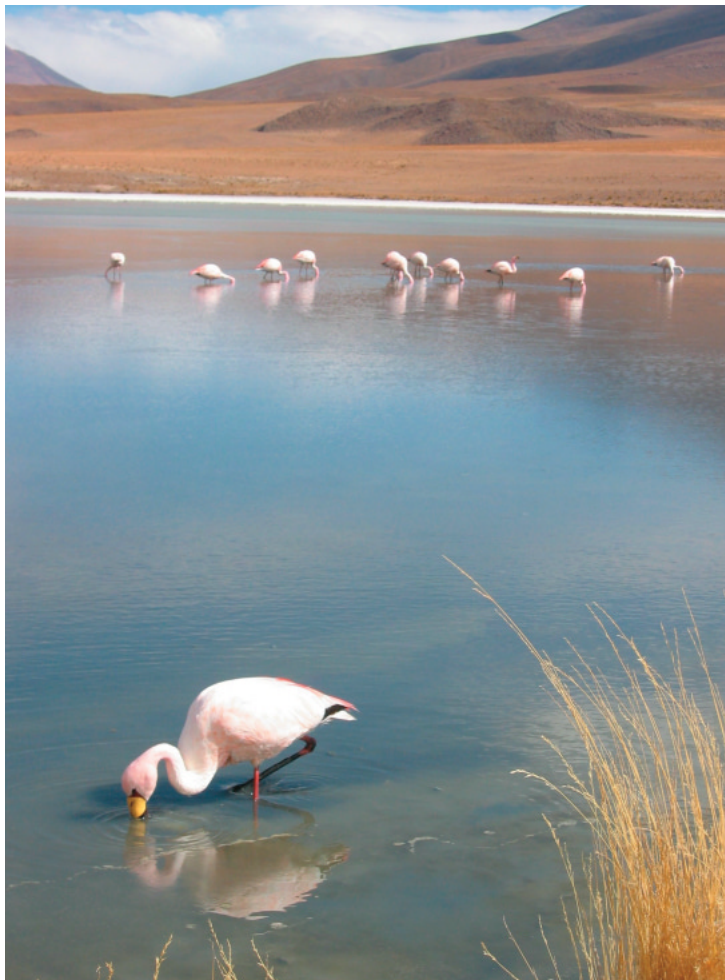# CANON SUSTAINABILITY REPORT 2005

Canon

For a prosperous world and sustainable society

To Our Readers

The *Canon Sustainability Report 2005* is published to ensure accountability to Canon stakeholders by informing them of the ways in which our global business activities are helping to achieve a sustainable society. The *Sustainability Report* also promotes constructive two-way communication with stakeholders, which directly leads to improvements in the various activities outlined within this report. We endeavor to expand the contents of this report each year to reflect the needs of a broad range of stakeholders, and outline Canon's diverse activities in a systematic and clear manner.

Throughout the report "(▶P. 00)" indicates pages with additional reference material.

This report is available in Japanese and English.

URL: canon.com/environment

•Features of the *Canon Sustainability Report 2005*
The contents of the 2005 report have been improved and expanded in the following areas.
Editorial Policy:
 •Areas covered by the "Social Management" and "Environmentally Conscious Management" sections have been clarified.
 •Management and performance data sections, previously reported separately, are now reported together.
Social Activities:
 •Corporate governance and compliance information (▶P. 23–28).
 •Information on social contributions of products (▶P. 7–8, 31–34), etc.
Environmental Activities:
 •Vision for 2010: Factor 2 progress report (▶P. 14).
 •Global warming countermeasures (▶P. 17–18, 53), etc.

•Reporting Scope
In principle, this report covers Canon's economic, social, and environmental activities within the consolidated accounting scope for the 2004 fiscal year (January 1, 2004 to December 31, 2004). The scope, however, of environmental assurance activities is not limited just to Canon's development, production and sales operations, but covers business activities at every stage of the life cycle, including manufacturing by suppliers and product usage by customers (▶P. 13). Please see P. 65 for a list of operational sites covered by this report. Also, please note that supplemental information on important targets and initiatives prior to 2003 and beyond fiscal 2005 are also referenced in the report, and any information limited to certain regions or organizations is indicated as such.

•Third-Party Opinions
Since 2002, Canon has asked SustainAbility Ltd. to consult on and assist with arrangements for third-party opinions to improve the objectivity of our *Sustainability Report*. Included in this year's report are unedited views received from two environment and social science experts, each with a different perspective, so that readers may develop an opinion of Canon and its activities based on a comprehensive compilation of information (▶P. 67–68).

•Reference Guidelines
 •GRI Sustainability Reporting Guidelines (2002)
 •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
We welcome feedback from readers. The suggestions and views of readers serve as valuable guidance to enhance future sustainability initiatives.
 Please feel free to e-mail your comments or send us a fax using the questionnaire at the end of the report.
(Fax: +81-3-3758-8225, E-mail: eco@web.canon.co.jp)

*The product names used in this report are the names used in the United States and Europe/Asia. The product name is written only once if the same name is used in the United States and Europe/Asia. For products not sold in the United States or Europe/Asia, the product names are those used in Japan.

Contents

Overview of Canon Inc.
Company Name: Canon Inc.
Establishment: August 10, 1937
Headquarters: 30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo, Japan
President and CEO: Fujio Mitarai
Capital: ¥173,864 million
Group Companies: 184 consolidated subsidiaries
17 companies accounted for under the equity method
(as of December 31, 2004)

Vision & Strategy

Highlights 2004-2005

Social Management

Environmentally Conscious Management

Performance Data/Third-Party Opinion

On Becoming a Truly Excellent Global Corporation in Support of a Sustainable Society Based on the *Kyosei* Philosophy

The *Kyosei* Philosophy and Sustainability

Global change continues at a rapid pace, driven by economic globalization and disparate social values. Amid the dramatic changes in society, a company must be adept at forecasting transitions from one era to the next, think ahead, and promote business on the basis of well-founded values. While aiming for healthy growth as a company, consideration must be given to supporting a sustainable society, which includes solutions to environmental concerns.

In 1988, 51 years after going into business, Canon introduced its corporate philosophy of *kyosei* to reaffirm the original aspirations of the company's founders. The ideal behind this philosophy is a society in which all people, regardless of race, religion or culture, harmoniously live and work together into the future. This ideal epitomizes the sustainable and prosperous society people are now pursuing. Steps taken by Canon to contribute to a sustainable society and fulfill our corporate social responsibility can be described as practical applications of the *kyosei* philosophy—living and working together for the common good.

The ideal of *kyosei*, which Canon continues to strive for, cannot be realized just by efforts made within a company. A cooperative relationship with various stakeholders, based on mutual trust, is essential. Canon continues to build close relationships with its stakeholders by providing a variety of opportunities for open communication.

Corporate Citizenship and the "Three Selfs"

Companies are organs of society, and as such must undertake various activities with an uncompromising spirit of compliance. They must actively participate in society through contributions to local communities and support for cultural and humanitarian assistance activities. While participation in such activities is the responsibility of a "good corporate citizen," it can also serve as a means to improve corporate value and deepen public trust in the company. Also, in striving to become a Truly Excellent Global Corporation, Canon thoroughly educates its employees to follow the principle of putting public order and morals ahead of profit.

Recognizing how important it is to increase transparency and reinforce monitoring functions for management, we have instituted a variety of measures to enhance our corporate governance system. In the past two years alone, three new regulatory committees, which I oversee as chairman, have been established; namely, the Corporate Ethics and Compliance Committee, the Internal Control Committee, and the Disclosure Committee.

These are, however, only systems of governance. What is most important is that employees and managers manifest a natural consciousness of compliance and a desire to contribute to society as a responsible corporate citizen. Since Canon's founding, employees have been trained and evaluated based on the principle of the "Three Selfs"—self-motivation, self-management, and self-awareness. My role is to lead the way in promoting the awareness and application of the Three Selfs principle among Canon group employees worldwide.

Promotion of Environmentally Conscious Management and Factor 2

The development of new technologies in the 20th century spurred the growth of an industrial society, but also brought about environmental problems, which threaten the very existence of man. For Canon—a company that has striven to develop new technology since its founding, identifying and creating revolutionary products and diversifying business—these are not problems that can be overlooked.

Canon believes that technology and economic activity can be effectively used to restore the environmental balance. It was this conviction that motivated us to establish the Maximization of Resource Efficiency concept in 2001 as a cornerstone of our environmental activities. Under this concept, Canon seeks to extract the maximum value out of minimal resources at every stage of the life cycle. This approach ensures that environmental conservation and economic development activities proceed hand-in-hand. In 2003, we put this thinking into practice by setting forth our Vision for 2010, a medium- to

Introduction to Canon: URL: canon.com/about

long-term environmentally conscious management plan, which includes the numerical goal of Factor 2 as an overriding indicator of environmental performance. Along with designating global warming prevention and energy conservation, resource conservation, and elimination of hazardous substances as the three main pillars of the plan, Canon aims to realize its Factor 2 goal through the constant creation and application of original environmental technologies to development and production activities.

Environmental businesses have been established to share Canon's newest technologies and know-how with society. Canon has also taken the reins on the standardization of green procurement and other industry issues as we look beyond our own company and aim to reduce environmental burden worldwide.

The *Canon Sustainability Report 2005* is based on the ideas outlined above, and we welcome comments and suggestions from our readers.

June 2005

Fujio Mitarai
President and CEO
Canon Inc.

A Truly Excellent Global Corporation

I believe that providing stable livelihoods with upward potential for employees and profitable returns to shareholders, contributing to society, and creating equity capital (profit) for sustainable development of the company are essential requirements for the growth and development of any company. If a company cannot meet these requirements, it has no value as a business enterprise.

In 1996, in accordance with the *kyosei* philosophy, Canon announced the Excellent Global Corporation Plan, which embodies our goal of continuing to contribute to society through technological innovation while aiming to be a corporation worthy of admiration and respect worldwide. Since then, we have promoted management reforms to fulfill our mission of becoming an Excellent Global Corporation, and as a result, were able to see our sales and profits increase for the fifth straight year in 2004. We are anxiously preparing for the start of Phase III of the Excellent Global Corporation Plan in 2006, from which time we will pursue a course of healthy growth while maintaining our current high profit structure.

Building on the solid trust of our stakeholders, we aim to grow into a business group possessing the corporate value necessary for sustained development.
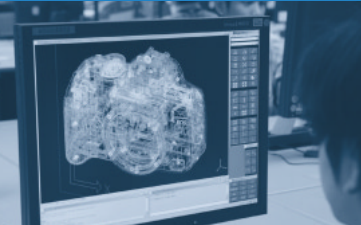
Social Contributions on a Global Scale

Canon continues to develop and diversify its business with the support of its many stakeholders with the singular goal of contributing to society as an excellent global corporation on the basis of the *kyosei* philosophy.

Development of the Canon Group

Beginning with the development of Japan's first 35mm focal-plane-shutter camera in 1934, Canon has expanded business operations over the years based on the continual creation of innovative proprietary technologies. Our global expansion got underway in 1955 with the establishment of a New York branch office, and we never looked back from there, as by the late 1960s, more than half the goods the company produced were exported. Canon was firmly on the path to becoming a major global enterprise.

Our operations diversified in the 1960s to include business machines as well as cameras. In the 1970s we developed Japan's first plain-paper copying machine and laser beam printer (LBP), and then in the 1980s we began marketing inkjet printers and other cutting-edge technologies. The establishment of new global footholds coincided with this diversified business growth. Canon gradually built a network of sales offices and production plants to span the globe.

A Truly Excellent Global Corporation based on the Philosophy of *Kyosei*

Canon set forth the corporate philosophy of *kyosei* in 1988. This philosophy was founded with the aim of "all people, regardless of race, religion or culture, harmoniously living and working together into the future." Put succinctly, *kyosei* aims for the creation of a sustainable society.

Based on the *kyosei* philosophy, we embarked on our Excellent Global Corporation Plan (▶P. 9) in 1996 with a mission to become an admired and respected company around the world. Since then, Canon has promoted a wide variety of initiatives in keeping with this goal of becoming a Truly Excellent Global Corporation.

Canon's Stakeholders

The Canon Group depends on a large and diverse group of stakeholders supporting its global expansion. Three-fourths of the Group's consolidated sales now take place outside Japan. We consider every world citizen as either a present-day customer or a potential customer. Other important stakeholders include the investors and shareholders who entrust their funds with Canon to finance the company's businesses, as well as Group employees, suppliers around the world, industry, government, and academia. All Canon stakeholders are in some way instrumental in the supply of Canon products and services to the market.

From a wider perspective, the global environment, local communities, and international society affected by our activities are also major stakeholders in their own rights.

Canon's Management Stance

"Contribution to society" and "fair business activities" are the cornerstones of Canon's management stance, as embodied in the Canon Group Code of Conduct (▶P. 27). Accordingly, we consider the following factors to be indispensable: 1) Provision of Excellent Products, 2) Protection of Consumers, 3) Preservation of the Global Environment, 4) Social and Cultural Contributions, and 5) Communication. The Canon Group shall continue its commitment to full compliance with all laws and regulations applicable to its activities, and shall engage in its business with fairness and sincerity, with a full understanding of the importance of these commitments.

The Group strives to maintain two-way communication, direct and otherwise, with its many stakeholders, as well as to reflect this communication in all Group operations conducted around the world.

Introduction to Canon: URL: canon.com/about

● **Canon Group Vision and Relationship with Stakeholders**

Corporate Philosophy

Kyosei

Living and working together for the common good

Corporate Goals

Establish a Truly Global Corporation
Transcend borders to actively fulfill our social responsibility to all humankind, in every region of the world

Accept the Responsibility of Being a Pioneer
Create products without rival in quality and service, and which contribute to the improvement of societies around the world

Ensure the Happiness of All in the Canon Group
Contribute to continuing prosperity by building an ideal firm

Canon

Industry, Government, Academia
(▶ P. 29, 42)

Employees
(▶ P. 35–38)

Shareholders/ Investors
(▶ P. 30)

Customers
(▶ P. 33–34)

Suppliers
(▶ P. 41–42)

Local Communities/ International Society

Global Environment
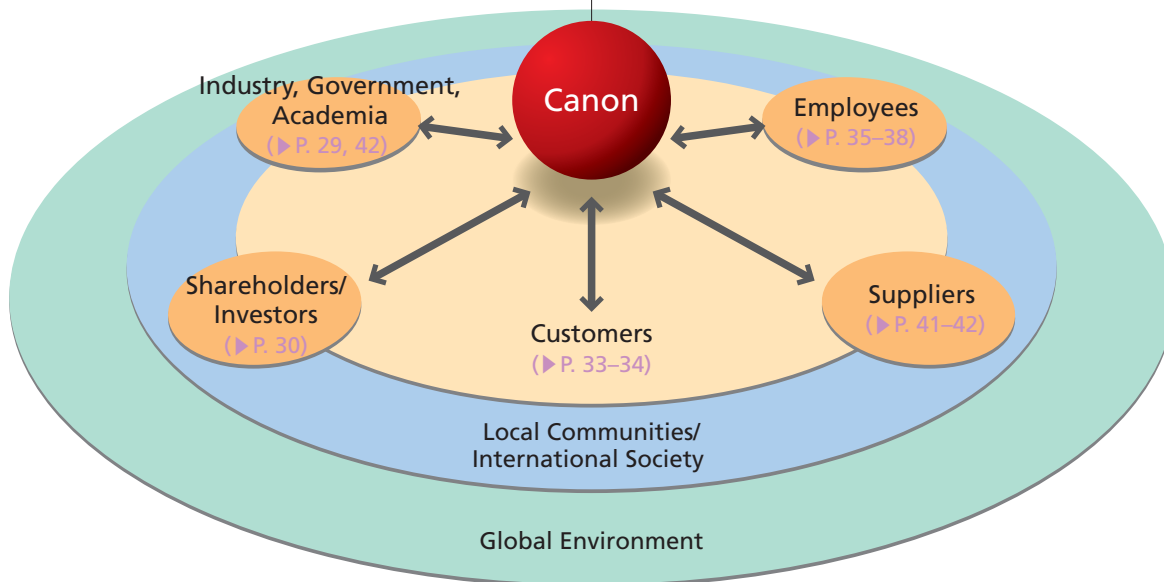
● **Consolidated Net Sales by Product (1995–2004)**

■ Office imaging products ■ Cameras
■ Computer peripherals ■ Optical and other products
■ Business information products

(¥ million)
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0

'95 '96 '97 '98 '99 '00 '01 '02 '03 '04 (year)

*Please see P. 59 for more detailed information.
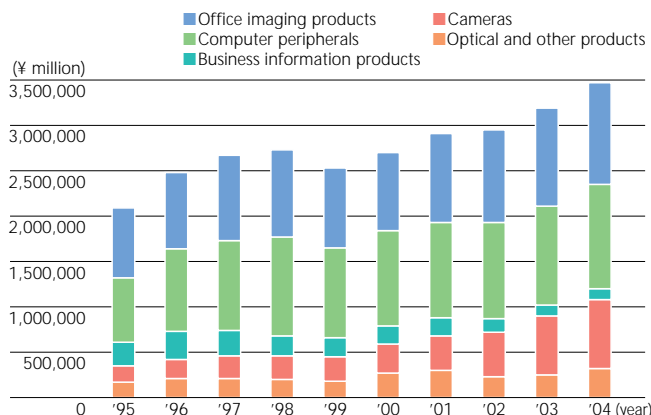
● **2004 Net Sales by Region (consolidated)**

Other 465,399
Japan 849,734
Total 3,467,853 (¥ million)
Europe 1,093,295
Americas 1,059,425
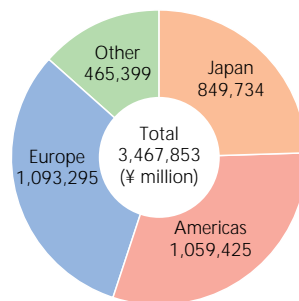
● **2004 Employees by Region (consolidated)**

Other 40,998
Japan 46,103
Total 108,257 (people)
Europe 10,898
Americas 10,258

(as of December 31, 2004)

Enriching World Culture with Premium Products and Services

As a pioneer of new technologies, Canon responds to the diversifying needs of customers around the world with original products, services, and businesses.

A Pioneer in Imaging Technology

The most important contribution a manufacturer can make to society is to consistently provide excellent products and services. Canon has diversified its products and services from its original specialty of cameras to a new core field of business machines, as well as a remarkable range of input and output devices, solutions and services, and software in the field of imaging. From 2005 we have also begun to prepare for the production of next-generation flat-screen SED displays (▶P. 22). Canon has developed its business in stride with digitalization and networking trends to provide total imaging solutions that combine every type of still and video imaging equipment with related services.

Personal-Use Products

Personal-use imagining products such as cameras and inkjet printers play a meaningful role in encouraging and capturing personal expression and ideas around the world—one of the major goals of Canon's business.

Digital SLR Cameras

Canon independently develops the EF interchangeable lenses, the CMOS sensors, and the DIGIC imaging processors that hold the key to superb image quality. We combine decades of camera expertise with leading-edge digital technologies to deliver the outstanding performance that discerning professionals rely on.

EOS DIGITAL REBEL XT / EOS 350D DIGITAL

Compact Digital Cameras

In the continuing pursuit of user-friendly operation, outstanding image quality, and compact size, our compact digital cameras incorporate the latest imaging technologies, including ultra-small high-performance zoom lenses and the DIGIC II imaging processor.

PowerShot SD500 Digital ELPH / DIGITAL IXUS 700

Digital Video Camcorders

Canon has incorporated such original innovations as optical image stabilizers into its camcorder products. The development of the DIGIC DV imaging processor has made it possible to shoot superb video and still images with a single camcorder.

ELURA90 / MVX350i

Image Scanners

Canon produces image scanners for use with photographs, film, or clippings, including LiDE models that incorporate our thin, energy-saving contact image sensor (CIS), and high-resolution CCD models that are ideal for film scanning.

CanoScan 9950F

Inkjet Printers

By continuing to pursue both image quality and speed, Canon made it possible to print high-quality digital photographs in the comfort of one's own home. Canon inkjet printers ensure consistent color reproduction while meeting human color perception preferences.

PIXMA iP8500

Inkjet All-In-One Printers

Canon inkjet All-In-One (AIO) printers for Small Office/Home Office (SOHO) provide smooth printing, copying, scanning and faxing in a single device while producing high-quality image output.

PIXMA MP760

Business Products

Canon continues to develop business products—from single-function copying machines, printers, and scanners, to network digital multifunction devices (MFDs)—which streamline the efficiency of business communication and enhance office productivity.

Office Color MFDs/Office Network MFDs

As a central input and output device in today's office networks, multifunctional devices (MFDs) not only provide simultaneous parallel processing of copying, printing, scanning and faxing operations, they also provide data compression, saving and mailing functions.

imageRUNNER C3220/
iRC 3220N

Color LBPs/Monochrome LBPs

Canon has driven the development of cartridge and laser technologies. Progress always begins with Canon, as exemplified by such revolutionary developments as color IH fixing, which yields tremendous energy savings.

LBP5200

Large-Format Inkjet Printers

Canon large-format inkjet printers combine photographic and art-grade image quality with high-speed printing. We also developed software that simplifies the production of professional-looking posters for a range of applications.

imagePROGRAF W8400

Liquid Crystal Display (LCD) Projectors

For LCD projectors, a must for conference presentations, Canon drew on its proprietary optical technologies to develop the compact high-resolution AISYS (Aspectual Illumination System) optical system to maximize the performance of LCOS reflective LCD panels.

REALiS SX50 / XEED SX50

Industrial Products

When Canon developed Japan's first indirect X-ray camera in 1940, we launched an industrial products business that has since grown to include medical devices, broadcasting equipment, semiconductor manufacturing equipment and a gamut of other leading-edge systems, devices, and components. Canon's industrial products serve as a foundation for the development of various industries and richer lifestyles.

Semiconductor Production Equipment

Semiconductor exposure tools, which are used to expose circuit patterns, must be capable of ultra-precise etching to create circuit widths measuring a mere 80 nanometers. Canon skillfully blends optical technologies and mechatronics technologies to realize the high productivity required by semiconductor manufactures.

FPA-6000AS4

Mirror Projection Aligners

Canon's mirror projection aligners are used in the manufacture of LCDs. We developed the world's largest high-precision concave mirror, which has a diameter of 1.5 meters and surface processing precision of 0.015 microns, enabling LCD panels for 48-inch widescreen TVs to be made with a single-exposure process.

MPA-8500

Broadcasting Equipment

Canon is the global leader in television broadcasting zoom lenses for everything from news events to sports and studio production. Canon also offers such products as remote-control pan/tilt systems for broadcasters and optical wireless-communication systems.

DIGISUPER 100 xs

Digital Radiography Systems

Digital radiography systems are on the front lines of healthcare, where digitization and network connectivity continue apace. Canon is making digital radiography easier than ever with the development of upright, horizontal and cassette-type models.

CXDI-50G

Information on Canon products URL: www.canon.com

Building an Ideal Corporation for Growth and Development

Canon continues to introduce management, development, and production innovations to support sustainable development on a global scale.

Management Innovations at Canon

Canon must continue to grow and develop as a corporation if we are to contribute to the prosperity of the world and happiness of humankind. We believe that we must serve the following functions to ensure our sustainable corporate development: 1) Provide stable livelihoods with upward potential for employees; 2) Return profits to shareholders; 3) Contribute to society; and 4) Make forward-looking investments to support sustainable development of the company. These are the quintessential functions of any company, and to provide them a company must generate profits.

When Canon initiated its Excellent Global Corporation Plan in 1996, we became one of the first Japanese corporations to resolutely implement new management reforms emphasizing cash flow and consolidated Group management targeting total optimization. We continued to institute management innovations in 1997 with the introduction of a Consolidated Planning and Measurement System to provide consolidated financial reporting and results evaluation based on each product group operation. In 2001 we commenced our Excellent Global Corporation Plan Phase II, the second phase of our long-term management strategy requiring that we meet targets by the end of 2005 for the further enhancement of corporate value. These management initiatives have led to a high-profit structure demonstrated by five straight years of increased sales and profits, beginning in 1999.

Development Innovations

Canon aims to become No. 1 in the world in all of its major business areas while maintaining the research and development capability to continually create new businesses. Aggressive, forward-looking investment and a deep commitment to research and development are crucial to meet these goals. With shortened development times for new products, Canon can reduce costs and speed up commercialization. These benefits enhance our competitiveness in terms of both price and product functionality. We have pursued development innovation activities like prototype-less development* throughout the company at every stage of the product creation process, from initial research to final production. In 2000 we rolled out a 3D computer-aided design (CAD) system (▶P. 49), which greatly reduces the need to build actual prototypes in the design process. These development innovations have greatly reduced Canon's product development time and costs per manufactured product and greatly raised the ratio of new product sales to overall sales.

*Prototype-less development
The need for prototypes has been greatly reduced with the introduction of a 3D-CAD system and a commitment to the development of new simulation, measurement, and analysis technologies.

Excellent Global Corporation Plan (1996–2005)

Vision In accordance with the *kyosei* philosophy, Canon will continue contributing to society through technological innovation, aiming to be a corporation worthy of admiration and respect worldwide.

Goals
1. Becoming No. 1 in the world in all of Canon's major areas of business
2. Maintaining the R&D capability to continually create new businesses
3. The Group as a whole should have a strong financial structure that can operate and handle long-term investment without borrowed capital
4. All employees should be enthusiastically committed to achieving their ideals and take pride in their work

Change in Thinking
- Pursuit of overall optimum results
- Shift to profit focus

Advancement of Consolidated Management
- Implementation of the Consolidated Planning and Measurement System (1997)
- Consolidated financial results by product group operation
- Performance evaluations for each product group operation

Four Purposes of Companies
- Stability of livelihoods of employees
- Returns to shareholders
- Contributions to society
- Investments for continued development

Company Innovations
- Cash flow management
- Withdrawal from unprofitable businesses

Production Reform
- Upgrade to cell production from conveyor belt system
- Foster multi-skilled production employees
- *Chie*-tech (Intelli-tech): Use of employee-designed tools
- Implementation of the just-in-time concept

Development Innovations
- Full implementation of 3D-CAD
- Establish Color Technical Center and Color Stadium
- Undertake "prototype-less production"

Sales Innovations
- Restructure and consolidate marketing subsidiaries
- Emphasize solution businesses
- Construct pan-European business system
- Strengthen business in China and other parts of Asia

New Diversification
- Development of new businesses at headquarters
  Enhancement of basic research
- Group diversification
  Individual Group companies strengthen their own businesses
- Global diversification
  Establish a three-regional-headquarters global management system

Production Reform

To meet the challenges of international competition and address changes in its operating environment, Canon has engaged in production reform activities since 1998. These include the adoption of the "just-in-time" production system and a switch to cell production*, a move that completely eliminated conveyor belts from our operations. We have also introduced systems such as factory vanning, a practice which allows us to load containers for export within our plants. These activities have contributed to our many successes in flexible production. As a result of production reform activities, Canon has eliminated about 20km of conveyor belts, created some 1 million square meters of usable space, and reduced its use of leased warehouse space by around 140,000m^2 over the last seven years. This has translated into dramatic cost savings and a cumulative reduction in CO_2 emissions equivalent to about 75,000 tons.

*Cell production
The cell production system makes conventional conveyor-belt based production lines obsolete. Small teams of employees assemble products together, with each team member taking responsibility for a greater number of the production processes.

A Corporate Spirit of Meeting Challenges

The Canon Group comprises 184 consolidated subsidiaries (as of December 31, 2004) around the world, which together employ more than 100,000 people (▶P. 35). Well over half the Group employees are from countries outside Japan. Group companies in the Americas, Europe, and Japan/Asia regions are promoting economic and cultural development in their communities through sales of Canon products and outstanding development, production and recycling activities suited to local customs and cultures.

One of the objectives of the Excellent Global Corporation Plan is to nurture employees who take pride in their work and enthusiastically commit themselves to achieving their ideals. Canon strives to meet this goal by developing its human resources and fostering the special capabilities of employees while providing a stable and comfortable work environment for all (▶P. 35–38).

Continuing Innovation

Ongoing innovations in development and production at Canon have directly led to improvements in the ratio of gross profit to sales. This is not to say that the innovations of today will sustain us for tomorrow. Amidst the rapid changes in present-day markets and technologies, Canon believes that further innovations will be crucial to maintaining sustainable development. One key challenge will be to supplement the conventional need to consider the production efficiency at the product-development stage with the thorough reinforcement of production infrastructure and the introduction of new pragmatic manufacturing technologies at production sites. Costs can be further reduced by establishing a more profitable "concurrent development structure" that links the development and production divisions.

Other reforms aim to further automate the assembly process and increase the ratio of in-house production of key product components along with the equipment and dies to manufacture those components. Through these initiatives, we expect to accumulate internal production know-how and improve our cost ratio by pushing costs down even further.

These new innovations will enable Canon to build and expand a global infrastructure that sufficiently adapts to the changes in today's global business environment. In Japan, we are restructuring our Group manufacturing and marketing companies to optimize both the Group and each company's competitive strength, while establishing new R&D and production sites. Overseas, mainly through our marketing companies, the Canon Group has strengthened sales networks to support our solutions business, and adopted a new streamlined sales organization in the EU that better responds to regional market integration. We are also keeping a close eye on the expanding Chinese and other Asian markets and plan to strengthen our sales structure there as well.

Environmentally Conscious Management based on EQCD

Canon takes a comprehensive approach to environmentally conscious management by innovating new technologies, developing its environmental evaluation system, and adopting initiatives to reduce the environmental burden of business activities.

Promoting Environmentally Conscious Management

Established in 1993, the Canon Environmental Charter embodies the basic philosophy and fundamental policies of our environmental assurance activities. All of these activities are based on the EQCD concept and are in keeping with the *kyosei* philosophy. The charter was revised in 2001 to reflect the introduction of a new plan to maximize resource efficiency and thereby ensure that the Group can pursue both environmental and economic goals through technological development and the establishment of social mechanisms.

Our approach to the environment continues to evolve. In 2003, for example, we put our approach into practice by setting forth the overriding indicator Factor 2 (▶P. 14) as our Vision for 2010. Factor 2 sets the numerical goal of more than doubling resource efficiency of business activities throughout the life cycle by 2010 as compared with 2000. Mid-Term Environmental Goals (▶P. 16) with milestones to meet by 2005 have been created to incorporate the vision into our business activities in planned stages, and each product group operation and operational site is required to fulfill specific goals to help meet Group targets.

We are taking a multifaceted approach to meeting our environmental goals starting with the creation and application of innovative environmental technologies. In the areas of environmental consciousness of products and reducing the environmental burden at operational sites, we have instituted environmental assurance initiatives in each area which focus on the three themes of global warming prevention and energy conservation, resource conservation, and the elimination of hazardous substances (▶P. 16). These activities result not only in reduced environmental burden, but also differentiate our products as environmentally conscious,

lower costs through energy- and resource-efficient production, reduce risk by curtailing the use of designated hazardous substances, and reinforce competitiveness while supporting sustainable growth. All of these improvements combine to raise Canon's brand value.

The introduction of the Environmental Evaluation System (▶P. 45) in 2001 has enabled us to manage the results of each division. These results are incorporated into the Evaluation System on a Consolidated Basis, the foundation of Canon's consolidated management system, allowing management to directly evaluate the actual results of the environmental assurance activities at each division.

From 2004, to create a more comprehensive structure for environmentally conscious management, the Canon Group embarked on a three-year plan to obtain ISO14001 consolidated certification covering the entire Group (▶P. 43). To this end, we revised our Environmental Charter and environmental assurance rules in August 2004, and in the summer of 2005, the Canon Group is planning to acquire consolidated certification, which includes our operational sites, subsidiaries and affiliates in Japan, and some of our marketing subsidiaries and affiliates in Europe, as a first step.

With this management system, Canon is striving to create a unified approach to the environment and economic performance.

Yusuke Emura

Managing Director and Group Executive of the Global Environment Promotion Headquarters, Canon Inc.

EQCD Concept

Environment (environmental assurance)
Companies are not qualified to manufacture goods if they are incapable of environmental assurance.

Quality
Companies are not qualified to market goods if they are incapable of producing quality goods.

Cost
Delivery
Companies are not qualified to compete if they are incapable of meeting cost and delivery requirements.

Maximization of Resource Efficiency

"Maximization of resource efficiency" means achieving maximum efficiency in the use of resources—in other words, offering the highest quality standards for products and services, while minimizing resource consumption, and practicing reuse and recycling. The key objective is to add as much value as possible, using as few resources and as little energy as possible.

Canon Group Environmental Charter

established in 1993 revised in 2004

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.**

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 life cycles 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) 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.

● **Canon's Environmental Management System**

● Global warming prevention and energy conservation
● Resource conservation
● Elimination of hazardous substances

● Environmentally conscious products
● Reducing environmental burden of business activities
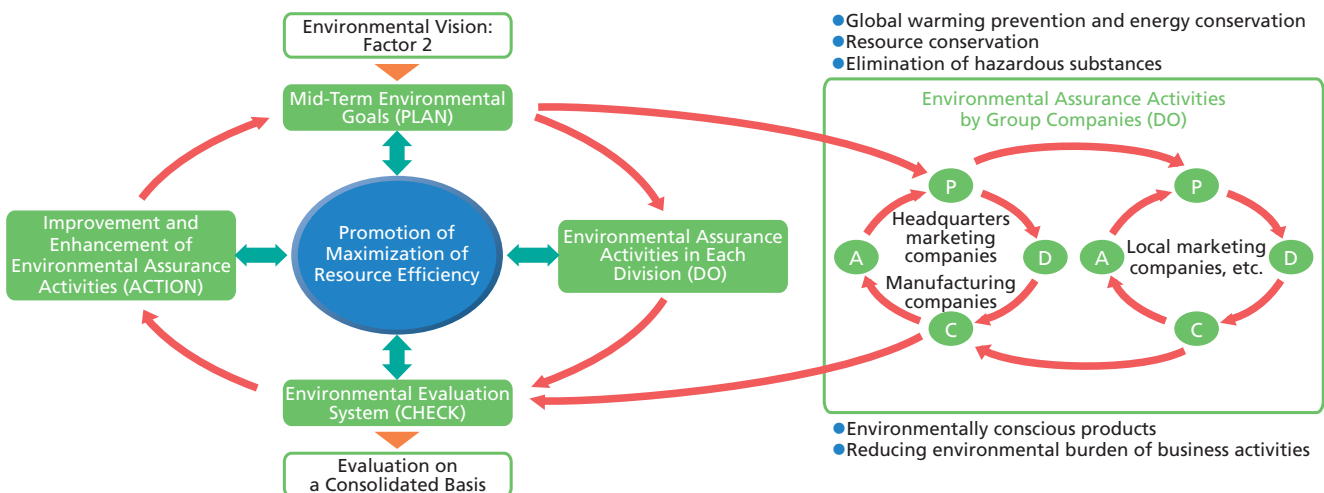
Canon's Goals for Environmentally Conscious Management
● Differentiate products based on environmentally conscious design
● Reduce costs through energy- and resource-efficient production
● Alleviate risk by reducing the use of designated hazardous substances   ● Raise brand value

Highlights 2004–2005

Social Management

Environmentally
Conscious Management

Performance Data/
Third-Party Opinion

Understanding Environmental Burden across the Entire Life Cycle

Canon continues to assess and analyze the environmental burden associated with the flow of its business and formulates effective measures to deal with the burden. In 2004 we drew closer to our Factor 2 target, the Vision for 2010, by improving the environmental efficiency of the Group to Factor 1.30.

Status of Environmental Burden

The life cycle of Canon's business activities comprises four major stages: 1) The manufacture of raw materials and parts by suppliers; 2) Canon Group's operational site activities (development, production, sales); 3) Shipping of products to retail outlets (logistics); and 4) Use of products by customers. The material balance[*1] of the environmental burden[*2] associated with each of these stages is illustrated in the chart below.

The direct environmental burden from Canon's operational site activities in 2004 was equivalent to 850,000 tons of CO_2, or 14% of the environmental burden from the entire life cycle. The indirect environmental burden from the remaining stages—the upstream activities related to the manufacture of raw materials and parts by suppliers and the downstream activities of logistics by transportation companies and the use of products by customers—generated 5.25 million tons of CO_2, or 86% of the burden of the entire life cycle.

● **Canon Group Material Balance in 2004**

Recycling

INPUT

Energy Resources (in terms of crude oil) —— 1,182,000kL

Steel/Aluminum —— 301,000t
Plastic —— 266,000t
Electronic Parts —— 9,000t
Glass —— 4,000t
Paper —— 244,000t

Raw Materials Production
Materials Production
Materials/Parts Processing
Raw Materials/ Parts Production
P. 41–42

CO_2 —— 2,649,000t-CO_2

OUTPUT

Electricity —— 1,341,270MWh
Gas —— 22,086km³
Kerosene/Fuel Oil —— 30,877kL
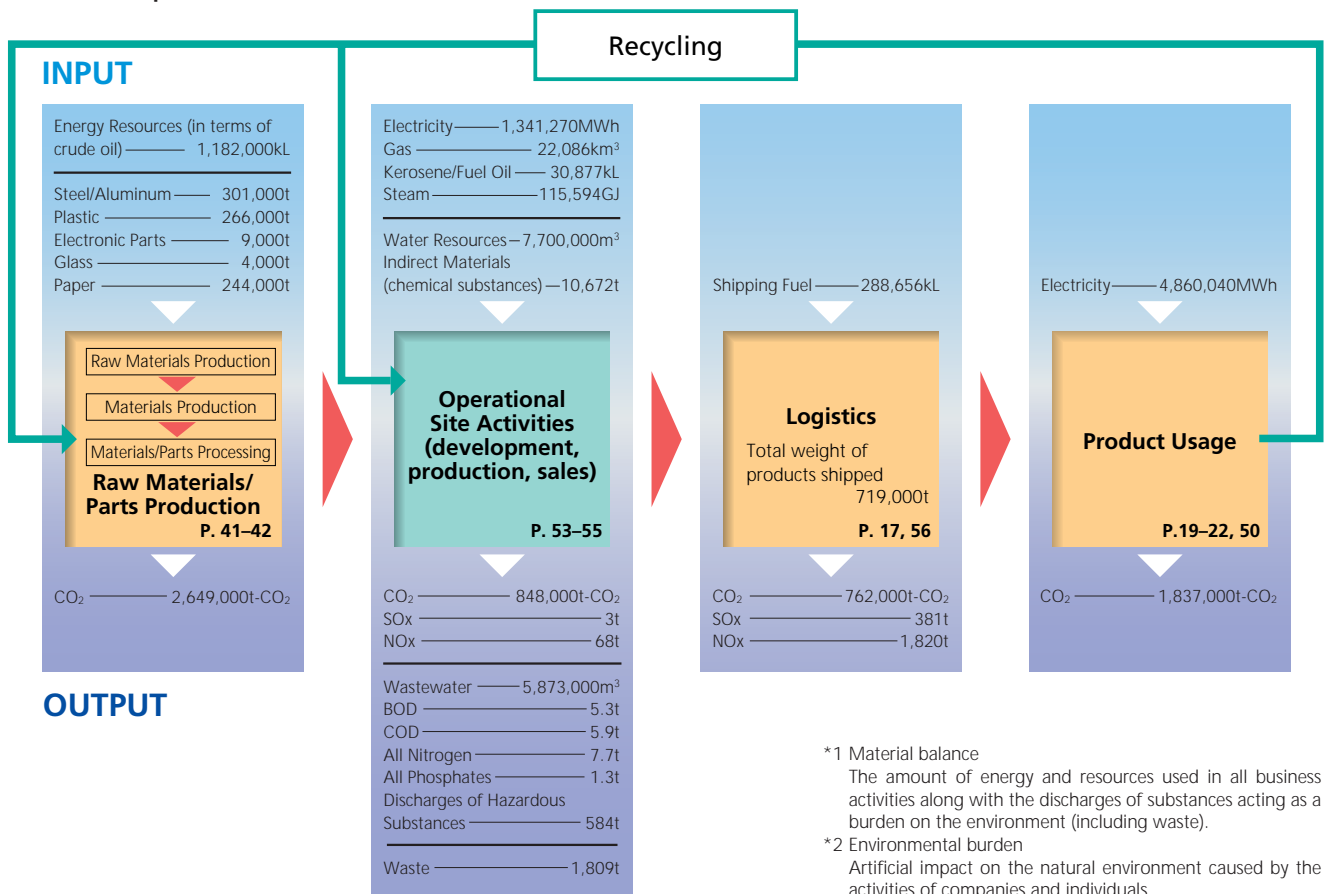Steam —— 115,594GJ

Water Resources—7,700,000m³
Indirect Materials (chemical substances) —10,672t

Operational Site Activities (development, production, sales)
P. 53–55

CO_2 —— 848,000t-CO_2
SOx —— 3t
NOx —— 68t

Wastewater —— 5,873,000m³
BOD —— 5.3t
COD —— 5.9t
All Nitrogen —— 7.7t
All Phosphates —— 1.3t
Discharges of Hazardous Substances —— 584t

Waste —— 1,809t

Shipping Fuel —— 288,656kL

Logistics
Total weight of products shipped 719,000t
P. 17, 56

CO_2 —— 762,000t-CO_2
SOx —— 381t
NOx —— 1,820t

Electricity —— 4,860,040MWh

Product Usage
P.19–22, 50

CO_2 —— 1,837,000t-CO_2

*1 Material balance
  The amount of energy and resources used in all business activities along with the discharges of substances acting as a burden on the environment (including waste).
*2 Environmental burden
  Artificial impact on the natural environment caused by the activities of companies and individuals.

● **Basic Approach to Calculating Environmental Burden**
Our calculations reflect the environmental burden associated with business activities at every stage of the life cycle: raw materials/parts production; operational site activities (development, production, sales); logistics; and product usage by customers.

With regard to CO_2 emissions from operational site activities, the calculations include emissions of five greenhouse gases in terms of CO_2: both the energy-derived greenhouse gas CO_2 and the non-energy-derived greenhouse gases PFCs, HFCs, SF_6, and N_2O. The conversion of CO_2 is made using annual coefficients for each region (▶P. 62). Specifically, 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. (See "Operational Sites Covered in Report" on P. 65)

The coefficients from the Ministry of the Environment for 2000 are used to calculate the burden of product usage by customers, with the average amount of electricity consumed by products shipped in a given fiscal year converted into CO_2, based on the average years of use of those products.

Other CO_2 conversion coefficients are provided in JEMAI-LCA (LCA software from the Japan Environmental Management Association for Industry).

● **Expanding the Scope of Data**
Canon continually seeks the most appropriate method for collecting and calculating data in order to obtain a comprehensive and accurate picture of the environmental burden of all business activities over the entire life cycle. In calculating the environmental burden data for 2004, the scope was revised and expanded from the *Sustainability Report 2004*. Specifically, the data additionally cover the following:
□ Raw materials/parts production stage: Electronic parts, aluminum, SUS, packaging materials, and other items.
□ Product usage stage: Cameras, video camcorders, large-format inkjet printers, semiconductor manufacturing equipment, broadcasting lenses, medical equipment, and other products.

Progress in Vision for 2010

The goal in our environmental Vision for 2010 is Factor 2, the overriding indicator by which we plan to at least double resource efficiency associated with the entire business activity life cycle by 2010, as compared with the baseline year of 2000.

In 2004, the environmental efficiency indicator for the Canon Group improved to 1.30, or "Factor 1.30" compared with 2000. Though Canon Group sales increased to 3.5 trillion yen in 2004 from 2.7 trillion yen in 2000, the Group's environmental burden as measured by CO_2 emissions was reduced to 6.024 million tons in 2004 from 6.099 million tons in 2000. Most of this improvement was achieved through the sale of energy-efficient products with reduced environmental burden (CO_2 emissions) during use by customers. Although the environmental burden at the stages other than product use actually increased in 2004 compared with 2000 as a result of the increase in sales, we succeeded in restraining the increase in this burden to a growth rate below the rate of increase in net sales.

Vision for 2010
Overriding Indicator: Factor 2

$$\frac{\text{Net sales}^{*1}}{\text{Life cycle } CO_2 \text{ emissions}^{*2}}$$

More than double compared with 2000

---

*1 Annual consolidated sales of the Canon Group.
*2 The environmental burden from business activities at every stage of the life cycle—the flow of business activities from production of raw materials, to production and marketing by the Canon Group, use by the customer, and recycling/disposal after use—is converted into total direct and indirect CO_2 emissions.

● **Environmental Burden and Factor of Environmental Efficiency**

Environmental burden (1,000t-CO_2)　　　Factor
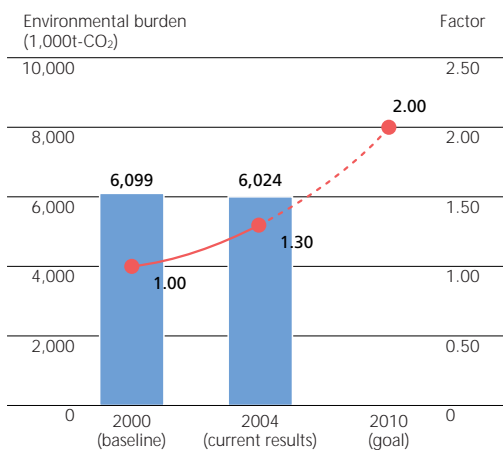
● **Collection of Environmental Burden Data (life cycle CO_2 emissions) for Calculating Factor 2 Indicator**
The collection of environmental burden data for the calculation of the factor is based on the same approach taken for the material balance on the opposite page. However, since this goal was set in 2000, the current scope of the environmental burden covered by the factor is different from the latest material balance. In addition, to express different types of environmental burden as a single numerical unit, the basis of the calculations is energy-derived CO_2 emissions.

Though the baseline for calculations is 2000, in our efforts to refine the data collection, revisions may be made to past data, including that for the baseline year. Furthermore, the environmental burden data for the baseline year of 2000 include a rough estimate of the logistics burden outside Japan based on shipments, as precise data do not exist.

● **Environmental Burden at Each Stage of the Life Cycle**

(1,000t-CO_2)

2000
| Raw materials/Parts production 2,565 | Operational site activity 605 | Logistics 684 | Product usage 2,245 | 6,099 |
| (42.1%) | (9.9%) | (11.2%) | (36.8%) | |

2004
| Raw materials/Parts production 2,649 | Operational site activity 776 | Logistics 762 | Product usage 1,837 | 6,024 |
| (44.0%) | (12.9%) | (12.6%) | (30.5%) | |
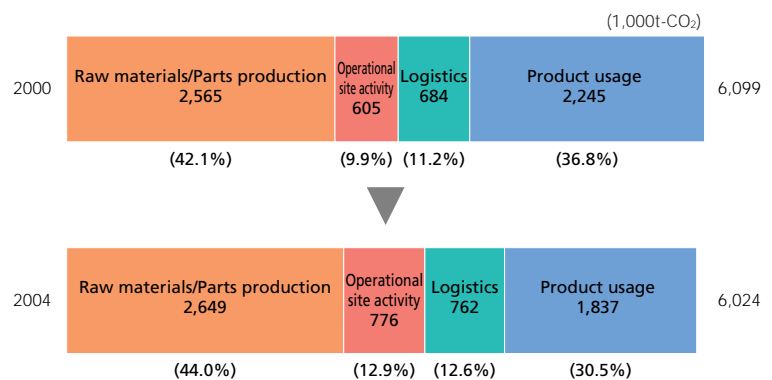
Progressing Towards the Goal of Factor 2

Having compiled the results of our environmental burden analysis for 2004, the initial year of the Mid-Term Environmental Goals and the Vision for 2010, Canon has launched a range of new measures to meet the ultimate goal of Factor 2.

Results of Activities in 2004

The year 2004 marked the start of our Mid-Term Environmental Goals and our drive to realize the Vision for 2010. For the year, the Canon Group achieved a Factor 1.30 compared with 2000 for the year as a whole (▶P. 14).

The Group progressed far in a number of its product goals. Our main products qualified for environmental labels (▶P. 50), while we received the ENERGY STAR® Program Partner of the Year—Product Manufacturer Award (see Topics below). Our main product lines were significantly improved in the course of the year through the introduction of more compact and lighter designs and higher energy efficiency during operation and standby (▶P. 19–22) (▶P. 50–52). We also advanced our efforts to eliminate hazardous substances from our products by completing an organizational structure to ensure full compliance with the EU's RoHS directive (▶P. 20) (▶P. 52). Canon has successfully commercialized the imageRUNNER C6800/iR 6800C color MFD, the EOS-1D Mark II digital SLR camera, and other RoHS-compliant products even before the implementation of the directive. We aim to have all of our new products in compliance from 2005.

As for operational site goals, the total amount of our greenhouse gas emissions (converted to CO_2) in 2004 increased 4% compared with 2000 in terms of units of sales. Thanks to our introduction of highly efficient energy-saving technologies (▶P. 18) (▶P. 53), the results represent a 3% reduction compared with the level in 2000 assuming a constant coefficient for converting electricity into CO_2 between 2000 and 2004 in Japan. The active expansion of internal recycling, meanwhile, led to a 20% reduction in the total amount of waste generated by the Group in 2004. Of the 15 operational sites outside Japan covered by this report, nine were able to completely eliminate the generation of landfill waste (▶P. 54). Canon is also ahead of schedule in its efforts to eliminate hazardous chemicals from its operations: by the end of 2004, the Group had already met its 2005 goals for reducing the amount of discharge of hazardous chemicals and substances designated by Japan's PRTR Law (▶P. 55).

Regarding the common Group goals, Canon held direct meetings with consumers and university students as part of environmental communication activities (▶P. 29). We also have initiated a three-year plan to attain ISO14001 consolidated certification for the Group as part of our effort to reinforce environmentally conscious management at the Group level (▶P. 43).

Organizations around the world have applauded these efforts. Among other distinctions, Canon was selected to become a component of the international sustainability investment indices FTSE4-Good Global 100 Index and DJSI World in 2004 (▶P. 23).

Challenges for 2005

The Canon Group aims to meet its Mid-Term Environmental Goals for 2005 as milestones in its drive to realize the Vision for 2010, Factor 2. We will also establish New Mid-Term Environmental Goals for 2006–2008 representing the optimum rational management objectives for the entire Group. These new objectives will be designed to identify and harmonize Group tasks required for achieving Factor 2, in parallel with the Group efforts to obtain ISO consolidated certification.

Canon has been taking a proactive approach to compliance with the Kyoto Protocol by planning the introduction of a separate management system for each product group operation and operational site. The full-scale operation of this system will bolster our measures at operational sites to combat global warming.

Topics | Receiving the ENERGY STAR® Program* Partner of the Year—Product Manufacturer Award

Canon U.S.A., Inc. has been awarded the 2005 ENERGY STAR® Partner of the Year—Product Manufacturer Award from the U.S. Environmental Protection Agency and the U.S. Department of Energy.

The award recognizes Canon's achievements as a market leader in developing innovative, energy-efficient technologies and incorporating these technologies into a broad range of new products. Canon was also recognized for its efforts in broadly promoting the importance of energy efficiency and encouraging public interest and awareness.

Since 2001, Canon U.S.A., Inc. as received the prestigious "Partner of the Year Award —Product Manufacturers" four times. The company has also been presented with five other awards since joining the program in 1993.

U.S. Secretary of Energy Samuel Bodman (left) with Michael Davison, Director and General Manager, Canon U.S.A., Inc.

The ENERGY STAR® Partner of the Year award

*ENERGY STAR® Program
The U.S. EPA introduced this program in 1992 to promote the development and marketing of energy-efficient products that support the prevention of global warming by reducing greenhouse gas emissions. Expanding internationally, the program also has been introduced in Japan, EU and other countries (▶P. 50) (▶P. 62).

● **Vision for 2010**

Overriding Indicator		Target	Results for 2004	Related Pages
Factor 2	More than double the ratio of net sales to life cycle CO_2 emissions, using 2000 as the baseline year	Achieve by 2010	Achieved Factor 1.30	P. 14

● **Mid-Term Environmental Goals and Results for 2004**

Item		Target	Results for 2004	Level of Achievement in 2004	Related Pages
Product Goals					
Meeting Standards for Environmentally Conscious Products	Meet standards of the Law Promoting Green Purchasing in Japan (No. 1 in percentage of products meeting standards)	2005	91.4% (53 of 58 products) met standards	○	P. 50
	Meet standards and acquire certification for all major eco-labels	2005	Eco Mark (for copying machines, printers): 68.8% of products met standards (33 of 48 products); Eco-label certification obtained for business machines in various countries and territories (Taiwan, South Korea, Thailand, Hong Kong, Canada, United States)	○	
Global Warming Prevention and Energy Conservation	Have products qualify for ENERGY STAR® Program (No. 1 in percentage of products qualifying)	2005	91.4% (53 of 58 products) qualified	○	P. 50
	Reduce energy consumption during operation and standby by 30% compared with 2000	2005	Goal met for main business machine products (new product engines)	◎	
	Fully meet standards of the Energy Conservation Law in Japan (copying machines)	2005	Fully met standards for all categories of products (13 of 13 types of products)	◎	
Resource Conservation	Create recycling systems for Europe, Japan, Asia, and North America	2005	Systems being created in each region	○	P. 51–52
	Recover 90% or more (by mass) of collected products	2005	Copying machines, 97.7%; cartridges, 100%	◎	
	Utilize reused or recycled materials for all products (reused parts, recycled plastics)	2005	Amount of reused or recycled materials used: 4,409 tons (materials used in most printers, including LBPs and inkjet printers, large-format inkjet printers, as well as in some types of copying machines)	○	
	Reduce product size and weight by 15% compared to 2000	2005	Goal nearly met for main business machine products (new product engines)	○	
	Increase rate of recyclability in design to 75% or more of product mass (reuse, material recycling)	2005	Met WEEE targets at design stage for all but a few types of products	○	
	Increase recoverability in design to 85% or more of product mass (including energy recovery)	2005	WEEE standard: 65% of product recyclable by mass, 75% of product recoverable by mass	○	
	Use green plastics for products and packaging (polylatic acid resin)	2005	Committee launched to consider technical aspects of the evaluation of materials for purchase	○	
Elimination of Hazardous Substances	Bring all products into compliance with RoHS (Complete assurance system by end of 2004 to ensure new products compliance from 2005, in principle)	2004	Commercialized the imageRUNNER C6800/iR 6800C series color MFDs, the EOS-1D Mark II digital SLR camera, and other products; Completed assurance system to ensure compliance for all new products from 2005	◎	P. 20, 52
	Use fewer types of plastics for parts and chassis; Use 100% non-halogenated plastics for product chassis	2005	Reduced the number of types of plastics used by 18%; Halogenated flame retardant plastics not used in 97.8% of chassis; Sub-committee launched	○	
	Use substitute materials for circuit boards (non-halogenated)	2005	Halogen-free paper phenol used for all LPB products, 1 copying machine product; Halogen-free laminated circuit boards used in 5 digital video camcorder products; Sub-committee launched	○	
	Use substitute materials for PVC (polyvinyl chloride) in AC/DC harnesses	2005	Quality assessment made on prototype electrical adapters and cables	○	
Protecting the Environment during Product Usage	Meet principal environmental standards for noise	2005	BA emission standard* met for sound and emissions for some LBP products	○	P. 50
	Meet principal environmental standards for particulates, VOC and ozone	2005		○	
Management	Implement LCA/LCC in design reviews for main products	2004	LCA evaluation system completed in October 2004	◎	P. 49
Operational Site Goals					
Global Warming Prevention and Energy Conservation	Reduce CO_2 emissions per unit of sales by 25% compared to 2000	2010	4% increase (3% reduction in basic units of sales compared to 2000, assuming that the coefficient for converting electricity into CO_2 in Japan has remained constant from 2000)	—	P. 17–18, 53
	Reduce CO_2 emissions per unit of sales by 5% compared to 2000	2005		(○)	
Resource Conservation	Increase internal recycling percentage by 40% compared to 2000	2005	556% improvement	◎	P.54
	Decrease the total waste generation by 25% compared to 2000	2005	20% reduction	○	
	Decrease landfill waste to zero (achieved in Japan in 2003)	2005	Achieved by 9 of 15 operational sites outside Japan	○	
Elimination of Hazardous Substances	Reduce hazardous substance discharges by 50% compared to 2000	2005	53% reduction	◎	P.55
	Reduce discharges of PRTR Law designated substances by 60% compared to 2000	2005	75% reduction	◎	
Logistics	Reduce CO_2 emissions per unit of sales by 20% compared to 2000	2006	16% reduction (in Japan); Modal shift expanded (Reference: Data collection for international logistics begun in 2003)	○	P. 17–18, 56
Common Group Goals					
Employee Training	Restructure the Group's environmental education system (customize by job type and employee rank)	2005	Environmental Education Fundamentals Course offered; Canon Ecology Person Diagnosis course introduced; Green procurement training provided; Product environmental education provided	○	P. 47
Social Contributions	Implement new social contribution program	2005	Child photography project and photo exhibitions supported; Charity Walk held; Preparation made for Bellmark participation through cartridge collections	◎	P. 39–40, 58
Communications	Establish interactive communication system	2005	Conferences on the environment held for university students and consumers	◎	P. 29, 45
	Disclose product environmental efficiency indices	2004	Test introduction and disclosure of LIME method developed under LCA project	○	
EMS	Gain ISO14001 consolidated certification	2005	Canon Group rules issued to prepare for ISO consolidated certification; Activities to obtain ISO consolidated certification promoted (3-year plan for 2005–2007)	○	P. 43, 46
	Develop Environmental Information Management System for global application	2005	Environmental accounting introduced at manufacturing subsidiaries and affiliates outside Japan	○	
Environmental Businesses	Establish environmental pollution prevention and remediation businesses	2005	Environmental technology and solutions businesses launched	○	P. 48

Evaluation symbols for goals: 100% or higher achievement = ◎, 70% or more = ○. For qualitative goals, ◎ denotes comprehensive achievement, while ○ denotes progress (improvement over previous year)
*BA: Blue Angel (environmental label developed in Germany)

Combating Global Warming in All Areas of Business

Canon's countermeasures against global warming predate the enforcement of the Kyoto Protocol in various fields of business.

Global Warming and Enforcement of Kyoto Protocol

Earnest international efforts to combat global warming date back to the adoption of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992. The efforts came to fruition in 1997 at the Conference of the Parties III (COP3) with the framing of the Kyoto Protocol, the international treaty to mitigate climate change. This historic pact to reduce emissions of CO_2 and other greenhouse gases[*1] came into force on February 16, 2005, three months after its ratification by Russia in November 2004. Japan's international commitment under the treaty is to reduce CO_2 emissions by an average of 6% between 2008 and 2012 compared to the baseline year of 1990.

Canon's Measures to Mitigate Global Warming

Canon understands the importance of mitigating global warming. In 1996, a year before COP3, we established an Energy-Efficient Operational Site Sub-Committee and began to aggressively reduce the amount of CO_2 emissions at operational sites. Four years later, in 2000, we set a target of reducing 2003 emissions of CO_2 per unit[*2] of production to 15% below the 1999 level. The actual result was a 28.5% reduction in CO_2 emissions, an improvement nearly doubling our target.

The Kyoto Protocol targets CO_2, PFCs, HFCs, SF_6, CH_4, and N_2O as the six greenhouse gases to be reduced. In 1998, Canon established a Countermeasure Sub-Committee on PFCs and decided to find alternatives for and eliminate PFCs, HFCs, and SF_6—gases used mainly as cleaning agents, solvents, and aerosol propellants in our operations. By the end of 1999, we had nearly eliminated these gases.

Various broad agreements have been announced in Japan in parallel with the ratification of the Kyoto Protocol, including specific targets for the reduction of logistics-related CO_2 emissions. Canon established an Environmental Logistics Sub-Committee in July 2002, set numerical targets for CO_2 emissions reduction, and introduced initiatives to meet the targets.

*1 Greenhouse gases
Gases that cause a warming of the Earth's atmosphere. The Kyoto Protocol targets methane (CH_4), nitrous oxide (N_2O), CFC substitutes HFCs and PFCs, and SF_6 in addition to CO_2.

*2 Unit
An expression of environmental burden efficiency in terms of sales (per unit of sales) and production (per unit of production).

Topics — Promoting Global Warming Countermeasures in Logistics Suitable for Each Region

Canon established an Environmental Logistics Working Group in May 2003 to further the work of the Environmental Logistics Sub-Committee by analyzing logistics at each stage of business activities, from procurement to sales of products, through a number of sub-working groups (▶P. 56). In this way, the working group is promoting measures to reduce logistics-related environmental burden on a global scale. Since 2003, Canon has been able to quantify the levels of CO_2 emissions generated from international shipping and logistics at its production and sales sites outside Japan (▶P. 64). With this capability, we have effectively completed our system for gathering data on Group logistics-related emissions. Canon is now using Group-wide data to set goals for each site and promote specific CO_2 emission-reduction policies appropriate for each region.

In Europe, for example, we are promoting a modal shift*, while in Asia we have set up milk runs for parts procurement (▶P. 56) and eliminated intermediary distribution by shipping products directly from the production sites to countries where the products will be used. In North America, we have shortened the total shipping distance by repositioning warehouses. For international shipping, we have improved the packaging of products and increased the loading efficiency of ocean containers.

*Modal shift
Switching to transport means with a lesser burden on the environment. The amount of CO_2 emissions generated by transporting one ton of freight over one kilometer by rail is 1/9 that of truck transport, while ship transport produces 1/4 the emissions.

In Japan, Canon teamed up with a transport firm and Japan Freight Railways Company to develop and introduce a new railcar container that efficiently loads goods

In Europe, a modal shift from truck transport to rail and ship is underway

In China, milk run pick-up is being promoted for parts procurement

Status of Global Warming Countermeasures and Future Strategy

In May 2003 we created a Global Warming Prevention Strategy Working Group to promote the transition from site-specific environmental activities to Group-wide activities. The Group-wide target for operational sites for 2010 is to lower emissions of greenhouse gases per unit of sales by 25% (converted to CO_2 emissions) compared with the 2000 level. The target for logistics alone is to cut emissions by 20% per unit of sales by 2006. The Group is striving to meet these goals primarily through more energy-efficiency initiatives.
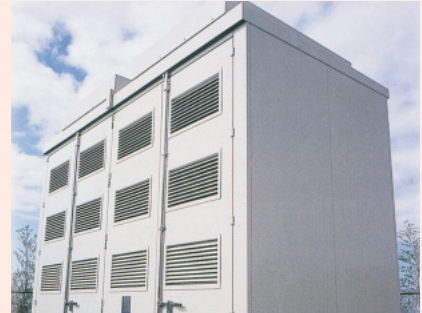
In designing its new operational sites, Canon is creating model energy-efficient buildings. We have introduced highly efficient equipment and proactively refitted our facilities at existing Canon sites to streamline them physically. We also make constant efforts to introduce production reforms which eliminate waste on the process side (▶P. 53).

In the semiconductor manufacturing process, new equipment has been installed to purge the small amount of remaining non-energy-derived greenhouse gases used to clean deposition systems and for dry etching.

Total Group emissions of greenhouse gases per unit of sales in 2004 declined by 14% from the 1990 level, although it rose by 4% in comparison with 2000. Assuming a constant coefficient for converting electricity into CO_2 between 2000 and 2004 for operations in Japan, the results represent a 3% reduction compared with the level in 2000. The emissions at Group production sites in Japan have a direct impact on the obligations under the Kyoto Protocol. These emissions fell by 33% per unit of sales from the 1990 level in 2004, comfortably clearing the industry's 25% reduction target set for 2010.

Canon is now studying the Kyoto Mechanisms*, a set of methodologies proposed to help parties progress towards their emissions reduction targets. We will monitor the status of environmental regulations both inside and outside Japan to determine whether we can feasibly introduce the Kyoto Mechanisms.

The Hiratsuka Development Center and Yako Development Center, have introduced electric power storage batteries (NAS batteries) which store energy at night and discharge it during the day

Oita Canon Materials Inc. and Canon Chemicals Inc. have installed cogeneration systems that produce both electricity and heat from direct fuel combustion

*Kyoto Mechanisms
Multilateral projects, emissions trading, and other international cooperative measures designed to help countries meet their emissions reduction goals.

●Total Amount of Greenhouse Gas Emissions by the Canon Group
(Data for the entire Canon Group)

■ Non-energy-derived greenhouse gases ■ Energy-derived greenhouse gases
● Per unit of sales (2000 = 100) ● Per unit of sales (1990 = 100)
● Per unit of sales (calculated using the 2000 coefficient for converting electricity into CO_2 (in Japan only))

(1,000t-CO_2) / (%)

Year	'90	'00	'01	'02	'03	'04
Emissions	492	634	640	682	778	848
Per unit of sales (2000=100)		100	94	99	104	104
Per unit of sales (1990=100)	100	82	77	81	85	86
Per unit of sales (2000 coefficient)				95	96	97

●Scope of Data
*Main Canon Group sites: Please refer to "Operational Sites Covered in Report" (P. 65) for sites covered in 2004.
*Greenhouse gases = CO_2 + PFCs + HFCs + SF_6 + N_2O

●Total Amount of Greenhouse Gas Emissions by the Canon Group's Main Production Sites in Japan
(Corresponding to the scope of the Kyoto Protocol (as of April 2005))

■ Non-energy-derived greenhouse gases ■ Energy-derived greenhouse gases
● Per unit of production (1990 = 100)

(1,000t-CO_2) / (%)

Year	'90	'00	'01	'02	'03	'04
Emissions	408	402	397	424	479	526
Per unit of production (1990=100)	100	56	68	62	69	67
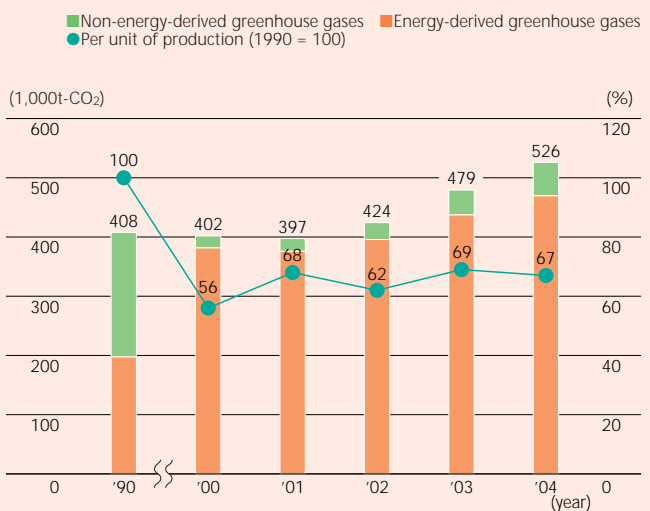
●Scope of Data
*Main Canon Group production sites in Japan: In 2004, the scope covered Canon Inc. (six sites) and the manufacturing subsidiaries and affiliates (24 sites).
*Greenhouse gases = CO_2 + PFCs + HFCs + SF_6 + N_2O

Vision & Strategy

Highlights 2004-2005

Social Management

Environmentally Conscious Management

Performance Data/ Third-Party Opinion

Environmentally Conscious Features in Every Product

Canon uses the LCA method to analyze the environmental impact of its products. A numerical understanding of the burden helps us design products with progressively higher energy and resource efficiency without the use of hazardous substances.

Environmentally Conscious Features of Inkjet Printers

While the environmental burden of personal-use products may be small on a per-unit basis, products like the inkjet printer are selling at a pace of more than 10 million units a year worldwide. Environmental measures in the engineering of these machines have a tremendous potential impact on society.

Canon's inkjet printers are becoming more and more energy efficient. This has led to an especially large reduction in their environment burden at the usage stage. New Canon inkjet printers are lighter, more compact, and produced with a higher ratio of recyclable materials than earlier models. Starting with the PIXMA iP1500, Canon's inkjet printer lineup is making steady progress in complying with the RoHS directive.

PIXMA iP4000
inkjet printer

Main Environmental Features of PIXMA iP4000

Energy Efficiency

Reduced per-day power consumption
Improvements in the printer controller and the development of a low-power mode system have cut the per-day power consumption by 71% compared with previous models. Power consumption is minimized during standby and power-off.

● **Reduction in Per-Day Power Consumption***

(Wh)

26.5Wh

Power consumption reduced by 71%

7.6Wh

S600
2000 model

PIXMA iP4000
2004 model
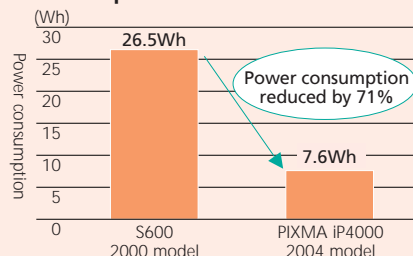
Resource Efficiency

High functionality and small size
The paper feed system and other components have been redeveloped and scaled down to fit within the smaller printer dimensions. The printer offers such features as a dual paper path with built-in double-sided printing. Compared with previous automatic double-sided printing models, the cubic dimensions of the printer have been decreased by 52% and the weight has been decreased by 29%.

Color-independent ink cartridges
With our new color-independent ink cartridge system, users can replace only the color that has run out.

*Conditions
In a day, the power-off time is calculated at 16 hours. In the remaining 8 hours, the printing time consists of 15 pages of color output and 15 pages of monochrome output consecutively. All other time is calculated as standby.

Elimination of Hazardous Substances

PIXMA iP1500

Environmentally Conscious Features of Image Scanners

The environmental burden of conventional image scanners has always been large during use. Canon overcame this problem by developing the revolutionary LIDE (LED InDirect Exposure) image scanning carriage, a technology which incorporates a small, low-power-consuming LED in place of a fluorescent lamp. The scanners are also equipped with a smaller and simpler imaging system to improve resource efficiency. Beginning with the CanoScan 8400F, our image scanner series is making steady progress in becoming RoHS-compliant.

CanoScan LiDE 500F
color image scanner

Main Environmental Features of CanoScan LiDE 500F

Energy Efficiency

Reduced per-day power consumption
Per-day power consumption has been reduced by 85% thanks to LIDE technology and a low-power-consumption drive system and firmware.

Resource Efficiency

Lighter, more compact
The cubic dimensions of the scanner are 68% smaller and the weight is 47% lighter than previous models thanks to a simplified and more compact scanning system.

● **Reduction in Per-Day Power Consumption***

(Wh)

74.5Wh

Power consumption reduced by 85%

11.4Wh

FB1210U
2000 model

CanoScan LiDE 500F
2005 model
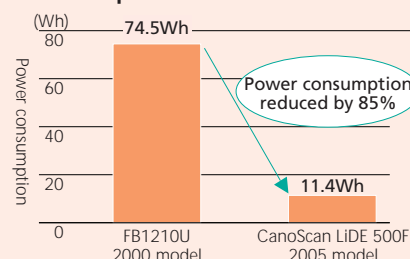
*Conditions
The PC "ON" time (scanner in standby mode) is calculated at 8 hours a day; in that period, operation time is calculated at 10 minutes.

Elimination of Hazardous Substances

CanoScan 8400F

Environmentally Conscious Features of Digital Cameras

By virtue of their small size, Canon's cameras make up a minor part of the environmental burden of Canon's products. Nevertheless, Canon spares no effort to design them as environmentally friendly as possible. Given the small amount of resources used in the cameras and the even smaller power consumption during use, the raw materials stage of the entire life cycle makes up about 80% of the burden of the products. To improve the environmental consciousness of cameras, we are working towards smaller, lighter designs while eliminating resource loss in the production of camera lenses and other processes. As Canon cameras become more compact, their power consumption will also decline.

Canon is also making progress towards the goal of eliminating hazardous substances from its cameras. Lead-free lenses* have been developed and incorporated into all of our models. We have also succeeded in reducing the amount of hazardous substances used in electrical parts. The EOS-1D Mark II digital SLR camera became the first of Canon's digital cameras to comply with the RoHS directive (see Topics below). All of the other models are currently on track for compliance.

*Lead-free lens
Lenses that use alternative technologies to lead for increasing the refraction index.

PowerShot SD400 DIGITAL ELPH/
DIGITAL IXUS 50 compact digital camera

Energy Efficiency

Standby power consumption of the battery charger for the PowerShot SD400 DIGITAL ELPH/DIGITAL IXUS 50 clears the EU's voluntary energy efficiency standard (2005) for external power supply (0.26W).

Elimination of Hazardous Substances

RoHS-compliant through the introduction of alternative technologies.

Main Environmental Features of PowerShot SD400 DIGITAL ELPH/ DIGITAL IXUS 50

Resource Efficiency

Minimizing the size of the circuit board with DIGIC II and SIP
The DIGIC II is a high-performance imaging engine equipped with numerous functions, all integrated into a single chip. Our SIP (System in Package) technology combines the DIGIC II, camera-controller and imaging processing chips and other chips into a single package to reduce the size of the circuit board.
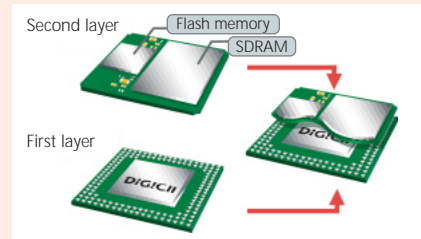

Ultracompact 3x optical zoom lens
The optical zoom lenses of new models are even more compact than the earlier generation of 3x zoom lenses PowerShot S300 DIGITAL ELPH/DIGITAL IXUS 300 camera)
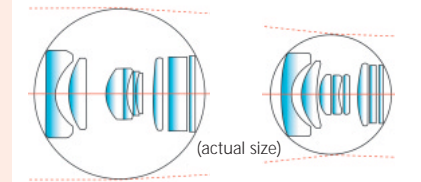
More compact, resource-efficient packaging
The shock absorbent packaging for the camera is composed of forest-thinned timber materials and recycled paper. The use of smaller boxes reduces the environmental burden at the raw materials and logistics stages.

Topics — Reducing Usage of Designated Hazardous Substances through Early RoHS Compliance

Canon began to prepare for compliance with the RoHS directive*[1] in 2002. We were the first in the industry to commercialize RoHS-compliant products, bringing the imageRUNNER C6800/iR 6800C series color MFDs and EOS-1D Mark II digital SLR camera to market by April 2004. Since then, we have also added the PIXMA iP1500 inkjet printer and others to our list of compliant products. Canon is working proactively, well ahead of the implementation of the RoHS directive in 2006. In principle, all of our new products will be compliant with RoHS*[2] from 2005 onward, not only in the EU, but in all of our global markets.

2003 — RoHS directive becomes EU law, February 13

2004 — RoHS directive must be transposed into law in EU member states by August 13

2005 — In principle, all new Canon products from 2005 will be RoHS-compliant

2006 — All products put on the market in the EU after July 1 must be RoHS-compliant
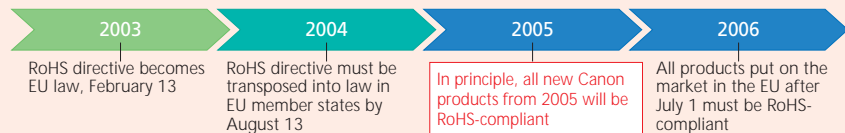
Canon compliance with RoHS directive
Six restricted substances: Alternative technologies and parts

■ Lead	■ Mercury	■ Cadmium	■ Hexavalent Chromium	■ PBB, PBDE
•Lead-free solder •Lead-free lens •Lead-free wiring		•Cadmium-free plastic •Cadmium-free paint •Cadmium-free wiring	•Hexavalent chromium-free screws •Hexavalent chromium-free steel plates	(Canon eliminated these substances in 1995) •Plastic outer covers made of PC-ABS

*1 RoHS directive
The Restriction of the use of certain Hazardous Substances in electrical and electronic equipment (RoHS) is an EU directive governing the use of hazardous substances in electrical and electronic equipment sold in the EU. The directive will restrict the use of the following six substances for products on the market from July 1, 2006: lead, mercury, cadmium, hexavalent chromium, PBB (polybrominated biphenyls), and PBDE (polybrominated diphenyl ethers).
*2 Compliance with RoHS in principle
Not including products, parts and materials excluded by the RoHS directive. In areas where the directive is not defined, Canon has set and ensured compliance with our own internal standards based on the End-of-Life Vehicles directive and other existing standards relating to chemical substances.

Environmentally Conscious Features of Office Machines

According to our life cycle analysis of the digital MFD, representative of Canon's business-use machines, nearly all of the burden is produced at the usage and raw materials stages, and the standby power consumption is particularly large.

We have independently developed and installed on-demand fixing technology[1] and IH fixing technology[2] to make our MFDs, copying machines, laser beam printers and other business-use products more energy-efficient (▶P. 50). The application of on-demand fixing technology in the imageRUNNER 4570/iR 4570 (and comparable models) and the application of IH fixing technology in the imageRUNNER 6570/iR 6570 (and comparable models) place these machines at the top of their output speed categories in energy efficiency (as of April 2005) under measurement methods advocated in Japan's Energy Conservation Law. The cumulative benefit of these technologies in the eight-year period between 1997 and 2004 was an approximately 4.67-million-ton reduction in CO_2 emissions. Customers, meanwhile, reaped energy efficiency benefits by saving an estimated 147 billion yen from lower power consumption. In 2004, Canon was presented with the Minister of the Environment's Award for Global Warming Prevention Measures along with the Energy Conservation Award[3]. We have now been conferred the latter award for four straight years and seven times overall.

In our work to reduce environmental burden at the raw materials production stage, we continue to make progress in eliminating the use of hazardous chemical substances, developing recycling technologies, enhancing the recycling system, and using recycled materials.

imageRUNNER 4570/iR 4570 series monochrome MFDs for business-use

Resource Efficiency

Lighter, more compact
The slimming of the scanner element to a mere 64 millimeters and downsizing of other parts have made this the slimmest of all models and about 20% lighter (our own comparison).

The high-speed monochrome imageRUNNER 6570/iR 6570 MFD series for business-use adopts IH fixing technology. This dramatic solution has earned the series the top energy efficiency rating in its class of office machines (as of April 2005).

Main Environmental Features of imageRUNNER 4570/iR 4570 Series

Energy Efficiency

Speed plus energy efficiency
Improvements in the controller and other parts have reduced the power consumption in sleep mode from 5W to less than 1W. Recovery from sleep mode now takes only 10 seconds.

Top energy-efficiency rating
The on-demand fixing technology has been improved, and we have succeeded in applying this technology to higher speed machines of 45 pages per minute. This model also has the highest energy efficiency in its copying speed category (as of April 2005 and measured by methods advocated in Japan's Energy Conservation Law).

● **Energy Consumption Efficiency Comparison***

Wh/h	
200	176Wh/h
150	
100	78% reduction
50	
0	39Wh/h
	Our previous model / imageRUNNER 4570/iR 4570
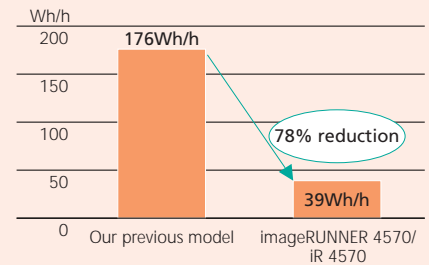
*Comparison based on per-hour power consumption measured in accordance with methods advocated in Energy Conservation Law (concerning monochrome copying machines).

Elimination of Hazardous Substances

RoHS-compliant through the introduction of alternative technologies

● **Benefits from Proprietary Energy-Efficient Technologies**

(1,000t-CO_2) / (¥ billion)

— Cumulative economic benefit in given year
■ Benefit based on unit sales in given year
■ Benefit based on cumulative unit sales in given year

Year	'97	'98	'99	'00	'01	'02	'03	'04
Cumulative benefit (¥ billion)	7.6	16.7	30.7	45.7	65.2	86.0	112.3	147.0
Cumulative unit sales (CO_2)	240	290	530	970	1,450	2,070	2,730	3,560 / 4,670
Unit sales (CO_2)	240	440	480	620	660	830	1,100

*Assumes that previously sold copying machines and laser beam printers are used for 8 years.

Customer Benefits
(benefit based on cumulative unit sales* as of 2004)

Reduction of environmental burden
CO_2 emissions reduced by 4.67 million tons

Economic effect (energy cost savings):
147 billion yen

*1 On-demand fixing technology
A ceramic heater localizes the heating to a specific area through a fixing film during printing.

*2 IH (Induction Heating) fixing technology
An electromagnetic induction heater directly heats a thin fixing sleeve.

*3 Energy Conservation Awards
Presented by the Japan Energy Conservation Center. Eight of Canon's business-use monochrome, including the imageRUNNER 4570, 3570, 2870, 2270/iR 4570, 3570, 2870, 2270 were conferred the Chairman's Energy Conservation Center Award at the 2004 Japan Energy Conservation Awards.

On-demand fixing technology and IH fixing technology URL: canon.com/environment/technology
Energy Conservation Awards (Japan Energy Conservation Center) URL: www.eccj.or.jp/index_e.html
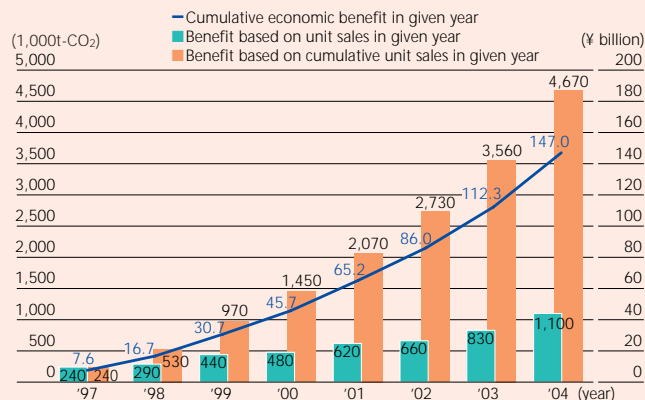
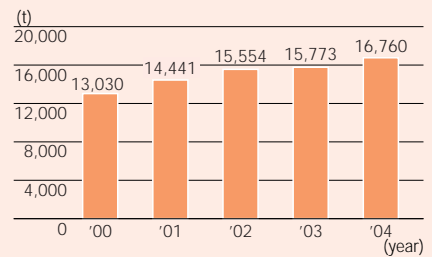## Environmentally Conscious Features of Toner Cartridges

In 1990, Canon introduced the industry's first toner cartridge recycling program. Since then, we have built a global recycling network under which the amount of returned cartridges grows by the year, while attaining 100% recovery and zero landfill waste by reusing parts, recycling materials, and utilizing energy recovery (▶P. 52). We are also making steady progress in making our consumables RoHS-compliant by eliminating hazardous substances.

Resource Efficiency

The cumulative amount of toner cartridges collected has reached 127,000 tons. All the collected cartridges are efficiently converted into resources (cumulative CO_2 emissions reduction effect of 210,000 tons as calculated by Canon using LCA method).

● **Amount of Toner Cartridges Collected for Recycling (worldwide)**

(t)

Year	Amount
'00	13,030
'01	14,441
'02	15,554
'03	15,773
'04	16,760

Elimination of Hazardous Substances

All newly manufactured parts for cartridges incorporate alternatives to hazardous substances to ensure RoHS-compliance.

Environmentally Conscious Features of Digital Radiography Systems

Conventional X-ray diagnostic devices use film and developing solution which must be treated as industrial waste. Canon pioneered the world's first digital radiography imaging device in 1998 with the commercialization of the CXDI series digital radiography system. This system displays detailed diagnostic images directly on a high-definition display without the use of consumables that end up as waste. Each image recorded is displayed on the screen just three seconds after exposure. This improves overall energy efficiency and shortens the image-processing wait time.

CXDI-50G digital radiography system

Main Environmental Features of the CXDI-50G

Energy efficiency

Consumes less than one-fourth of the power consumed by the 2000 model.

Resource Efficiency

Less than one-eighth the weight of the 2000 model.

Elimination of Hazardous Substances

Lead-free solder and other alternative technologies have been adopted. (The RoHS directive does not cover medical equipment.)

Comparison of Imaging Process

Conventional Film Method	CXDI Series
Prepare film cassette	X-ray exposure
X-ray exposure	Image displayed on operation panel
Film cassette transfer	No need for film
Film development (developing solution ➔ waste liquid)	No need for development
Film transfer	No waste liquids generated
Confirm image	Fast imaging
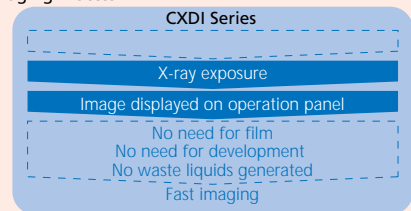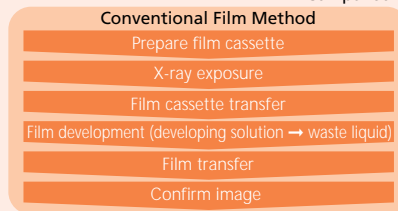
Topics — Next-Generation SED Displays: Environmentally Conscious and Superior in Performance

Canon has recently developed a new generation of flat-screen SED displays in cooperation with Toshiba Corporation. SED Inc., the joint venture formed between the two companies, is now preparing for display production.

SEDs render high-brightness, high-definition images on par with the images rendered on conventional CRT (cathode-ray tube) displays. The flat-screen SEDs can be manufactured at sizes exceeding 40 inches and no more than a few centimeters in width. Besides saving space, SEDs use energy more efficiently than other flat-panel televisions and offer other environmental benefits.

Prototype of Surface-conduction Electron-emitter Display (SED)

● **Comparison of Image Brightness and Power Consumption**

Power consumption (W): 100, 200, 300, 400, 500
Movie display region
News display region
PDP
LCD
SED
1/2, 1/2
2/3, 1/3
APL (Average Picture Level) (image brightness): 0.0, 0.1, 0.2, 0.3, 0.4, 0.5
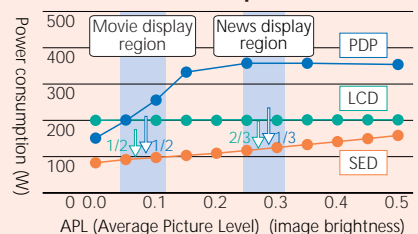
Energy Efficiency

When watching a news program under normal operating conditions, an SED display runs on less than one-third the power consumed by a plasma display (PDP) and less than two-thirds the power consumed by a liquid-crystal display (LCD) television.

New Committees to Reinforce Governance Structure

Canon addressed the need for a more effective governance structure by newly forming a Corporate Ethics and Compliance Committee, Internal Control Committee, and Disclosure Committee.

Enhancing the Governance Structure

Canon works to enhance its corporate value by continually improving its governance. Fully transparent management and stronger corporate oversight are essential to ensuring that the Group achieves its management goals. Various efforts are being undertaken to reinforce the governance system of the entire Group.

Three new committees were recently established to further bolster our governance structure: The Corporate Ethics and Compliance Committee and the Internal Control Committee in January 2004, and the Disclosure Committee in April 2005 (▶P. 25). All three are standing bodies directly overseen by the Executive Committee. Their establishment is another step in building a more comprehensive corporate governance structure based on a strong sense of mission, ethics, and accountability in the executive management of Canon.

Corporate Ethics and Compliance Committee

The Corporate Ethics and Compliance Committee formed in 2004 is a body of executives and representatives from each headquarters under the chairmanship of the President and CEO of Canon Inc. The committee members are tasked with forming the overarching ethics and compliance policy for the Canon Group and approving various individual policy measures. Meetings are convened quarterly to debate compliance-related issues facing the Group. In light of the nature of the committee as a body overseeing corporate compliance, the meetings are also attended by a corporate auditor 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 raise the transparency and soundness of business activities while fostering a corporate spirit which motivates employees to unfailingly consider compliance and ethics when making business decisions.

In May 2005, the committee approved an initiative to create Canon Compliance Cards and began distributing them to Group executives and employees (▶P. 28).

Topics — High Marks in External Evaluations

Canon understands the importance of duly considering social responsibilities and management risks in the course of doing business. This stance ensures that we maintain our thorough commitment to the strengthening of our governance structure, the disclosure of information in a timely and appropriate manner, and other related initiatives. Canon has earned high ratings from external organizations inside and outside Japan because of this ongoing commitment.

● Evaluation of Canon in Surveys and Ratings

Surveys and Ratings	Evaluating Body	Evaluation of Canon
World's Most Respected Companies 2005	Financial Times (U.K.)	25th (5th among Japanese companies)
Global Most Admired Companies	Fortune (U.S.A.)	30th (5th in computer industry/4th among Japanese companies)
The Best Global Brands	Business Week (U.S.A.)	35th (4th among Japanese companies)
CSR Best 100 Company Ranking	Nikkei Business (Japan)	1st overall
Private Sector Multi Evaluation System (PRISM)	Nihon Keizai Shimbun (Japan)	1st
Information disclosure ranking	Security Analysts Association of Japan (Japan)	1st among electric and precision equipment sector
20th Corporate PR Award	Japan Institute for Social and Economic Affairs (Japan)	Corporate PR Grand Prize
Newsweek Global 500	Newsweek, Japanese Edition (Japan)	7th (1st among Japanese companies)

● Evaluation of Canon in Sustainability Investment Indices (indices that include Canon)

Sustainability Investment Indices	Management Body	Main Type of Evaluation	Evaluation of Canon
FTSE4-Good Global 100 Index	FTSE (U.K.)	Environmental, social, economic	Included
Dow Jones Sustainability Indexes World	Dow Jones (U.S.A.)	Environmental, social, economic	Included
Ethibel Sustainability Index Global	Ethibel (Belgium)	Environmental, social, economic	Included
Morningstar Socially Responsible Investment Index	Morningstar Japan K.K. (Japan)	Environmental, social, economic	Included

Internal Control Committee and Disclosure Committee

The Internal Control Committee was newly formed in 2004 as the primary internal control structure 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 and CEO of Canon Inc. The committee's main task is to ensure the reliability of financial reporting in response to the internal control reporting requirements of the Sarbanes-Oxley Act* of 2002 and other regulations. It also conducts comprehensive reviews of the Group's internal controls 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.

In 2004, the committee focused its attention to the documentation for reporting on the control of business activities. In coming years the committee will strive to improve the documented internal control flow and support the formation of a more efficient business flow.

The Disclosure Committee was set up in 2005 to promote the dissemination of timely, accurate and comprehensive information to shareholders and the capital markets in accordance with the law and stock exchange rules. The Disclosure Committee is also chaired by the President and CEO. The creation of this committee is a major step in building a structure to properly disclose important information (▶P. 30).

New Initiatives at Global Legal Affairs Coordination Committee

Canon has established an information management structure centered around the Global Legal Affairs Coordination Committee, which is investigating major legal developments inside and outside Japan (▶P. 26).

The committee is now supporting the acquisition of Privacy Mark certification for Group companies in Japan and implementing new rules and a management structure for personal information protection in compliance with Japan's Protection of Personal Information Law (fully enacted in April 2005) and other regulations. Group companies in Japan began acquiring the certification in 2003. About 30 subsidiaries and affiliates are now working towards certification.

In December 2004, the committee drew up the Trade Secret Management Guidelines and the Technology Outflow Prevention Guidelines to reinforce the protection of trade secrets and technology. Following these guidelines, the information management system for electronic documents is now further reinforced for secure management of Canon's trade secrets, core technology, and important items.

On a regular basis, the committee analyzes legal trends in the countries in which the Group operates, determining ways to comply with laws and regulations in management and business operations, setting up working groups to cope with legal issues, and compiling guidelines and guidebooks to raise the level of awareness on the most important legal issues facing the Group. The committee also supports related divisions at Group companies in their steps to respond to legal issues.

● Work of the Global Legal Affairs Coordination Committee

Monitoring and examining legal developments in the following areas: export regulations, personal information protection, trade secret management, IT, the environment (RoHS, WEEE, etc.), product liability, international tax law, antimonopoly regulation, local law (in the United States, Europe, China and other countries) disability, after-sales service, copyrights, etc.

● Canon Rules for Management of Confidential Information

```
              Canon Group Code of Conduct
                 Employment Rules
                        ↓
           Basic Rules on Confidential
              Information Management
                        ↓
             Information Security Rules
             Rules for the Protection of
                 Personal Information
                        ↓
         Trade Secret Management Guidelines      } (supplementary
      Technology Outflow Prevention Guidelines       rules)
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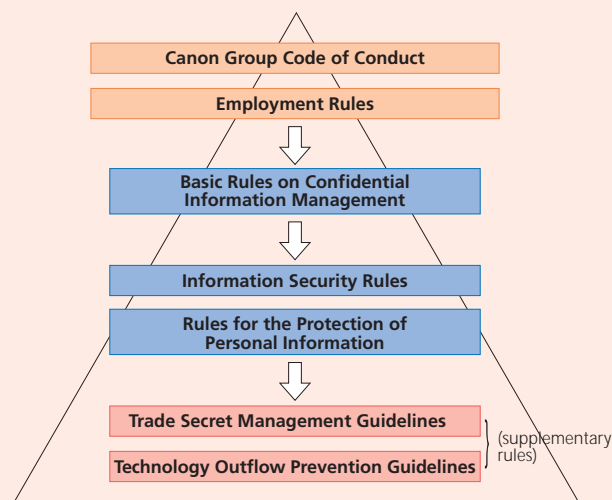
- Basic Rules on Confidential Information Management:
  Basic rules providing that all undisclosed information should be managed as confidential information.
- Information Security Rules:
  Basic rules on the usage of computers and networks at the workplace.
- Rules for the Protection of Personal Information:
  Basic rules on the handling of client data and other personal information.
- Trade Secret Management Guidelines:
  Guidelines on systematic and specific operational procedures for the handling of trade secrets.
- Technology Outflow Prevention Guidelines:
  Guidelines on systematic and specific operational procedures to prevent the outflow of important technologies to countries with inadequate protection of intellectual property.

*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.

A Governance Structure to Thoroughly Manage Information

The core of Canon's governance structure consists of a Board of Directors, Board of Corporate Auditors and several key auditing divisions. A personal information protection policy and trade secret management system are two of many initiatives aimed at strengthening this structure.

Corporate Governance Structure

Canon's basic governance structure encompasses a general meeting of shareholders, a board of directors, and a board of corporate auditors, as required under the Commercial Law of Japan. We also have established a number organs and systems specific to Canon, including an Executive Committee which meets with full attendance of the executive members, special management committees dedicated to key issues, an internal auditing structure centered around a Corporate Audit Center, and an information disclosure system for management activities (see chart below).

Corporate Directors

Canon Inc.'s Board of Directors is made up of 25 directors, none of them outside directors. We aim for a rational and efficient decision-making process wherein important matters are decided by fully attended meetings of the Executive Committee and the Board of Directors, which convenes once a month.

The Executive Committee convenes as necessary to take up important policy matters tabled by the Management Strategy Committee. The Executive Committee makes specific planning decisions based on input from all of its members along with division personnel directly in charge of the matters under deliberation.

Moreover, various cross-company special management committees have been established to address important management themes. Each committee serves to accelerate and rationalize the decision-making process while supporting the product group operations and performing a checking function.

Corporate Auditors

The Board of Corporate Auditors of Canon Inc. is made up of four auditors, two of whom are external auditors with no personal associations, capital affiliations, business connections, or other types of interest with or in Canon Inc. In accordance with the Board of Corporate Auditors' auditing policies and their assigned duties, the auditors attend board, management, and various committee meetings, receive business reports from the directors and others, carefully examine documents related to important decisions, and conduct strict audits of the company's business and assets.

External Auditing

With regard to external audits, we established regulations related to the prior approval of policies and procedures for both auditing and non-auditing services to reinforce the independence of our accounting firms. Based on the regulations, the Board of Corporate Auditors must approve in advance the content and related amounts of contracts between the accounting firms and the company before they are entered into.

Internal Auditing

The Corporate Audit Center is responsible for Canon's internal auditing. The center oversees the Group's legal compliance, risk management, internal control system, and other areas, providing evaluations and recommending improvements. The various relevant administrative divisions also work closely with the Corporate Audit Center to inspect product quality, environmental issues, information security, personal information protection, Security Export Control management, and other areas.

● Divisions Responsible for Internal Audits

Division	Area of responsibility
Corporate Audit Center	Management functions, specific job functions, accounting, 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 (▶P. 44)
Information & Communication Systems Headquarters	Information security for IT and other information processing
General Affairs Headquarters	Physical security
Logistics Headquarters	Security assurance for export management
Global Procurement Headquarters	Compliance with procurement rules (▶P. 41)

● Canon Governance Structure

(as of April 1, 2005)

General Meeting of Shareholders

Canon Inc.

Board of Directors — 25 members

Board of Corporate Auditors — 4 members, including 2 external members

President and CEO — Executive Committee

Management Strategy Committee*1

New Business Development Committee*2

Headquarters Administrative Divisions
Corporate Audit Center / Corporate Ethics and Compliance Administration Office
Legal Affairs Coordination Division / Corporate Communications Center
Corporate Planning Development Headquarters / General Affairs Headquarters
Human Resources Management & Organization Headquarters
Finance & Accounting Headquarters
Information & Communication Systems Headquarters / Logistics Headquarters
Global Environment Promotion Headquarters / Global Procurement Headquarters
Cost Engineering Headquarters / Quality Management Headquarters
Global Manufacturing Headquarters
Corporate Intellectual Property & Legal Headquarters / Others

Corporate Ethics and Compliance Committee
Internal Control Committee
Disclosure Committee
Global Legal Affairs Coordination Committee
Global Marketing Promotion Committee

Product Group Operations

Subsidiaries & Affiliates
Marketing Subsidiaries & Affiliates
Manufacturing Subsidiaries & Affiliates
R&D Subsidiaries & Affiliates

*1 Management Strategy Committee
Deliberates on capital investment, business expansion 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.

Security

A comprehensive risk management system and a flexible crisis response system are needed to protect the Canon Group and its employees against a wide range of risks and maintain the public trust. We have reinforced our security to guard against foreseeable risks to both our information and physical properties. The Information & Communication Systems Headquarters manages security measures in IT and related information areas, while the General Affairs Headquarters oversees physical security. Internal rules, training programs, and prevention management systems are in place to ensure that security is well maintained.

Trade Secret Management and Prevention of Technology Outflow

In April 2002, Canon established a committee to create rules for the management of confidential information at manufacturing subsidiaries and affiliates outside Japan. The main function of the committee is to prevent the outflow of technology to countries with inadequate protection of intellectual property. Headquarters executives and the presidents of manufacturing subsidiaries and affiliates outside Japan serving on the committee regularly meet to discuss how to protect Canon's technology.

Quickly responding to the policies of the Ministry of Economy, Trade, and Industry, we are now establishing a solid system of managing trade secrets and preventing the outflow of technology while keeping all employees informed of these activities. In July 2003, we formed a project team within the Global Legal Affairs Coordination Committee to tackle these issues under the supervision of the Executive Committee. In December 2004, the project team introduced the Trade Secret Management Guidelines and the Technology Outflow Prevention Guidelines. The information management system for electronic documents containing trade secrets is now further reinforced, and we are aiming to comprehensively manage the Canon Group's trade secrets and core technology and important items following the same guidelines.

Protection of Personal Information

Canon regards the protection of personal information in an IT society as a primary corporate responsibility. We have taken a global view in instituting measures to protect personal information, basing our initiatives on the OECD Guidelines on the protection of personal information in 1980, the EU's personal data protection directive of 1995, and the Protection of Personal Information Law in Japan, which came into full force in April 2005.

We have established Rules for the Protection of Personal Information and related regulations, a management system for personal information, physical and information security, and implemented education and auditing programs. We are also working on obtaining Privacy Mark certification. Canon Inc., Canon Sales Co., Inc., and Canon Electronics Inc. all acquired certification in 2003. About 30 subsidiaries and affiliates in Japan are now working to complete certification requirements.

Personal information protection is also an important theme at the meetings of Group company presidents outside of Japan, reflecting the efforts of the entire Canon Group in addressing this issue.

## Compliance with Security Export Control Regulations

Japan is among a number of peace-seeking countries to introduce laws to restrict the export of goods and technology that could be used for the development and production of weaponry, in observance of international agreements.

Canon has instituted a thorough system for export security control built around the Canon Compliance Program for Security Export Control and the Canon Compliance Program for U.S. Reexport Control. Under this system, the entire management of each division assumes responsibility for observing export rules and procedures, with the Logistics Headquarters acting as the central oversight body. The foundation of export management is a screening of the customer and the trade, along with a restricted item inspection of the goods and technology. Each division performs preliminary screenings and inspections, followed by final screenings and inspections by the Export Control Division. This double-check system ensures compliance with Security Export Control.

Security Export Control is an issue tackled in common by the Group as a whole. Internal rules at Group companies are made in consideration of their individual operations (sales, production, development), and the companies are supported in the implementation of those rules. This system supports the constant maintenance of Security Export Control management for the entire Group. As added activities to supplement these daily efforts, we also provide employees with training sessions, seminars, pamphlets, and undertake other awareness initiatives to help them respond to rapidly changing global circumstances and prevent management lapses.

● **Security Export Control Management Flow**
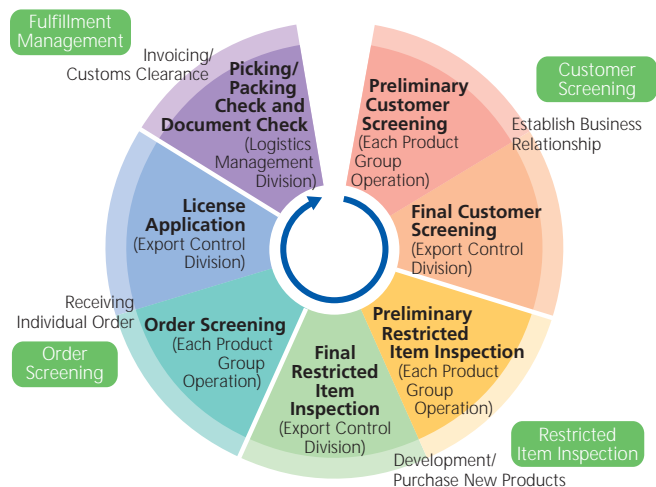
Canon implements a thorough screening, inspection and management process for ensuring Security Export Control. These procedures begin at the start of the export process, when we receive an inquiry from the customer, and continue through to the end of the process, when the products are shipped.

Positively Promoting Compliance Activities

Awareness of compliance is growing through new initiatives such as Compliance Week and the distribution of Canon Compliance Cards.

Canon Group Code of Conduct

Canon aspires to become a Truly Excellent Global Corporation by maintaining excellent relations with stakeholders and fulfilling its social responsibilities. To achieve this goal, every person in the Group must be aware of their role and conduct his or her business fairly, sincerely, and in full compliance with laws and regulations.

Our Code of Conduct introduced in 1992 was rewritten as the Canon Group Code of Conduct in 2001 to cover our global operations and reinforce the standards to which our executives and employees must adhere when performing their work. In 2004, Canon published and distributed a booklet of case studies on work conduct to help its workforce understand the fine points of the code and to encourage conduct guided by these sound principles.

The Group Code of Conduct is available in 11 different languages, including English, French, and Chinese in addition to Japanese.

Compliance Week

Canon Inc. holds a Compliance Week twice a year—once each fiscal half-year—to give all employees a chance to contemplate the meaning of compliance and corporate ethics and realize that compliance and ethics are individual missions.

During Compliance Week, employees take part in meetings at their workplace to consider compliance-related issues. The meetings are designed to encourage active participation: instead of passively listening to lectures, employees discuss the issues facing them in their work. This method sheds light on how compliance affects their work, enlightens employees on the specific meanings of laws and codes of conduct, and encourages employees to approach compliance as a daily issue in their individual routines.

In the Compliance Week programs of 2004, meeting participants discussed corporate scandals in the news and reviewed their own work conduct in light of the code. The Canon Group Code of Conduct was read cover to cover and detailed case studies were presented.

The opinions expressed at each workplace during Compliance Week are forwarded to the Corporate Ethics and Compliance Committee () and used to improve the compliance promotion system.

Compliance Week was expanded to include Group companies in Japan in the second half of fiscal 2004.

Compliance Week poster

● Overview of the 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 •Observance 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

Canon Group Code of Conduct

Compliance Promotion System

Compliance leaders in each headquarters and product group operation implement policies and measures approved by the Corporate Ethics and Compliance Committee, working under the control of the Corporate Ethics and Compliance Administration Office.

Our compliance promotion system offers education programs covering specific laws and regulations related to export security assurance, the environment, product safety, and other important issues. The departments in charge of handling the issues covered perform these programs, and maintain and establish the compliance structure for the issues (▶P. 36).

At Group companies outside Japan, top management joins with the human resources and legal departments to promote compliance activities in accordance with local laws.

Meeting for compliance leaders

Compliance Education

In addition to Compliance Week, Canon Inc. is carrying out a range of other initiatives to instill a high sense of corporate ethics and compliance in its workforce.

Rank-Based Training

Compliance training is provided to newly appointed general managers and managers each January and July. Incoming managers are trained to approach their work with a strong awareness of key issues. New college recruits receive compliance education in April and classes are offered at the beginning of each month for new mid-career hires. Incoming employees learn about Canon's strict approach to compliance and the importance of abiding by the law.

Training for newly hired employees

Information Via the Intranet

A newly created compliance website on our intranet raises awareness daily by providing constant access to information on internal rules and related information. The *Compliance Newsletter* is also published to bring important issues to the attention of employees.

Vision & Strategy

Highlights 2004–2005

Social Management

Environmentally
Conscious Management

Performance Data/
Third-Party Opinion

| Topics | Distributing Canon Compliance Cards |

Canon's "San-ji (Three 'selfs') Spirit" (self-motivation, self-management, and self-awareness) has been handed down faithfully since the founding of Canon (▶P. 35). We instill the concept among the executives and employees to support our development as a Truly Excellent Global Corporation, under the belief that all of our employees must exercise responsibility and self-discipline at all times and strive to maintain the highest standards of corporate ethics and legal compliance. To this end, the Corporate Ethics and Compliance Committee resolved to distribute to all Group employees Canon Compliance Cards containing a definition of the "San-ji" spirit on one side and a compliance test on the other.

Group executives and employees are requested to carry the wallet-sized card with them and refer to it frequently during the course of daily activities. This supports the execution of duties in the San-ji ideal and infuses an awareness of compliance and corporate ethics among employees.

Canon Inc. and Canon Sales Co., Inc. became the first Group companies to distribute Canon Compliance Cards to employees in May 2005. The cards are being distributed throughout subsidiaries and affiliates in Japan and will then be translated into local language and handed out to employees outside Japan.

Canon Compliance Card
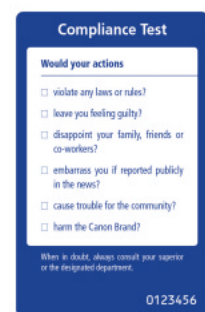
Promoting Communication with All Stakeholder Groups

Canon collaborates and maintains two-way communication with industrial,
governmental, and academic groups both inside and outside Japan.

Cooperation with Society

Many of the executives and employees of Canon serve in key posts on the committees of industrial and governmental organizations. Canon Inc. President and CEO Fujio Mitarai, for example, serves as the vice chairman of Nippon Keidanren (Japan Business Federation). Group employees also participate in various industrial, governmental, and academic initiatives around the globe to help shape policies supporting the creation of a sustainable society (▶P. 60).

Canon is also proactive in joint research inside and outside Japan with companies, universities, and other organizations. The Group actively responds to requests for seminars through which we can impart the importance of environmental conservation, explain the usefulness of technological innovations, and provide other information to the public.

Participating in Revision of GRI Guidelines

The *Canon Sustainability Report* and other materials are published to ensure our accountability to Canon stakeholders by promoting constructive two-way communication with stakeholders and informing them of the ways in which our global business activities are helping to achieve sustainability*1. In December 2003, Canon became a GRI*2 Organizational Stakeholder*3, the first Japanese company to

have such a position on the international NPO. In this role, the Canon Group is supporting GRI activities and assisting in drawing up the next revised Guidelines.

The GRI Guidelines have been considered primarily from European and American perspectives, and there have been areas that do not reflect the circumstances of Japanese industry. Through its participation, Canon is working to convey the measures taken by Japanese industry and to have the Guidelines represent the views of the global manufacturing industry.

*1 Sustainability
Sustainability is a way of thinking in which importance is placed on taking an integrated approach to corporate and various other activities by considering their economic, environmental, and social aspects, with the purpose of ensuring sustainable development of the global environment and society for future generations.
*2 GRI (Global Reporting Initiative)
A Netherlands-based NGO which announced the GRI Guidelines, a global standard for sustainability reports, in 2000. Since then, the organization has worked to revise and disseminate the guidelines globally.
*3 GRI Organizational Stakeholder (OS)
A new support membership system for the GRI. This is the basic structure of the GRI's global governance.

Basic Stance on Information Disclosure

Companies must have the understanding of society in order to actively participate in it. Canon engages in public relations activities in markets around the world to ensure that society has an accurate understanding of our basic management policies, corporate activities, and products.

The timely and appropriate disclosure of information in the course of business activities is crucial to both the fulfillment of social responsibility and the execution of risk management. We make every effort to guarantee that the information we disclose is accurate and sincere, leaving no room for misunderstanding by the public. Canon also pays close attention to avoiding any types of advertisements or public expressions that could invite misunderstanding. A system of checks is in place to prevent the use of misleading advertisement and other types of inappropriate expressions that may cause confusion.

● **Main Corporate Communication Tools**

- *Annual Report*
- *Canon Story* (corporate profile)
- Financial results and supplementary financial materials
- *Canon Technology Highlights*
- *Sustainability Report*
- Canon website, etc.

Topics   **Stakeholders Meeting with University Students**

In February 2005, Canon held a stakeholders meeting with Kansai University sophomores, juniors, and seniors attending seminars run by Professor Michiyasu Nakajima, Faculty of Commerce. This meeting followed our March 2004 consumer conference jointly organized with the Japan Institute for Social and Economic Affairs.

The seminar students began the meeting by presenting the results of their research project on the environmental activities and information disclosure of corporations. The students approached the project from the viewpoint of a corporate stakeholder group receiving information from Canon. The participants from Canon responded with their views on the research results

from the corporate viewpoint.

The Canon participants continued with a presentation on why, in this day, companies must actively carry out environmental initiatives. Students heard about how Canon has sought to address this management issue with a range of activities amid global change to ecosystems and international circumstances. Professor Nakajima then joined in a lively free discussion to deepen mutual understanding.

The discussion afforded us a better understanding of the environmental consciousness of these future leaders of society. This type of communication provided valuable insights into issues which cannot be gained through the course of daily busi-

ness. In particular, we realized the importance of communicating effectively on environmental issues to society as a whole.

Stakeholder meeting with Faculty of Commerce
students from Kansai University

Dialogue with Investors

In addition to the first section of the Tokyo Stock Exchange, Canon Inc. is listed on the New York, Frankfurt, Osaka, Nagoya, Fukuoka, and Sapporo exchanges. As of December 2004, Canon had some 890 million shares outstanding in the portfolios of approximately 49,000 investors.

Canon discloses information on its management, business strategy, and financial results to capital markets in an accurate, fair, and timely manner through conferences, disclosure material, and its website. The key objectives of these IR* activities are to gain the trust of the capital markets and raise corporate value. Canon has established Disclosure Guidelines to serve as standards for the procedures and means by which to disclose information. We spare no effort to meet our responsibility for the fair and prompt disclosure of information.

Canon has also established an internal Disclosure Committee to ensure that all important information is made available in a timely manner and conforms to the rules and requirements of stock exchanges and other authorities (▶P. 24). Feedback from capital markets is gathered for internal use as needed to provide a valuable outside perspective on our management and business operations.

Information for investors URL: canon.com/ir/

Investors Outside Japan

In 2004, the percentage of Canon Inc. shares owned by non-Japanese investors rose to more than half of all outstanding shares (51.7% as of December 31, 2004). This appears to reflect a wider positive evaluation of Canon's focus on investor-conscious management. Canon has made strenuous efforts to maintain close communication with non-Japanese investors by creating an IR base in Europe and the United States, and holding quarterly conference calls for institutional investors outside Japan to discuss financial results. We also maintain an English-language IR website with effectively the same content published on our Japanese-language website to ensure that investors inside and outside Japan have access to the same information.

Individual Investors

Effective May 6, 2004, the share trading unit for Canon Inc. stock was lowered from 1,000 to 100 shares to encourage broader participation in the company by individual investors. The provision of information has also been bolstered with the addition of a special portal for individual investors on the IR website. Canon's IR activities have focused more closely on the needs of individual investors since September 2004, when we held our first conference specifically for individual shareholders.

Credit Rating

Canon Inc. is rated by one Japanese and two U.S. credit rating agencies. The currently high ratings are a testament to our strong financial position. In December 2004, Moody's Investors Service raised its long-term rating for Canon from Aa3 to Aa2, citing our stable finances and business operations, along with the strong outlook for future business growth (▶P. 59).

Basic Policy on Profit Distribution

Canon Inc. puts a high priority on distributing profits through cash dividends to investors. In keeping with this basic policy, and as a reflection of the improved financial performance, we raised our annual per share dividend in 2004 by 15 yen, from 50 yen to 65 yen. Canon will be maintaining a stable dividend payment policy of linking payout to consolidated financial performance insofar as possible while considering financial circumstances and the need for capital to fund future business expansion and generate higher profits.

*IR (investor relations)
Public relations activities for investors.

● **Main IR Activities**

Main Events
- Corporate strategy conference hosted by the President and CEO (annually, about 150 participants)
- Financial results conference for institutional investors and analysts (quarterly, about 180 participants)
- Financial results conference call for institutional investors outside Japan (quarterly)
- Individual meetings with institutional investors in Japan to discuss financial performance (quarterly)
- Business conference (semiannually)
- Conference for private investors hosted by the President and CEO (annually, 200–300 participants)
- Small meetings of investors hosted by securities companies (as needed)
- Corporate strategy conferences for visiting major institutional investors from outside Japan (U.S.A., Europe)

Daily Activities
- Responding to interview requests from institutional investors and analysts (some 300 requests a year)
- Responding to phone inquiries
- Responding to survey requests regarding SRI (socially responsible investment)

Topics	Conference Held for Individual Investors

Canon has held a number of IR events mainly for institutional investors and securities analysts in the past. In September 2004 we held a conference for private investors in Tokyo, our first IR event specifically for individual investors. In his capacity as conference host, Canon Inc. President and CEO Fujio Mitarai delivered a detailed presentation on the management philosophies, strengths, and future goals of the Canon Group. Mitarai responded fully to every question posed by the investors in the question-and-answer session that followed.

Presentation by President and CEO Fujio Mitarai

Realizing Canon Quality Worldwide

Our unique policy on quality—Canon Quality—is founded on a comprehensive and precise set of quality rules. A Group-wide structure is in place to ensure the delivery of Canon Quality around the world.

Canon Quality

One of Canon's corporate goals is to "create products without rival in quality and service, and which contribute to the improvement of societies around the world" (▶P. 6). We strive to realize this goal in two ways: 1) By employing the latest technologies to offer superior products of the highest quality and rapid service meeting the needs of customers; and 2) By ensuring that no harm will ever come to a consumer or his or her property due to the failure of a product or service. This is Canon's basic management stance on quality.

Canon products and services must embody "trust," "satisfaction," and "evolution" if they are to genuinely please the customers who purchase them. "Trust" is a basic element of quality, a guarantee that the product is durable and safe. "Satisfaction" is achieved by making a product or service easy to use and understand, and providing careful and considerate support to customers. "Evolution" ensures that with the cooperation of our customers, we can keep the quality of products and services relevant in a constantly changing world.

The Canon Quality concept embodies the "trust," "satisfaction," and "evolution" that we seek to integrate into all of our products and services. Global quality assurance activities are practiced at every stage of the business process from planning, development and production, through to sales and service.

Global Quality Assurance System

A key aspect of Canon's global corporate activities is to realize the standard of Canon Quality worldwide. Ensuring Canon Quality on a global scale requires that the Group employees align their thinking on quality and act as a single entity.

Canon is promoting a new system of rules on global quality as well as a system to put them into practice. We are also conducting various awareness campaigns around the world to instill a deeper understanding of Canon Quality at the local level and encourage Group companies to adopt these quality values as their own.

Response to Quality Risks

When companies considered "quality risks" in the past, they generally did so in terms of product safety. Companies nowadays recognize that problems related to service and faulty product functions also affect the trust of customers and have the potential to become even bigger issues.

Canon has established its own stringent rules to manage service and quality throughout the Group. This system will enable the Group to respond rapidly when problems do occur.

Instituting a Global Quality Policy

In July 2004 we established the Global Quality Policy founded on the quality assurance system long practiced by the Group. This is the common policy that all Group companies must follow on the basis of our unique quality assurance system.

Refining the Global Quality Assurance System

Quality assurance activities are now being pursued across the globe in accordance with local needs and conditions. The Quality Management Headquarters of Canon Inc. dispatches personnel to key regions to consult with local staff on the progress of quality assurance initiatives.

Quality Awareness Education

Canon carries out an extensive range of quality-related education initiatives to heighten the understanding of Canon Quality and consciousness of quality issues among Group employees worldwide (▶P. 36). The initiatives range from training and events to award programs and the publication of pamphlets. The Group Executive in charge of the Quality Management Headquarters regularly visits operational sites in Japan and Group companies outside Japan to confer with employees on quality issues.

Canon Quality
Trust, Satisfaction and Evolution

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

- Evolution
- Satisfaction
- Trust

● Global Quality Assurance Activities

Planning — Planning products from the customer's perspective →
Design — Ensuring functionality, performance, and reliability →
Prototypes — Evaluating quality from various perspectives →
Production — Improving production and procurement quality →
Sales/Service — Responding to customers →
Customer feedback →
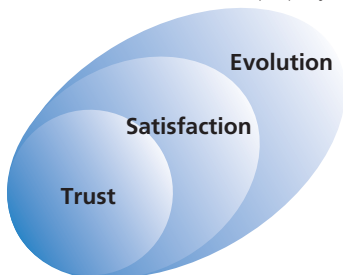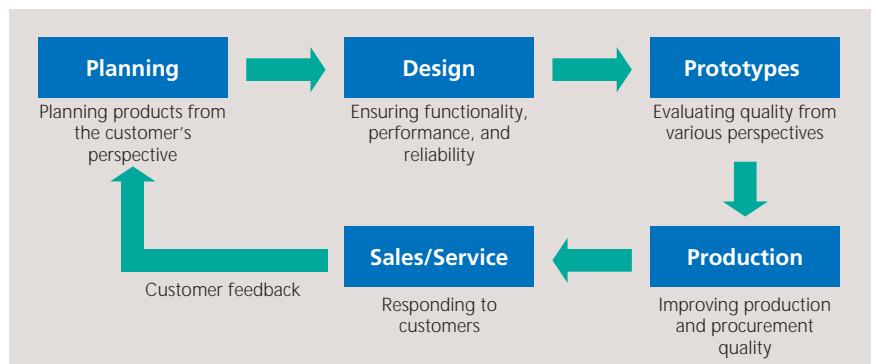
Canon's Own Standards for Trust

The most basic element of quality is trust, the customer's assuredness that his or her product is safe to use and will not fail. Canon has developed what we call "substantial safety," a set of safety specifications exceeding the regulatory requirements prescribed in each country, based on market conditions and customer perspectives on product use. To ensure the substantial safety of our products, we have also adopted our own product safety technical standards for each line of products. We adhere to these standards at the design, evaluation, and manufacturing stages to ensure that we deliver products with "trust."

● **Canon's Substantial Safety Policy***

Substantial Safety
Canon's independent safety standards

Safety Regulations
Compliance with Electrical Appliance and Material Safety Law, UL/CSA, IEC, GB, etc. EMC regulation

Product Liability Laws in Each Country

*Substantial safety
Substantial safety is a standard higher than existing safety regulations, considering safety from the point of view of the customer based on market conditions.

Simulation Evaluation

One way in which we have secured design quality is through the introduction of computer simulation evaluation technology at the design stage. The precise and efficient methods for analytical evaluation built into this technology eliminate the need for expensive conventional testing equipment and prototypes. To evaluate the performance of a shock absorbent package, for instance, this system can simulate the impact of the package being dropped and assure its quality at the design stage without the use of an actual prototype.

Results of an actual product-drop test (upper left) and product-drop shock simulation (lower right)

Improving the Quality of Procured Parts

To ensure consistent quality and reliability in products, the quality of the parts used to make those products must be continually maintained and improved. Canon has adop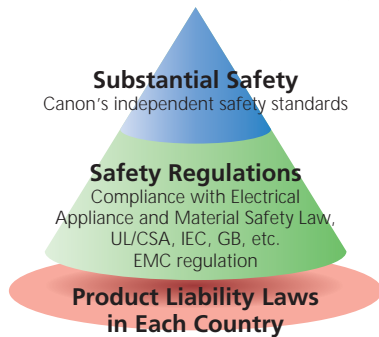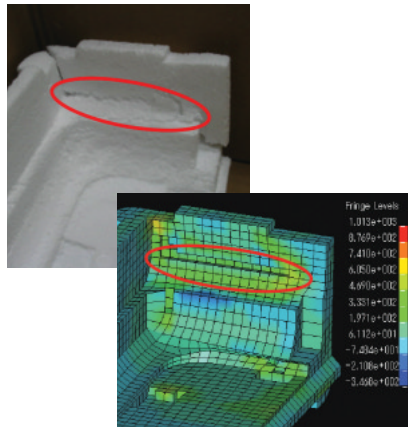ted an SQM (Supplier Quality Management) system at all of its production sites worldwide that allows us to confidently use parts without having to inspect each of them upon delivery.

Achieving this requires a quality management structure to ensure that suppliers are continually maintaining and improving the quality of their parts. Under this structure, Canon is improving the quality of procured parts by clarifying the requirements for suppliers, evaluating the quality systems in place at supplier plants, and dispatching trained personnel to conduct SQM quality audits and suggest improvement for supplier quality systems (▶P. 41).

When selecting electronic parts for its products, Canon performs quality and reliability tests on each part along with production line audits based on a certification system. This procedure allows us to quickly identify parts that fall short of our quality standards. We are employing long-established analysis technologies to build a support system for troubleshooting quality problems in electronic parts.

Topics **Improving Design Quality with Differing Electrical Requirements in Mind**

A stable supply of electrical power is a must for the stable use of electrical products. Yet power voltage conditions differ from country to country, and determining the conditions in each country has proved difficult. Power surges, voltage spikes, voltage drops, and similar mishaps have resulted in product breakdowns and malfunctions.

To anticipate and prevent these problems in copying machines, printers, and other office equipment, Canon teamed up with its marketing subsidiaries and affiliates around the world. In-depth surveys of power-related problems and conditions were conducted in 18 countries through customer visits to gather measurement data on abnormal power output from wall sockets.

Canon then developed wave simulation equipment capable of reproducing actual data from abnormal power conditions. The results of the wave simulation tests are being used to devise a comprehensive tech-

nology which addresses differing power supply environments and improves the safety and reliability of products used throughout the world.
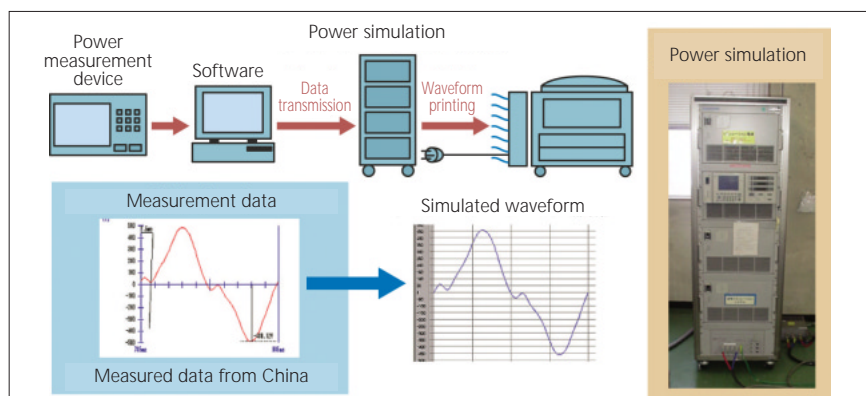
Evolution of Quality Beyond Trust and Satisfaction

Canon thinks from the customer's viewpoint. What do our customers want? How can we satisfy our customers' needs? The solutions to these questions improve usability, support, and service.

Ensuring Usability

Technical advances do not always make products easier to use. Canon is constantly developing "usability technologies" and conducting operability and comfort evaluations to ensure that its products are as easy to use for senior citizens and the physically challenged as they are for the average consumer.

We enlist younger customers, senior citizens, people with physical challenges, and others to participate in monitoring tests for the evaluation of product features such as warning sounds, audio guides, and the indications used on operation panels. The feedback from these evaluations helps us define what sounds are easy to hear and what types of text are easy to read, and is compiled for technical guidance. It also helps us determine specifications such as the height, placement and layout of operation panels, and the overall ease of using the products. Canon Group employees involved in the planning, development, and evaluation of products take part in "barrier-free training" and other programs to help them understand product use from the customer's perspective. The results of these usability initiatives are invested into making better products.

The high-end models in the office-use imageRUNNER series color MFDs are designed with the same interface used for the low-end models. This allows customers to change models without having to relearn operations. A large color touch-screen LCD panel is installed in the MFDs with an intuitive menu that makes operations easy to understand. The panel displays large, easy-to-read text and has large, recessed buttons for easy operation.

A paper supply cassette with a convenient push-button feature

An "audio guidance AI" option is available on MFDs to provide audio support for operations and settings

Improving User Interfaces

Canon is standardizing user interfaces throughout the company, adopting the customer viewpoint to make the interfaces easier to understand. Various guidelines have been formulated as we create easy-to-follow product user manuals, adopt common driver installation methods, and unify easy-to-understand product operation terminology.

Topics — Pursuing Sound and Image Pleasing to Customers

The digitalization of imaging equipment has made it possible to combine various types of input and output devices. Sometimes, however, the characteristics of each device can lead to variations in color reproduction. Canon is working to achieve a uniform quality of color output from all its digital imaging products through a Group-wide project called the "Canon Unified Color Scheme."

Many factors influence whether an image will be perceived as beautiful. The subject rendered, its function, the environment around it, and even the beholder of the image affect the aesthetic appeal. To improve its capacity to create beauty, Canon is developing evaluation tools and technologies capable of "judging" beauty, comfort, and other subjective evaluations that have traditionally been difficult to measure and analyze. We have made advances in defining color in numerical terms and creating new color designs based primarily on our carefully developed technologies for image evaluation, measurement, and processing. Test panels have been set up in the main markets of Japan, the United States, and Europe to evaluate the colors and further our efforts to create images pleasing to customers.

The design of audio product operation guides, warnings, and other product sounds is another key area of development. Canon has succeeded in defining and integrating tones and sound patterns which are easy for all customers to understand, from younger users to senior citizens and the visually impaired. We also have established methods of measuring sound levels which are closest to the sounds heard by the human ear to determine what kinds of sounds are most comfortable and pleasing.
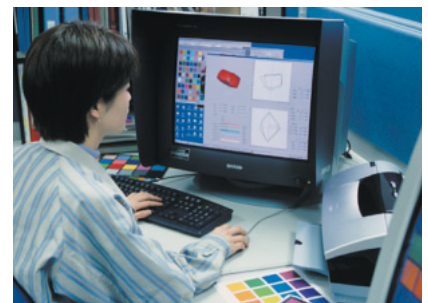
Creating a uniform color quality using Canon's proprietary design tool

Service and Support

Our response when a product fails to operate properly is an important part of service. When a customer brings in a defective product to the QR Center at Canon Sales, repair staff immediately check it to determine the problem, inform the customer of the cost of repair, and perform the repair as quickly as possible on-site so that the customer can go home with a properly functioning product. The customers are received cordially and their products are repaired rapidly and skillfully at a reasonable cost.

Customer Support Using IT

Canon is dedicated to providing a high level of support to customers around the world. We achieve this goal in our consumer-product support services by implementing the WSSS (Web Self-Service System), an Internet-based support system operating 24 hours a day, 365 days a year. The service and support information available through the system includes FAQ, troubleshooting guides, product specifications, user manuals, and driver downloads. All necessary information is created or translated by Canon and made accessible through links on the websites of local marketing subsidiaries and affiliates.

Customers using WSSS increase by the month. As of December 2004, the system was operable on Canon websites in the United States, Canada, Latin America, Singapore, Australia, China, and Japan, attracting about 3 million hits a month. From 2005, we plan to expand the service to Europe.

WSSS screen

Reflecting Customer Comments in Product Development

Canon establishes quality by placing itself in the customer's position when developing products. We listen closely to the customer, gathering as much information as we can to improve quality. Call Centers have been established at marketing subsidiaries and affiliates in each country for this purpose. Responses to customer inquiries are appropriate and prompt. Canon goes to great lengths to provide detailed and sincere assistance to its customers.

Information from all the Call Centers is compiled and analyzed through the Call Analysis Tracking System (CATS) to determine trends in the volume of inquiries and quality issues. Using CATS, we can form a global picture of the status of product quality from the customer's perspective and effective information can be fed back efficiently to the divisions. Inquiries and opinions from customers are entered into this common database centrally managed to provide rapid access to information on product and service quality around the world. Accumulated data are shared among Group companies to provide feedback to the quality assurance, development, production and other divisions. The collected data ultimately lead to improved product quality, better product instruction manuals, and enhancements in the development of new products.

Canon also collects a great deal of information beyond what customers tell us directly through their inquiries. Customer satisfaction surveys, needs surveys, and other research tools are used to gather information from customers and gain a comprehensive understanding of their demands. These efforts have enabled Canon to appreciate and carefully respond to the needs of customers across borders and generations, as well as proactively disseminate information, as we work to establish closer trusting bonds with our customers and create quality products reflecting their precise needs.

Canon Information Technology Services, Inc. (U.S.A.)

● **Call Analysis Tracking System**

Customer — Inquiry / Response — Call Center at Each Marketing Affiliate

Response recorded / Records referenced

Information coordination/sharing

Inquiry Database for Each Country's Customers

Database
- Separated by category
- Searchable by keyword
- Searchable by related word

- Efforts to improve product quality
- Improving usability
- Creating easy-to-understand product manuals
- Feeding back information into the design of future products

- Planning
- Development
- Plant
- Quality assurance

Global call information can be analyzed immediately, enabling prompt and effective action

Human Resources Development Based on the "Three Selfs"

Employee morale is high at Canon thanks to a fair employee-management relations system, practical training programs, and opportunities for meaningful communication between employees and management.

Basic Human Resources Policy

To realize our aim of becoming a truly excellent global corporation, Canon will require each and every employee to be a truly excellent person. The Guiding Principles, based on the *kyosei* philosophy, form the foundation of employee conduct. We foster a corporate spirit that encourages enterprising employees and stresses the principles of meritocracy to guarantee the fair evaluation of our employees' work and human respect based on the drive to improve, take responsibility, and work towards the future with a sense of mission. This human resources policy has enabled Canon to grow and develop, opening new business frontiers, diversifying, and expanding globally.

Guiding Principles and "Three Selfs"

Canon's Guiding Principles derive from the "Three Selfs" concept created by the corporate founders. The "Three-Selfs" are known as the "Three Js" in Japanese: *Ji-hatsu* (self-motivation to do every job right), *Ji-chi* (self-management), and *Ji-kaku* (self-awareness of one's working environment and responsibilities). Group employees understand these forward-looking concepts and put them into practice daily in their work.

The *Guiding Principles for Canon Employees* was published as a pamphlet in 2003 to reaffirm our commitment to these principles and ensure that all employees understand them. Canon uses the pamphlet for general employee training and other programs to ensure all employees are constantly aware of the central role of the "Three Selfs" in the Guiding Principles.

● Guiding Principles

Three Selfs
Adhere to the principles of self-motivation to do each and every job right, self-management, and self-awareness of one's working environment and responsibilities

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

Internationalism
Become a sincere and active internationally minded person with cross-cultural communication skills

Familism
Trust and understand each other, and work together in the spirit of harmony

Health First
Live by the motto "healthy and happy," and work to cultivate character

Employee-Management Relations

Canon currently comprises about 108,000 employees worldwide. Canon Inc. alone employs about 19,000 people, and Japanese personnel together account for about 45% of the worldwide workforce. With the recent growth in the share of manufacturing in the Asian region outside of Japan (▶P. 59), the number of employees in the "Other" region, including Asia, has increased in the last few years, as shown in the chart below.

Under these circumstances, the Canon Group has established a human resources system that respects the laws, working environments, and customs of each country in which the Group operates. Worker unions and similar organizations have also been established at Group companies. There are seven worker unions in Japan which comprise the Canon Group Workers'

● Number of Employees by Region

Japan Americas Europe
Other (Consolidated: As of December 31, 2004)
(people)

Year	Total
'00	86,673
'01	93,620
'02	97,802
'03	102,567
'04	108,257

Union Conference, while Group companies in EU member countries convene for the Canon European Consultative Committee meetings held on a pan-European basis.

Group companies manage its human resources in compliance with local laws and its own internal rules. There are no cases of child, forced, or compulsory labor at any Group company.

Employee-Management Relations at Canon Inc.

Canon Inc. adopts the union shop system. At the end of 2004, we employed 19,472 people, of whom 16,173 (83%) were members of the Canon Workers' Union. Management representatives of Canon meet monthly with worker representatives at a Central Worker/Management Conference to exchange information and discuss views on issues facing us. Separate committees are formed at the conference to discuss the issues of wages, working hours, and safety and health. Recommended changes to working conditions and new policies are adopted based on discussions and agreement between workers and management.

Internal Recruitment

The Canon Group has an internal recruitment system to strengthen divisions and businesses in urgent need of personnel, to respond to the wishes and capabilities of our employees, and to invigorate our organization. In 2004, at Canon Inc. alone, 122 employees applied for other positions within the company.

Topics | **Communication between Employees and the President**

Canon employees have a number of opportunities for communication with President and CEO Fujio Mitarai, including direct meetings during his regular visits to operational sites. In addition, the chief executive shares information with Canon employees on a website on the company intranet. The website regularly posts the CEO's reports on the progress of business units and various other topics delivered at monthly executive meetings, enabling the information to be shared with employees. Employees can also contact the CEO directly by e-mail.

President and CEO Fujio Mitarai talks with an employee of Oita Canon Inc. during a site visit

Vision & Strategy

Highlights 2004–2005

Social Management

Environmentally
Conscious Management

Performance Data/
Third-Party Opinion

Supporting Career Building and Skill Development

Canon offers a wide range of training and education opportunities, along with recognition and awards programs, to motivate employees and heighten individual skills. We make especially ardent efforts to nurture our management class and develop both strong individuals and a strong organization through programs such as rank-based management training for all managers appointed to new positions. Canon's training runs a diverse range of topics and formats, from e-learning systems to programs using sign language. The Training Operation Support System (TOSS) makes it possible to search for desired courses on the intranet, allowing employees to take the initiative in choosing programs for themselves.

Each Group company has developed training programs to suit its individual needs. Canon Europe, for example, has established both a pan-European e-learning program and rank-based training courses.

International Training

Since 1980, employees of subsidiaries and affiliates outside Japan at manager-level and higher have been invited to participate in the 10-day Tokyo Seminar to familiarize themselves with Canon and to learn more about their roles as managers. The seminar has proved outstanding as a mechanism to foster mutual understanding among Group employees from different regions over the years. As of the 40th seminar held in 2004, some 819 employees had taken part in the event. Since 2001, the Group has also been developing a global management class through the Canon Corporate Executive Development Program (CCEDP).

We are also contributing internationally in human resource training. For example, Group companies accept overseas exchange students for training. In addition, upon the request of a Chinese governmental organization, Canon has been providing the same training we give our newly appointed senior managers in China.

Training Results at Canon Inc.

In 2003, Canon successfully completed the training of some 12,300 non-management personnel in the My Action Program (MAP). As a follow-up in 2004, we extended on-the-job training to all general managers and managers (about 2,200) at individual workplaces under the Active Leaders' Program (ALP).
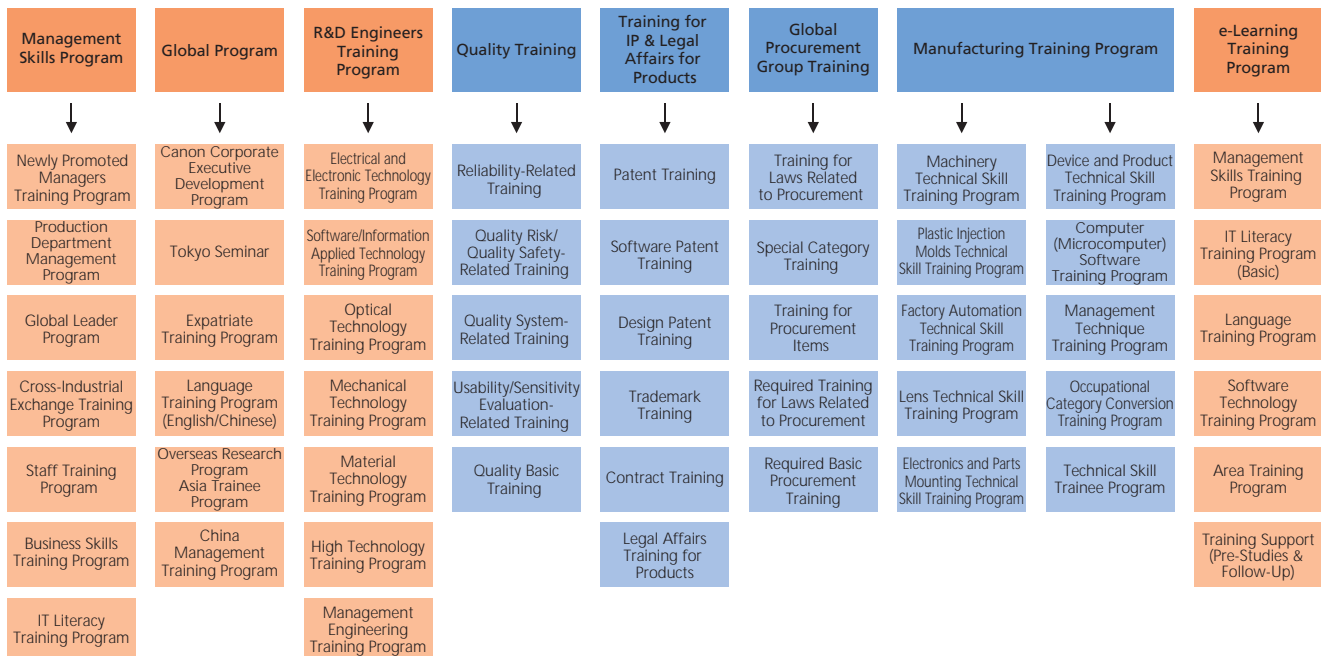
In 2004, the average amount of training provided to Canon Inc. employees was 23 hours per person.

Recognition and Awards Programs

Canon conducts a variety of recognition and award programs to honor Group employees for their achievements. The Canon President Award program bestows an Award of the Year in recognition of achievements in management and management innovation (▶P. 9), technology, production, sales and other areas, as well as an Award for Products to recognize hit products and key components that have made a significant contribution to the development of the company or a remarkable business contribution.

The Canon Meister, Expert (Multi Skilled Worker) and other awards recognize individuals supporting production, the Canon Production Innovation Awards are presented for achievements in production technology and production reform (▶P. 9), while the Quality Awards laud employees who have significantly contributed to enhancements in product quality. In 2004, Canon instituted a Member of the Canon Academy of Technology program to recognize its top engineers. Of the 10 employees certified as members in the first year of the program, two were additionally named Canon Fellows for their distinguished technological contributions to the company.

● Canon Education System

Management Skills Program	Global Program	R&D Engineers Training Program	Quality Training	Training for IP & Legal Affairs for Products	Global Procurement Group Training	Manufacturing Training Program		e-Learning Training Program
Newly Promoted Managers Training Program	Canon Corporate Executive Development Program	Electrical and Electronic Technology Training Program	Reliability-Related Training	Patent Training	Training for Laws Related to Procurement	Machinery Technical Skill Training Program	Device and Product Technical Skill Training Program	Management Skills Training Program
Production Department Management Program	Tokyo Seminar	Software/Information Applied Technology Training Program	Quality Risk/ Quality Safety-Related Training	Software Patent Training	Special Category Training	Plastic Injection Molds Technical Skill Training Program	Computer (Microcomputer) Software Training Program	IT Literacy Training Program (Basic)
Global Leader Program	Expatriate Training Program	Optical Technology Training Program	Quality System-Related Training	Design Patent Training	Training for Procurement Items	Factory Automation Technical Skill Training Program	Management Technique Training Program	Language Training Program
Cross-Industrial Exchange Training Program	Language Training Program (English/Chinese)	Mechanical Technology Training Program	Usability/Sensitivity Evaluation-Related Training	Trademark Training	Required Training for Laws Related to Procurement	Lens Technical Skill Training Program	Occupational Category Conversion Training Program	Software Technology Training Program
Staff Training Program	Overseas Research Program Asia Trainee Program	Material Technology Training Program	Quality Basic Training	Contract Training	Required Basic Procurement Training	Electronics and Parts Mounting Technical Skill Training Program	Technical Skill Trainee Program	Area Training Program
Business Skills Training Program	China Management Training Program	High Technology Training Program		Legal Affairs Training for Products				Training Support (Pre-Studies & Follow-Up)
IT Literacy Training Program		Management Engineering Training Program						

Ensuring the Safety and Well-Being of a Diverse Workforce

Canon promotes diversity in its workforce by supporting the careers of women and the physically challenged, rehiring retirees and other measures. We also protect our employees by making continual improvements in the areas of safety and health management.

Understanding and Promoting Diversity

Canon strives to maintain a safe and pleasant working environment for its diverse workforce. The Canon Group Code of Conduct (▶P. 27), for example, spells out such basic workplace rules as "respect for the individual and prohibition against discrimination" and "prohibition against sexual harassment." Relations among employees, no matter their rank or duties, are based on a policy of mutual respect, wherein no employee is unfairly discriminated against due to such factors as race, religion, nationality, gender, or age.

Promoting Localization at Subsidiaries and Affiliates outside Japan

Canon is aggressively building local management structures at Group companies around the world. Since 2000, many of the presidents of marketing companies in the Canon Group have been local appointees, with Japanese personnel providing management assistance to the local presidents. In Europe, for example, around 80% of subsidiaries and affiliates are overseen by locally appointed presidents.

Supporting Women in the Workplace

Women at Canon are treated no differently than men in recruitment and employment, nor are they segmented into general office work or other functions. Canon recognizes the importance of fostering the careers of its female employees and is striving to create an environment that supports women who aspire to long-term careers.

The average career of female employees at Canon Inc. is 16.5 years, slightly higher than the 16.1-year average for males. At the end of 2004, the number of women holding the position of assistant manager or higher stood at 116, marking an increase of 11.5% from the end of 2003.

● Support Programs for Female Employees (Canon Inc.)

- Child-care leave
- Part-time employment
- Re-employment after child care
- Establishment of a sexual harassment consultation office

Employment of the Physically Challenged

The Canon Group abides by the principle of "normalization" set forth by the United Nations in actively providing employment opportunities to physically challenged individuals. In June 2002, Canon Inc. met the legal requirement of employing a workforce comprising at least 1.8% physically challenged persons. Since then we have maintained workplace environments in which the physically challenged can thrive while keeping our employment rate above the legally mandated level without establishing a special subsidiary for such purposes. All Group companies, meanwhile, ensure an environment in which physically challenged employees can put their abilities to use in a mutually supportive workplace.

Re-Employment after Retirement

Back in 1977, Canon Inc. became one of the first Japanese companies to set its retirement age at 60. Then in 1982 we began a re-employment program to keep employees working within the company beyond retirement up until the age of 63. In 2000 we set up an open recruitment system for re-employment, and as of the end of 2004, we were tapping the rich experience and knowledge of 177 re-employed retirees. Of the 210 employees who reached mandatory retirement age in 2004, 76 were rehired under this program.

Compensation System

Canon Inc. is an equal opportunity employer with a fair and equitable compensation system for its employees. The basis of the system is work performance. Compensation ranges are established for each level of work depending on the difficulty and responsibilities of the position, and pay raises are awarded on the basis of merit without regard to the employee's age. Canon Inc. also has a bonus system linked to both employee performance and the company's business results. This type of compensation system is already in place at Canon U.S.A., Canon Europe, and other Group companies in Europe and the Americas. Introduction throughout operational sites in Asia is progressing.
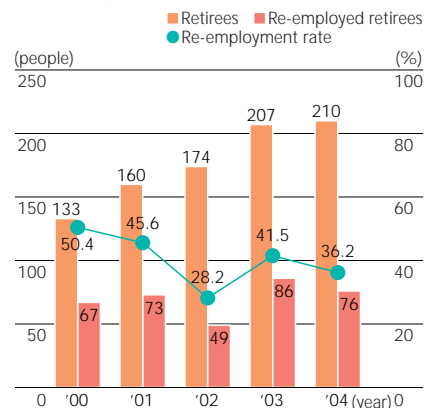
Canon Inc. is conducting internal surveys to determine the effects of the merit-based compensation system on employee satisfaction and performance. The results are being used to grasp the effects of the system and make further improvements.

● Employment-Related Data (Canon Inc.)

	2000	2001	2002	2003	2004
Percentage of regular hire office employees (male)	62.1%	56.6%	56.5%	55.1%	66.2%
Percentage of regular hire office employees (female)	37.9%	43.4%	43.5%	44.9%	33.8%
People who have taken child-care leave	115	138	113	107	113
People who have taken nursing-care leave	11	25	12	18	7
Internal recruiting/non-management	93	107	163	128	120
Internal recruiting/management*	—	4	24	7	2

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

Topics | Human Relations Center Established

In January 2004, Canon Inc. established a Human Relations Center to identify and help resolve personal problems employees encounter at work. We remain dedicated to creating a strong organization composed of a workforce of strong individuals, and an environment in which our employees can work happily and productively.

Roles of the Center
1. Raise employee awareness and improve morale
2. Provide career counseling
3. Provide post-retirement counseling
4. Respond to human relations issues between employees and their superiors, coworkers, and subordinates
5. Implement a mental health policy and respond to individual needs
6. Respond to various other employee issues

● Employment of Retirees (Canon Inc.)

Retirees, Re-employed retirees, Re-employment rate

(people)	'00	'01	'02	'03	'04
Retirees	133	160	174	207	210
Re-employed retirees	67	73	49	86	76
Re-employment rate (%)	50.4	45.6	28.2	41.5	36.2

Safety and Health Management System

Canon inaugurated a safety and health management system in 2000. This was followed by the establishment of an internal auditing system in 2003 and ongoing plans for implementation of the system at production sites. Later, in 2004, Ueno Canon Materials Inc. and the Utsunomiya Optical Products Plant of Canon Inc. introduced an OSHMS*1, following the lead of Fukushima Canon Inc. and Canon Inc.'s Utsunomiya, Toride and Ami Plants. We are actively submitting our safety operations to external review by the Japan Industrial Safety and Health Association (JISHA), an entity working in accordance with the OSHMS Guidelines of the International Labour Organization and the policies of Japan's Ministry of Health, Labour and Welfare. In 2003, JISHA certified Fukushima Canon as an operational site with advanced safety policies.

Outside of Japan, in April 2000, Canon Hi-Tech (Thailand) Ltd. became the first Thai corporation to receive TIS18001*2 certification. Canon Engineering (Thailand) Ltd. plans to obtain the same certification by the end of 2005. Group companies worldwide continue to make progress in the area of safety and health.

Eliminating Major Workplace Accidents

Canon workplaces are being improved with an emphasis on the 5S*3 activities and in accordance with local circumstances. Workplace safety and health standards have been instituted for the cell production system at Group production sites in Japan (▶P. 10). To comprehensively ensure a better organized environment, we will also continue to maintain and improve safety and health management at operational sites by eliminating excess and waste in work processes. Fukushima Canon, a model of success under the policy, has remained accident-free over the course of more than 54 million hours of work time.

● Focus of No-Accident Campaign

- Analyses of accident causes and the prevention of similar accidents
- Safety inspections upon the introduction of equipment
- Workplace health management for chemical substances

Group companies are also promoting accident prevention and traffic safety in tandem with their polices on the elimination of accidents.

Health Maintenance and Promotion

The well-being of our employees is the well-being of our company. The health management of our employees both in body and in mind is an essential factor in maintaining a healthy and dynamic company as a whole. The Health Insurance Union, a union of employees from major Canon affiliates and subsidiaries in Japan, administers health exams, organizes health seminars, provides individual health consultations, and undertakes various other activities through a network of healthcare professionals around the country. In keeping with the passage of Health Japan 21, the Health Promotion Law, and other legal developments, all Japanese Group companies have adopted the same goals for quantitative health examinations and other issues to help prevent lifestyle-related illnesses. The annual examination rate of the Group's workforce has reached nearly 100% over each of the last five years.

Other measures at Canon Inc. include seminars on the prevention of infectious diseases such as SARS (severe acute respiratory syndrome) and mental health examinations and special training prescribed under the guidelines of the Ministry of Health, Labour and Welfare.

Outside Japan, Canon Hi-Tech (Thailand) and Canon Engineering (Thailand) are among

Group companies supporting the health management of its employees by possessing their own emergency cars to take employees to the hospital during emergencies and providing employees with health education.

● Mental Healthcare Initiatives (Canon Inc.)

- Self-care: Regular mental health checkups (JMI)
- Rank-based care: Mental Health Training (required training for new managers); Stress Management Training (for assistant managers)
- Care by on-site industrial health staff; Care by specialist doctors and counselors; Private consultation services
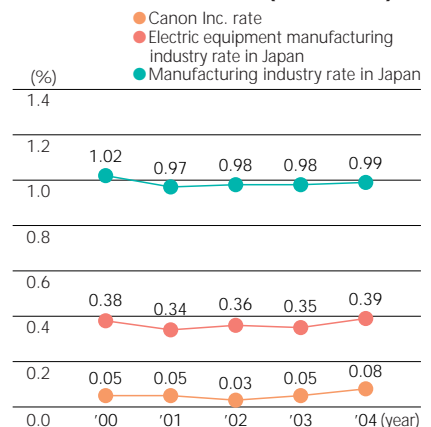- Care by outside medical specialists

*1 OSHMS
Occupational Safety and Health Management System
*2 TIS18001
Thailand's labor health and safety management system
*3 The 5S's stand for the Japanese words *seiri* (streamlining), *seiton* (organizing), *seiketsu* (hygiene), *seiso* (cleaning), and *shitsuke* (discipline).

● Labor Accident Rate* (Canon Inc.)

● Canon Inc. rate
● Electric equipment manufacturing industry rate in Japan
● Manufacturing industry rate in Japan

(%)	'00	'01	'02	'03	'04 (year)
Manufacturing industry rate	1.02	0.97	0.98	0.98	0.99
Electric equipment manufacturing	0.38	0.34	0.36	0.35	0.39
Canon Inc. rate	0.05	0.05	0.03	0.05	0.08

*Accidents requiring time off

Topics — National Industrial Safety and Health Convention

The Japan Industrial Safety and Health Association (JISHA) organizes an annual National Industrial Safety and Health Convention. More than 10,000 participants from around Japan, mostly company representatives, attend the event each year to announce the results of their company activities and take part in symposiums in 14 different areas of industrial safety and health. Three Group companies in Japan were invited to announce the progress of the safety and health initiatives of the Canon Group in presentations at the 2004 convention in Osaka.

Canon Group presentations:
Shimomaruko Headquarters
"From Zero Accidents to Zero Safety Hazards: Implementing OSHMS Throughout Canon"
Nagahama Canon Inc.
"Eliminating Traffic Accidents at Nagahama Canon"
Ueno Canon Materials Inc.
"Anti-Smoking Policies in the Workplace"

Encouraging Smiles as a Good Corporate Citizen

Canon supports a wide range of social and cultural activities to meet the needs of local communities. These activities help us fulfill our *kyosei* philosophy with the aim of enriching peoples' lives.

Social Contribution Activities

Canon takes pride in fulfilling its responsibilities as a good corporate citizen by contributing to society outside the scope of its business activities. Our contributions focus on six areas: conservation of the environment; social welfare; local communities; education and science; art, culture and sports; and humanitarian aid and disaster relief. We actively provide funding and equipment, match the donations raised by our employees, and create partnerships with organizations for the support of these causes (▶P. 60).

● Goals

- Provide ongoing support to people and organizations in need
- Carry out a range of support activities in cooperation with partner organizations offering diverse values and expertise
- Effectively apply Canon's long-accumulated internal resources (employees, funds, facilities and technical know-how)

To Encounter Many Smiles
CANON Social & Cultural Support Activities 2004/2005
Canon

Detailed information on these activities is available in the pamphlet *Canon Social & Cultural Support Activities.*

Conservation of the Environment

Canon Europe has been supporting the WWF in Europe since 1998, when it became the first corporate WWF Conservation Partner.

Through a partnership with WWF Hong Kong, Canon sponsors an annual charity walk in the Mai Po wetlands, a nature reserve in Hong Kong registered under the Ramsar Convention*. In 2004 we also teamed up with the WWF to organize an environmental education walk in Hoi Ha Wan, an event which drew 1,270 participants, including 97 Canon employees.

As part of the Clean Earth Campaign started in North America in 1990, we support important scientific research on the protection of wildlife in Yellowstone National Park in the United States. We also provide scholarships to doctoral students conducting scientific fieldwork in national parks in the United States, Central and South America.

©WWF-Canon/Martin HARVEY
Supporting the digitalization of WWF photo library

*Ramsar Convention
An agreement to protect and conserve wetlands providing a habitat for migratory birds and other wildlife

Students take a "virtual field trip" through Yellowstone National Park on the park's website (New York, U.S.A.)

Social Welfare

Canon has been working with the National Center for Missing and Exploited Children (NCMEC) in North America since 1997, raising social consciousness on the issue of child abductions. We provide digital cameras, printers, and other equipment to assist local authorities in quickly locating missing children. In recent activities under the Canon4kids program, Canon has created posters of missing children and posted them on the Internet and in other media outlets in appeals for information on their whereabouts.

Canon sponsored the 2005 Special Olympics World Winter Games in Japan, an event for athletes with intellectual disabilities. We provided support both financially and through the lending of equipment such as digital cameras and printers.

PGA professional Briny Baird displays a picture of a missing child on his golf bag

Canon equipment was used to record ceremonies and events at the 2005 Special Olympics Winter World Games in Japan

● Main Areas of Canon's Social and Cultural Support Activities

Supporting the self-reliance and nurturing the talents of people with disabilities — Social Welfare

Handing over a beautiful Earth to future generations — Conservation of the Environment

Supporting people in need — Humanitarian Aid and Disaster Relief

Respecting exchanges among local residents — Local Communities

Supporting our children, the leaders of tomorrow — Education and Science

Fostering the development of fertile minds — Art, Culture and Sports

Local Communities

Canon organized a month-long fundraising campaign for local volunteer fire brigades in Australia to show its appreciation for the work they do.

A number of social contribution programs are underway in China. In 1998 we established the Beijing University Canon Scholarship Fund, and more recently we donated digital radiography diagnostic equipment to Beijing Hospital in the fight against severe acute respiratory syndrome (SARS). Canon also runs a special program to allow children with speaking challenges to become acquainted with high-tech digital products. The *21st Century Business Herald*, a Chinese business weekly newspaper, selected Canon (China) Co., Ltd. as the recipient of its first Best Corporate Citizenship in China Award, an accolade established in 2004.

As of March 2005, the Beijing University Canon Scholarship Fund had provided scholarship money to 455 students

Education and Science

Canon Dalian Business Machines, Inc. hosts an annual Japanese speech contest to help forge closer relations between China and Japan. In Europe, we established the Canon Foundation to support academic research by distributing scholarship funds and aiding academic exchanges between Japanese and European scholars and researchers.

Back in Japan, Canon teamed up with an NPO and educational and governmental organizations in May 2004 to inaugurate the Canon Junior Photographers program. Children participating in the program learn digital photography techniques, travel out on group shoots, and show their digital creations in exhibitions. The program is a wonderful opportunity for children to share their discoveries and excitement with their communities.

Kids take pictures in the field as part of the Canon Junior Photographers program

Art, Culture and Sports

Canon supports a number of arts projects, including the New Cosmos of Photography in Japan, intended to foster new photographers and encourage their ideas on new ways of photographic expression. We also sponsored the UNEP International Photographic Competition on the Environment 2004–2005, an event to raise awareness of environmental problems through photography.

Sports are another active field of community support for Canon. Canon Cup Junior Soccer in Japan, one of many Canon-sponsored sports programs, gives children the chance to make friends from other countries through sports.

The New Cosmos of Photography has turned out several promising young photographers since its inception in 1991

Canon has been a title sponsor of Canon Cup Junior Soccer since 2001

Humanitarian Aid and Disaster Relief

The Canon Group actively responds to natural disasters and crises with fundraising campaigns and other forms of support. In the aftermath of the Sumatra earthquake and Indian Ocean tsunami, Group companies in Japan quickly started a fundraising campaign, while our Group companies in other regions contributed relief funds to the International Red Cross. A year earlier, in 2004, we sent relief funds to earthquake victims in Iran and Niigata Prefecture, Japan.

As part of its sponsorship for UEFA EURO 2004, Canon Europe supported "Canon Fan Foto" on the website of the UEFA European Football Federation. Visitors to the website could choose a photo from among contest entries to send as an electronic card. For every e-card sent, Canon donated 1 euro to the Protect Children in War campaign organized by UEFA and the European Red Cross Societies.

Fundraising for victims of the Niigata earthquake

Employee Volunteerism

Individual Canon employees participate in volunteer activities around the world. In North America, volunteers from the Canon Clean Earth Crew aid local communities with environmental protection. Canon Hongkong Co., Ltd., meanwhile, participated in the Mai Po Voluntary Work program in September 2004, helping to prune trees in the Mai Po nature reserve and remove redundant branches that harm the reserve's ecosystem.

Mai Po Voluntary Work program attended by 33 employees from Canon Hongkong

Building Strong Ties with Suppliers

From the very first stages of procurement, Canon builds close cooperative bonds with suppliers based on fair and transparent procurement policies.

Basic Stance on Procurement

Implementing the EQCD concept at Canon means delivering high-quality, appropriately priced products to customers around the world in a timely manner while minimizing environmental burden every step of the way (▶P. 11). The cooperation of suppliers is essential to the successful implementation of this concept. Our Fundamental Procurement Policies and other internal regulations are conveyed to and understood by suppliers, and then carried out with their cooperation based on a strong working relationship.

● 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 works together with our suppliers to realize our corporate philosophy of *kyosei* and work together for the common good.
3. Canon would open the door to all of suppliers in the world and do business with excellent and reliable suppliers in accordance with our corporate philosophy of *kyosei*.

Support for Suppliers

The procurement division coordinates internally with other divisions and visits suppliers to plan out collaborative measures to further the objectives of EQCD. Among various joint initiatives, Canon provides suppliers with on-site support and guidance on environmental evaluation, product quality improvement, and production reform activities to enhance the just-in-time supply system (▶P. 32). In addition to formulating proposals based on VA (value analysis) and VE (value engineering) in collaboration with our suppliers, we invite them to our operational sites to explain our basic strategies, business plans, market trends, and procurement policies. This system enables us to closely work with our suppliers in the marketing of products that raise the level of customer satisfaction.

Procurement policy conference held at Utsunomiya Optical Products Plant

Fair and Transparent Selection of Suppliers

When selecting suppliers, Canon evaluates whether to purchase parts and materials based on a number of basic questions: Is the supplier working to conserve the global environment? Does the supplier have an adequate supply system? Can we have a financially stable relationship with the supplier?

The evaluation of potential suppliers also factors in such considerations as product quality, cost, delivery schedules, technical capabilities, and service capabilities. When making purchasing decisions, Canon forms supplier evaluation panels for each category of material to guarantee a fair and transparent selection of suppliers.

Beginning in 2005, all candidate suppliers of materials for use in Canon products must meet the Canon Green Procurement Standards (▶P. 42) before they can do business with the Canon Group as a way to fully promote our green procurement* efforts.

Canon procurement information URL:
canon.com/procurement
*Green Procurement
Favoring the procurement of materials and products that have a low burden on the environment.

Topics　Canon Group Procurement Code of Conduct

Canon established the Canon Group Procurement Code of Conduct on October 1, 2004, to ensure fair and transparent business transactions with suppliers and compliance with laws and regulations on procurement. The new code falls under the wider Canon Group Code of Conduct (▶P. 27) and requires employees of the procurement divisions to fully understand and abide by its stipulations.

The Procurement Code of Conduct is available in English, Chinese, Thai, and Vietnamese in addition to Japanese, distributed to employees of the procurement divisions, and posted online on the Group intranet. Group companies use the code to manage procurement compliance activities

and conduct internal training programs (▶P. 36).

Employees in procurement-related jobs at Group companies in Japan are given wallet-sized cards bearing the Procurement Code of Conduct and undergo compliance training, while a specialized department conducts internal audits to confirm compliance (▶P. 25).

● Excerpts from the Canon Group Procurement Code of Conduct

1. Basic Principles
2. Fair and Equitable Dealings
3. Sincerity and Honesty in Dealings with Suppliers
4. Compliance with Laws and In-house Rules
5. Appropriate Use of Confidential Information
6. Prohibition against Seeking, Accepting or Offering Improper Gifts or Other Benefits

● Main Compliance Training Course in 2004

- Procurement ethics and manners WBT (e-learning)
- Subcontracting Law (basic and intermediate courses)
- Revenue Stamp Law

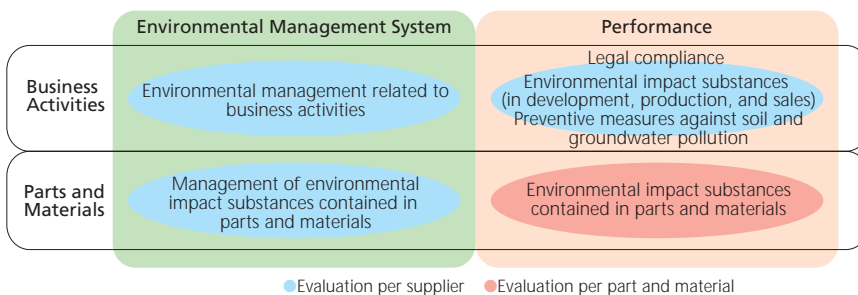## Establishing a Product Chemical Substance Assurance System

Canon has begun operating a Product Chemical Substance Assurance System as a foundation for the management and verification of the chemical substance content of our products. The system is responsive to the European Union's RoHS directive (▶P. 20) on hazardous substances, and anticipates stricter regulations likely to be introduced in the future. The key components of the system for managing chemical substances in parts and materials are 1) Environmental assessment of suppliers, 2) Chemical substance content survey of products, and 3) Analytical assessment and internal audits for risk avoidance. These three components combine to form a comprehensive system capable of fully responding to the various regulations on hazardous substances.

The engineers currently working on the Japan Green Procurement Survey Standardization Initiative* use Canon's Product Chemical Substance Assurance System as a reference in their work to formulate a global standard for the management of chemical substances in products (see below, Phase II of Measures Taken by Japan Green Procurement Survey Standardization Initiative). Canon intends to bolster the management of chemical substances in products through closer cooperation with suppliers and with the support of new global measures in the industry.

Environmental Assessment of Suppliers

Canon created Green Procurement Standards in 1997 and completely revised them six years later in 2003. We evaluate the environmental aspects of our suppliers and their products based on the self-assessments of the suppliers themselves. In 2004, Canon provided environmental assessment training to 400 employees inside and outside Japan. Some 3,000 suppliers around the world were assessed. From 2005, our basic policy is to purchase parts and materials only from suppliers that meet our Green Procurement Standards.

Chemical Substance Content Survey for Products

It would be inefficient for both Canon and its suppliers if all suppliers were individually subjected to analytical assessment in order to determine the chemical content of their parts and materials. We have created a rational method by which suppliers can accurately track and manage the chemical content of their parts and supplies at each level of manufacturing, beginning with raw materials. The data on chemical content in this process are compiled along the supply chain in a cumulative manner.

The chemical substances surveyed and the survey format used by Canon comply with the guidelines prescribed by the Japan Green Procurement Survey Standardization Initiative for the standardization of surveying methods in the electric and electronics industries.

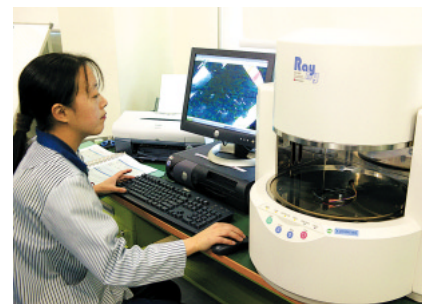## Analytical Assessment and Internal Audits for Risk Avoidance

A single part is created through a long supply chain, beginning with the raw materials provider. Even if companies along this supply chain have established chemical substance management systems to manage the contents of their parts, there is always the possibility that accidents will occur and hazardous substances will be inadvertently added in one of the production processes. Canon has taken measures to avoid this risk by installing X-ray fluorescence analysis equipment at its main sites. The equipment is used to conduct regular analytical assessment of parts. Parts more prone to include hazardous substances are subject to regular assessment.

In the second half of 2005, environmental audits (▶P. 44) will be conducted at all production sites to confirm the operational status of the Product Chemical Substance Assurance System and ensure that Canon is in full compliance with the RoHS directive.

*Japan Green Procurement Survey Standardization Initiative (JGPSSI)
Canon initiated the movement to establish the JGPSSI with other interested companies in 2001. As of April 1, 2005, 85 firms were participating members.
JGPSSI URL: home.jeita.or.jp/eps/greenTOP-eg.html

● **Measures Taken by Japan Green Procurement Survey Standardization Initiative**

	Purpose	Measure
Phase I (implementation completed)	• Make it less burdensome for the product manufacturer to provide information on chemical substances • Facilitate faster survey responses	• Standardize the survey format and a core set of substances to include in the survey • Move towards consensus among U.S. and European electronic industry associations
Phase II (under deliberation)	• Raise the reliability of survey results	• Standardize the management system for the chemical substance content of products

● **Canon Green Procurement Standards**

	Environmental Management System	Performance
Business Activities	Environmental management related to business activities	Legal compliance Environmental impact substances (in development, production, and sales) Preventive measures against soil and groundwater pollution
Parts and Materials	Management of environmental impact substances contained in parts and materials	Environmental impact substances contained in parts and materials

● Evaluation per supplier   ● Evaluation per part and material

Supplier's electroless nickel plating facility

Environmental analysis of parts (Canon (Suzhou) Inc.)

Environmentally Conscious Management at All Worldwide Operations

Canon has instituted an independent set of environmental assurance rules as the basis for its environmental risk management and risk communication activities.

A Global Environmental Promotion System

Canon employs a multi-tiered environmental promotion management structure in which the Global Environment Promotion Headquarters is responsible for the overall direction of environmentally conscious management. The Environment Management and Engineering Center promotes environmental strategy and technological development, while the Environment New Business Center initiates the development of new environmental businesses, with both of the bodies positioned under the headquarters. Established under the Management Strategy Committee (▶P. 25), the Global Environment Expert Committee is tasked with planning individual strategies for important environmental issues across the Group.

Environmental divisions and officers are also set up at each product group operation, operational site, and major subsidiaries and affiliates to ensure the implementation of the Mid-Term Environmental Goals and environmental assurance rules and other Group targets and rules. This structure also supports the effective sharing of environmental information within the Group and the execution of speedier decision-making.

Regional Environmental Conferences

The Canon Group is holding environmental conferences on a regional basis to reinforce local environmentally conscious manage-

Regional environmental conference held in Amsterdam in November 2004 attended by representatives from main European manufacturing and marketing affiliates and subsidiaries. The conference was "carbon neutral," meaning that the participants reduced CO_2 emissions by the same amount the conference emitted. To compensate for the CO_2 emitted by the round-trip travel of the 44 attendees of the conference site, 1,545 trees were planted.

*ISO14001
A standard for environmental management systems issued by the International Organization for Standardization.

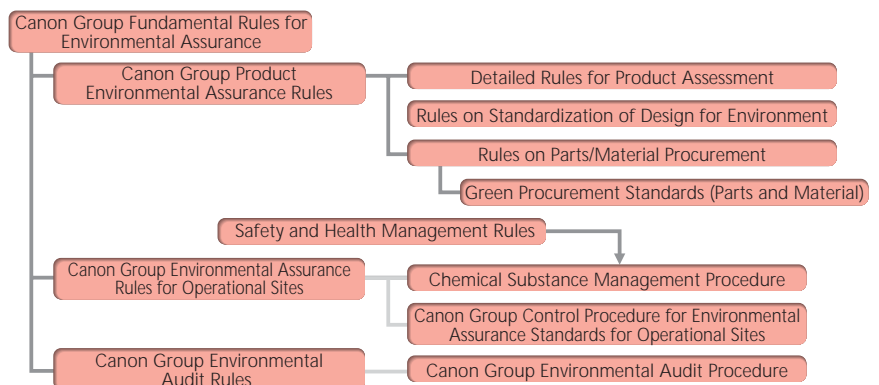## ● Global Environment Promotion Organization

ment in accordance with Group goals, rules, and policies. The 2004 conferences centered on major environmental issues such as ISO14001* consolidated certification and compliance with the WEEE (▶P. 51) and RoHS directives (▶P. 20).

Operation of Environmental Management System

In 1995, Canon became the first company in Japan to acquire BS7750 certification, the predecessor to the current ISO14001 standard. Since then, production and marketing sites in the Group have successfully introduced Environmental Management Systems (EMS) (▶P. 60). In 2004, we began to plan for ISO14001 consolidated certification of the entire Group as a way to optimize our environmentally conscious management. From 2005 through the end of 2007, we are aiming to complete a single ISO14001-compliant EMS covering about 140 Group companies and about 130,000 employees (including outside contract employees). As part of the preparation for consolidated certification, the environmental rules (for environmental assurance and related areas) for the entire Group were revised in 2004.

● Rules for Environmental Assurance and Related Areas

Canon Group Fundamental Rules for Environmental Assurance	These are the overarching guidelines that govern all our environmental assurance activities and harmonize our rules for products and site operations, and environmental audits.
Canon Group Product Environmental Assurance Rules	These standards include our Product Assessment Guidelines and Environmentally Conscious Design Guidance. Taken collectively, they clearly identify the issues to consider in developing and designing Canon products. Our Hazardous Substances in Products standards ensure that our customers can use our products in an environmentally safe manner.
Canon Group Environmental Assurance Rules for Operational Sites	Canon has clearly spelled out the environmental standards to be implemented at all of its operational sites. All operational sites in all countries and regions are required to meet the local standards or Canon's standards.
Canon Group Environmental Audit Rules	These rules clarify the principles behind internal environmental audits, basic items covered by the audit, and the tasks of the internal environmental auditors.

Environmental Risk Management

Each operational site in the Canon Group has laid out a response plan for unforeseen events as an environmental management item. This system enables the sites to respond with comprehensive and appropriate measures in a prompt and effective manner. The environmental management system also includes detailed information on preventive management methods at each site, which encompasses an overview of soil surveys and environmental assessment, the creation of construction standards, the adoption of secure wastewater facilities designed to protect the environment, and a record of measurement data.

Since 1990, Canon has performed a prescribed environmental assessment when establishing new operational sites. The assessment covers every stage from the site selection process through to the start of site operations, applying the same environmentally conscious management standards for sites both in and outside Japan. Outside of Japan, as each country has different regulatory levels and standards from Japan, we apply the stricter of Canon's standards and the local standards. Canon commissions local consultants to complete the basic surveys, chooses the site based on the results, verifies that the results conform with all relevant standards, and begins construction.

Risk Communication

As a follow-up to our preventive measures and other risk management activities, we place great importance on "risk communication," the communication of those activities to stakeholders.

In 2004 we conducted an awareness campaign and employee briefings on risk communication. Then in August 2004, environmental personnel working at operational sites with higher levels of chemical substance discharge attended a specialized program for risk communication training. Training seminars on chemical substance risks and methods of risk communication, and role-playing activities among the environmental personnel were used to instill an understanding of the importance of risk communication.

Canon also maintains close communication with administrative and local government bodies on environmental safety

management. In January 2005, the Center for Environmental Information Science recognized Canon's efforts on chemical management and risk communication by presenting the company with its PRTR Excellent Prize Award at the 2004 PRTR Awards Ceremony and Symposium.

2004 PRTR Awards Ceremony and Symposium

Logo mark approved for use by recipients of PRTR Excellent Prize Award

Monitoring and Measurements

Our independent environmental assurance standard seeks to reduce environmental risks based on strict compliance with all environmental laws and regulations worldwide. For air and water emissions, Canon's standards have been set higher than the regulations. The environmental management results of our operational sites are available on our website (URL: canon.com/environment).

We perform analytical assessments of environmental burden using the latest environmental measurement technologies and by qualified environmental analysts. Through our Environmental Analysis Support System, we manage data and respond to irregular data levels related to wastewater, soil, air, odor, noise, vibration and other factors, as well as undertake measurement plans at all operational sites in Japan.

Environmental Auditing

Canon has established a specialized organizational structure to perform environmental auditing[1] at operational sites worldwide based on the Canon Group Environmental Audit Rules, an in-house set of regulations which comply with ISO19011 standards. Results of separate audits by operational

sites and headquarters have led to direct improvements in the environmental system performance at each operational site. The headquarters' auditing control division compiles and analyzes the auditing results for presentation during executive-level management reviews to ensure that they can be reflected in Canon's auditing policy for the next fiscal year.

In 2004, the operational site audits focused on compliance with rules on consignment of waste processing to outside companies. Supported by headquarters' auditing division (▶P. 25), auditors at each operational site confirmed the contents of the waste processing consignment contracts, the manifests[2], and the results of environmental measurements. While no serious breaches of laws and regulations were found, the audit did turn up minor infractions in the handling of contracts and manifests which we have been correcting one by one. Environmental training divisions have also been receiving the auditing results for use as a reference to train employees in the environmental divisions and those in charge of waste management departments at each operational site in the drawing up of contracts and related operations (▶P. 47). Reinforcing our system of legal compliance will become an increasingly important mission from the viewpoint of corporate social responsibility.

Headquarters environmental audit interview (Canon (Suzhou) Inc.)

[1] Environmental auditing
An evaluation, based on an objective set of criteria, of whether or not an organization or operational site is in compliance with environmental standards defined by environmental laws and regulations, as well as the company's policies and goals.
[2] Manifest
When a business generating industrial waste commissions a processing firm to process the waste, the manifest is issued as a management document executed to prevent the illegal disposal of waste and ensure that proper processing procedures are taken.

Comprehensive Evaluation of Environmentally Conscious Management

Canon takes environmental activities a step further by evaluating all of its initiatives from multiple standpoints.

Environmental Evaluation System

The Evaluation System on a Consolidated Basis forms the foundation of Canon's consolidated management system. From 2001, an Environmental Evaluation System has also been instituted to assess product group operations and major manufacturing and marketing subsidiaries and affiliates. The assessments of product group operations and manufacturing subsidiaries and affiliates emphasize environmental performance[1]. In the case of marketing subsidiaries and affiliates, the assessments focus on the effective maintenance of environmentally conscious management systems. The evaluations are performed by the Global Environment Promotion Headquarters (▶P. 43).

The environmental portion of the Evaluation System on a Consolidated Basis accounts for about 10% of the total points, and the results are announced twice a year. The introduction of this system has resulted in improved environmental activity results, profitability, and other benefits. As our environmentally conscious management advances, we will be introducing new evaluation items and the effectiveness of our environmentally conscious management will improve.

Production Environmental Information Management

The Canon Group introduced a Production Environmental Information System in January 2003 to unify environmental information at its production sites. The new system outmodes the old method of compiling information through e-mail and survey forms by migrating to a unified intranet database. Every operational site enters its environmental data according to specified categories. The system enables the Global Environment Promotion Headquarters to easily grasp the situation at Group sites around the world and acts as a database for performing environmental accounting[2] and calculating the environment performance index.

Environmentally Conscious Management Tools

Factor 2 is the overriding indicator for environmentally conscious management used at Canon (▶P. 14). The various other indicators in use are shown below.

[1] Environmental performance
The effect a company's business operations have on the environment (environmental burden) and the results of related initiatives to reduce the burden.
[2] Environmental accounting
Measuring and evaluating a company's expenditures for environmental conservation and management activities as well as the benefit (environmental conversation and economic benefits) these activities produce.

● **Environmentally Conscious Management Tools Used by Canon**

	Environmental Efficiency Measurements	Internal Environmental Accounting/ Main Environmental Management System	Certification System
Overall	Factor 2 (▶P. 14)	Environmental accounting (▶P. 46)	ISO14001 (▶P. 43)
Product	Environmental performance LIME[3]	Product environmental information system (▶P. 49)	Eco-Leaf[5]
Operational Site	Environmental performance JEPIX[4] Eco-Indicator 99 (see column below)	Material flow cost accounting (▶P. 46) Production environmental information system	

[3] LIME: Life-cycle Impact assessment Method based on Endpoint modeling (Japanese version)
A method to compile and integrate various types of environmental burden affecting human health, social assets, and other assets to be protected.
[4] JEPIX: Environmental Policy Priorities Index for Japan
A method to evaluate various environmental factors at the base of Japan's environmental policy as a single environmental burden unit.
JEPIX URL: www.jepix.org
[5] Eco-Leaf (Type III Eco-Label)
This type of Eco-Label promotes environmentally conscious products by showing quantitative environmental information calculated by the LCA method.
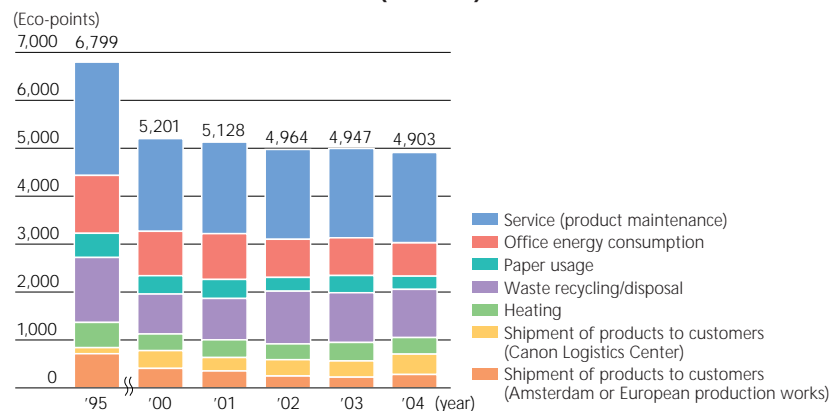

Topics | **Canon (Schweiz) Implements Eco-Indicator 99**

Canon (Schweiz) A.G. uses Eco-Indicator 99*, a measure of environmental efficiency, to comprehensively identify environmental burden generated by product maintenance, shipping, and other business operations, and evaluate its environmental activities.

According to this method, the environmental burden of the company's operations has declined since 1995. Canon is presently proceeding with a plan to improve its environmental performance throughout Europe and progress towards mid-term environmental goals for the entire continent by employing Eco-Indicator 99 to measure its environmental performance.

● **Environmental Burden of Canon (Schweiz)**

(Eco-points)

Legend:
- Service (product maintenance)
- Office energy consumption
- Paper usage
- Waste recycling/disposal
- Heating
- Shipment of products to customers (Canon Logistics Center)
- Shipment of products to customers (Amsterdam or European production works)

Values: '95: 6,799; '00: 5,201; '01: 5,128; '02: 4,964; '03: 4,947; '04: 4,903

*Eco-Indicator 99
This is an environmental performance evaluation method based on an LCA developed between 1997 and 1999 by a team of environmental experts and LCA specialists from the Netherlands and Switzerland at the request of the Netherlands' Ministry of Housing, Spatial Planning, and the Environment.

Environmental Accounting

Since introducing environmental accounting in 1983, Canon has continually expanded the scope and increased the accuracy of data collection, using the results to determine whether the company is getting the maximum return on its investment of management resources. In addition, Environmental Investment Standards help Canon to prioritize and optimize its investments in the environment as they are actually made.

In compiling data for 2004, we expanded the scope of coverage from our main sub-sidiaries and affiliates in Japan to include our main subsidiaries and affiliates outside Japan, as recommended under the February 2005 revision of Japan's Ministry of the Environment's Environmental Accounting Guidelines. According to the results of our environmental accounting in the year 2004, Canon (main subsidiaries and affiliates inside and outside Japan) invested 16.1 billion yen in environmental protection activities in the course of the year, including 2.7 billion yen in costs for improvement, and this investment yielded an effect of 3.0 billion yen (▶P. 61).

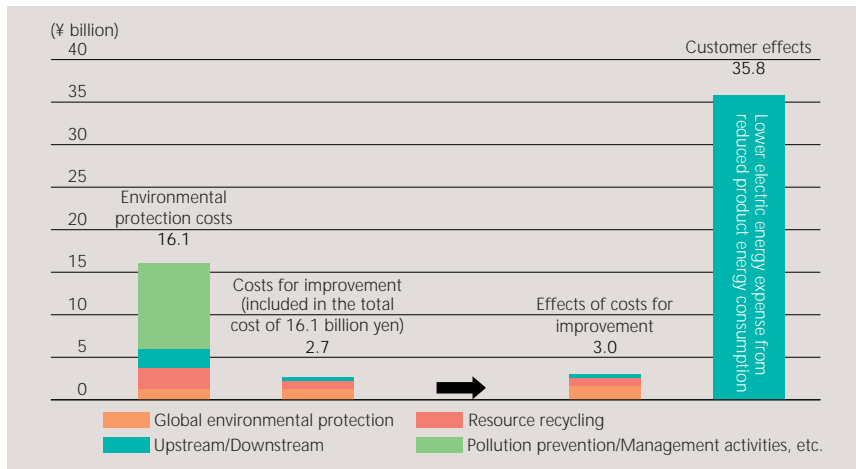● **Environment Accounting Results for 2004**

Material Flow Cost Accounting

Material flow cost accounting is an environmental management accounting tool used to identify loss generated in production processes. "Loss" collectively includes losses in waste materials (material loss), associated processing costs, cost of disposal of waste materials, and other costs. The sum of these losses represents the "negative product," while the finished product is considered the "positive product." The losses are analyzed separately to determine the specific processes in which they occur. Reduced losses translate into a lower environmental burden and cost savings.

From 2001, Canon began collaborating in research on material flow cost accounting with the Japan Environmental Management Association for Industry (JEMAI). Since then, material flow cost accounting and initiatives to reduce the "negative product" have been being promoted across the Group. At the same time, we are striving to apply the method upstream and downstream in our industrial relationships.

JEMAI URL: www.jemai.or.jp/english/index.cfm

| **Topics** | **Material Flow Cost Accounting at Canon Chemicals** |

Material flow cost accounting is being introduced throughout the Canon Group. Canon Chemicals began implementing the system at all its workplaces from 2004 in tandem with workplace-oriented environmental assurance activities. This approach has provided an accurate profile of the materials and funds lost and the processes in which losses occur. Using the information gained, employees working in small groups reduced the levels of generated waste by remarkable margins.

In 2004, the resource efficiency improvement activities developed under the accounting system led to an 1,800-ton reduction in the amount of waste discharge (40% decline), and a savings of about 120 million yen in the amount of materials used (materials purchased) due to a large decrease in waste disposal costs and reductions in the loss. The resulting improvement in capacity utilization rate has also led to higher production, lower capital spending, and other derivative benefits.

● **Implementation of Canon Chemicals' Resource Efficiency Improvement Activities**

Leveraging Know-How for Education and Expansion

Canon offers practical online environmental courses which make full use of the connectivity of the intranet. A well-educated workforce and leading Canon technologies form the basis for new businesses.

Environmental Education for Employees

Since 1989, Canon has promoted practical environmental education that teaches all employees the importance of environmental conservation and encourages them to integrate that thinking into their daily lives. The education is centered around two basic programs: awareness activities and structured education. Our awareness activities consist mainly of internal corporate publications and other media, while structured education focuses on self-enlightenment courses as well as specialist education. In 2004, we introduced new course offerings by creating an Environmental Education Fundamentals Course and having employees self-administer a Canon Ecology Person Diagnosis course, both of which are available to employees through the company's intranet.

Self-Enlightenment Education

Employees receive self-enlightenment education at each stage of their careers. The goal is for employees to acquire a strong basic knowledge and understanding of Canon's environmental initiatives, including our environmental assurance system and related activities, the basics of environmentally conscious management and its daily implementation, green procurement (▶P. 42), and other subjects.

Specialist Education

Specialist training is provided to employees tasked with promoting environmental assurance activities at each operational site and workplace. The training focuses on courses to develop environmental assurance staff and environmental auditors, product environmental seminars to pro-

mote environmentally conscious designs by the development and design staff, and green procurement activities.

Expanding the Environmental Education Fundamentals Course and Canon Ecology Person Diagnosis Worldwide

Under the Canon Group comprehensive EMS initiative (▶P. 43), Canon plans to disseminate the Environmental Education Fundamentals Course and Canon Ecology Person Diagnosis course throughout the entire Group over the intranet by the end of 2007. Having succeeded in introducing the Environmental Education Fundamentals Course at all Japanese Group companies in 2004, we plan to begin implementing the course at Group companies outside Japan in 2006. We are also promoting the Canon Ecology Person Diagnosis course both in Japan and internationally from 2005.

The Environmental Education Fundamentals Course spans a broad range of

issues, from global environmental problems to Canon's specific environmental assurance activities, with the aim of enabling the execution of environmental assurance activities with an improved understanding and awareness of important issues both inside and outside Canon.
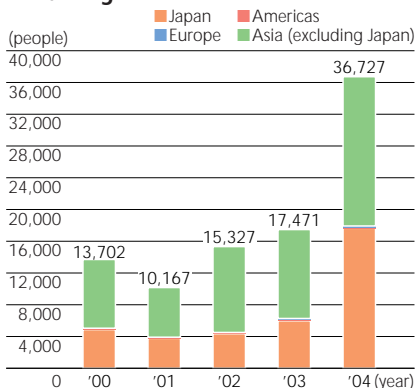
The Canon Ecology Person Diagnosis promotes a self-awareness of environmental assurance activities by posing questions to participants about the law, ethics, and daily environmental activities. The results from the intranet-based program are analyzed to improve our environmental education programs and other offerings. We are also finding ways to expand the awareness program outside the Group. To cite one example, our company set up a Eco Kids corner at the Canon booth of the Eco-Products 2004 exhibition in Tokyo to allow children to assess their own environmental understanding (▶P. 58).

● Canon's Structured Environmental Education

	Self-Enlightenment Education	Specialist Education
EMS-Related	• Environmental Education Fundamentals Course (Web-based and Group seminars) • Training for new and transferred employees*	• Environmental assurance staff training • EMS education* • Overseas appointee training • Overseas employee training
Environmental Auditing		• Basic environmental auditor training • Environmental auditor compliance training
Environmentally Conscious Products		• Basic product environmental training • Technical training on environmental technology and chemical safety
Site Management		• Environmental administration leader training • Basic analytical technician training
Green Procurement		• Product chemical substance assurance training for supplier evaluators
Self-Awareness	• Canon Ecology Person Diagnosis	

*Held at each operational site

●Employees Receiving Environmental Training

Legend: Japan, Europe, Americas, Asia (excluding Japan)

(people)

Year	Value
'00	13,702
'01	10,167
'02	15,327
'03	17,471
'04	36,727

● Primary Training Programs and Results for 2004

(people)

		Japan	Outside Japan	Total
Awareness	Training for newly hired and transferred employees	825	17,231	18,056
	Training for general employees	3,568	2,199	5,767
	Environmental Education Fundamentals Course (Web-based and Group seminars)	11,763	0	11,763
Specialist Education	Environmental assurance staff training	275	18	293
	Training for environmental auditors (fundamental/compliance)*	336	139	475
	Basic product environmental training	20	0	20
	Technical training on environmental technology and chemical safety	7	0	7
	Product chemical substance assurance training for supplier evaluators	158	152	310
	Environmental administration leader training	36	0	36
Total		16,988	19,739	36,727

*In Japan, training is performed mainly by headquarters divisions. Outside Japan, training is performed by special external organizations.

Expanding Environmental Business

Group companies in Japan have launched full-scale businesses providing products and services based on the environmental technologies and know-how developed by the Group over the years. The scope of these businesses ranges from environmental remediation, analyses, and assessment technologies to environmental solutions focusing on consulting and IT services.

Canon's efforts to make our technologies and know-how available to all of our clients are aiding the reduction in the environmental burden imposed by industry and society. We also offer solutions intended to improve the quality of the client's business, reduce costs and maximize the client's overall value.

Environmentally Conscious Management Consulting

Canon's consulting services support clients who wish to create their own EMS as a framework for environmentally conscious management and publish environmental reports as communication tools. Canon also helps clients introduce material flow cost accounting (▶P. 46), an environmental accounting tool for analyzing loss generated in production processes.

Environmentally Conscious Management IT Service

Canon's consulting service in environmental IT management helps clients to build their own support systems for green procurement surveys using IT networks. This service taps Canon's experience in shipping products in compliance with the RoHS directive (▶P. 20).

Japanese marketing subsidiary Canon Sales Co., Inc. offers these environmental systems and services as solutions to satisfy the individual needs of clients.

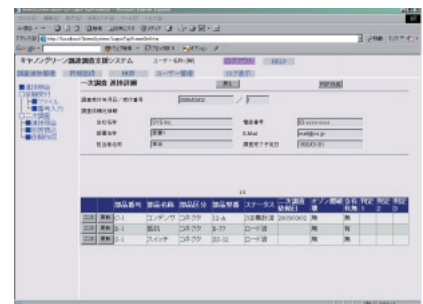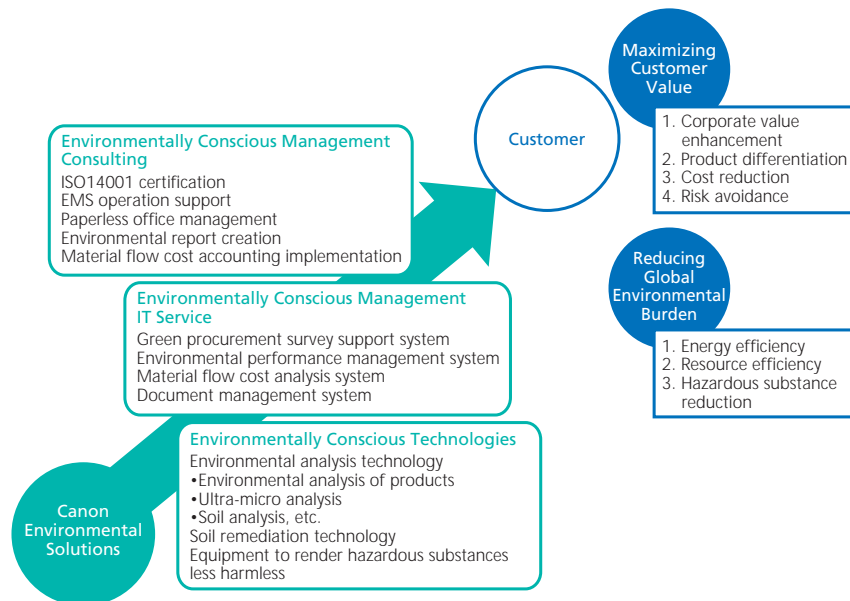### Developing a Business with Environmentally Conscious Technology

Soon after Japan's Soil Contamination Countermeasures Law took effect in February 2003, the Ministry of the Environment certified Canon as a soil and groundwater testing organization. With this new credential, Canon launched an engineering business for the survey and evaluation of soil and groundwater and the execution of remediation plans for contaminated areas. We have also harnessed more than 15 years of experience in environmental analysis technology to embark on new ventures in ultra-micro analysis and evaluation of products to determine their environmental consciousness, including compliance with RoHS. Technologies to reduce the harmful-ness of hazardous substances have led to the development of several new environmentally conscious equipment which we plan to market.

Sales of Environmentally Conscious Paper

With regard to supply products made mainly of forestry resources (paper products), Canon procures and sells a range of environmentally conscious paper products, including recycled paper, ECF chlorine-free white paper, and forestry certification paper, all of which are primarily for use in plain paper copiers (PPC). Procurement standards for paper have already been established for subsidiaries and affiliates in Japan, and the Group is now striving to introduce standards for paper procurement in Europe, Asia, the United States and other regions.

● **Canon's Environmental Solutions Businesses (in Japan)**

Environmentally Conscious Management Consulting
ISO14001 certification
EMS operation support
Paperless office management
Environmental report creation
Material flow cost accounting implementation

Environmentally Conscious Management IT Service
Green procurement survey support system
Environmental performance management system
Material flow cost analysis system
Document management system

Environmentally Conscious Technologies
Environmental analysis technology
•Environmental analysis of products
•Ultra-micro analysis
•Soil analysis, etc.
Soil remediation technology
Equipment to render hazardous substances less harmless

Canon Environmental Solutions

Customer

Maximizing Customer Value
1. Corporate value enhancement
2. Product differentiation
3. Cost reduction
4. Risk avoidance

Reducing Global Environmental Burden
1. Energy efficiency
2. Resource efficiency
3. Hazardous substance reduction

Green procurement survey support system (in Japan)

An environmental analysis and testing center with ISO/IEC17025 accreditation (Guide 25) conducts a wide range of environmental analysis businesses.

Minimizing the Environmental Burden Starting with Product Development

To minimize the environmental burden of its products, Canon conducts evaluations beginning at the initial development stage. The company is also rapidly improving the energy efficiency of its products.

Basic Stance on Environmental Consciousness of Products

The largest part of the environmental burden from Canon's business activities, whether it be direct or indirect, comes from the production of raw materials and parts, and product usage (▶P. 14). We focus on these two stages of business in our efforts to lessen the environmental burden of our products.

The burden consists mainly of the relatively high power consumption of our copying machines and other products during use; our reliance on plastics, following steel and aluminum, which have established recycling systems; and our use of chemical substances that could harm the environment even when used in small amounts. In consideration of the burden, we have established three themes to guide the development of environmentally conscious products: developing and installing energy-efficient technology into products; designing light and compact products at the product development stage, establishing a plastics recycling system, and using recycled materials; and reducing the use of designated chemical substances.

From 2004, we laid out 19 different Mid-Term Environmental Goals divided among six themes (▶P. 16), all of which are targeted for achievement by the end of 2005. The six themes include meeting the standards for environmentally conscious products; protecting the environment during product use; management; and the three themes mentioned in the above paragraph. We have aligned our goals for meeting standards for environmentally conscious products and protecting the environment during product use to meet major industry regulations and standards. The management goals were created as product design targets to ensure the rest of the goals reach fruition.

*1 Product assessment
The product's burden on the environment is assessed at the development stage, and ways of lessening the burden are incorporated into the product design.
*2 Green parts
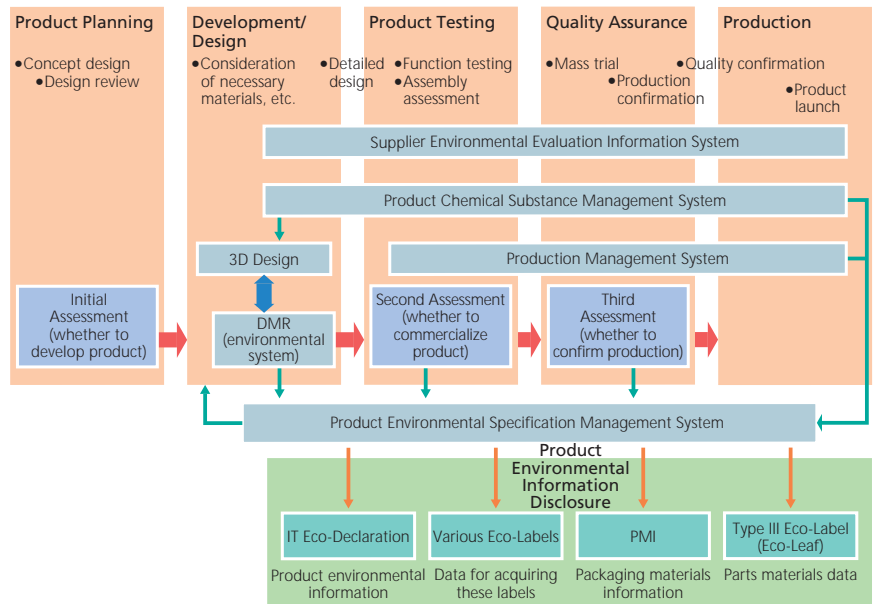Parts that have a low burden on the environment.

Product Environmental Information System

Canon has created a product environmental information system as a support tool for the development of environmentally conscious products. Digital prototypes are evaluated from multiple perspectives by linking design information from the 3D computer-aided design (3D-CAD) system (▶P. 9) with the Digital Mock-up Review (DMR) system in the development stage. Evaluation of recyclability, environmental impact evaluations, product assessment*1, and other simulations are performed to find ideal methods for minimizing CO_2 emissions, verifying the use of green parts*2, and optimizing assembly and disassembly. Overall, this system enables a prototype-less design process and a shortening of the product development period. The implementation of this system has also advanced our efforts to create environmentally conscious designs in compliance with environmental regulations, including the WEEE (▶P. 51) and RoHS (▶P. 20) directives.

In 2004, we completed a LCA (Life Cycle Assessment) evaluation system. We currently promote environmental measurement and evaluation activities across all business operations.

● **Product Environmental Information System**

System Name	Function
Digital Mock-up Review	A mock-up is a full-sized model of a new product at the development and design stages. A DMR is a 3D digital mock-up to verify assembly, disassembly, usability, safety, driving mechanisms, and other features and functions. (▶P. 9)
Supplier Environmental Evaluation Information System	This system manages the information on the environmental assurance activities of our suppliers.
Product Chemical Substance Management System	This system manages the results of Canon surveys on the chemical content of procured parts and materials, survey data on the content of six RoHS-restricted substances in parts and materials, analysis results, and whether parts and materials have been accepted or rejected for procurement, etc. The system makes it easier to choose green parts and materials at the development and design stages.
Product Environmental Specification Management System	All the information from the environmental review of the prototype and the environmental evaluation of the actual test product is used for the product assessment. A unified Product Environmental Specification Management System manages this product assessment information together with parts and materials environmental information, development product information and production management information from the operational site. This system is used both within and outside the Group as a database for product environmental information disclosure.

Status of Meeting Standards for Environmentally Conscious Products

Canon develops products with the aim of meeting the standards of the Law on Promoting Green Purchasing*[1], the International ENERGY STAR® Program*[2] (▶P. 15), Eco Mark*[3], and various other standards. In 2004, 91.4% of our products (53 of 58 office machine products) met the standards of the Law on Promoting Green Purchasing and the same percentage qualified for the International ENERGY STAR® Program (▶P. 62). The standards for both the law and the program are based on specifications for monochrome copying machines, hence some of Canon's color copying machine products have not yet met the standards. Overall, however, we rank among the top office machine manufacturers in meeting the standards of the law and qualification for the program. Our level of Eco Mark certification in 2004 was 68.8% (33 of 48 products meeting standards; only copying machines and printers). We are actively pursuing certification under various Eco-Label*[4] standards in the countries in which we operate.

In the area of protecting the environment during product usage, some laser beam printer models have become the first in their product categories to clear Germany's Blue Angel labeling standard for emissions of noise, VOC (volatile organic compounds) dusts, and ozone.

*1 Law on Promoting Green Purchasing in Japan
Sets forth standards and rules by which government organizations prioritize environmentally conscious products when they purchase goods.
*2 International ENERGY STAR® Program
An energy conservation standard for office equipment supported by the U.S. Environmental Protection Agency. Environmental labels are approved for products reaching certain energy efficiency criteria.
*3 Eco Mark
An Eco-Label administered in Japan under the guidelines of the Japan Environment Association.
*4 Eco-Label
Used in Japan to promote the use of superior products that have a low burden on the environment by indicating the impact of products on the environment in the form of a label.

Global Warming Countermeasures and Energy Efficiency

When analyzing the total CO_2 emissions of Canon as a whole, including the indirect burden, about 30% of the environmental burden comes during product use. This makes it a priority for Canon to develop products which consume less energy. The Mid-Term Environmental Goals to be achieved by 2005 include three specific targets under the category of Global Warming Prevention and Energy Conservation: (1) Have all products qualify for International ENERGY STAR® Program (No. 1 in percentage of products qualifying), (2) Reduce energy consumption during operation and standby by 30% compared with 2000, and (3) Fully meet the standards of Energy Conservation Law in Japan (copying machines).

We have progressed in our efforts to provide more energy-efficient products by tackling the issue from the development stage. In 2004, the amount of energy consumed by Canon products during the product usage stage of the life cycle was 1.84 million tons in terms of CO_2 emissions, representing an 18% decrease from emissions of 2.25 million tons in the baseline year of 2000.

Reducing Energy Consumption during Operation and Standby

Canon is developing energy-efficient technologies and designing them into its products in order to meet its goal of reducing energy consumption during operation and standby by more than 30% compared with 2000.

Two on-demand energy-efficient technologies—on-demand fixing and IH (Induction Heating) fixing—have been incorporated into our copying machines, laser beam printers, and MFDs, and we are now expanding the application of these technologies to high-speed and color machines (▶P. 21).
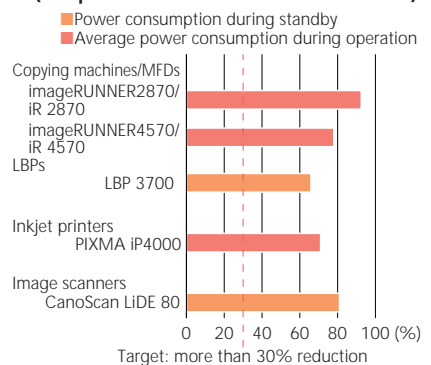
To reduce the power consumption of inkjet printers, which are mainly for personal-use, we have developed a low-power-mode control system with an enhanced integrated circuit to minimize device operations by driving only the control unit during standby and power-off. Canon has been installing this system in inkjet printers sold from 2003 (▶P. 19).

These and other measures enabled us to meet all our energy efficiency goals for new engines of main new products in 2004.

Fully Meeting Standards of Energy Conservation Law for Copying Machines

The Energy Conservation Law adopts the standards set forth in the Law on Promoting Green Purchasing enacted in 2001. Canon's copying machines marketed in 2004 fully met the standards of the green purchasing law (13 of 13 products). Accordingly, we met the requirements of the Energy Conservation Law in 2004.

● **Power Consumption Reduction Rates during Operation and Standby for Main Office Machines** (compared with models marketed in 2000)


■ Power consumption during standby
■ Average power consumption during operation

Copying machines/MFDs
imageRUNNER2870/iR 2870
imageRUNNER4570/iR 4570
LBPs
LBP 3700
Inkjet printers
PIXMA iP4000
Image scanners
CanoScan LiDE 80

0 20 40 60 80 100 (%)
Target: more than 30% reduction

● **Proprietary Energy Efficiency Technologies Used in Canon's Office Machines**

On-Demand Fixing Technology
(utilized since 1990)
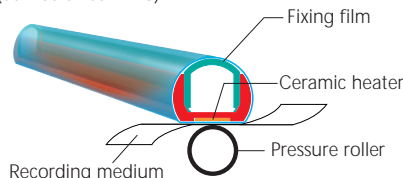
Fixing film
Ceramic heater
Pressure roller
Recording medium

A ceramic heater localizes the heating to a specific area through a fixing film during printing. Surplus energy consumption is avoided and energy efficiency realized.

IH Fixing Technology
(utilized since 2002)

Fixing sleeve
Line of magnetic force
Coil
Pressure roller
Recording medium
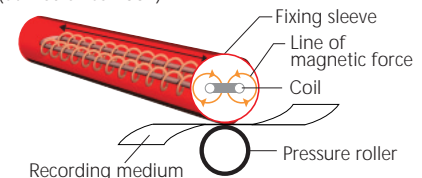
An electromagnetic induction heater generates an eddy current when a line of magnetic force passes through its metal coils, directly heating the fixing sleeve. Overall heat efficiency is therefore improved, and standby heating is unnecessary.

Environmentally conscious products URL: canon.com/environment/technology

For a Recycling-Oriented Society

The clean operation and resource efficiency of Canon's products continue to improve through our recycling drive, our efforts to reduce the size and weight of products, and the elimination of hazardous substances.

Resource Conservation

As a global corporation dedicated to a recycling-oriented society, Canon manufactures products by Inverse Manufacturing (IM)*[1]. The IM methodology aims to create a high-level business activity life cycle system designed to improve resource recycling from both the development and design stages. One of Canon's Mid-Term Environmental Goals is to reform its entire recycling system and introduce more environmental initiatives in line with the 3R*[2] policy of Reduce, Reuse, and Recycle, the backbone of the IM system.

*1 Inverse Manufacturing
Inverse Manufacturing considers production not just from the forward process of design, production, and use, but from the "inverse" process of disposal, reuse, and recycling.

*2 3Rs
A resource conservation policy to "Reduce," "Reuse," and "Recycle." "Recycle" covers material recycling (reuse as raw materials) and chemical recycling (converting waste into usable materials through chemical processes). Broadly defined, "recycle" would include reuse and energy recovery (use of incineration heat). "Reuse" includes not only parts reuse, but remanufacturing entire products. "Recovery," for which targets are set in the WEEE directive, is defined in the same way as the broad meaning of "recycling" explained above.

Steel, aluminum, and plastic make up a large portion of the raw materials used for the manufacture of Canon products. As the recycling route for plastic has yet to be firmly established, we continue to invest our energy and resources into the building of plastic recycling systems.

Forming a Recycling Structure in Every Region

The WEEE directive (Waste Electrical and Electronic Equipment directive) is scheduled for implementation in the EU from August 2005. EU nations are transposing the directive into law for local enforcement. Canon is responding to the directive by developing recycling schemes tailored to every EU country.

Back in Japan, the restructuring of our 3R sites is nearly complete. Once this is accomplished, the network in Japan will serve as a model for the entire Group. In Asia, we have begun to design a recycling system for the entire region and those for each respective country and region. In Oceania, Canon Australia Pty. Ltd. has started to outsource recycling processes and the disassembly of collected machines. In North America, meanwhile, Group companies are considering the introduction of a collection program for personal-use products.

Lighter, More Compact Products

By the end of 2005, Canon targets a reduction of 15% or more in the size and weight of its products compared with 2000. Nearly all of our new products have already met this target. Those that have yet to meet the goal are products with design restrictions, products with increased functionality that cannot be sacrificed, and products like cameras, which have already been made smaller and lighter.
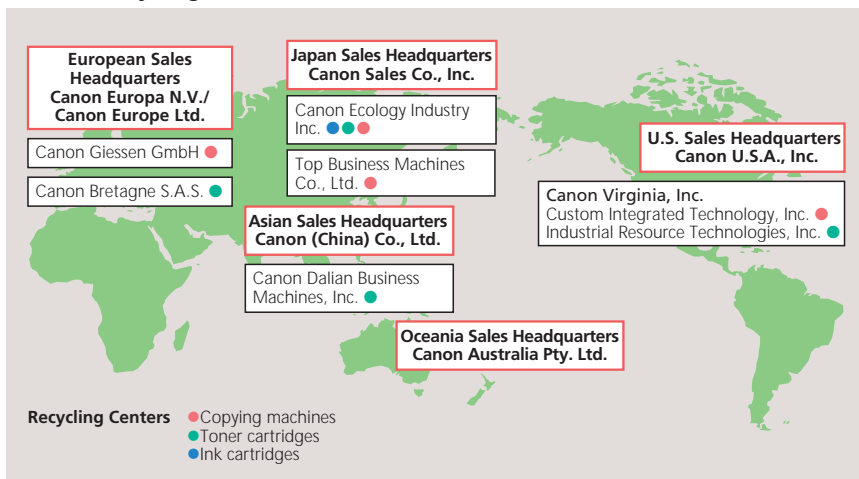
Recyclable Designs

At the design level, Canon seeks to increase the rate of recyclability in design (reuse, material recycling) to 75% of product mass and the rate of recoverability in design (including energy recovery) to 85% of product mass. Products undergo an assessment (▶ P. 49) at the design stage to determine their recyclability and recoverability ratios. With the exception of cameras and a few other product series, at the design stage most of Canon's products were already at least 65% recyclable by mass and at least 75% recoverable by mass (WEEE standards for EU countries) by the end of 2004.

Recycling Collected Products

Our goal is to recover 90% or more (by mass) of collected products by the end of 2005. In 2004 we surpassed our recycling targets, recovering 100% of ink and toner cartridges (including energy recovery) and 97.7% of collected copying machines, including machines processed by outside contractors. In 2005, we began participating in the Bellmark campaign in Japan through cartridge collections to complement our cartridge collection program (▶ P. 58).
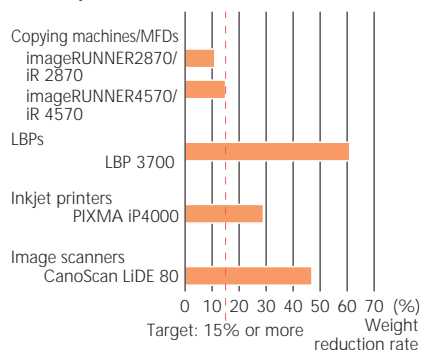
● **Global Recycling Structure**

European Sales Headquarters Canon Europa N.V./ Canon Europe Ltd.
Canon Giessen GmbH ●
Canon Bretagne S.A.S. ●

Japan Sales Headquarters Canon Sales Co., Inc.
Canon Ecology Industry Inc. ● ● ●
Top Business Machines Co., Ltd. ●

Asian Sales Headquarters Canon (China) Co., Ltd.
Canon Dalian Business Machines, Inc. ●

Oceania Sales Headquarters Canon Australia Pty. Ltd.

U.S. Sales Headquarters Canon U.S.A., Inc.
Canon Virginia, Inc.
Custom Integrated Technology, Inc. ●
Industrial Resource Technologies, Inc. ●

Recycling Centers ● Copying machines
● Toner cartridges
● Ink cartridges

● **Collections and Recovery Rate of Products**

	2000	2001	2002	2003	2004	2004 Recovery Rate (%)
Copying machines (1,000)	119	112	144	137	142	97.7
Toner cartridges (t)	13,030	14,441	15,554	15,773	16,760	100
Ink cartridges (t)	15.1	26.0	51.0	70.0	75.0	100

*Collections of ink cartridges are for Japan only.

● **Rate of Size and Weight Reduction for Main Office Machines (compared with models marketed in 2000)**

Copying machines/MFDs
imageRUNNER2870/iR 2870
imageRUNNER4570/iR 4570
LBPs
LBP 3700
Inkjet printers
PIXMA iP4000
Image scanners
CanoScan LiDE 80

0 10 20 30 40 50 60 70 (%)
Target: 15% or more
Weight reduction rate

Reused Parts and Recycled Plastics

Canon has been remanufacturing[1] copying machines on a global scale since 1992. In 1999 we began parts reuse activities. Canon's Toner Cartridge Collection and Recycling Program started globally in 1990. The collected cartridges are separated by model to determine which parts are reusable, recyclable, or recoverable (▶P. 22). In 2002, Canon Ecology Industry Inc. in Japan introduced an automated toner cartridge recycling plant—the first of its kind in the industry.

We have developed special methods for recycling plastics from collected products. Paper supply cassettes from copying machines are collected (HIPS material), pre-processed in Japan for washing and removal of foreign substances, and shipped to a local plastic producer in Thailand for processing into m-PPE (modified polyphenylene ether resin). The recycled plastic yielded meets the same quality and safety standards as virgin plastic. The material is used to manufacture the power supply casings in inkjet printers.

Through initiatives like these, nearly all Canon products incorporate reused resources (reused parts) or recycled resources (recycled plastics). In 2004, as much as 4,409 tons of reused and recycled plastic was incorporated into products.

*1 Remanufacturing
In remanufacturing, collected products are disassembled, reusable and worn parts are separated, parts are replaced, and the machines are cleaned to create final products that meet the same quality standards as new products.

Elimination of Hazardous Substances

In developing, designing, and producing products, we aim to eliminate the use of all hazardous chemicals with the potential to burden the environment after products are discarded. This goal applies not only to the six substances covered by EU's RoHS directive (▶P. 20), but also halogenated flame retardants, substances which generate dioxins during incineration. Four specific targets for these substances are included among the New Mid-Term Environmental Goals (▶P. 16). In 2004, we also established an Eco Materials Technology Liaison Committee for the purpose of developing alternative technologies and materials. Three sub-committees on bioplastics, chassis[2] (plastic) materials, and PWB (printed wiring boards) are overseeing this initiative.

Approach to RoHS

Canon has established a Group-wide Product Chemical Substance Assurance System (▶P. 42) which covers chemical substance management by suppliers, surveys on parts and materials to verify whether they contain substances that impact the environment, an internal database, and other management components. We have introduced measures to modify production processes and find alternatives to parts and materials which prove to be non-RoHS-compliant. In principle, all of our new products commercialized from 2005 will be RoHS-compliant (▶P. 20).

*2 Chassis
The outer cover of a product or component

Unifying Chassis Materials and Reducing the Types of Plastics Used Halogen-Free Chasses

The standardization of plastics and reduction of the use of exterior casing plastics incorporating halogenated flame retardants are important initiatives at Canon. In 2004, the Group managed to reduce the number of grades of plastic it procured by 18% compared with 2003. In addition, 97.8% of our plastic chassis materials were free of halogenated flame retardants.
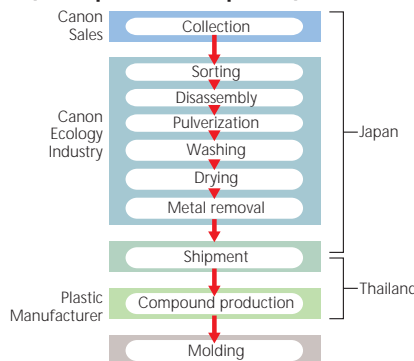
Pursuing Halogen-Free Printed Circuits Boards

The plastics used in printed wiring boards conventionally contain halogenated flame retardants. In 2004, for its laser beam printer circuit boards, Canon fully switched over to the single-sided paper phenol circuit board, an environmentally friendly component free of halogenated flame retardants. This new circuit board was also adopted for one model of copying machine. Similarly, glass epoxy laminated circuit boards have been adopted as the main boards in five models of digital video camcorder.
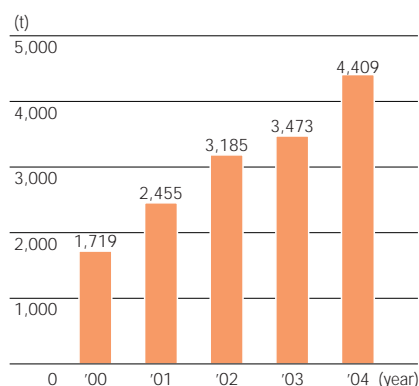

Automated toner cartridge recycling plant
(Canon Ecology Industry)

● **Recycling Process for Plastic Materials (Example for HIPS plastic)**

Canon Sales	Collection	
Canon Ecology Industry	Sorting	
	Disassembly	Japan
	Pulverization	
	Washing	
	Drying	
	Metal removal	
	Shipment	
Plastic Manufacturer	Compound production	Thailand
	Molding	

● **Amount of Reused and Recycled Materials Used**

(t)

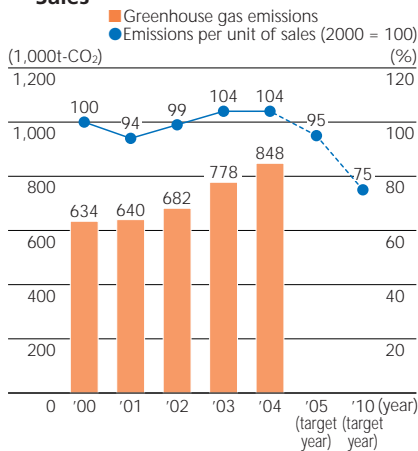| Year	Amount
'00	1,719
'01	2,455
'02	3,185
'03	3,473
'04	4,409

Reducing the Direct Environmental Burden at Operational Sites

Canon continues to reduce the environmental burden of its sites through organizational and infrastructural improvements such as the creation of a Global Warming Prevention Strategy Working Group and the installation of new wastewater treatment facilities.

Global Warming Countermeasures and Energy Conservation Activities

Canon has set targets for the reduction of greenhouse gas emissions (converted to CO_2) for its operational sites: reduce CO_2 emissions per unit of sales by 5% for 2005 and by 25% for 2010, in comparison with the 2000 level. We are aiming to meet these targets through initiatives at the Group level and at the manufacturing level among Japanese manufacturing subsidiaries and affiliates, which are directly affected by Japan's response to the Kyoto Protocol. Specifically, Canon is seeking to reform its organizational structure, improve production processes, install highly efficient equipment, and construct energy-efficient facilities, among other initiatives (▶P. 17–18) (▶P. 62).

New Policies from Global Warming Prevention Strategy Working Group

The Global Warming Prevention Strategy Working Group has been established under the Global Environment Expert Committee (▶P. 43) to consider strategies to achieve the Mid-Term Environmental Goals and other countermeasures against global warming across the Group. We have traditionally managed energy conservation and global warming prevention activities at the operational site level, and the new structure reinforces the management at the product group operation level.

Specific targets for energy conservation include the reduction of the size of existing buildings and facilities by 5% (on a floor-area basis), and the improvement of the efficiency of buildings and facilities newly added through business expansion and structural reform by 30% in comparison with existing buildings and facilities.

Cogeneration Systems

A cogeneration system supplies both self-generated electricity and heat (steam, etc.) at the same time. The Canon Group has adopted different cogeneration systems meeting the specific energy requirements of its operational sites, such as highly efficient gas engine systems and gas turbine engines that reuse exhaust heat. Canon Inc.'s Shimomaruko Headquarters and Oita Canon Materials Inc. have already introduced cogeneration systems.

In 2004, Oita Canon Materials installed a second system, and in February 2005 the Iwama Site of Canon Chemicals Inc. introduced its first. The combined use of these systems at Canon facilities is realizing an annual energy conservation effect equivalent to a 21,000-ton reduction in CO_2 emissions compared to the previous methods, saving an amount of energy consumption equivalent to the average annual use by one operational site in Japan.

● Reducing CO_2 Emissions Per Unit of Sales

Greenhouse gas emissions
Emissions per unit of sales (2000 = 100)
(1,000t-CO_2)   (%)

Year	Greenhouse gas emissions (1,000t-CO_2)	Emissions per unit of sales (%)
'00	634	100
'01	640	94
'02	682	99
'03	778	104
'04	848	104
'05 (target year)		95
'10 (target year)		75

External view of cogeneration system
(Canon Chemicals, Iwama Site)

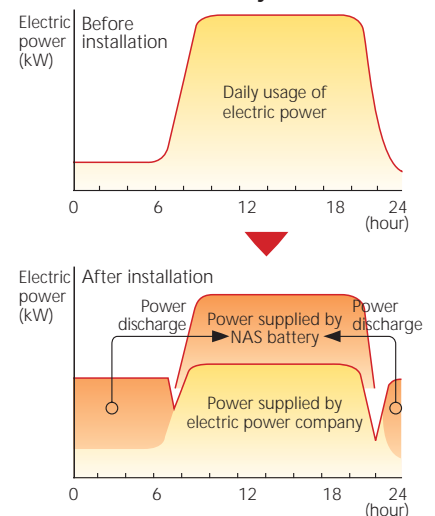## Topics — Conserving Energy with NAS Batteries

The Hiratsuka Development Center and Yako Development Center have introduced new electric power storage batteries (NAS batteries*) which reduce the amount of energy purchased by efficiently using power stored at night. The NAS batteries supplement the centers' turbo refrigeration equipment.

NAS batteries store electric power at night, when less fossil fuel is used for power generation, and use the power during the day. This method contributes significantly to preventing global warming. Compared with the conventional combustion systems (diesel engine generators, etc.), the use of NAS systems cuts CO_2 emissions by about 15%, restrains energy usage and reduces electric power costs by more than 10%, among other beneficial effects.

*NAS batteries
The NAS battery comprises sodium (Na) at the negative electrode and sulfur (S) at the positive electrode, with beta alumina ceramics used as the electrolyte layer material.

● Merits of NAS Battery

Before installation
Electric power (kW)
Daily usage of electric power

After installation
Electric power (kW)
Power discharge — Power supplied by NAS battery — Power discharge
Power supplied by electric power company

Resource Conservation Activities

The end goal in resource conservation at operational sites is to use resources efficiently without waste. We have embarked on initiatives like prototype-less design (▶P. 9) and material flow cost accounting (▶P. 46) in a major shift from focusing exclusively on waste reduction to a broader range of activities directed to raising management efficiency across the Group.

Canon's Mid-Term Environmental Goals target a 25% reduction of total waste generation below the 2000 level by 2005. Our policy of increasing the internal recycling rate by 40% over the same time frame furthers our progress towards this target (▶P. 62).

Reducing Total Waste Generation

In 1990, the Canon Group generated some 35,000 tons of landfill waste in Japan alone. By 2004 this figure was reduced to only 1,809 tons around the world. Our 3R policy (▶P. 51) and an uncompromising emphasis on waste reduction, separated collection, and recycling have been successful in bringing about the intended effects. By the end of 2003, the main operational sites in Japan were generating zero landfill waste[1]. Our next step is to achieve the same in operational sites outside of Japan. In addition, we have taken strict measures to reduce the total amount of waste generation[2].

[1] Zero landfill waste
All waste materials generated from operational sites are 100% recoverable. Zero landfill waste would not be achieved if even small amounts of landfill waste remained after intermediate processing. This definition excludes, however, waste materials for which Canon cannot independently determine a recycling route due to administrative guidance.

● Reducing Waste Generation

(t)

Legend: ■ Total amount of waste generation ■ Amount of landfill waste

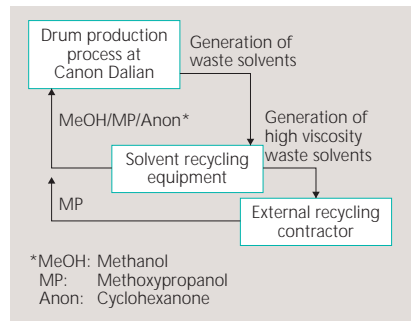| Year	Total amount of waste generation	Amount of landfill waste
'00 (baseline year)	81,700	4,331
'01	76,699	3,779
'02	64,953	3,277
'03	67,337	2,635
'04	65,222	1,809
'05 (target year)	61,275 (75%)	
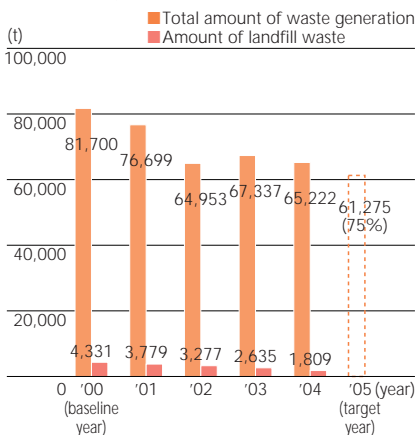
Raising the Internal Recycling Rate

Canon implements internal recycling as a way to recycle resources, mainly through repurchasing materials that have been recycled for reuse as raw materials or for other purposes. As part of this effort, we are working with contractors to build a model for recycling covering the system of material transfer and collection, materials and parts recycling, and other dimensions. Each site is sharing information on internal recycling over our intranet to encourage use of the system.

The rate of internal recycling in 2004 soared 556% over the level of 2000, while the total amount of waste generated from virgin materials decreased by 20% over the same period.

● Example of Internal Recycling (Canon Dalian Business Machines, Inc.)

Drum production process at Canon Dalian → Generation of waste solvents

MeOH/MP/Anon* → Solvent recycling equipment

MP

Generation of high viscosity waste solvents → External recycling contractor

*MeOH: Methanol
MP: Methoxypropanol
Anon: Cyclohexanone

[2] Total amount of waste generation
Total amount of landfill waste, recyclable waste, reusable commodities, and weight-reduced materials. Excludes amount of waste reused through internal recycling.

Closed Wastewater Processing System Introduced

In April 2005, the Oita Plant of Oita Canon Inc. completed a closed wastewater processing system utilizing activated carbon absorption and ion exchange. The simplified recycling system separates lens production wastewater into washing wastewater and lens grinding wastewater, maintaining a high level of water quality that is expected to save the plant about 38 million yen a year when compared to the use of tap water.

A condenser processes the lens grinding wastewater into distilled water and condensed water. After undergoing biological treatment, the distilled water is processed through the closed discharge system along with the washing wastewater. Drying machines dry the condensed water into fine particles, which helps to lessen the amount of waste material.

Condenser (Oita Plant of Oita Canon)

Topics — Nine Operational Sites Outside Japan Realize Zero Landfill Waste

Canon achieved zero landfill waste generation at all 38 of its operational sites including manufacturing subsidiaries and affiliates in Japan by 2003. Over the course of the following year, we went further by eliminating landfill waste at nine of all 15 operational sites outside Japan in the Americas, Europe, China, Thailand, and other regions.

Our next step in resource conservation will be to introduce material flow cost accounting and thorough waste separation to generate commodities. These activities will be rolled out at sites around the world to support Canon's efforts to eliminate landfill waste at all operational sites outside Japan.

Zero landfill waste achieved at Canon Zhuhai, Inc.
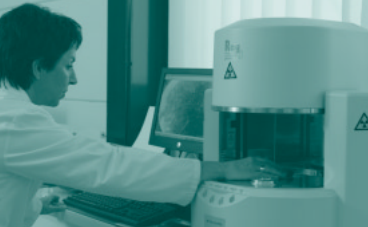
Considering the Environment in Production and Logistics

Canon's operational sites are making progress in reducing the use of chemical substances. Recent logistical advances have included the introduction of new shipping methods to cut CO_2 emissions and innovative packaging materials to conserve resources.

Elimination of Hazardous Substances

Canon's basic policy on the elimination of hazardous substances is to use substitutes when substitutes are available, and when technical challenges or quality issues make this difficult, the discharge of hazardous substances into the environment should be reduced to the maximum extent. We have implemented measures to reduce use of these substances by classifying the approximately 2,000 hazardous substances we manage into three management ranks: A, Eliminate use; B, Reduce use; and C, Restrain discharge. We have succeeded in either eliminating or reducing the especially harmful types (Ranks A and B)—the ozone-depleting chlorofluorocarbons, the PFCs and HFCs responsible for global warming (▶P. 17), and the designated chlorinated organic solvents suspected of causing cancer (▶P. 63).

In 2004, to bolster our efforts to restrain discharges, we set out to reduce hazardous substance discharges in 2005 by 50% compared to the 2000 levels, and we have already cleared that target with a result of 53%. The goal of reducing discharges of PRTR Law* designated substances in 2005 by 60% compared to the

2000 levels was also surpassed with a result of a 75% reduction. Cross-operational site meetings are convened regularly to improve processes and review working methods, as well as to set policies aimed at raising environmental awareness among employees. These dedicated efforts remarkably improved Canon's performance in eliminating hazardous substances.

With the help of dedicated evaluation software, we have also begun to scientifically evaluate the environmental risk around operational sites based on the known harmful effects and amounts of chemical

Reducing Hazardous Substances Discharges

(t) ■ Hazardous substances ■ PRTR substances

Year	Hazardous substances	PRTR substances
'00 (baseline year)	1,245	380
'01	836	198
'02	558	113
'03	538	101
'04	584	97
'05 (target year)	622	152

substances discharged. We plan to carry out future chemical substance policies based on the results of these evaluations.
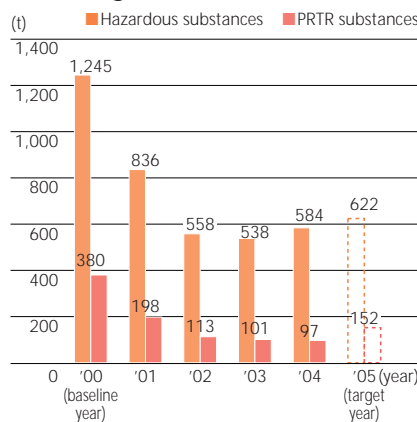
Effect on Atmosphere and Hydrosphere

Canon has developed accurate data, introduced new equipment, and taken other measures (▶P. 64) to reduce the environmental burden of NOx (nitrogen oxide) and SOx (sulfuric oxide), major causes of air pollution and acid rain; BOD (biochemical oxygen demand) and COD (chemical oxygen demand), indices of environmental burden on the hydrosphere; and phosphorous and nitrogen, which place a direct environmental burden on the hydrosphere.

PCB Waste Management

Canon conducts strict management of PCB (poly chlorinated biphenyl) in compliance with related laws. At Canon there are 105 condensers and transformers and approximately 1,400 fluorescent tube stabilization devices that are currently being stored as PCB waste. These will be processed as soon as a proper method is established.

*PRTR Law
The Pollutant Release and Transfer Register Law requires the recording and public disclosure of the amount of chemical substances released into the environment and transferred as waste.

Topics   Remediation Status of Soil and Groundwater at Contaminated Sites

Canon has been voluntarily surveying the quality of soil and groundwater for the conservation of the environment since the 1980s. If any item fails to meet environmental standards, we take quick action to find the source of the problem and the effects on the environment. The work to resolve environmental issues is performed in close collaboration with government bodies.

Amidst large-scale rebuilding and relocation activities in 2004, we took the opportunity to survey eight operational sites where buildings formerly made it difficult to analyze the soil. In analyses carried out in accordance with Japan's Soil Contamination Countermeasures Law and our internal rules, substance levels exceeded the standards at two sites, Nisca Corporation's Shikishima Plant and Canon Precision Inc.'s Tokyo office. We are now addressing the situation by taking appropriate measures in close cooperation with government bodies.

Further, the Canon Group has already eliminated the use of chlorinated organic compounds (▶P. 63).

Status at Operational Sites in Japan
Groundwater

	Report to Government	Main Pollutants	Remediation Measures
Toride	1998	Trichloroethylene	Pumping, aeration, and charcoal absorption (in-situ soil flushing at groundwater table)
Fukushima	1990	Trichloroethylene	Completed (2004)
Kanuma	1990	Tetrachloroethylene	Pumping, aeration, and charcoal absorption
Iwai	2002	1,1-dichloroethylene	Pumping, aeration, and charcoal absorption
Canon Precision Inc., Tokyo office	2004	Cis-1, 2-dichloroethylene	Chemical feed (planned)

Soil

	Report to Government	Main Pollutants	Remediation Measures
Shimomaruko	November 2003	Trichloroethylene	Soil excavation and substance elimination
Meguro	December 2003	Cis-1, 2-dichloroethylene	Soil excavation and substance elimination (planned)
Nisca Shikijima	June 2004	Trichloroethylene	Completed (2004)
Canon Precision Inc., Tokyo office	October 2004	Cis-1, 2-dichloroethylene	Soil excavation and substance elimination (planned)

Vision & Strategy

Highlights 2004–2005

Social Management

Environmentally
Conscious Management

Performance Data/
Third-Party Opinion

Eco Logistics Activities

Canon has been operating its Environmental Logistics Sub-Committee since 2002 in order to meet the goal of reducing logistics-related CO_2 emissions per unit of sales by 20% by the end of 2006 compared with 2000. The Environmental Logistics Working Group, which succeeded the Environmental Logistics Sub-Committee in 2003, oversees separate sub-working groups handling the functions of parts procurement logistics, production site logistics, product artery logistics, customer sales logistics, and packaging. These sub-working groups have been working to achieve their CO_2 emissions goals through modal shifts, improvements in loading efficiency, and other measures (▶P. 17). In 2004, the total amount of logistics-related CO_2 emissions in Japan was about 33,000 tons, representing a 16% decline from 2000 per unit of sales.

We have begun to promote our logistics initiatives outside Japan as well. From 2003 we were able to determine the amount of CO_2 emissions generated in international shipping and shipping within regions outside Japan (production and sales sites) in the logistics process, allowing us to create an emissions data collection system for the entire Group. From 2004 we set the goal of reducing CO_2 emissions per unit of sales by 3–4% per year—the current pace of reduction in Japan—in every region outside Japan, and specific means to achieve this are now being promoted.

Though the total CO_2 emissions related to international shipping and shipping between regions outside Japan increased to about 760,000 tons in 2004, we expect to see clear reductions starting from the second half of fiscal 2004 as specific measures begin to take effect (▶P. 64).

Introducing Milk Runs for Parts Shipment

Canon organized a joint logistics program in Japan for parts procurement with suppliers in 1998.

Outside Japan, Canon Zhuhai, Inc. has adopted a milk run logistics system in which its trucks run a circuit among supplier plants to load up parts. These milk runs are now used to collect nearly all of the parts Canon Zhuhai procures from suppliers within a 150 km radius of its main plant, the exceptions being core parts imported from Japan and a small percentage of locally procured parts. Each day, 40 trucks make milk runs along 27 different routes in the area covering a total of 130 suppliers. The system directly reduces the logistics cost and parts inventories, as well as environmental burden.

More specifically, the milk run system has shortened the logistics distance traveled by 9,000 km per day compared to the distance required for separate supply runs for each supplier. The reduction in CO_2 emissions totals around 1,700 tons a year.

Environmentally Conscious Management Survey of Transportation Companies

Canon began conducting surveys of the environmental consciousness of transportation companies in 2003 following the introduction of a green procurement system for suppliers (▶P. 42). Transportation companies with a high level of environmental consciousness are taking the initiative to obtain green management certification and other third-party recognition of their operations.
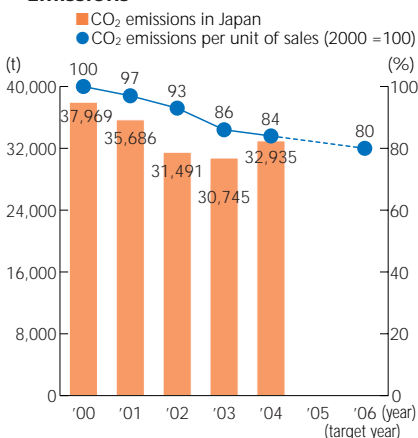
Environmental Features of Toner Cartridge Packaging

Canon is developing environmentally conscious packaging materials as part of its aim to reduce the environmental burden from product logistics. In 2003, we introduced a new packaging material for toner cartridges in which air is injected into the package to act as a shock absorber. By combining the conventional protective plastic bag and shock-absorbing material into a single package, the number of packaging parts was reduced from three to one. The use of air pressure has also minimized the size of the package while maintaining the same absorbent function. This improves the shipping efficiency, which in turn leads to high energy efficiency.

New packaging material for toner cartridges

●Reducing Logistics-Related CO_2 Emissions

■ CO_2 emissions in Japan
● CO_2 emissions per unit of sales (2000 =100)

(t)	'00	'01	'02	'03	'04	'05	'06 (year)
%	100	97	93	86	84		80
emissions	37,969	35,686	31,491	30,745	32,935		

(target year)

| **Topics** | **Modal Shift Promotion Leads to Eco Rail Mark Certification** |

Canon became one of the first companies to receive Eco Rail Mark certification in recognition of its promotion of modal shift. Japan's Ministry of Land, Infrastructure, and Transport began the certification system in April 2005 as a global warming prevention initiative, approving certification to companies that rail-ship 15% or more of products transported over 500 km by ground in Japan, or 30% in the case of specially designated goods. Canon has raised the percentage of ground-shipped goods (over 500 km) meeting this requirement to more than 20%.

We now plan to leverage the Eco Rail Mark certification to further promote modal shift by raising awareness inside and outside the company of activities to reduce logistics-related environmental burden.

Eco Rail Mark certification

Two-Way Communication with Stakeholders on the Environment

Canon encourages environmental communication with stakeholders through cartridge collections, exhibitions, and various other activities and events.

Basic Concept behind Environmental Communication

Environmental conservation is not something that just one company can talk about on its own. A company and its stakeholders must pursue sustainability collaboratively based on a mutual understanding.

In communicating with stakeholders, a major underlying goal is to publicly disclose accurate information in order to provide a foundation for communications activities that go beyond what simply lies in the respective interests of the company and the stakeholders. Mutually constructive communication, and with it accountability, can be established by fulfilling the responsibility to disclose information to a diverse group of stakeholders. At Canon, we take advantage of various opportunities for communication and use various media to explain our environmental initiatives to stakeholders both inside and outside the company.

Environmental Public Relations

Environmental and Sustainability Reports

Canon began publishing an environmental report in 1994 under the title *Ecology*. Later, from 1999 to 2002, we published a yearly *Environmental Report*, and since 2003 we have been publishing the more comprehensive *Sustainability Report* to high praise from independent organizations. For the period between 2004 and May 2005, Canon was among the Best 100 in the international Global Reporters ranking of sustainability reports. In Japan, the *Sustainability Report* has been conferred the Outstanding Environmental Report Award at the Environment Communication Awards, an Excellence Award at the Sustainability Report Awards, and other honors.

Sustainability and environmental reports published by Group companies

Social contributions URL: canon.com/scsa

Since 2001, Canon (Schweiz) has been one of a number of Group companies to publish its own environmental report. The company was conferred an excellence award by the Swiss Association for Environmentally Conscious Management in 2001 and 2003.

Canon Electronics Inc. and Canon (UK) Ltd. both published their first reports in 2004.

Website Information

Canon offers the latest environment-related information and sustainability reports on our website. Material Safety Data Sheets are also posted on the website to support the safe and proper use of our chemical products.

Environmental Advertising

Canon has been running environment-related advertisements in Japanese newspapers and magazines continuously since 1995 to inform as many people as possible about its environmental efforts.

A Japanese magazine advertisement targeting the business community in 2004 provided a broad overview of our environmental initiatives. Other advertisements in general interest publications publicized the resource efficiency of Canon digital cameras. We also teamed up with the editors of *SOTOKOTO* magazine to publish *SOTOKOTO Kids! An Eco Guidebook*, which is designed to nurture an environmental mindset in children and their parents.

Environmental advertisement in Japan

Advertisement on digital camera resource conservation in Japan

Canon has also run advertisements in various forms internationally, including an advertisement explaining the overriding indication Factor 2 as the Vision for 2010 in a special feature on the environment in *Forbes* magazine.

Advertisement in international business magazine *Forbes*

Environmental Exhibits at Worksites

Environmental exhibits are on display at the Shimomaruko Headquarters, Ami and Toride Plants, Fukushima Canon and Oita Canon Materials. Canon's environmental conservation initiatives are introduced through exhibits of various environmental technologies and products, along with videos like *Canon Ecology* and other types of media.

Environmental exhibit corner at Canon Gallery (Shimomaruko Headquarters)

Environmental Expos

Canon has a strong presence at various environmental expositions around the world. Our exhibitions provide us with the opportunity to promote the importance of environmental conservation and inform the public of our measures to develop environmentally conscious technology and products.

Eco-Products 2004 (Japan)

● Main exhibitions attended by Canon between January 2004 and March 2005

Japan:
• Enviro Shiga 2004 (International Environmental Business Exhibition held at Lake Biwa) (Nagahama)
• Eco-Products 2004 (Tokyo)
• ENEX2005 (Tokyo/Osaka)
Americas:
• 2004 International Consumer Electronics Show (CES) (Las Vegas, U.S.A.)
Europe:
• Canon Concerto 2004 (Frankfurt, Germany; Stockholm, Sweden; Milan, Italy; London, U.K.)
Asia (excluding Japan):
• Canon Asia Expo 2004 (Shanghai, China)
• Eco-Products International Fair 2004 in Malaysia (Kuala Lumpur, Malaysia)

Environmental Education for Youths

Canon believes that learning about the environment should be fun and interactive. We organize and support various environmental education events for children.

Environmental Education Events

The Shimomaruko Headquarters has teamed with Tokyo's Ohta Ward and the Environmental Study Group, an NPO, to hold an annual Canon Eco-Festival. This annual event provides an interactive space for children to learn about the environment through games, crafts, and hands-on experience.

Canon U.S.A., meanwhile, supports the Canon Envirothon, North America's largest high school environmental science competition.

Eco Kids Diagnosis

In the Canon booth at the Eco-Products 2004 in Tokyo, an Eco Kids corner offered youths a chance to test their understanding of the environment through a computer-based Eco Kids Diagnosis quiz.

Environment Lessons at Elementary, Middle Schools

Employees of Oita Canon Materials began an environmental education program directed at some 2,000 students at nine local elementary and middle schools. Environmental classes feature quizzes and experiments, along with field trips to Canon plants to get hands-on education.

Canon Eco-Festival (Shimomaruko Headquarters)

Canon Envirothon (Canon U.S.A., Inc.)

Eco Kids Diagnosis (Eco-Products 2004)

Environmental lesson at a local school (Oita Canon Materials)

Topics	**Participating in Bellmark Campaign through Cartridge Collections (Japan)**

Canon first began participating in the Bellmark Foundation's Bellmark Campaign* in April 2005 through its effort to collect used cartridges for printers and other machines (▶P. 51). Our participation is intended to increase the number of cartridges collected for recycling and contribute to both environmental protection and environmental education for children by helping them to understand the importance of recycling.
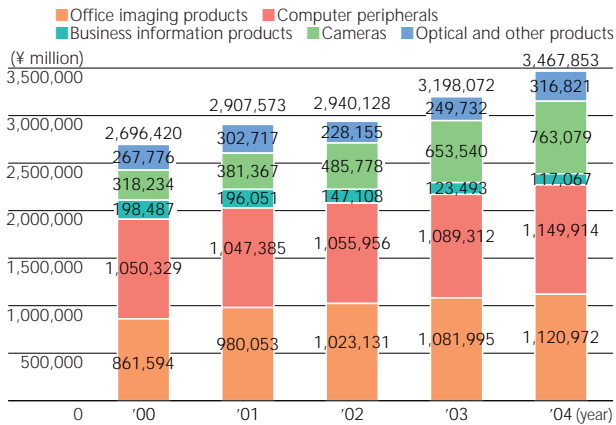

*Bellmark Campaign
A campaign to promote educational activities and assist educational facilities inside and outside Japan. Begun in 1960, the campaign is supported by schools, households, and companies.
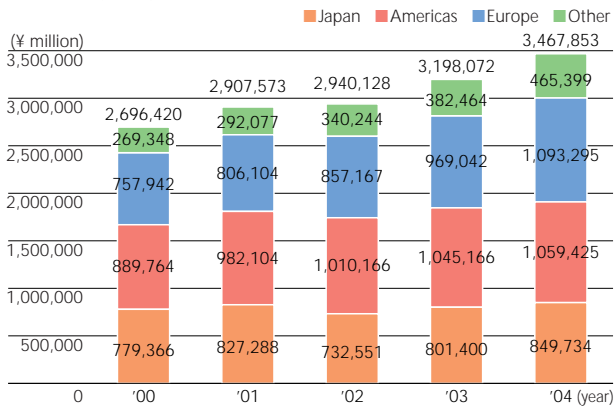
Economic Performance

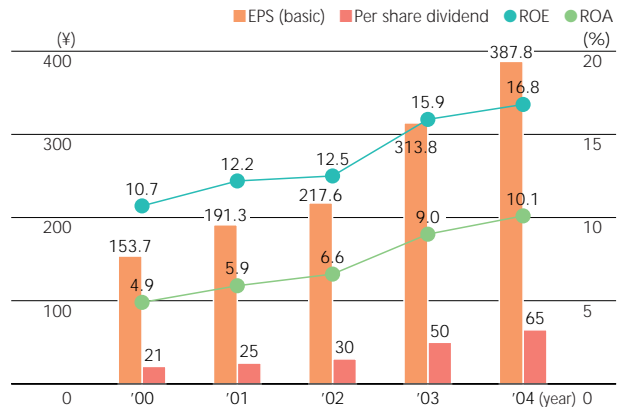## ● Consolidated Net Sales by Product (2000–2004)

Legend: Office imaging products ■ Computer peripherals ■ Business information products ■ Cameras ■ Optical and other products

(¥ million)

	'00	'01	'02	'03	'04 (year)
Total	2,696,420	2,907,573	2,940,128	3,198,072	3,467,853
Optical and other products	267,776	302,717	228,155	249,732	316,821
Cameras	318,234	381,367	485,778	653,540	763,079
Business information products	198,487	196,051	147,108	123,493	117,067
Computer peripherals	1,050,329	1,047,385	1,055,956	1,089,312	1,149,914
Office imaging products	861,594	980,053	1,023,131	1,081,995	1,120,972

● Sales by Region

Legend: Japan ■ Americas ■ Europe ■ Other

(¥ million)

	'00	'01	'02	'03	'04 (year)
Total	2,696,420	2,907,573	2,940,128	3,198,072	3,467,853
Other	269,348	292,077	340,244	382,464	465,399
Europe	757,942	806,104	857,167	969,042	1,093,295
Americas	889,764	982,104	1,010,166	1,045,166	1,059,425
Japan	779,366	827,288	732,551	801,400	849,734

● Key Performance Indices

Legend: EPS (basic) ■ Per share dividend ● ROE ● ROA

(¥) / (%)

	'00	'01	'02	'03	'04 (year)
EPS (basic)	153.7	191.3	217.6	313.8	387.8
Per share dividend	21	25	30	50	65
ROE	10.7	12.2	12.5	15.9	16.8
ROA	4.9	5.9	6.6	9.0	10.1

● Credit Rating

(as of May 31, 2005)

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

● Percent of Production Performed Outside Japan

Legend: Production percentage outside Japan ● Percent of production in Asia

(%)

	'00	'01	'02	'03	'04 (year)
Production percentage outside Japan	30%	35%	38%	42%	42%
Percent of production in Asia	19%	24%	31%	37%	38%

● Other Financial Data (consolidated)

		2000	2001	2002	2003	2004
Net Sales	(¥ million)	2,696,420	2,907,573	2,940,128	3,198,072	3,467,853
Income Taxes	(¥ million)	87,197	115,154	134,703	162,653	194,014
Net Income	(¥ million)	134,088	167,561	190,737	275,730	343,344
Total Assets	(¥ million)	2,832,125	2,844,756	2,942,706	3,182,148	3,587,021
Interest-Bearing Debt	(¥ million)	391,613	295,630	148,103	98,396	38,530
Retained Earnings & Legal Reserve	(¥ million)	888,761	1,036,178	1,203,248	1,450,440	1,740,834
Stockholders' Equity	(¥ million)	1,298,914	1,458,476	1,591,950	1,865,545	2,209,896
Capital Expenditure	(¥ million)	170,986	207,674	198,702	210,038	318,730
R&D Expenditures	(¥ million)	194,552	218,616	233,669	259,140	275,300
Dividends Paid	(¥ million)	14,820	20,144	23,663	28,538	52,950
Investment Gains/Losses	(¥ million)	▲ 3,590	▲ 1,141	2,410	4,657	4,362
Free Cash Flow	(¥ million)	133,812	113,160	218,730	265,701	308,562
Year-End Share Price	(¥)	4,000	4,510	4,470	4,990	5,530
Shares Issued & Outstanding at Year End	(thousands)	875,627	876,212	879,136	881,339	887,977
Year-End Market Capitalization	(¥ million)	3,502,508	3,951,718	3,929,739	4,397,880	4,910,514

Financial data URL: canon.com/ir

Social Performance/ISO14001 Certification

2004 Labor Accidents (worldwide)

(individual accidents)

	Accidents Requiring Time Off*1	Accidents Not Requiring Time Off*2	Total
Japan	12	122	134
Americas	0	3	3
Europe	25	10	35
Asia (excluding Japan)	36	126	162
Total	73	261	334

Figures tabulated according to the following Japanese standards:
*1 Cases in which a doctor orders a break from work to treat an injury, etc.
*2 Cases in which a doctor does not order a break from work to treat an injury, etc.

Primary Partners in Environmental Protection Activities

Partners in Government, Business, and Academia	Commissions and Study Groups
Japan's Ministry of the Environment	Investigative Committee on the Application of Environmental Accounting, Committee on Revisions to Environmental Reporting Guidelines, Corporate Study Group on Emissions Trading of Greenhouse Gases
GRI (Global Reporting Initiative)	Organizational Stakeholder (OS)
Asian Productivity Organization	Green Productivity Consultative Committee
Japan's Environmental Management Association for Industry	Eco-Products Organizing Committee, Eco-Leaf Environmental Label Management Committee, New Pj Planning Committee on LCA Method Application, Working Group 1 for Considering Methods to Decide Environmentally Conscious Capital Investment
Japan Electronics and Information Technology Industries Association	General Committee on Environment and Product Safety, IT Products Environmental Project Committee, International Energy Star Committee, Japan Green Procurement Survey Standardization Initiative, Printer Working Group
Japan Business Machine and Information System Industries Association	Policy Committee, Environmental Committee, Environmental Technology Expert Subcommittee, Environmental Issues Coordination Working Group
Japan Machinery Center for Trade and Investment	Committee on Trade and Environment
Nippon Keidanren	International Environmental Strategy Working Group, Council on WTO Trade and the Environment, Environmental Steering Group Committee, Committee on Environment and Safety, Waste Working Group
American National Standards Institute	ISO/TC207/WG4 (Environmental Communications)
Camera and Video Equipment Industry Association	Environmental Work Subcommittee (Administrative Committee)
Japan Chemical Industry Association	Chemical Risk Research Committee
Battery Association of Japan	Secondary Battery Recycling Center Administrative Committee
The Nikkan Kogyo Shimbun, Ltd.	Green Forum 21
United Nations University	Zero Emissions Forum
Institute of Industrial Science, University of Tokyo	SPEEED
Sustainable Management Forum of Japan/SMRI	Sustainability Management Forum Rating Committee
Nikkei Business Publications, Inc.	Steering Committee of the Nikkei BP Forum on Environmentally Conscious Management
The Society of Non-Traditional Technology	Eco-Material Guidelines Study Group
IEC (International Electrotechnical Commission)	Japan representative on TC111 (Environmental Conscious Design for Electrical and Electronic Products and Systems)

Support for Environmental Organizations and Programs	Geographic Area
Harbor Branch Oceanographic Institution	America
Canon Envirothon (the largest high school environmental science competition in North America)	America, Canada
WWF	Europe, Middle East, Asia, etc. (over 100 countries in all)
Yellowstone Park Foundation	America
Public Broadcasting Service's NATURE series	America
UNEP International Photographic Competition on the Environment	All
National Geographic magazine advertisement series	All

Canon Environmental Protection Programs	Geographic Area
Toner Cartridge Collection Program	All
Canon National Parks Science Scholars Program	Americas

2004 Social Contribution Expenditures (Canon Inc.)

¥ 4.7 billion (equivalent to 1.2% of ordinary profit)

ISO14001 Certified Sites and Subsidiaries

Site/Subsidiary*	Certification Date
Japan	
Ami Plant	February 1995
Ueno Canon Materials Inc.	February 1995
Toride Plant	May 1995
Fukushima Canon Inc.	September 1995
Canon Precision Inc. Ishiwatari/Kitawatoku Plants	September 1995
Canon Electronics Inc. Misato Plant	October 1995
Canon Finetech Inc. Headquarters, Ibaraki Plant	November 1995
Nagahama Canon Inc.	December 1995
Utsunomiya Plant	January 1996
Oita Canon Inc.	January 1996
Canon Semiconductor Equipment Inc. (including Canon Ecology Industry Inc.)	July 1996
Canon Chemicals Inc. Headquarters, Tsukuba Site	July 1996
Canon Finetech Inc. Kofu Office	November 1996
Canon Finetech Inc. Fukui Office	November 1996
Canon Components, Inc.	February 1997
Miyazaki Daishin Canon Co., Ltd.	March 1997
Canon Chemicals Inc. Iwama Site	April 1997
Utsunomiya Optical Products Plant	December 1997
Top Business Machines Co., Ltd.	November 1997
Canon Chemicals Inc. Ishige Site	January 1998
Tamagawa Plant	November 1998
Hiratsuka Development Center	December 1998
Canon Electronics Inc. Akagi Plant	June 1999
Canon Electronics Inc. Headquarters, Chichibu Plant	July 1999
Nisca Corporation	September 1999
Canon Sales Co., Inc. Headquarters, branch offices, sales offices (281 locations in in all)	December 2000
Ayase Office	June 2001
Canon Optron, Inc.	May 2002
Americas	
Canon Virginia, Inc.	December 1997
Custom Integrated Technology, Inc.	December 1999
Europe	
Canon Bretagne S.A.S.	November 1995
Canon Giessen GmbH	October 1997
Canon (Schweiz) A.G.	December 1997
Canon Svenska AB and Canon Centers (22 sites)	April 1999
Canon Deutschland GmbH	October 2003
Canon Italia S.p.A	October 2003
Canon Oy	May 2004
Asia (excluding Japan)	
Canon Inc., Taiwan	April 1996
Canon Hi-Tech (Thailand) Ltd.	November 1996
Canon Opto (Malaysia) Sdn. Bhd.	December 1996
Canon Zhuhai, Inc.	March 1997
Canon Dalian Business Machines, Inc.	July 1997
Canon Vietnam Co., Ltd.	October 2003
Canon (Suzhou) Inc.	December 2003
Canon Engineering (Thailand) Ltd.	December 2003
Canon Zhongshan Business Machines Co., Ltd.	July 2004
Canon Hongkong Co., Ltd.	December 2004
Oceania	
Canon Australia Pty. Ltd.	November 2002

*Company and operational site names are current as of the end of 2004.

Environmental Accounting

● Environmental Accounting Results for 2004

- Reporting scope: Main subsidiaries and affiliates (expanded from 2004 by adding data for main subsidiaries and affiliates outside Japan to data for subsidiaries and affiliates in Japan).
- Calculations performed in accordance with the Environmental Accounting Guidelines (2005 edition) issued by Japan's Ministry of the Environment.

(¥ billion)

Environmental Protection Costs				
Category		Main Implementation	Investment	Expense
(1) Business Operations Costs			4.11	7.64
Details	① Pollution prevention	Air, water, and soil pollution prevention, etc.	1.93	3.81
	② A Global environmental protection	Energy conservation, logistics streamlining, prevention of global warming, etc.	1.51	1.32
	③ Resource recycling	Efficient resource use, waste reduction, sorting, recycling, etc.	0.67	2.51
(2) Upstream/Downstream Costs		Green procurement initiatives, product recycling[1], etc.	0.02	2.14
(3) Management Activities Costs		Environmental education, environmental management system, tree planting, information disclosure, environmental advertising, management personnel, etc.	0.09	4.20
(4) R&D Costs[2]		R&D for reducing environmental burden	0.22	0.58
(5) Social Activities Costs		Contributions to environmental and other organizations, sponsorships, memberships, etc.	0.03	0.16
(6) Environmental Damage Costs		Soil remediation	0.09	1.33
Total			4.56	16.05

1) In connection with the recycling of used products, expenses for product collection, storage, sorting, shipment, etc.
2) Expenses for basic research of environmental technologies

Environmental Protection Effects				
Details of Effects		Environmental Protection Indices		
		Index	Index Value	Change Compared to Prior Year
Effects Related to Business Operations Costs	Effects related to resources used for business activities	Energy conservation savings (t-CO_2)	38,546	—
		Water conserved (1,000 m³)	835	12% incr.
		Resources used (steel sheets, plastic) (t)	72,724	10% incr.
	Environmental burden and waste effects of business activities	Reduction in atmospheric emissions (t) [3]+[4]	50	8% incr.
		Reduction in discharges into water (t) [5]+[6]	2	8% incr.
		Reduction in waste (t)	826	31% decr.
Effects Related to Upstream/Downstream Costs	Goods/services effects calculated based on business activities	Reduction in product energy consumption (t-CO_2)[7]	1,136,269	—
		Recovery of used products (t) [8]	33,292	—
Other Environmental Protection Effects	Shipping and other effects	Reduction in fuel consumption (t-CO_2)	70,647	10% incr.

3) Amount of atmospheric emissions of substances Canon treats as controlled substances (including PRTR substances)
4) Amounts of NOx and SOx emissions resulting from consumption of boiler fuel
5) Amount of discharges into hydrosphere of substances Canon treats as controlled substances
6) Amount of discharges into hydrosphere of BOD, COD, nitrogen, and phosphate
7) CO_2 equivalent for forecasted electric energy consumption for the number of business machines with on-demand energy-efficient technologies (on-demand fixing technology, IH fixing technology, inkjet energy-saving technology) shipped in 2004
8) Amount of recovery of copying machines, cartridges, etc. (including third-party material recycling and energy recovery)

(¥ billion)

Economic Effects of Environmental Protection		
Details of Effects		Monetary Value
Revenue	Sales revenue from waste recycling	0.29
Cost Savings	Energy expense reduction from energy conservation	2.05
	Expense reduction from green procurement	0.02
	Waste handling expense reduction from resource conservation and recycling	0.22
	Expense reduction from logistics streamlining	0.02
Total		2.60

(¥ billion)

Economic Effects of Upstream/Downstream Costs	
Lower Electric Energy Expense from Reduced Product Energy Consumption [9]	35.8
Profits from Used Product Recycling	0.41

9) Calculated as the reduction in annual energy consumption of business machines with on-demand energy-efficient technologies (on-demand fixing technology, IH fixing technology) and inkjet energy-saving technology × ¥ 12/kWh (economic effect for the customer)

Environmental Performance Data

● Meeting Standards for Environmentally Conscious Products

Product Type	Law Promoting Green Purchasing	Eco Mark	International ENERGY STAR® Program
Copying Machines/MFDs	17/22 (77.3%)	14/22 (63.6%)	17/22 (77.3%)
Facsimile Machines	7/7 (100%)	— (—)	7/7 (100%)
Laser Beam Printers	3/3 (100%)	3/3 (100%)	3/3 (100%)
Inkjet Printers	23/23 (100%)	16/23 (69.6%)	23/23 (100%)
Image Scanners	3/3 (100%)	— (—)	3/3 (100%)
Total	53/58 (91.4%)	33/48 (68.8%)	53/58 (91.4%)

*The number of products meeting the given standard or program is indicated next to the total number of products in the category, with the percentage of products meeting the standard in parentheses.
*No Eco Mark standards for facsimile machines and image scanners have been established.

● Types of Materials Used
(t)

	2000	2003	2004
Steel	243,938	199,377	265,829
Non-Ferrous Metal	30,218	25,120	35,581
Plastics	242,684	235,148	266,076
Electronic Parts	7,130	9,288	8,971
Glass	4,822	4,653	4,373
Paper	288,534	278,173	243,653
Indirect Materials	6,878	9,221	10,672

*Calculated based on weight of raw materials used for each product multiplied by the total number of products shipped.
*Indirect materials (chemical substances) calculated based on the amount of purchases of substances Canon treats as controlled substances (about 2,000 substances).

● CO$_2$ Conversion Coefficients

The conversion of electricity and fuel into CO_2 is based on the following methods.

Japan	Electricity	Japan's Ministry of the Environment's emissions trading pilot project, average nationwide figures of general electric power companies (2000, 2001 figures);
		Average nationwide basic units of electricity for fiscal 2002 from The Federation of Electric Power Companies of Japan (2002, 2003 figures);
		Data calculation for 2004 based on 2003 figures, as 2004 figures were not yet available
	Fuel	Fiscal 2003 default figures from Japan's Ministry of the Environment's emissions trading pilot project
Outside Japan	Electricity	Annual figures disclosed by the International Energy Agency (IEA) for each region (2004 edition)
	Fuel	Fiscal 2003 default figures from Japan's Ministry of the Environment's emissions trading pilot project;
		Figures from suppliers (from operational sites reporting such figures)

● 2004 Consumption of Electricity, Gas, and Petroleum-Based Fuel by Region

	Electricity	Gas	Petroleum	Other (steam, wide-area heating and air conditioning)
	MWh	km^3	kL	MJ
Japan	1,036,599	19,890	30,412	61,726,287
Americas	51,719	22	0	0
Europe	12,142	395	25	0
Asia (excluding Japan)	240,810	1,779	441	53,868,000
Total	1,341,270	22,086	30,877	115,594,287

● Waste Reduction Results and Goals

	2000	2001	2002	2003	2004	2005 (target)
Landfill Waste (t)	4,331	3,779	3,277	2,635	1,809	—
Waste Recycled (t)	36,190	32,452	27,187	25,623	24,444	—
Commodities (t)	22,457	24,533	24,076	27,772	28,045	—
Amount Reduced (t)	18,722	15,936	10,412	11,307	10,924	—
Total Waste Generation (t)	81,700	76,699	64,953	67,337	65,222	61,275
Internally Recycled Waste (t)	1,951	1,564	1,539	1,659	11,630	—
Internal Recycling Rate (%)	2.3	2.0	2.3	2.4	15.1	3.2

*Resource conservation definitions:
Internal recycling rate = Amount of internally recycled waste/(Total waste generation + Amount of internally recycled waste) × 100 (%)
Total waste generation: Amount of waste excluding internally recycled waste
Internally recycled waste: Amount of recycled waste used by Canon after externally discharged waste is transferred to outside contractors, appropriately processed, and returned to Canon for use.
Landfill waste: Excludes waste disposed of according to administrative guidance

● Use of Water Resources and Discharge of Wastewater
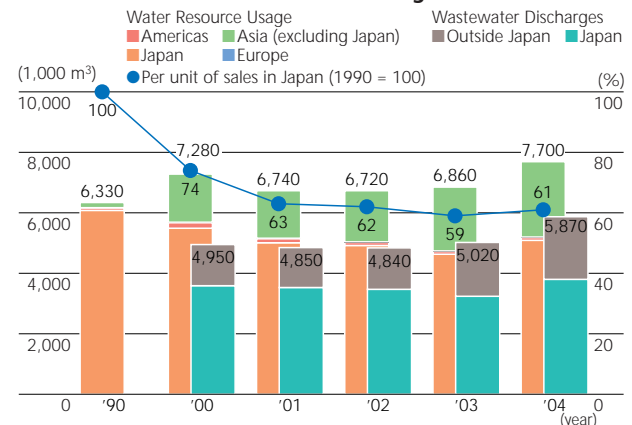
● Breakdown of Water Resource Usage in 2004
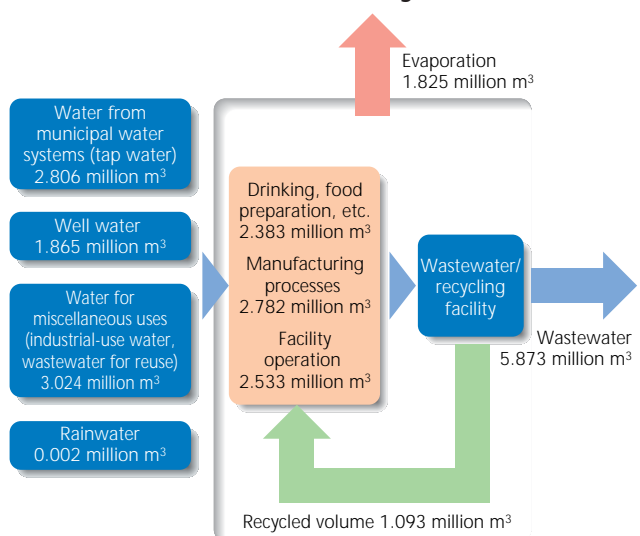
● Substances Canon No Longer Uses

Name of Substance Eliminated		Date Eliminated
Ozone-Depleting Substances	● CFCs (chlorofluorocarbons) 15 types ● 1,1,1-Trichloroethane ● HCFCs (hydrochlorofluorocarbons) 34 types	December 1992 October 1993 October 1995
Greenhouse Gases[1]	● PFCs (perfluorocarbons) ● HFCs (hydrofluorocarbons)	December 1999 December 1999
Soil Contaminants	● Trichloroethylene ● Tetrachloro ethylene ● Dichloro methane (for cleaning) ● Dichloro methane (for thin film coating)[2]	December 1996 December 1996 December 1997 October 2003

[1] Excludes use in semiconductor production.
[2] Usage in Japan ceased as of December 2001.

● Volume of Hazardous Substances Discharged

(t)

	2000	2001	2002	2003	2004
Hazardous Substances Discharged in Japan	629	460	343	338	372
Hazardous Substances Discharged outside Japan	616	376	215	201	212
Total Hazardous Substances Discharged	1,245	836	558	539	584
PRTR Substances Discharged in Japan	166	91	71	63	65
PRTR Substances Discharged outside Japan	214	107	42	38	32
Total PRTR Substances Discharged	380	198	113	101	97

The above figures include only discharges into the atmosphere, soil, and hydrosphere, in accordance with the PRTR Law. Previously, however, the amount of hazardous substances transferred into sewage systems was included in the hazardous substances discharge volume.

● PRTR Output for 2004 (Japan and locations outside Japan)

No.	Substance No.	Chemical Substance	Hazardous Substance Discharge Volume		Amounts of Transfers		
			Atmospheric Discharges	Discharges into Hydrosphere	Transfers into Sewage Systems	Transfers of Waste	Transfers of Recycled Materials
1	1	Water-soluble zinc compounds	0.00	0.00	0.00	0.00	0.42
2	16	2-Amino ethanol	0.06	0.00	0.00	0.00	9.21
3	25	Antimony and its compounds	0.01	0.00	0.00	0.00	0.18
4	30	Polycondensate of 4,4*-Isopropylidenediphenol and 1-chloro-2,3-epoxy-propane	0.11	0.00	0.00	0.06	0.00
5	40	Ethylene benzene	0.18	0.00	0.00	0.00	5.81
6	43	Ethylene glycol	0.01	0.00	0.00	0.00	2.56
7	44	Ethylene glycol monoethyl ether	0.00	0.00	0.00	0.00	0.00
8	45	Ethylene glycol monomethyl ether	0.00	0.00	0.00	0.00	0.00
9	63	Xylenes	2.41	0.00	0.00	0.57	30.24
10	68	Chrome and trivalent chrome compounds	0.00	0.00	0.00	0.00	0.06
11	93	Chlorobenzene	41.63	0.00	0.00	0.00	362.97
12	95	Chloroform	0.04	0.00	0.00	0.00	1.97
13	96	Methyl chloride	0.00	0.00	0.00	0.00	1.87
14	101	Ethylene glycol monoethyl ether acetate	0.25	0.00	0.00	0.00	0.89
15	113	1,4-dioxane	0.30	0.00	0.00	0.00	1.84
16	139	o-dichlorobenzene	0.01	0.00	0.00	0.00	0.90
17	172	N, N-dimethylformamide	1.87	0.00	0.00	0.00	95.57
18	177	Styrene monomer	2.63	0.00	0.00	0.00	44.93
19	181	Thiourea	0.00	0.00	0.00	0.00	1.41
20	207	Water-soluble copper salts	0.00	0.00	0.00	0.00	0.04
21	224	1,3,5-Trimethylbenzene	4.52	0.00	0.00	2.60	15.52
22	227	Toluene	42.81	0.00	0.00	20.33	14.43
23	230	Lead and lead compounds	0.00	0.11	0.00	0.19	2.28
24	231	Nickel (metal)	0.00	0.00	0.01	0.00	0.24
25	232	Nickel compounds	0.00	0.00	0.01	0.00	3.35
26	260	Catechol	0.02	0.00	0.00	0.00	0.40
27	266	Phenol	0.21	0.00	0.00	0.00	0.31
28	283	Hydrogen fluoride and water-soluble hydrogen fluoride salts	0.11	0.00	1.76	0.00	0.99
29	304	Boron and its compounds	0.00	0.00	0.00	0.00	0.26
30	308	Polyoxyl ethylene octyl phenyl ether	0.08	0.00	0.00	0.00	2.24
31	311	Manganese and its compounds	0.00	0.00	0.00	0.00	0.05
		Total	97.25	0.11	1.79	23.75	600.95

*Of the 354 Class I Designated Chemical Substances, Canon used 41 substances in quantities of at least 0.1 ton a year. The PRTR discharge and quantity data above are for 31 Class I Designated Chemical Substances of which yearly usage was at least 1 ton and there were discharges or transfers. Substances recycled into non-valuable materials are counted under the column "Transfers of Recycled Materials."
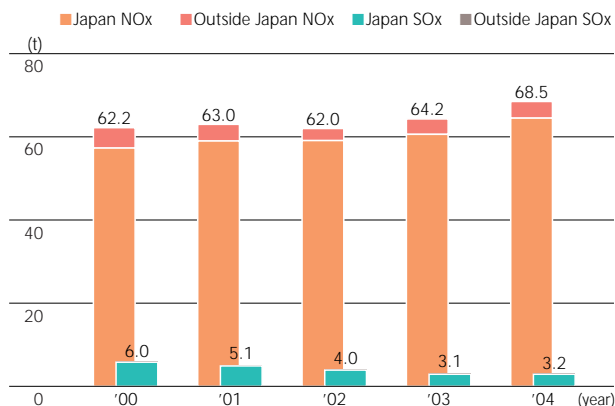*There is no discharge into the soil and no landfill at operational sites.
*The figures in the above chart are rounded off to two decimal places.

● Environmental Burden on the Hydrosphere

■ BOD ■ COD ■ Phosphorous ■ Nitrogen

(t)

- '00: 57.5
- '01: 39.9
- '02: 32.4
- '03: 19.3
- '04: 20.2

(year)
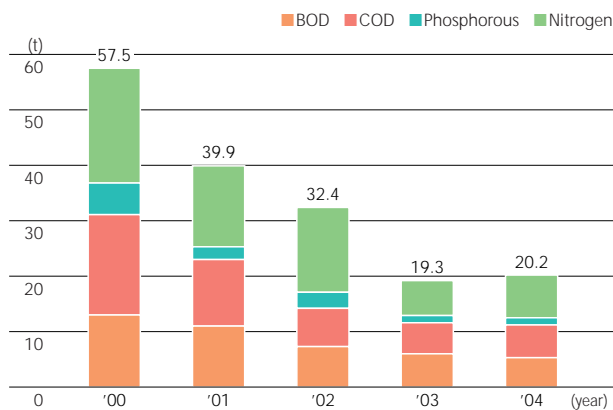
*Calculated as overall water discharges from operational sites in Japan × average annual water quality values. Discharges into sewers are not included.

● NOx and SOx Discharges

■ Japan NOx ■ Outside Japan NOx ■ Japan SOx ■ Outside Japan SOx

(t)

year	NOx	SOx
'00	62.2	6.0
'01	63.0	5.1
'02	62.0	4.0
'03	64.2	3.1
'04	68.5	3.2

*BOD (biochemical oxygen demand)
The amount of oxygen consumed when micro-organisms biodegrade organic matter in water.
*COD (chemical oxygen demand)
The amount of oxygen consumed when oxidants oxidize organic matter in water.
*NOx (nitrogen oxide)
A major cause of air pollution, acid rain, and photochemical smog. Generated when the nitrogen in fuels is oxidized, or when nitrogen in the atmosphere is oxidized during high temperature combustion.
*SOx (sulfuric oxide)
A major cause of air pollution and acid rain, and generated with the burning of such fossil fuels as oil and coal.

● Logistics Operations Results in 2004

		2004
Fuel (kL)		288,656
Environmental Burden	CO_2 (1,000t-CO_2)	760
	NOx (t-NOx)*	1,820
	SOx (t-SOx)*	381

*With regard to emissions of NOx and SOx, since coefficients for calculating international shipments and other factors have not been firmly established, and therefore we have made calculations based on the coefficient for burning light oil.

● Logistics-Related CO_2 Emissions

(t-CO_2)

		2003	2004
Japan	Parts procurement logistics	8,472	8,749
	Production site logistics	6,484	6,233
	Shipping in Japan	10,880	12,449
	Sales to customers	4,909	5,504
	Subtotal	30,745	32,935
Outside Japan	Production sites	10,898	14,585
	Marketing subsidiaries/affiliates	28,544	32,489
	Subtotal	39,442	47,074
International Shipping	By air	403,130	457,231
	By sea	217,551	224,812
	Subtotal	620,681	682,043
Total		690,868	762,052

● Use of Low-Emission Vehicles in 2004
(low-emission gas vehicles* at Canon Sales)

Total Vehicles Used	Low-Emission Gas Vehicles Used	Percent of Total
181	112	61.8%

*Canon Sales owns a total of 1,140 vehicles (including 67 three-wheeled scooters).
*Vehicles that reduce emissions by at least 50% under the 2005 standard according to the Ministry of Land, Infrastructure and Transport's low-emission gas vehicle certification.

● Use of Packaging Materials in Japan

(t)

- '03: 2,915
- '04: 2,985

(year)
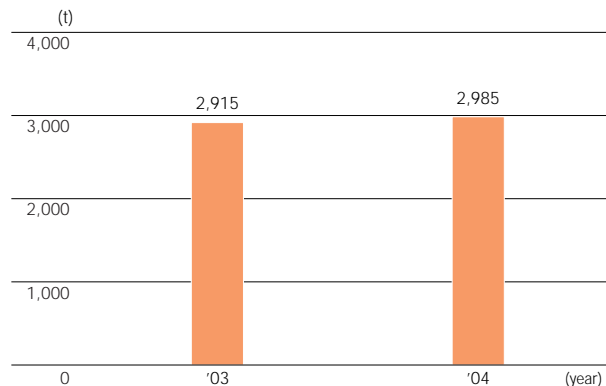
*Represents the total amount of packaging materials used to package products, including cardboard boxes and other materials outside the scope of the Law for Promotion of Sorted Collection and Recycling of Containers and Packaging.

Operational Sites Covered in the Environmental Section
(Company and operational site names are those used at the end of 2004)

Data on operational site activities were gathered from the following list of companies divided into the four regions of Japan, the Americas, Europe, and Asia (excluding Japan). Any data in the report limited by region are indicated as such.
For marketing subsidiaries and affiliates outside Japan, the data cover only product recycling and ISO14001 certification data.

Name	Location	Activities
Canon Inc. (14 operational sites)		
Shimomaruko Headquarters	Tokyo	R&D, corporate administration, other functions
Tamagawa Plant	Kanagawa	Development of inkjet printers, inkjet chemical products
Kosugi Office	Kanagawa	Development of software for office imaging products
Hiratsuka Development Center	Kanagawa	Development of displays, electronic devices, etc.
Ayase Office	Kanagawa	R&D, manufacturing of semiconductor devices
Fuji-Susono Research Park	Shizuoka	R&D in electrophotographic technologies
Atsugi Office	Kanagawa	Research in basic and advanced technologies for future businesses
Utsunomiya Plant	Tochigi	Manufacturing of lenses (EF lenses, video camcorder lenses, broadcasting lenses, LCD projector lenses) and other specialized optical lenses
Toride Plant	Ibaraki	R&D in electrophotographic technologies, mass-production trials and support, manufacturing of chemical products
Ami Plant	Ibaraki	Manufacturing of office imaging products and mirror projection aligners, and design and manufacturing of factory automation equipment and metal molds
Utsunomiya Optical Products Plant	Tochigi	R&D, manufacturing, sales and servicing of semiconductor equipment; sales of broadcasting equipment; R&D, sales of medical equipment
Optics R&D Center	Tochigi	R&D in optical technologies; development of broadcasting equipment
Kamisato Office	Saitama	Development of medical equipment devices
Tsukuba Parts Center	Ibaraki	Storage of parts and management of shipping within and outside Japan
Marketing Subsidiaries and Affiliates in Japan		
Canon Sales Co., Inc.	Tokyo	Sales of Canon products in Japan and related business
Manufacturing Subsidiaries and Affiliates in Japan		
(16 companies, 24 operational sites)		
Canon Electronics Inc. Headquarters, Chichibu Plant	Saitama	Magnetic components business (precision components), manufacturing equipment business, VCS business, quality assurance
Canon Electronics Inc. Misato Plant	Saitama	IMS and business machines components business
Canon Electronics Inc. Akagi Plant	Gunma	Laser beam printers
Canon Finetech Inc. Headquarters, Ibaraki Plant	Ibaraki	Development of page printers and digital MFDs, development and manufacturing of paper handling devices, and manufacturing of card/label printers
Canon Finetech Inc. Mitaka Office	Tokyo	Development and sales of inkjet printers
Canon Finetech Inc. Kofu Office	Yamanashi	Manufacturing of page printers, digital MFDs, large-format printers/plotters, and chemical products
Canon Finetech Inc. Fukui Office	Fukui	Development and manufacturing of photosensitive paper and chemical products
Nisca Corporation	Yamanashi	Development, manufacturing, and sale of office automation machines and optical measuring equipment
Top Business Machines Co., Ltd.	Shiga	Copying machine recycling, chemical products, consignment of copying machine peripherals
Canon Precision Inc. Headquarters, Kitawatoku Plant	Aomori	Manufacturing of toner cartridges
Canon Precision Inc. Ishiwatari Plant	Aomori	Manufacturing of direct-drive micromotors and ICs
Canon Chemicals Inc. Headquarters, Tsukuba Site	Ibaraki	Manufacturing of toner cartridges
Canon Chemicals Inc. Iwama Site	Ibaraki	Manufacturing of toner cartridge parts
Canon Chemicals Inc. Ishige Site	Ibaraki	Manufacturing of rubber parts for business machines
Oita Canon Inc.	Oita	SLR cameras, digital cameras, digital video camcorders, communication cameras
Miyazaki Daishin Canon Co., Ltd.	Miyazaki	Digital cameras; electronics packaging
Canon Optron, Inc.	Ibaraki	Development, manufacturing and sale of 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	Laser beam printers, toner cartridges, a-Si drums
Oita Canon Materials Inc.	Oita	Chemical products for copying machines and printers
Canon Semiconductor Equipment Inc.	Ibaraki	Development and manufacturing of semiconductor manufacturing-related equipment, manufacturing of small-sized copying machines and copying units
Canon Ecology Industry Inc.	Ibaraki	Refurbishing and recycling of business machines, consumables, and other Canon products
Ueno Canon Materials Inc.	Mie	Chemical products for copying machines and printers
Fukushima Canon Inc.	Fukushima	Manufacturing of inkjet printers, print heads, ink tanks; analysis of Canon software

Name	Location	Activities
Manufacturing Subsidiaries and Affiliates Outside Japan		
(15 companies, 15 operational sites)		
Canon Virginia, Inc.	U.S.A.	Toner cartridges, toner for copying machines, OEM products, mold dies
Custom Integrated Technology, Inc.	U.S.A.	Office equipment refurbishing and remanufacturing
Industrial Resource Technologies, Inc.	U.S.A.	Toner cartridge recycling
Canon Giessen GmbH	Germany	Copying machine manufacturing and remanufacturing, toner cartridge refilling, refurbishing of semiconductor manufacturing equipment
Canon Bretagne S.A.S.	France	Manufacturing and recycling of copying machines and toner cartridges; packaging; after-sales service
Canon Inc., Taiwan	Taiwan	SLR and compact cameras, EFS and other lenses, precision-metal molds
Canon Opto (Malaysia) Sdn. Bhd.	Malaysia	Digital cameras, EF lenses, optical lens parts
Canon Hi-Tech (Thailand) Ltd.	Thailand	Inkjet printers, personal-use copying machines, facsimile machines, inkjet all-in-one printers
Canon Engineering (Thailand) Ltd.	Thailand	Plastic molds, molded parts
Canon Dalian Business Machines, Inc.	China	Manufacturing and recycling of toner cartridges, and manufacturing of laser beam printers, inkjet all-in-one printers
Canon Zhuhai, Inc.	China	Compact cameras, digital cameras, laser beam printers, inkjet all-in-one printers, image scanners, contact image sensors
Canon Vietnam Co., Ltd.	Vietnam	Inkjet printers
Canon Zhongshan Business Machines Co., Ltd.	China	Laser beam printers
Canon (Suzhou) Inc.	China	Color and monochrome digital copying machines
Canon Finetech (Suzhou) Business Machines Inc.	China	Manufacturing and sales of business machines, business machines peripherals, and other machines
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, Southeast, Inc.	U.S.A.	Business machines
Canon Financial Services, Inc.	U.S.A.	Business machine leasing
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.	United Kingdom	All products
Canon Deutschland GmbH	Germany	All products
Canon France S.A.S.	France	Business machines
Canon Italia S.p.A.	Italy	All products
Canon (Schweiz) A.G.	Switzerland	All products
Canon Nederland N.V.	Netherlands	Business machines
Canon Danmark A/S	Denmark	All products
Canon Espanña S.A.	Spain	All products
Canon Svenska AB	Sweden	All products
Canon Norge A.S.	Norway	All products
Canon Oy	Finland	All products
Canon Belgium N.V./S.A.	Belgium	Business machines
Canon GmbH	Austria	All products
Canon Singapore Pte. Ltd.	Singapore	All products
Canon Hongkong Co., Ltd.	Hong Kong	All products
Canon (China) Co., Ltd.	China	All products
Canon Australia Pty. Ltd.	Australia	All products

- Canon Precision Inc. and Hirosaki Seiki, Inc. merged in January 2004. The name of the new entity is Canon Precision Inc.
- Canon N.T.C., Inc. was divided into two new companies, Canon Ecology Industry Inc. and Canon Semiconductor Equipment Inc. in January 2004.
- Nisca Corporation and Top Business Machines Co., Ltd. were newly added to the operational site coverage.

Detailed information on each operational site can be found at the following URLs:
canon.com/about/group/list.html   canon.com/index.html

Comments on *Canon Sustainability Report 2004*

● Positive Feedback on Report

Comments	Canon Response
Canon has begun to gather data on the environmental burden of international logistics (shipping between regions and within regions outside Japan) and take measures to reduce the associated environmental burden, as part of its efforts to determine and lessen the burden of all its business activities.	We strive to expand the scope of data and refine the methods of data collection annually in accordance with changes to business conditions (▶P. 13) (▶P. 56).
Canon has made progress on promoting initiatives for the entire industry, such as the use of a common green procurement survey.	We intend on strengthening our ties with industry, government, and academia (▶P. 29, 41–42) (▶P. 60).
Canon is clearly committed to having its business activities reflect the requests of its stakeholders, as is evident from the two-way communication the company holds with stakeholders. This stance is also reflected in the company's response to the third-party opinions.	We continue to enhance the transparency and objectivity of our initiatives and the *Sustainability Report* itself (▶P. 29–30) (▶P. 66–68).

● Improvements in the *Sustainability Report 2005* based on Feedback from Stakeholders

	Requests and Comments	Canon Response
Environmental	An explanation of the current progress in achieving Factor 2 should be provided.	Progress toward Factor 2 is explained together with the environmental burden results (▶P. 14).
	The report should have a detailed explanation of measures regarding global warming mitigation and the Kyoto Protocol.	Canon's initiatives are described in the "Highlights 2004–2005: Global Warming Countermeasures at Canon" section (▶P. 17–18), and in the section on energy conservation at operational sites (▶P. 53).
	A pamphlet should be created to enlighten the general public about environmental conservation activities by explaining the importance of the environment and providing examples in a way that makes it easy to understand Canon's initiatives.	The previously published digest edition of the *Sustainability Report* has been transformed into an easy-to-read environmental pamphlet, *ECO life*.
Social	The social management information should be more comprehensive.	The social management section was greatly expanded with a focus on governance, compliance, and other key topics (▶P. 23–24) (▶P. 25–42).
	An explanation of the social contributions of products should be provided.	New sections were added on "Contributions to Society through Products and Services" (▶P. 7–8) and "Providing Superior Products and Services" (▶P. 33–34).
	The report should include an explanation of various aspects of supply chain management, not just the environmental aspect.	A section on "Relations with Suppliers" was newly added (▶P. 41–42).
Editorial	There is no separation in the report between environmental management and social management. Moreover, it's hard to get an overall understanding of the report because the explanation of the various initiatives (management) and their results (performance) are in separate sections.	The social management and environmentally conscious management sections have been clearly separated, and the initiatives and results are explained together (▶P. 2).

● Publication of *Sustainability Report* and Number of Downloads

Copies Issued			Copies Downloaded from Canon's Website in 2004 (entire *Sustainability Report* version)	Access to Canon's Environmental Website in 2004
Japanese (published June 2004)	English (published August 2004)	Total		
11,600	16,700	28,300	147,272	449,397

(The digest edition of the *Sustainability Report* is published in Japanese, English, and Chinese)

*Conditions for counting access
1. Multiple access by same IP address within a 30-minute interval is counted as one session.
2. Access to multiple files in the same directory is counted as one session.

● Inquiries Regarding the Environment

In 2004, Canon received 740 inquires regarding the environment via e-mail, postcard survey, and other means (excluding requests for copies of the *Sustainability Report*). The general contents of the inquiry and types of stakeholders making inquiries are shown in the graphs.

Types of Stakeholders Making Inquiries

Other 11%
Environmental Experts 13%
Users 76%

Contents of Inquiries

Other 13%
Sustainability Report/ Environmentally Conscious Management 21%
Recycling 45%
Products 21%
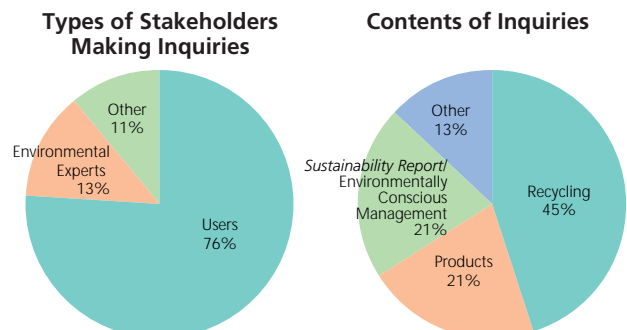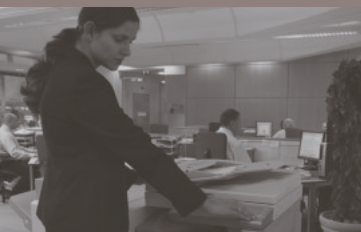
Third-Party Opinion and Canon's Response

About the Third-Party Opinion

For the third-party opinions* of the *Sustainability Report 2005*, Canon has invited the same representatives of two stakeholder groups who commented on last year's report. These stakeholders have been asked to provide their opinions on how well this report, with an improved triple-bottom-line approach, meets their expectations—for information the report provides, the quality of performance it conveys, and its usefulness for meaningful engagement.

Our response follows, outlining how we have received stakeholders' comments, and how we intend to respond to them in the future.

The purpose of the third-party opinion and our response is to furnish you, the reader, with information to help you judge how well Canon has met expectations through this report, and what you can expect from Canon in the future.

Further information on the third-party opinion process and how our approach has evolved is available on the Canon website at URL://www.canon.com/environment/report.

*The comments are the personal views of the authors and do not imply any endorsement from their organizations.

Third-Party Opinion from the Wuppertal Institute for Climate, Environment, and Energy

In its 2005 Sustainability report, Canon shows how it implements its sustainability goals throughout the Canon Group. Management and information systems are thoughtfully combined with awareness raising and practical measures to change the actual behaviour of employees on all levels. "Factor 2" provides for a clear, comprehensible goal, although the scope could be extended to other impacts (e.g. waste).

We further welcome the attention given to product design decisions and implications on sustainability impacts during use and end-of-life phases. The issue of energy consumption during the use phase has successfully been addressed. Innovative technological and organisational solutions have increased recycling rates. The report shows how Canon links environmental improvements to its business strategy, e.g. by taking consumer savings on energy into account as a cost argument. This makes Canon's efforts look credible and a potential source of long-term improvement and competitive advantage.

But challenges remain.

Considering usage, consumer behaviour and societal developments can offset the savings realised by technical measures. Sustainable Consumption as an issue should thus be taken up, e.g. by moving from product to service thinking.

Fundamental tasks persist also along the supply chain. The efforts regarding hazardous substances and the establishment of the Canon Group Procurement Code of Conduct represent first steps into the right direction. However, Canon do not have effective mechanisms for integrating social aspects into its supply chain management. To develop strategies for integrating sustainability aspects will offer an opportunity to significantly improve the sustainability performance of Canon.

By engaging with its suppliers on environmental and social issues, Canon could move from a procurement to a partnership perspective. This can initiate continuous improvements through learning and cultural change, in-house as well as in Canon's suppliers. For going beyond the first tier of suppliers, we further recommend Canon to initiate or join industry-wide sustainable supply chain management efforts.

Social issues dealt with mainly relate to customers and employees. A more systematic treatment of social issues could further improve the triple bottom line performance of Canon. This holds true especially for the contribution to societal goals and agendas as for example the UN Millennium Development Goals, but also for business charters like the OECD Guidelines for Multinational Enterprises or the UN Global Compact.

Canon has addressed a wide variety of issues successfully in the past. We believe the challenges laid out above in fact represent great opportunities for Canon to realise *kyosei* by continuously developing its existing efforts.

Wuppertal Institute
URL: www.wupperinst.org

Volker Tuerk
Researcher New Technologies
Wuppertal Institute
Sustainable Production and
Consumption Department

Michael Kuhndt
European Senior Researcher
Wuppertal Institute
Sustainable Production and
Consumption Department

Third-Party Opinion from ASrIA

Canon's 2005 Sustainability Report is a valuable publication, providing much detailed, but readable data on its operations. New sections on corporate governance and on management and performance are important additions towards creating a more truly triple-bottom line report.

The section of the report dealing with environmental issues is comprehensive with some useful benchmarking of progress of the last few years against Canon's targets. The section on social issues provides a useful overview. The GRI related index also provides a quick reference to Canon's comments on each key issue. The sections on customer health, safety, servicing and support are well developed. However, there still seems to be plenty of scope for Canon to deepen the quality and interest of its reporting on other social related issues. For instance, can Canon provide some examples of real issues raised between management and staff at the regular union meetings, such as suggestions from the shop-floor that have led to practical initiatives? Or examples of communications from staff to the President? Canon seems to be putting in place a valuable staff compensation system. Does Canon have any further comments on related issues such as staff turn-over, training and productivity? Can Canon provide some examples of particular initiatives taken to facilitate disabled workers, or more detail on such as maternity leave including whether the same standards are applied in overseas operations as in Japan? At present Canon applies comprehensive green procurement standards on its primary suppliers. This could be widened to include social performance aspects. Taking account of these wider issues in the supply chain is an important part of overall risk management.

Canon notes in its introduction that the purpose of the Report is to "fully inform stakeholders" and it also identifies its primary stakeholder groups as investors and shareholders, employees, suppliers, industry, government and academia. The value of a Report is more than the content, however comprehensive. What is even more valuable is how it is used, enabling Canon to gain maximum value from the effort put into its production. It would be interesting if Canon was able to gather and present more information on the circulation of the Report to all stakeholder groups and how it uses the report, internally and externally. More could also be done to create strong links between the key themes raised in the Report and the website.

Overall, I wish to congratulate Canon on its continued efforts to improve its transparency and accountability.

ASrIA
(Association for Sustainable & Responsible Investment in Asia)
URL: www.asria.org

David St. Maur Sheil
Director

Canon's Response

We have received valuable opinions of the *Canon Sustainability Report 2005* from two stakeholder groups. We intend to seriously consider the comments of these groups as we continue to improve our triple-bottom-line approach to corporate activities and the content of the report itself. We submit the following as Canon's response to the opinions expressed by the stakeholder groups.

Through rationally managed global business operations, Canon aspires to contribute to the sustainable development of the global environment and society, and secure sound and sustainable growth and profit for the Canon Group

On the environment front, our goal is to align the Group's environmental assurance activities with its economic activities. Our environmental assurance activities, targeting the reduction of environmental burden at every stage of the lifecycle across the company's business activities, include not only the activities undertaken by our operational sites, but the entire upstream and downstream burden on the environment, including manufacturing activities of suppliers and usage by consumers (▶P. 13).

Our vision for 2010 is the full achievement of Factor 2, an overriding indicator calling for, at minimum, a doubling of environmental efficiency associated with the lifecycle across Canon's business activities compared with levels in 2000. This report offers the first full explanation of our progress on attaining this goal (▶P. 14). The setting of Factor 2 reflects the need to express various burdens as a single quantitative unit. In this case, our basis for calculation is emissions of CO_2, a greenhouse gas directly responsible for global warming. We are also taking measures to eliminate or reduce the environmental burden of chemical substances which cannot be converted into CO_2 emissions, setting goals focused on each of these substances through the development of environmentally conscious products and the implementation of environmental assurance activities at operational sites. One achievement in this regard has been the completion of an assurance system by the end of 2004 to ensure that, as a general rule, all of our new products from 2005 will comply with the European Union's RoHS directive, which restricts the use of designated chemical substances and will be implemented in 2006 (▶P. 42). With the movement towards the establishment of a global industry standard in mind, Canon developed a chemical substance management system linking every level of the supply chain.

On the social front, our focus is to carry out initiatives based on rational management. Our main initiatives since 2004 include the enhancement of our corporate governance and compliance structures, the creation of management strategy advisory committees headed by the president and CEO, the distribution of compliance cards to employees, and the creation of the Canon Group Procurement Code of Conduct (▶P. 23–24, 28, 41). Furthermore, we have expanded the scope of disclosure on the social consciousness of our product development and our initiatives regarding customers and employees (▶P. 7–8) (▶P. 31–38).

Recommendations from the third-party opinions we received for the *Sustainability Report 2004* and other stakeholder opinions are reflected in our newly implemented measures and in the content of this report (▶P. 66). Canon looks forward to addressing the issues raised by stakeholders in the future, through third-party opinions and other means, as we examine the triple-bottom-line performance in its entirety, and promote business activities based on rational management. Our efforts in these directions will be disclosed in future Sustainability Reports and on our website.

GRI Guideline Implementation

1. Vision and Strategy

1.1	Statement of the organization's vision and strategy	P. 5–14
1.2	Statement from the CEO	P. 3–4

2. Report Profile

Organizational Profile

2.1	Name of reporting organization	P. 2
2.2	Major products and/or services	P. 7–8
2.3	Operational structure of the organization	P. 5–6, 13, 25, 43, 65
2.4	Description of major divisions, subsidiaries, etc.	P. 65
2.5	Countries in which the organization's operations are located	P. 65
2.6	Nature of ownership (legal form)	P. 2, 65
2.7	Nature of markets served	P. 5–8
2.8	Scale of the reporting organization	P. 5–6, 59
2.9	List of stakeholders, key attributes of each, and relationship to the reporting organization	P. 5–6, 29–30, P. 60 (primary partners in environmental protection activities)

Report Scope

2.10	Contact for the report	P. 1, Back cover
2.11	Reporting period	P. 1
2.12	Date of most recent previous report	P. 66
2.13	Boundaries of report	P. 1, 65
2.14	Significant changes that have occurred since the previous report	P. 65
2.15	Basis for reporting situations that can significantly affect comparability from period to period and/or between reporting organizations	P. 65
2.16	Explanation of any re-statements of information provided in earlier reports	No significant changes

Report Profile

2.17	GRI guideline compliance	Used as reference
2.18	Criteria/definitions used in any accounting for costs and benefits	In particular, P. 13–14, 45 (environmentally conscious management tools), P. 46, 59, 61, AR (accounting standards, etc.)
2.19	Significant changes from previous years in the measurement methods	No significant changes
2.20	Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability	P. 1, 11–14, 29 (basic stance on information disclosure), AR (accounting standards, etc.)
2.21	Policy and current practice with regard to providing independent assurance	P. 1, 67, Canon website (URL: canon.com/environment)
2.22	Means by which report users can obtain additional information	URLs, etc. provided for applicable pages

3. Governance Structure and Management Systems

Structure and Governance

3.1	Governance structure of the organization	P. 23–25, 43
3.2	Percentage of the board of directors that are independent, non-executive directors	P. 25
3.3	Process for choosing board members	Omitted (reference: P. 25)
3.4	Board-level processes for overseeing the organization	P. 23–26, 43
3.5	Linkage between executive compensation and achievement of the organization's goals	Omitted (reference: P. 23–25, 45)
3.6	Organizational structure and key management individuals	P. 23–26, 43, FB (4–5)
3.7	Mission and values statements (codes of conduct or principles, performance policies, etc.)	P. 5–6, 11–12, 27, 35
3.8	Mechanisms for shareholders to provide recommendations	P. 25, 30

Stakeholder Engagement

3.9	Basis for identification of major stakeholders	P. 5–6
3.10–12	Approaches to stakeholder consultation; Type of information generated by stakeholder consultations; Use of information resulting from stakeholder engagements	P. 5–6, 29–30, 44, 60 (primary partners in environmental protection activities), P. 66

Overarching Policies and Management Systems

3.13	Explanation of precautionary approach or principle	P. 23–26, 31, 38, 41–42, 44
3.14–15	Charters, sets of principles which the organization subscribes or endorses	P. 29, 60 (primary partners in environmental protection activities)
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3.17	Reporting organization's approach to indirect impacts resulting from its activities	P. 9, 13–16, 59–60, etc.
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*The above GRI Guideline Implementation listing identifies the areas of the *Sustainability Report* pertaining to the GRI Guidelines international reporting standard. Readers may use the listing as an index to search for areas of interest. In this listing, "AR" stands for *Canon Annual Report 2004* and FB stands for *Canon Fact Book 2005/2006*.

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Tell Us Your Opinions

FAX: +81-3-3758-8225

Thank you for taking the time to read the *Canon Sustainability Report 2005*. This report has introduced the major initiatives we are taking in all three areas of sustainability (economic, social, and environmental) in order to contribute to the realization of a sustainable society.

Now, we would like our readers to provide us with their opinions about the content of this report and Canon's activities using the survey form below. The opinions we receive through this survey will be incorporated into the sustainable management activities we carry out, and will assist us in improving the *Sustainability Report* in the future.

We appreciate your sending the completed survey to us by fax at the number above.

Environment Management and Engineering Center/Global Environment Promotion Headquarters
Canon Inc. (E-mail: eco@web.canon.co.jp)

■In what capacity did you read this report?

☐ Customer
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☐ Environmental NGO/NPO personnel

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☐ Employee of a research/educational institution
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(Reason (　　　　))

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(Reason (　　　　))

■Which sections of the report did you find most interesting? (Feel free to choose more than one section.)

☐ Message from the President　　☐ Relationship between Business Activities and Society
☐ Contributions to Society through Products and Services　　☐ Concept behind the Excellent Global Corporation Plan
☐ Vision for Environmentally Conscious Management　　☐ Environmental Burden and Factor 2
☐ Mid-Term Environmental Strategy and Environmentally Conscious Management in 2004
☐ Global Warming Countermeasures at Canon　　☐ Environmental Consciousness of Products
☐ Enhancing Corporate Governance and Compliance　　☐ Corporate Governance　　☐ Compliance
☐ Cooperation with Society and Communication with Stakeholders　　☐ Quality Assurance of Products and Services
☐ Providing Superior Products and Services　　☐ Communication among Employees and Human Resources Development
☐ Employee Safety and Well-Being　　☐ Social Contributions　　☐ Relations with Suppliers
☐ Environmentally Conscious Management System　　☐ Environmental Information Management and Evaluation System
☐ Environmental Education　　☐ Environmental Business　　☐ Environmental Consciousness of Products
☐ Environmental Activities at Operational Sites　　☐ Environmental Communication　　☐ Third-Party Opinion
☐ Other (　　　　　　　　　　　　　　　　　　　　　　)

■If you have any specific comments about the contents of this report, please let us know what they are. (Including a comparison with the 2004 report.)

■How would you evaluate Canon's sustainable management activities (economic, social, environmental)?

☐ Excellent　　☐ Good　　☐ Not very good　　☐ Poor

Please comment on your reason for the above evaluation, or any other remarks, impressions, or suggestions about the report.

Thank you for your cooperation.

Canon

CANON INC.
Environment Management and Engineering Center
Global Environment Promotion Headquarters

30-2 Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan
TEL: +81-3-3758-2111
FAX: +81-3-3758-8225
E-mail: eco@web.canon.co.jp
URL: canon.com/environment

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