I believe that this is an approach which not only reflects the sincerity and determination of Canon to deal with key sustainability related issues, but which will continue to create real competitive advantage to Canon in the longer term.

With respect to social issues, I felt that Canon could still make much more of its strengths in this area. Canon has developed significant community oriented programs in the US and Europe where it has key markets. However, Asian consumers, where Canon has its primary manufacturing sites, are also becoming

more developed and assertive as well as sensitive to labour related issues. Canon could benefit from developing a more systematic approach to sustainability issues which more clearly indicates their awareness of the potential material risks as well as opportunities associated with the social as well as the environmental aspects of their operations. Furthermore, bearing in mind that legislative standards and implementation can vary widely, even within a single country such as China, I would urge Canon to move beyond a focus on meeting legislative standards with respect to such as labour issues. Rather, I would urge them to focus on setting and meeting group wide standards in line with their *kyosei* principles and international best practice. In addition to managing its supply chain relationships, Canon has a significant workforce in its own factories throughout the Asian region. It is therefore in a position to be a leader in initiatives on best practice on employee and supply chain labour issues, as well as stakeholder engagement with workers, consumers and local communities. This is an area in which Canon could develop more long-term corporate value via improving discourse and transparency.

Overall the report, and indeed the whole reporting process which I have been engaged in as a commentator, show that Canon is continuing to make impressive progress towards meeting the goals of their Excellent Global Corporation Plan and in improving their reporting and disclosure standards.

Commentator opinions and Canon's responses at the planning stage of the Canon Sustainability Report 2007

Main Suggestions	Main Reflections in the Report (New Content in the 2007 Report)	Location in the 2007 Report
Expand reporting on risk management and negative information.	Such information is covered in "Multifunctional Product Information" and "Responding to Quality Risks" in the "Relations with Customers" section; and in "Inadequate Handling of Waste" and "Detailed Soil and Groundwater Survey Information" in the "Environment" section.	P49, 50, 56
Explain the policy concerning contract workers.	"Promotion of Proper External Personnel Management" was added to the "Relations with Employees" section.	P65
Explain the position on the introduction of a CSR procurement system.	We are currently considering the introduction of CSR procurement.	P61
Describe sustainability targets/plans in social aspects.	Canon added content concerning current and future targets and plans.	P24, 28, 58, 61, 62, 66, etc.
Explain Canon's approach to social initiatives. (i.e., UN Millennium Development Goals and UN Global Compact)	Canon has joined the World Business Council of Sustainable Development (WBCSD) in 2007, and participates in the discussion of international initiatives.	—
Describe major environmental regulations and Canon's activities relating to these regulations.	We have described major environmental regulations that Canon focuses on and monitors, as well as Canon's activities relating to these regulations.	P36



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Cover Photo

UNEP International Photographic Competition on the Environment 2004-2005

Organizer: UNEP (United Nations Environment Programme) Sponsor: Canon Inc.

Title: Adelle Dance

Photographer: Joseph Pettit (USA)

Photo taken in Antarctica

Canon Sustainability Report 2007, published August 2007

(Next scheduled publication: August 2008)



This report was printed on paper certified by the Forest Stewardship Council using ink that necessitates no volatile organic compounds or mineral oils and has superior deinking and biodegradability characteristics.

PUB.ECO03E 0708DN12.0 Printed in Japan