Canon Sustainability Report 2006

Canon

For a Prosperous World and Sustainable Society

To Our Readers

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

The report has been structured to reflect the needs of a broad range of stakeholders and to systematically summarize Canon's activities in a way that is easy to understand across a wide audience. It is available in both Japanese and English. "P00 ▸" indicates pages with additional reference material.

The "WEB" symbol shown below appears throughout the report to indicate that more detailed information on the subject is available on Canon's website (URL: canon.com/environment/report/sustainability.html).

WEB

Reporting Scope

In principle, this report covers Canon's economic, social and environmental activities within the scope of consolidated accounting for the 2005 fiscal year (January 1 to December 31, 2005).

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

In addition, please see page 53 for a list of activities at operational sites covered in this report. Also, please note that supplemental information on important targets and initiatives prior to fiscal 2004 and beyond fiscal 2006 are also referenced in this report. Any information limited to certain regions or organizations is indicated as such.

Third-Party Opinions

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

Reference Guidelines

- GRI Sustainability Reporting Guidelines (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

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

Other Information

- Canon Sales Co., Inc. changed its name to Canon Marketing Japan Inc. as of April 1, 2006.
- Data disclosed in past reports have been revised to reflect changes in calculation methods and the expanded scope of sites covered. Accordingly, some of the data in this report differ with the data presented in last year's report.

Main Features of the Canon Sustainability Report 2006

The structure and contents of the 2006 report have been expanded as follows.

Structure

1) The previous "Social Management" section has been divided into two sections, "Management Systems" and "Canon and Stakeholders," enabling a systematic overview of our activities in these areas.
2) The previous "Highlights" and "Performance Data" sections have been eliminated. Information normally contained in these sections is presented throughout the report as appropriate to eliminate as much redundancy as possible.
3) Detailed information on individual sections has been made available on Canon's website (URL: canon.com/environment/report/sustainability.html).

Contents

1) Vision and Strategy

- The results of Phase I (1996-2000) and Phase II (2001-2005) of the Excellent Global Corporation Plan, the Canon Group's comprehensive management plan, are provided along with the important strategies of Phase III (2006-2010). P07-12 ▸
- A section was included on our Vision for 2010, the overriding indicator Factor 2. P15-16 ▸

2) People-Friendly, Environmentally Conscious Products

- A section on people-friendly products was added to supplement previous sections on energy efficiency, resource efficiency and elimination of hazardous substances. P17-21 ▸

3) Management Systems

- Sections on information security and physical security were added, as they involve measures for addressing a variety of risks. P27-28 ▸
- A section on intellectual property activities was included because it constitutes the underlying foundation for the sustainable activities of a research and development-oriented company. P29-31 ▸

4) Canon and the Environment

- Another section reports on the results of Canon's Mid-Term Environmental Goals (2004-2005) and the formulation of our new Mid-Term Environmental Goals (2006-2008). P33-34 ▸

Company Overview

(As of May 23, 2006)

Company Name:	Canon Inc.
Establishment:	August 10, 1937
Headquarters:	30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo, Japan
Chairman and CEO:	Fujio Mitarai
President and COO:	Tsuneji Uchida
Capital:	¥174,438 million (As of December 31, 2005)
Group Companies:	200 consolidated subsidiaries 13 companies accounted for under the equity method (As of December 31, 2005)

Contents

Disclaimer

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

Pursuing environmental and social sustainability based on the *kyosei* philosophy

Canon's corporate philosophy of *kyosei* aspires to a society in which all people, regardless of culture, custom, language or ethnicity, harmoniously live and work together into the future. It is a society characterized by sustainable prosperity and, in order to help bring it about, Canon will devote further effort, not only to grow and develop as a company, but also to such areas as environmental assurance, compliance, and personnel development. The Canon Group will work as a team to promote these activities.

In 1996, based on the *kyosei* philosophy, Canon launched the Excellent Global Corporation Plan, a mid- to long-term management plan committed to making Canon a truly excellent global corporation. In Phase I (1996-2000) and Phase II (2001-2005) of the plan, we actively strengthened our financial structure and boosted the competitive strength of products in our major areas of business, establishing a rock-solid basis for high profitability, and thus making possible six consecutive years of sales and profit growth beginning in 2000.

For Phase III (2006-2010) we will pursue a course of sound growth through innovation, targeting further diversification and globalization for our businesses while maintaining our high-profit structure. Also, by 2010, we aim to join the ranks of the world's top 100 companies in terms of every major management indicator.

Canon firmly recognizes that the precarious state of the global environment, which represents the basis of a sustainable society, is a situation that demands our attention. The Kyoto Protocol, the international treaty on climate change, that went into force in February 2005, centers on the problem of global warming, which we must further strengthen our efforts to address.

In response to environmental problems, Canon has targeted the maximization of resource efficiency in a way that benefits both environmental conservation and economic development. These efforts have been directed at the lifecycle of all Canon products as well as business operations worldwide.

In 2003, we established the overriding indicator Factor 2 as our Vision for 2010 in order to put these ideas into concrete practice. Our global Group companies will strive as one to achieve our goals by developing advanced, environmentally conscious technologies and strengthening management systems.

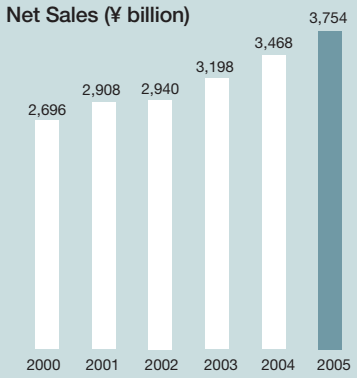
In addition, in order to become a truly excellent global corporation, it is essential that each and every member of the Canon Group act in accordance with standards and norms befitting this goal. Canon conducts thorough compliance education for management and employees worldwide, and, since its founding, has worked to foster strong, autonomous individuals rooted in Canon's "Three Selfs" concept. We are also working to strengthen the company's corporate governance systems.

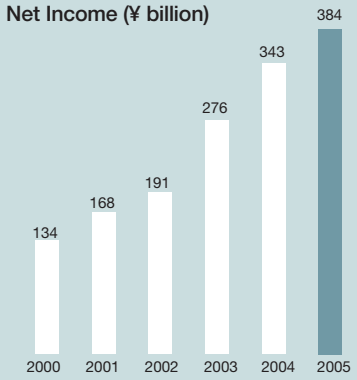
At Canon, we intend to further develop our sustainability-related activities. This endeavor requires the support of our diverse stakeholders worldwide, including the company's shareholders, suppliers and customers, and we thank you for your continuing understanding and support.

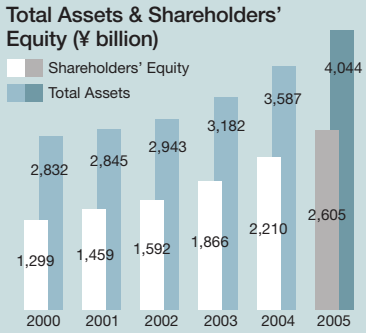
Canon Inc.
Chairman and CEO: Fujio Mitarai

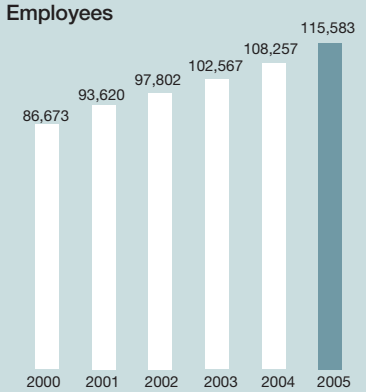
Canon Inc.
President and COO: Tsuneji Uchida

Diversification and Globalization— Two Basic Strategies of the Canon Group







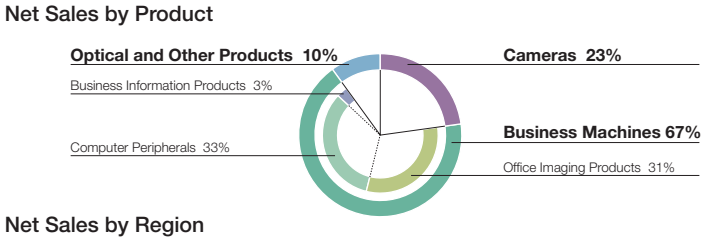


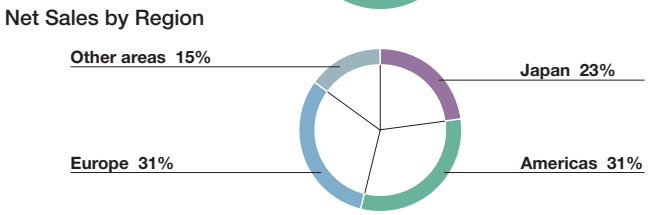
* The above data are calculated on a consolidated basis.

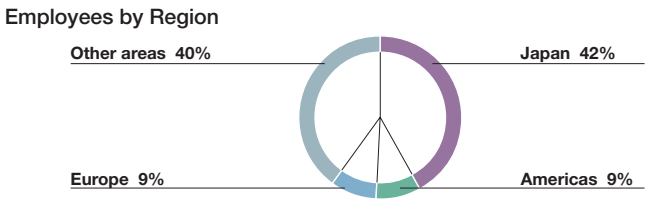
Diversification —Businesses and Products

Taking the Trusted Canon Brand into Various Fields

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







Canon, with sights set on global development since our founding in 1937, has established sales, production and R&D sites in the Americas, Europe and Asia, while actively developing deep-rooted activities. Presently (as of December 31, 2005), the Canon Group comprises 200 consolidated subsidiaries in countries and regions around the world. In fact, 58% of Group employees work overseas and 77% of our net sales come from outside of Japan.

Globalization —Markets and Locations

Developing Deep-rooted Activities on a Global Scale

Personal-Use Products

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

EOS 30D
digital SLR camera

PIXMA MP500
inkjet all-in-one

Business Products

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

iR C3220N
office color MFD

LBP5900
laser beam printer

Industry Products

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

DIGISUPER 100xs
broadcasting equipment

CXDI-50G
digital radiography system

Japan, Asia & Oceania

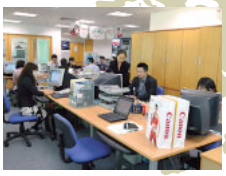
In Japan, we are focused on cultivating new businesses while working, through Canon Marketing Japan Inc., to strengthen relations with our customers. In Asia, we are bolstering sales, production and development activities in each country, with a particular focus on China. In Oceania, we are engaged in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

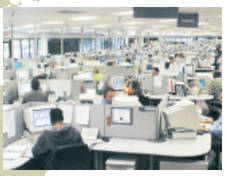
Americas

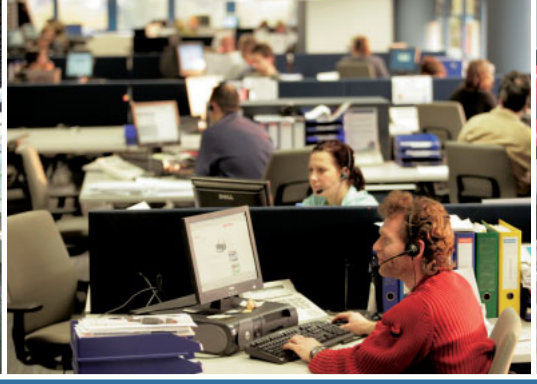
As our headquarters for North and South America, Canon U.S.A. is subdividing sales areas in an effort to strengthen customized sales to respond to the individual needs of customers. The company is also pursuing regional independence through the establishment of localized R&D bases and production sites.

Europe, Africa, & the Middle East

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








Vision and Strategy

Becoming a Truly Excellent Global Corporation

In 1996, we announced the Excellent Global Corporation Plan, which sets out our vision of continuing to contribute to society through technological innovation, in accordance with Canon's *kyosei* philosophy, while aiming to be a corporation worthy of admiration and respect worldwide.

Since that time, we have promoted a variety of management innovation activities under Phases I and II, and have established ourselves as a highly profitable corporation.

The year 2006 marks the start of a new five-year stage of the plan, Phase III, under which we will target sound growth and intend to enter the ranks of the top 100 companies in the world in terms of key management indicators.

We will also further bolster initiatives that facilitate harmonious co-existence, or *kyosei*, between our business activities, the environment and our diverse groups of stakeholders, in an effort to help develop sustainable societies.

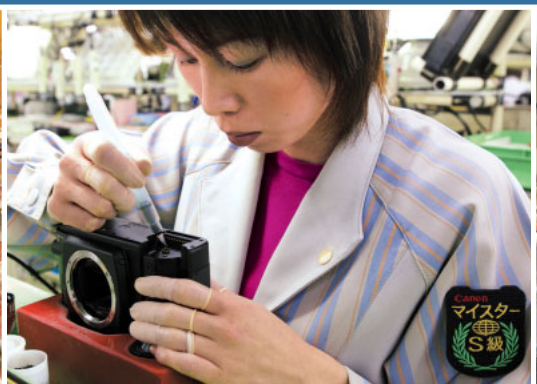
Corporate Philosophy: *Kyosei*

Mid- to Long-Term Business Plan: The Excellent Global Corporation Plan

Phases I & II
1996-2005
Building a Strong Financial Structure
Becoming No. 1 in the World in All Major Areas of Business

Phases III
2006-2010
Achieving Innovation and Sound Growth

Pursuing Sustainability

The Excellent Global Corporation Plan (Phases I & II)

Canon is promoting wide-ranging reforms to create market-leading products.

Phase I (1996-2000)
Targeting a Strong Financial Structure

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

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

Phase II (2001-2005)
Becoming No. 1 in All Major Areas of Business

Under Phase II, we worked to thoroughly bolster product strength across all of the company's business operations and affiliates around the world with the goal of becoming No. 1 in the world in all our major areas of business. As a result, 2005 marked our sixth consecutive year of sales and profit growth. Compared with 1995, the year before we launched our management innovation activities, net sales increased 1.8 times, net income expanded 6.2 times, and ROE jumped from 6.5% to 16.8%, showing the significant strides we have made toward becoming a Truly Excellent Global Corporation.

Change in Thinking of Mindset

From Partial to Total Optimization

To rationalize and optimize Group management, in 1997 we implemented a company-wide consolidated accounting system that includes subsidiaries and affiliated companies, and introduced a consolidated business performance evaluation system for each business division. As part of our management innovation activities designed to resolve issues common across all of the Group's business operations, we worked to gradually tear down the walls that separated business divisions, marketing companies and production bases, so that problems could be solved through close communication based on a shared purpose.

Shift From Focus on Sales to Profit

Since the pursuit of profit is essential to the sustained growth and development of a company, we implemented cash-flow management and switched our management focus from the profit/loss statement to the balance sheet. Based on this policy, we closed down seven unprofitable divisions, including personal computers, and started operational reforms targeting such areas as development and production.

Excellent Global Corporation Plan (Phases I & II 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	Advancement of Consolidated Management	Four Purposes of Companies	Company Innovations
•Pursuit of overall optimum results •Shift to profit focus	•Implementation of the Consolidated Planning and Measurement System (1997) •Consolidated financial results by product group operation •Performance evaluations for each product group operation	•Stability of livelihoods of employees •Returns to shareholders •Contributions to society •Investments for continued development	•Cash flow management •Withdrawal from unprofitable businesses

Production Reform	Development Innovations	Sales Innovations	New Diversification
•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	•Full implementation of 3D CAD •Establish Color Technical Center and Color Stadium •Undertake "prototype-less production"	•Restructure and consolidate marketing subsidiaries •Emphasize solution businesses •Construct pan-European business system •Strengthen business in China and other parts of Asia	•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

The Cell Production system

In order to flexibly respond to high-mix, low-volume production and changes in production volumes, Canon introduced the cell production system, in which small teams of employees assemble products, at each of its 54 plants worldwide, completely eliminating all conveyor-belt assembly processes from the factory floor by the end of 2002.

We also introduced the practice of *chie*-tech (intelli-tech), which involves using handcrafted jigs and tools inspired by employee suggestions; reduced capital investment by shifting to in-house production for various types of manufacturing equipment and dies; implemented a just-in-time production system; and reduced parts inventories through in-line processing.

In addition, we standardized product codes worldwide and introduced supply-chain management to coordinate information from parts procurement to production, sales and logistics. By reforming our system of production from a number of angles, we succeeded in improving our cost-to-sales ratio by more than ten percentage points.

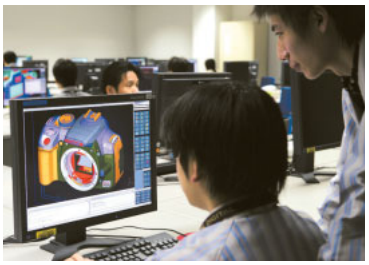
The cell production system helped to improve employee motivation and to reduce CO_2 emissions through the elimination of conveyor belts (Photo: an example of intelli-tech at Canon Vietnam)

Development Innovations

Shortening Development Lead Times and Reducing Costs

3D computer-aided design (CAD) systems have been in place throughout the company since 2001, allowing us to promote "prototype-less" development—using computer simulations to create virtual prototypes and perform virtual trials, thus reducing the need to use physical prototypes. This has also dramatically raised levels of design precision, quality and safety, substantially accelerated product development times, and reduced costs.

Moreover, the adoption of platform architecture (which can be shared and applied across multiple products), for engine control, communications and application technologies has led to the further shortening of development times and improvements in quality. Launching new products faster has enabled us to deliver consistently competitive products to the market while avoiding drops in market prices due to product obsolescence.



Implementing 3D CAD systems has spurred prototype-free development

Canon EXPO 2005

From September to October 2005, Canon held the Canon EXPO 2005 in New York, Paris and Tokyo, where we exhibited a full range of product lineups as the culmination of Phases I & II of our Excellent Global Corporation Plan, as well as new products and cutting-edge technologies in anticipation of Phase III. The event effectively communicated Canon's future directions and vision to the many visitors who attended.

Canon EXPO 2005 featured such new display technologies as SED, projection and organic LED, and introduced visitors to advanced cross-media imaging, comprising a sophisticated combination of imaging input and output equipment encompassing still images and video, as well as images and data.

The event recorded a total attendance of over 40,000 visitors at the three venues, including corporate customers, local marketing companies, dealers and other business partners, the media, and employees and their families.

Wide-Ranging Innovations

Developing Global Sales Innovations

Canon U.S.A. has converted to a business model that emphasizes the marketing of solutions instead of individual products. In the field of consumer products as well, the company has worked to improve customer satisfaction by developing its service-and-support infrastructure and reforming its operational procedures.

Canon Europe promoted Pan-European reforms to integrate the management of marketing companies in different countries, which had been conducting activities independent of one another. Implementing a new key system for the unified management of marketing, finances, logistics and other operations paved the way to standardized business processes and reduced operating costs.

In Asia, Canon China, based in Beijing, oversees the activities of the Canon Asia Marketing Group, with bases in Singapore, Hong Kong and China. In 2003, fifteen new branch offices and seven warehouses were opened to augment the sales and service network in the region.

In Japan, targeting greater efficiency, we reorganized Group companies to eliminate redundancies in our sales and service network.

In Europe, call centers, which had been based in each country, have been consolidated into a single central location for greater efficiency

'Factor 2' for Environmental Assurance

With the aim of maximizing resource efficiency and achieving overlap between environmental assurance activities and economic activities throughout the entire product lifecycle, we introduced our Vision for 2010, the overriding indicator Factor 2, with the goal of at least doubling resource efficiency (consolidated net sales divided by lifecycle CO_2 emissions) by 2010, using 2000 as the baseline date. P15

Global Rankings in 2005

Fortune Global 500

- **154**th globally in revenues, 96th in profits

(July 25, 2005 issue)

* Based on 2004 consolidated figures

BusinessWeek's Best Global Brands Rankings

- **35**th globally

(August 1, 2005 issue)

* Based on future earnings projections

Financial Times' FT Global 500

- **106**th globally
- **2**nd in electronic and electric equipment sector

(June 16, 2005)

* Based on market capitalization

Inclusion in Sustainability Investment Indexes

- FTSE4Good Global 100 Index
- Dow Jones Sustainability World Index

Other P60

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

The Excellent Global Corporation Plan (Phase III)

Canon is pursuing sound growth with its sights set on globalization and the spread of broadband.

Phase III (2006-2010)
Becoming a Top 100 Global Company

In 2006, we began Phase III of our Excellent Global Corporation Plan. During Phase III we intend to pursue a course of sound growth with new businesses born of innovation, taking into account ongoing economic globalization and the worldwide spread of broadband networks, while maintaining the sound profit structure and financial balance we have established over the past ten years. To accomplish this, we plan to promote five essential strategies in an effort to become a top 100 company globally in terms of such key business indicators as net sales, net income, equity ratio and market capitalization.

Global Trends

- Economic Globalization
- Spread of Broadband Networks

▼

Sound Growth

▼

Five Key Strategies

- Bolstering existing core businesses and establishing new display businesses
- Establishing new production systems to sustain international competitiveness
- Expanding business operations through diversification
- Identifying new business domains and accumulating required technologies
- Nurturing truly autonomous and strong employees

Bolstering Existing Core Businesses and Establishing new Display Businesses

We plan to capture or maintain the number one position worldwide for all of our core business areas, which were strengthened in Phase II and have supported our growth. We aim to establish new display businesses with the commercialization of three kinds of displays—SED, projection and organic LED—as core products within our lineup of imaging equipment. Among these, we are focusing our energies on developing cost-cutting process technologies for the full-scale mass production of SED panels. In addition, we plan to offer large-screen projection displays for business and educational use, and incorporate organic LED displays into Canon products.

Moreover, with the aim of cultivating and bolstering these businesses, we will provide firm back-up support to each business division by strengthening headquarter R&D operations.

In addition to delivering high-impact imaging performance boasting sharp video display, natural color reproduction and image depth, SEDs realize significant space savings and energy efficiency (prototype)

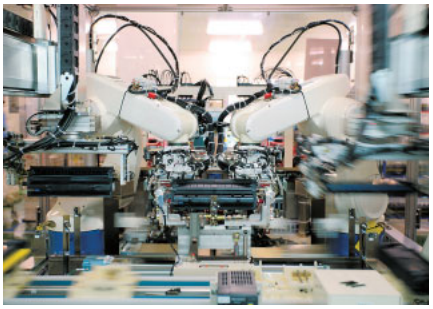
Rear projection displays utilize Canon's exceptional optical technologies to deliver images with outstanding brightness and color reproduction in a thin-body design (prototype)

Organic LED displays achieve high luminance while also offering high definition, excellent color reproduction, and high image quality from any viewing angle (prototype)

Establishing New Production Systems to Sustain International Competitiveness

Canon believes that in order to further strengthen manufacturing, it is necessary to automate labor-intensive assembly processes using highly productive automated machinery and robots. Moreover, rapid response to change is essential to maintaining a competitive edge in the global market.

From this standpoint, Canon is working to develop automated production lines, drawing on knowledge gained from integrating development, production engineering and manufacturing technologies. We also continue to promote greater efficiency in procurement activities and the in-house production of key components and devices.



An automated toner cartridge assembly system, where robots perform assembly operations in place of workers

Expanding Business Operations through Diversification

We plan to continue promoting the strategy of diversification initiated in Phase II. In addition to pursuing diversification with the launch of three new display businesses, and further expansion in the business areas of office imaging solutions, industrial printers and digital radiography systems, we are working to expand the independent endeavors of our manufacturing bases in Japan.

Additionally, in Europe and the United States, regional headquarters and marketing affiliates will invest in developing new businesses with manufacturing operations at the core.

We are working to strengthen our solutions business with MEAP technology, which enables users to customize their multifunction office systems to meet individual business needs

Identifying New Business Domains and Accumulating Required Technologies

We are researching new fields of technology in our search for next-generation business areas beyond 2010. In this pursuit, we are actively conducting research—from basic to advanced—at our leading-edge technology research center in Tokyo, while also forging partnerships with prominent research institutions and universities around the world. In the future, Canon plans to boost R&D expenditure from ¥275.0 billion (8% of net sales) in 2004 to around ¥550.0 billion annually.

Canon signed a comprehensive partnership agreement with the Tokyo Institute of Technology in August 2005 regarding joint research on advanced materials and imaging technologies

Nurturing Truly Autonomous and Strong Employees

We are making substantial efforts in the area of human resource development, strengthening our education and training programs to cultivate trusted, responsible employees, and foster global leaders. At the same time, we are pursuing more equitable human resource policies to nurture strong, autonomous business professionals.

New employees learn the cell production system (Canon Vietnam)

Pursuing Sustainability

Canon is seeking a harmonious balance between stakeholders and the environment as a truly excellent global corporation.

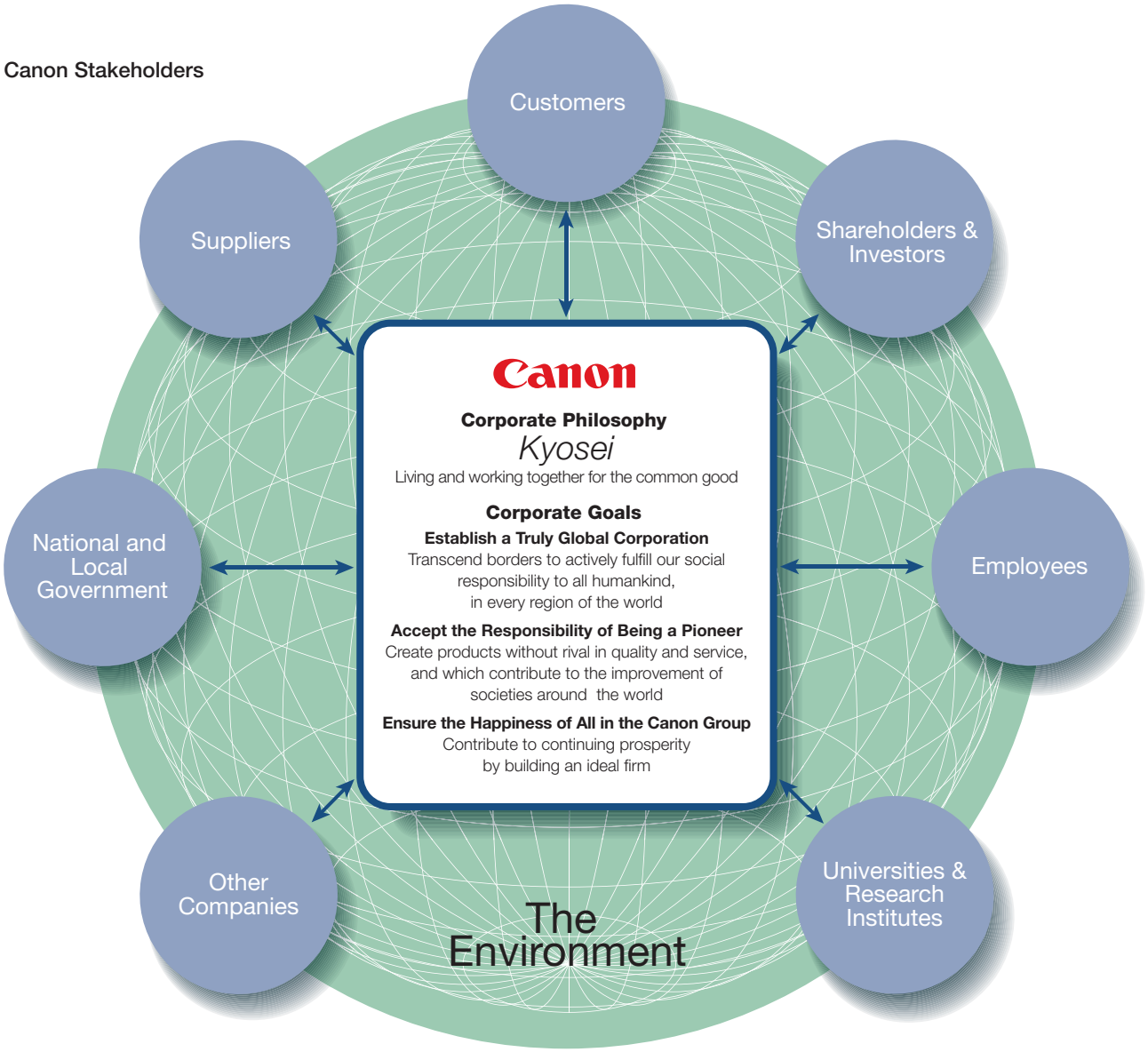
In 2006, Canon entered Phase III of the Excellent Global Corporation Plan, which will promote further diversification and globalization and bring about the healthy growth of our business activities. This means that for Canon, which is committed to helping build a sustainable society based on the *kyosei* philosophy of harmonious coexistence, the pursuit of sustainability, both in terms of the environment and stakeholders, will gain added importance.

The environment is not only necessary for the continuation of our business activities but is also the precondition and foundation of a sustainable society. A threatened environment is not a problem that we at Canon can afford to take lightly.

Given this understanding, environmental sustainability is one of our top priorities, and we intend to put more effort into promoting environmental assurance initiatives based on maximizing resource efficiency.

At the same time, we will promote communications with our diverse groups of stakeholders to a greater extent than we have done to date, as we work to become a Truly Excellent Global Corporation through building steadfast relationships of cooperation and trust.

Canon Stakeholders



We are Committed to Unifying the Two Vectors of Environmental Assurance and Economic Activities through Maximizing Resource Efficiency

Canon is working to maximize resource efficiency in an effort to unify the two vectors of environmental assurance activities and economic activities. This means we will increase the quality of products and services while raising environmental efficiency (value divided by environmental impact) throughout product lifecycles. Or, to put it another way, our environmental assurance policy calls for the generation of maximum value with minimum resources.

In 2003, we put forth the overriding indicator Factor 2 as our Vision for 2010 in order to put resource efficiency maximization into more concrete practice. Factor 2 represents the goal of at least doubling overall lifecycle environmental efficiency (consolidated net sales divided by lifecycle CO_2 emissions) by 2010, using 2000 as the baseline date. We set Mid-Term Environmental Goals (2004-2005) to serve as milestones, and in 2005 we achieved almost all the individual goals. P33 ▸

We have now established new Mid-Term Environmental Goals (2006-2008) P33 ▸ to serve as our new three-year plan. The plan targets 1.7 for the Factor indicator in 2008. This target will be incorporated into goals at each operational headquarters and operational site unit as we promote environmental assurance activities for the Group as a whole to realize our Vision for 2010, the overriding indicator Factor 2.

Canon Group Environmental Charter

Corporate Philosophy: *Kyosei*

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

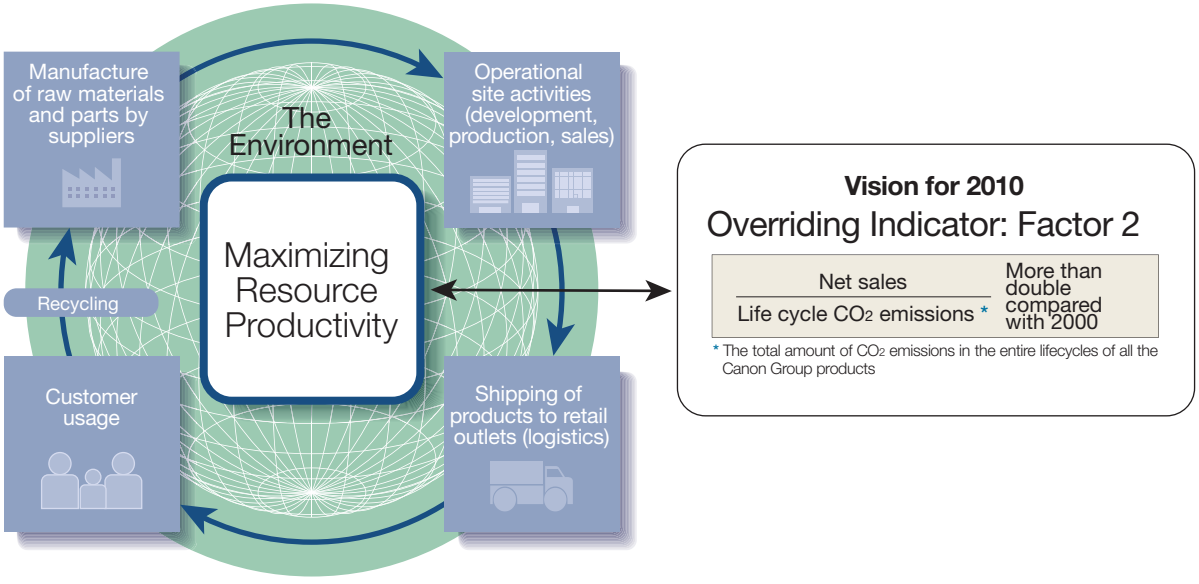
Environmental Assurance Philosophy

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.

Canon's Environmental Assurance Activities



Vision for 2010 Progress Report—Overriding Indicator: Factor 2

Lifecycle CO_2 and the Factor Indicator

The lifecycle of Canon's business activities can be roughly categorized into four 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 in 2005 of the environmental burden*2 associated with each of these stages is illustrated in the chart on the right. P16 ▸

Emission volumes are compiled for lifecycle CO_2, the major greenhouse gas, and environmental efficiency is taken to be the ratio of consolidated net sales to these emissions (consolidated net sales divided by lifecycle CO_2 emissions). "Factor" is a comparison of environmental efficiency in a given year with the baseline year. It is our goal to double environmental efficiency by 2010, using 2000 as the baseline year. This means that we aim to cut the basic unit (CO_2 emissions per unit of net sales) in half.

2005 Factor

We achieved a Factor of 1.41 in 2005 (1.41 times the environmental efficiency of 2000). This was the result of reducing CO_2 emissions throughout entire product lifecycles from 6,098 thousand tons in 2000 to 6,009 thousand tons in 2005, against an increase in consolidated net sales from ¥2.70 trillion in 2000 to ¥3.75 trillion. We were able to cut lifecycle CO_2 emissions by reducing environmental burden at the stages of customer usage and raw material and parts manufacturing, largely by designing our products to be more energy efficient, smaller and lighter.

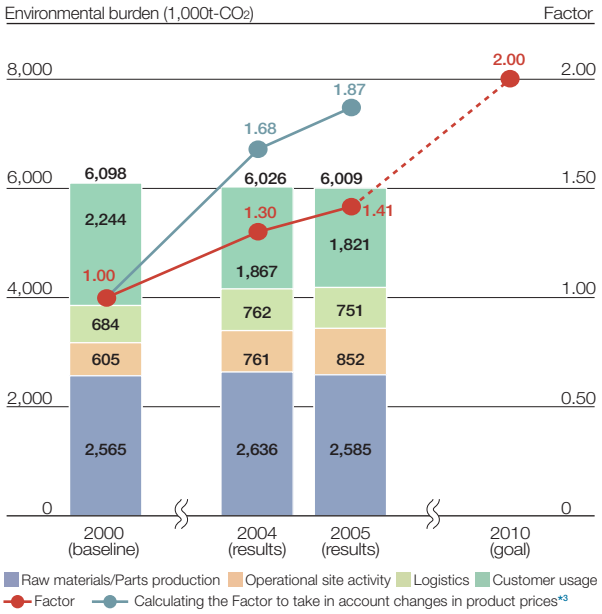
Canon will continue to carry out activities aimed at achieving Factor 2, our Vision for 2010. We will also consider ways of more appropriately grasping the Factor. As a part of these efforts, we took into account fluctuations in product unit prices and did a trial calculation for the Factor assuming that product unit prices remain fixed year-on-year *3. Based on this approach, we have already improved to Factor 1.87. We plan to establish and institute a more appropriate calculation formula by continuing with our Factor research.

*1 **Material balance**
The amount of energy and resources used in all business activities combined with the amount of substances discharged that impact the environment (including waste).

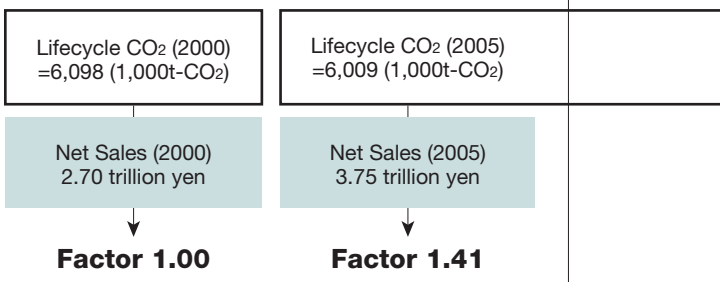
*2 **Environmental burden**
Human impact (burden) on the natural environment caused by the activities of companies and individuals.

*3 **Calculating the Factor to take in account changes in product prices**
1) Divide products into a number of segments and calculate average product prices for each segment.
2) Incorporate the rate of change in these average product prices versus the prices in 2000 (baseline year) into sales figures for each segment and adjust net sales overall.
3) Calculate the Factor from the required values (environmental efficiency) by dividing adjusted net sales overall by lifecycle CO_2 emissions.

Environmental Burden, Factor Targets and Achievements



Calculating Factor 2

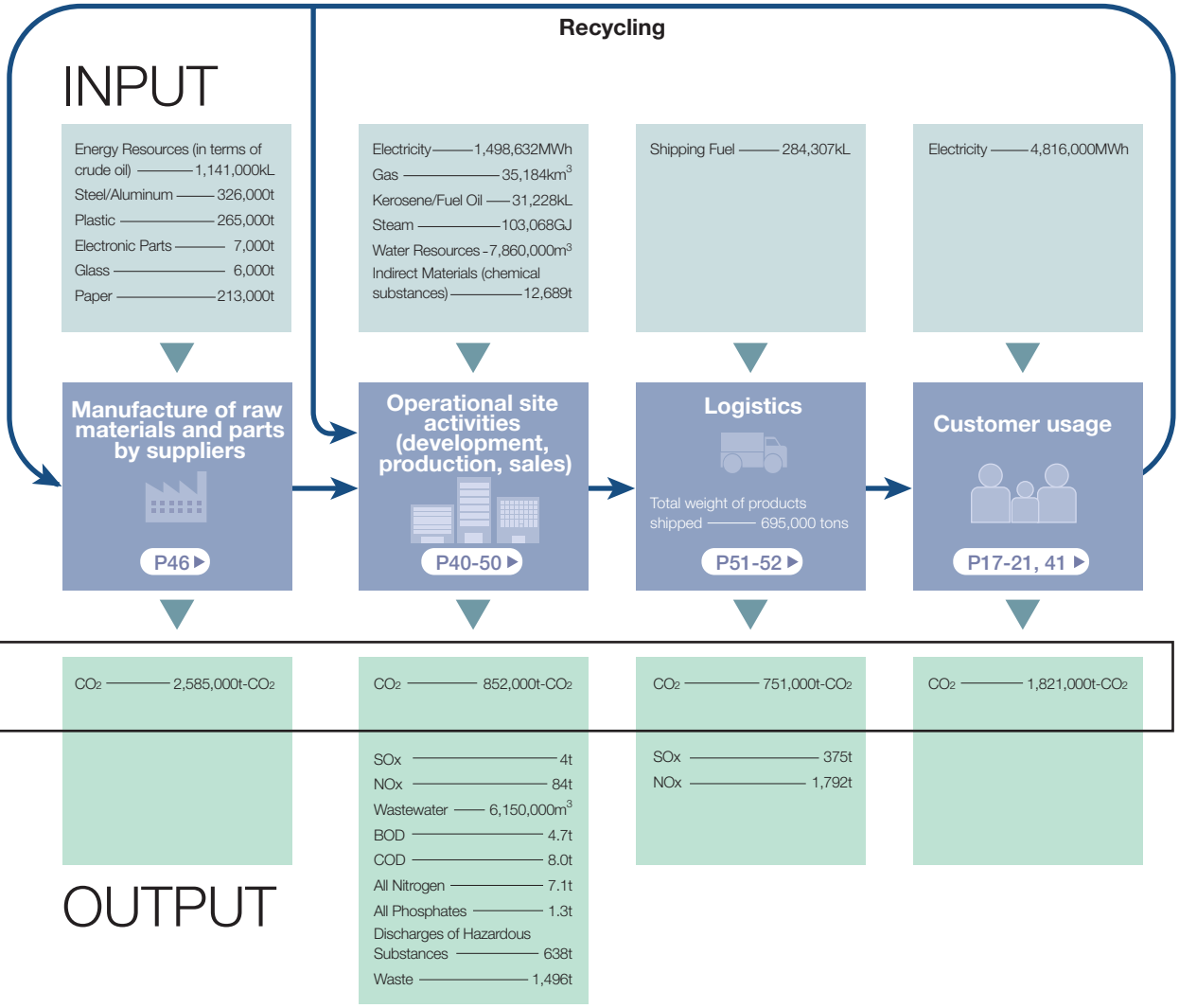


Basic Approach to CO_2 Calculations

Of the greenhouse gases taken up by the Kyoto Protocol, we compile data for CO_2, an energy-derived greenhouse gas. (See pg. 47 for total emissions, including non-energy-derived greenhouse gases.) The baseline year is 2000, but past data may be revised, including in the baseline year, due to improvements in the precision of data calculations. Also, the figures for 2000 are estimated based on shipping information because there is no data on the environmental burden associated with overseas logistics for that year.

We use different CO_2 conversion coefficients for each region and year. Domestic coefficients are supplied by the Ministry of the Environment and the Federation of Electric Power Companies. Overseas coefficients are provided on a region-by-region basis by the International Energy Agency. (The activities of all the operational sites listed on page 53 are included in the calculations, except domestic and overseas marketing companies.) With regard to customer usage, the amount of power consumed by products shipped in a given year over their average lifespan is converted to CO_2 using coefficients released by the Ministry of the Environment in 2000. Other CO_2 coefficients are provided in JEMAI-LCA, lifecycle assessment software from the Japan Environmental Management Association for Industry.

2005 Material Balance CO_2 Emissions



Canon Receives Japan Environmental Efficiency Forum Chairman's Prize (2005 Eco-Efficiency Awards) and the METI Industrial Science and Technology Policy and Environment Bureau Director-General's Award (LCA Japan Forum Awards)

Canon received the Chairman's Prize at the 2005 Eco-Efficiency Awards held by Japan Environmental Efficiency Forum. The prize is awarded to companies that actively work to improve environmental efficiency and contribute substantially to its development and dissemination. Our creation of "Vision for 2010: Factor 2," an overriding environmental indicator, and related promotional activities were recognized as a progressive program for leveraging environmental efficiency.

At the same time, Canon was also granted the METI Industrial Science and Technology Policy and Environment Bureau Director-General's Award at the LCA Japan Forum Awards. This award honors especially outstanding initiatives related to the LCA method*. We were recognized for conducting organizational product development through the disclosure of environmental data via activities such as the EcoLeaf program.

* **LCA Method**
An acronym for the lifecycle assessment method, which involves evaluating the impact a product has on the environment in every stage of its life, from manufacture and use to disposal or reuse.

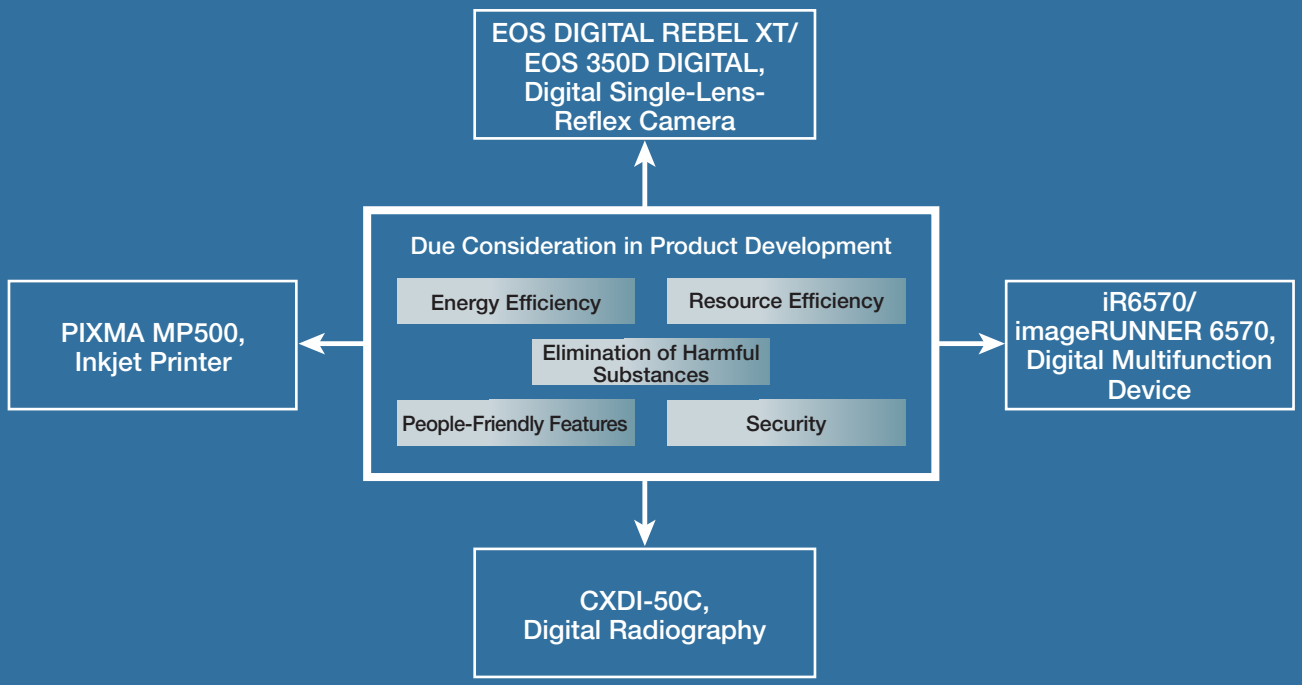


People-Friendly, Environmentally Conscious Products

Aiming for products high-performance with reduced eivironmental burden

Canon is dedicated to reducing environmental burden by pursuing three priorities in product development: energy efficiency, resource efficiency and the elimination of harmful substances. In addition to environmental considerations, we are also devoting efforts to people-friendly features and security measures to improve the usability of our products.

Canon intends to realize its corporate philosophy of *kyosei* by continuing to develop products with this approach.





EOS DIGITAL REBEL XT/EOS 350D DIGITAL

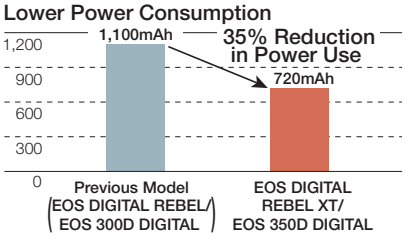
Canon is aggressively working to conserve resources in its cameras because 80% of the environmental burden exerted during a camera's lifecycle comes at the raw materials stage. We are also committed to improving usability by making our cameras easier to operate and more compact.

Energy Efficiency

Promoting Even Lower Power Consumption

The EOS DIGITAL REBEL XT/EOS 350D DIGITAL, digital single-lens-reflex camera, uses approximately 35% less power than the previous model (EOS DIGITAL REBEL/EOS 300D DIGITAL) owing to progress in low-power circuit design, which involves use of a CMOS sensor and higher speed processing via the DIGIC II high-performance imaging engine. As a result, despite making the battery significantly smaller, the new version can take the same number of shots on a fully charged battery as the previous version.

Lower Power Consumption



Resource Efficiency

A Smaller, Lighter Camera Body

The EOS DIGITAL REBEL XT/EOS 350D DIGITAL has been made 13% lighter than the previous model (EOS DIGITAL REBEL/EOS 300D DIGITAL) and its cubic volume has been reduced by 25%. This was accomplished by using a smaller substrate—made possible by a highly dense circuit design—a compact battery, and smaller motors.

Elimination of Harmful Substances

Compliance with the RoHS Directive

The EOS DIGITAL REBEL XT/EOS 350D DIGITAL is in compliance with the RoHS directive as a result of developing alternative substances. P45 ▸

People-Friendly Features

Advanced Operability

Exceptional basic operability has been realized with an electronic dial, mode dial and cross key arranged on the top of the body. The camera also features a sharp, attractive 1.8-inch TFT LCD viewer.

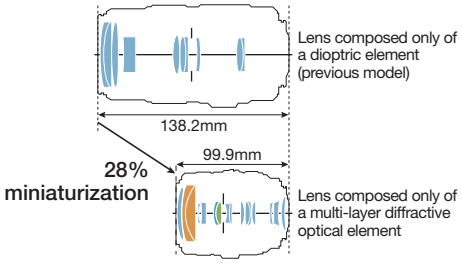
The dial has outstanding operability

Easy-to-Understand Manual

The user's manual for the EOS DIGITAL REBEL XT/EOS 350D DIGITAL was recognized for the variety of ideas it incorporates to make it easy to understand and for its overall balance despite the difficult conditions of its using A6 size paper for portability, and was awarded the annual Manual of the Year award at the 2005 Japan Manual Contest, a first for a camera and office equipment manufacturer.

EOS Interchangeable Lens Made More Compact

The EF70-300mm F4.5-5.6 DO IS USM incorporates a new 3-layer DO lens (multi-layer diffractive optical element), thus making the total length of the lens 28% shorter than lenses in the same class composed only of a dioptric element.



PIXMA MP500

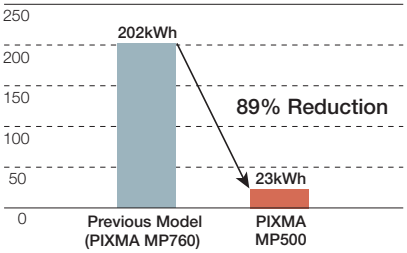
We design our inkjet printers with the environment in mind. This means conserving resources by making the printers smaller and lighter and ensuring energy efficiency when they are in use. At the same time, we constantly work to improve printer function and performance in terms of speed and beauty.

Energy Efficiency

Reduced Power Consumption

Incorporating energy-saving technologies for every usage mode—when in operation, when in stand-by, and when in power off—reduced lifecycle power consumption by 89% compared to the previous model (PIXMA MP760).

Lifecycle Power Consumption*



* **Power Consumption Calculation**
"Power off" was set at 16 hours per day. "In operation" was set at the time required in the remaining eight hours to consecutively print, scan and copy five color pages and five black-and-white pages. The remaining time was "stand-by." Lifecycle power consumption was calculated by multiplying per-day power consumption by the number of days of use per year (240 days; 12 months X 20 days use per month) and the number of years of use (5 years).

Resource Efficiency

Smaller and Lighter

By making the scanner unit smaller and lighter and incorporating size-reducing technologies into the print head and circuit board, we succeeded in making the PIXMA MP500 36% smaller than the previous model (PIXMA MP760) by volume and 23% lighter by mass.

Elimination of Harmful Substances

Compliance with the RoHS Directive

The PIXMA MP500 is in compliance with the RoHS directive as a result of using alternative technologies. P45

People-Friendly Features

Easy-to-Use Control Panel

Using a tilt color LCD display allows the printer to be operated while looking at the screen. The control buttons are large and they are arranged in a manner that makes them easy to use. Paper selection, image correction, and trimming can easily be performed without a computer.

Features a tilt color LCD display

Incorporates Camera Direct Print

The PIXMA MP500 is compatible with PictBridge, an industry standard that enables pictures to be printed out directly without a computer simply by connecting the printer to a digital camera or video camera via a cable.

Compatible with PictBridge. (The printer in the photo is the PIXMA MP950.)

Recognized at the 2nd Eco-Products Awards for Environmental Initiatives

In December 2005, the PIXMA MP500 received an award at the 2nd Eco-Products Awards*1. The printer was recognized not only for its compact size, light weight, and reduced power consumption but for other environmental considerations as well, including its disclosure of environmental information via its Type III Eco-Label*2 and its inclusion in the Bellmark Campaign through our cartridge collection activities.

*1 **Eco-Products Awards**
Established in 2004, the Eco-Products Awards recognizes outstanding environmentally conscious products and services (eco-products) in order to further popularize eco-products in Japan.

*2 **Type III Eco-Labels**
These labels are issued as a means of disclosing environmental information about a product in accordance with the ISO/TR14025 international standard. The label provides quantitative information on the product's impact on the environment throughout its entire lifecycle.

iR6570/imageRUNNER 6570

We design our multifunction devices taking both the environment and usability into consideration, aiming to reduce energy consumption when in use and ensuring ease and comfort of operation. We also provide security features that are essential to office information devices.

Energy Efficiency

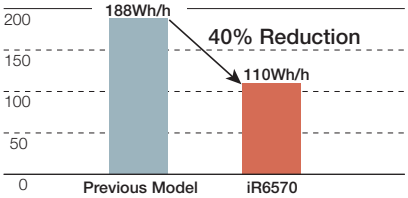
Best-in-Class Energy Efficiency

The iR6570/imageRUNNER 6570 achieves energy efficiency by using Canon's proprietary IH fixing technology*1 to substantially reduce warm-up time compared to the previous model. Its energy consumption is the lowest (110 Wh/h) among copiers that can output 61-70 sheets per minute (in Japan, as of March 2006). Thanks to this technology, Canon Inc. earned its eighth Energy Conservation Award*2. We have now received the award for five consecutive years.

*1 **Induction Heating Fixing Technology**
Fixing method that directly heats fixing rollers using electromagnetic induction heat.

*2 At the 2005 (16th) Energy Conservation Awards put on by the Energy Conservation Center Japan, four models—the iR6570, iR6570N, iR5570, and iR5570N—were awarded the ECCJ Chairmen's Award. The iR5570 achieved the highest energy consumption efficiency (55 Wh/h) in the 51-60 sheets output per minute class (as of March 2006).

Energy Consumption Efficiency*



* **Energy Consumption Efficiency**
Power consumption per hour based on the measurement method stipulated in the Energy Conservation Law (for black-and-white copiers)

Resource Efficiency

Improved Durability

Incorporating a highly durable A-Si drum results in high performance over a long time period with hardly any deterioration in photosensitivity. The iR6570/imageRUNNER 6570 also uses highly durable parts like a dimpled bottom plate and a prism structure frame.

Use of Plastic Materials under the Closed-loop Recycling Program

Closed-loop recycled plastic materials (Plastic materials taken from collected products for reuse in plastic parts) are used in the exterior casing.

Security

Prevention of Information Leaks while in Use

The iR6570/imageRUNNER 6570 features a number of security functions that serve to prevent information leaks and internet hacks while the unit is in use. These include encrypting and erasing the document data that is created on the device's hard drive, encrypting print data when printing from a computer and encrypting PDF data for transmission.

The photo shows the iR6570/imageRUNNER 6570 equipped with the optional Paper Deck-V1 and Saddle Finisher-T2.

Elimination of Harmful Substances

Compliance with the RoHS Directive

The iR6570/imageRUNNER 6570 is in compliance with the RoHS directive as a result of using alternative technologies.

P45 ▸

People-Friendly Features

Large Color LCD Touch Panel that is Clear and Easy to Use

The control panel features a large, clear color LCD touch panel. The intuitive menu screens make it possible for even first-time users to avoid unnecessary operations.

The color LCD touch panel is large and easy to see.

Improved Accessibility

As optional features, the iR6570/imageRUNNER 6570 includes a voice guidance function that gives visually impaired users verbal assistance with operations and settings, and a function that allows it to be operated from a remote computer. These technologies for office equipment accessibility have been highly regarded, and Canon U.S.A. received the Louis Braille Award* for them in November 2005.

* **Louis Braille Award**
The U.S. Associated Services for the Blind & Visually Impaired gives this award to honor corporations, groups and individuals that have facilitated the participation of visually impaired individuals in the business world.

The optional Voice Guidance Kit-A2 provides audio support for operations and settings.

CXDI-50C

Inspired by a desire to make medicine people-friendly in every way possible, Canon's digital radiography not only reduces the effects of x-ray photography on patients, but is also used in a variety of applications, including taking x-rays in disaster-stricken areas and archeological research.

Energy Efficiency

Reduced Power Consumption
The power consumption of the CXDI-50C, digital radiography, is 47% lower than that of the 2000 model (CXDI-11).

Resource Efficiency

Lighter Weight
The CXDI-50C is 79% lighter than the 2000 model (CXDI-11) and 36% lighter than the previous model (CXDI-40EG). Also, thanks to digitalization, the device does not use consumables such as film and developing agents, so no industrial waste is generated from use.

Elimination of Harmful Substances

Elimination of Harmful Substances Covered by the RoHS Directive
Medical devices are outside the purview of the RoHS directive, but Canon complies with it nonetheless by using alternatives for the six designated harmful substances. P45 ▸

Security

Preventing Patient Information Leaks
In order to prevent unauthorized access, the CXDI-50C is protected by a user authorization function and allows a record of its use to be outputted in the form of a usage log. These functions comply with HIPAA security standards used at medical institutions in the U.S.

People-Friendly Features

Reduced Exposure Dose
The overall sensitivity of the sensor has been improved versus that of our previous model (CXDI-40EG) to enable x-rays to be taken with an even smaller exposure dose, making it a more patient-friendly product.

Portability Allows Expanded Range of Application
The CXDI-50C's portability and higher sensitivity enables a variety of applications other than just x-ray photography in an X-ray room. Its mobility allows the device to be used while doctors make their rounds, for example. It can also be used for taking x-rays of physically disabled patients, taking x-rays of animals, and for archeological research. In addition, its portability allows it to be used for x-rays in places where there are no medical facilities, like remote regions and disaster-stricken areas.

Showing at Canon Expo 2005 how the CXDI-50C can be used by doctors making their rounds

Honored with the Imperial Invention Award* at the 2005 National Invention Awards

In July 2005, Canon's large-screen sensor for real-time x-ray devices (patent no. 3066944) received the Imperial Invention Award, the top prize, at the National Invention Awards held by the Japan Institute of Invention and Innovation. We succeeded in fully digitalizing x-ray photography, which had hitherto primarily used film. Our Digital Rediography that incorporates this technology earned a strong assessment as a patient- and environment-friendly product because it does not require film or the processing of liquid waste from the developing process, and it only exposes patients to low levels of radiation. Looking ahead, more highly sensitive sensors and higher speeds will make x-ray video a reality, and Canon intends to make further contributions to the field of medicine through such new diagnostic solutions.

* **Imperial Invention Award**
A prize awarded to outstanding inventors whose work is deemed to be highly progressive from a scientific or technological standpoint, exhibit exceptional practical benefit, further science and technology, and contribute to the development of industry. (The award originates in the first Imperial Invention Awards held in 1919.) This marks Canon's second time to receive the award. The first was for the invention of a bubble inkjet device in 1994.

Management Systems

Corporate Governance

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

Governance Structure

Canon's basic governance structure consists of an Executive Committee, in which all executive officers participate, special management committees dedicated to key issues, as well as the General Meeting of Shareholders, the Board of Directors, and the Board of Corporate Auditors, as required under the Commercial Code of Japan. All these bodies work together to ensure the appropriate management of the company through an independent 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 26 directors, all of them inside directors. The Directors aim for a rational and efficient decision-making process whereby important matters are decided at monthly meetings of the Board of Directors, which they all attend, and meetings of the Executive Committee. The Executive Committee convenes as necessary to take up important policy matters tabled by the Management Strategy Committee. All corporate officers attend Executive Committee meetings together with division personnel with responsibility for the matters under deliberation to determine specific action plans.

Various special cross-divisional management committees have also been established to address important management themes. Each committee works to accelerate and rationalize the decision-making process while supporting product group operations and fulfilling a checking function.

Auditing

Auditors

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

External Auditing

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

Internal Auditing

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

Divisions Responsible for Internal Audits

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

Corporate Governance Structure (June 1, 2006)

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

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

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

Activities of Specialized Committees

Corporate Ethics and Compliance Committee

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

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

In 2005, in addition to the regular members, the Committee also invited the presidents of overseas regional headquarters as well as all the presidents of domestic group companies to attend meetings, where they confirmed their obligation to take the lead in ensuring thorough compliance.

The Corporate Ethics and Compliance Committee

Activities of the Internal Control Committee

The Internal Control Committee was established 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 by SEC filers under Section 404 of the Sarbanes-Oxley Act* of 2002. 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 2005, its activities focused on improving and strengthening specific operational processes and documentation related to ensuring the reliability of financial statements for 2006, when Section 404 is to be applied. Looking ahead, it will work to raise its activity levels still further by creating a system to maintain and manage these processes and documents with a view to establishing a more efficient operational flow.

* **Sarbanes-Oxley Act (U.S. Public Company Accounting Reform and Investor Protection Act of 2002)**
Passed into U.S. law in July 2002 following a series of corporate accounting scandals. The law aims to restore investor trust in the stock markets by strengthening the effectiveness of corporate governance and reinforcing the independence of auditing boards and independent auditors, while adding new penalties for corporate management in the event of accounting misconduct.

New Initiatives at the Global Legal Affairs Coordination Committee

The Global Legal Affairs Coordination Committee has investigated and analyzed trends in legal developments at home and overseas and has endeavored to comply with various important laws by setting up issue-specific working groups that can respond strategically, flexibly and progressively since 1987. It is also active in enhancing the effectiveness of various programs, compiling and publishing guidelines, guidebooks and regulatory white papers (related to IT, the environment, China, etc.), raising the level of employee awareness of the most important legal issues facing the Group, and supporting the relevant divisions at Group companies in their responses to legal issues.

In recent years, it has been proactively engaged in streamlining and strengthening management systems to deal with issues such as personal information protection, trade secret management and technology outflow protection.

Work of the Global Legal Affairs Coordination Committe

Monitoring and examining legal developments in the following areas: export regulations, personal information protection, trade secret management, IT, the environment (REACH, WEEE, RoHS, 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.

Compliance

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

Canon Group Code of Conduct

Canon aspires to become a Truly Excellent Global Corporation. Maintaining excellent relations with stakeholders and fulfilling its social responsibilities are crucial factors to realize this, and all Group executives and employees must thus be aware of their roles and conduct their business fairly, sincerely, and in full compliance with laws and regulations.

Based on this awareness, Canon Inc. rewrote the 1992 Code of Conduct from a global perspective and introduced it as the Canon Group Code of Conduct in 2001. The Code sets the standards that Group executives and employees must observe when going about their business. In 2004, Canon Inc. published and distributed a booklet of case studies on work conduct to help its workforce understand the fine points of the code and encourage them to act in accordance with these sound principles.

In addition to Japanese, the Group Code of Conduct has been translated into 10 different languages, including English, French, and Chinese to instill its message throughout Group companies the world over.

The Canon Group Code of Conduct

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

Compliance Promotion System

Compliance leaders in each headquarters and product group operations implement policies and measures approved by the Corporate Ethics and Compliance Committee P24 ▸, 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 responsible departments work on establishing and maintaining the compliance structure by compiling and implementing such programs.

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

Liaison meeting of compliance leaders

Promoting Employee Awareness

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 recognize that they are individual missions.

During Compliance Week, employees take part in workplace meetings to discuss issues related to compliance and corporate ethics that may arise in actual operations. Since employees obtain a more concrete grasp of the meaning of compliance and compliant behavior in the context of their own duties, these meetings yield results that passive education programs like lectures could never deliver. Even though most employees are normally very busy, they say that participating in workplace meetings helps resolve the questions that arise in connection with compliance and enhances their awareness of the issues in their daily duties.

The opinions expressed at each workplace during Compliance Week are reported to the Corporate Ethics and Compliance Committee and the results of analyses conducted by the Corporate Ethics and Compliance Administration Office are used as feedback to employees for improving the in-house compliance promotion system.

Compliance Week has been expanded to include domestic Group companies.

Compliance Week Poster

Compliance Education

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

Each January and July, Canon Inc. provides its newly appointed general managers and managers with compliance training that enables them to approach their work with a strong awareness of key issues. Training courses for newly appointed assistant managers were inaugurated in 2006. It also gives newly hired employees compliance education in April and offers classes for new mid-career hires at the beginning of each month, thus teaching incoming employees about Canon's strict approach to compliance and the importance of abiding by the law.

Training for newly hired employees

Lectures on Laws and Regulations

Canon Inc. holds courses on laws and regulations that are of particular importance to the operations of the relevant divisions. In 2005, it held courses on the Law for Preventing Unjustifiable Extra or Unexpected Benefit and Misleading Representation in Japan, and the Anti-Monopoly Law in Japan.

Information via the Intranet

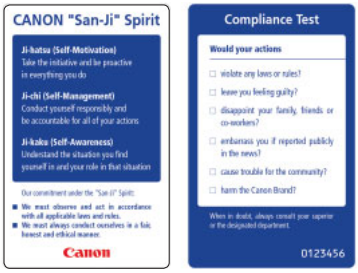
Canon Inc. has set up a website on its intranet to enhance everyday awareness of compliance by providing constant access to information on internal rules and related information. It also publishes the Compliance Newsletter to bring important issues to the attention of employees.

Distributing Canon Compliance Cards

Canon has adhered to its universal Guiding Principles—the "*San-ji*" spirit—since its founding. P61 The "*San-ji*" or "Three 'selfs'" are self-motivation, self-management, and self-awareness.

We instill this spirit into our executives and employees to support our development as a Truly Excellent Global Corporation, in the belief that all of our executives and 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, we distributed Canon Compliance Cards containing a definition of the *San-ji* spirit on one side and a compliance test on the other to all Group executives and employees in 2005 in line with the decision of the Corporate Ethics and Compliance Committee. All employees must carry the wallet-sized card at all times and endeavor to imbue their daily duties with the *San-ji* spirit as they put compliance and corporate ethics into practice.

In addition to Japanese, Canon Compliance Cards have been translated into 16 languages and distributed to Group companies overseas. As the cards are distributed, Canon carries out compliance education that takes into consideration conditions in the regions in question.



Canon Compliance Card

Establishment of a Compliance Hot-line

Canon Inc. maintains a Compliance Hot-line and is endeavoring to use self-cleaning actions to eliminate any illegal behavior. The Compliance Hot-line guarantees to protect the sources of information and ensure that their careers are not impaired in any way. Employees may also contact any director or corporate auditor by e-mail, not just the departments in charge of compliance.

The Canon Marketing Japan Group has also adopted a "Speak-up Scheme" to enable employees to report any infringements of laws, regulations or corporate ethics they may learn about directly to top management.

TOPICS

Promoting Compliance Activities Overseas

Canon is working to promote compliance and to instill a deep understanding of the *San-ji* spirit that underpins it throughout all Group companies.

Regional headquarters play a central role in these activities. In Europe, educational videos on the *San-ji* spirit and featuring unique characters have been made and some 10,000 employees in 26 countries participate in educational programs that make use of videos. In North America, all executives and some 10,000 employees are obliged to present written pledges pertaining to compliance, and plans are underway to conduct compliance training programs in stages via company intranets.

In China, training sessions using message videos in which top managers speak to employees have been introduced. Fair and honest relationships are requested of all business partners as well as employees.

In-house newsletter article explaining the *San-ji* spirit (Europe)

Security

In order to eliminate a wide variety of risks that could be damaging to its business activities, Canon is developing security measures such as information security and protecting personal information.

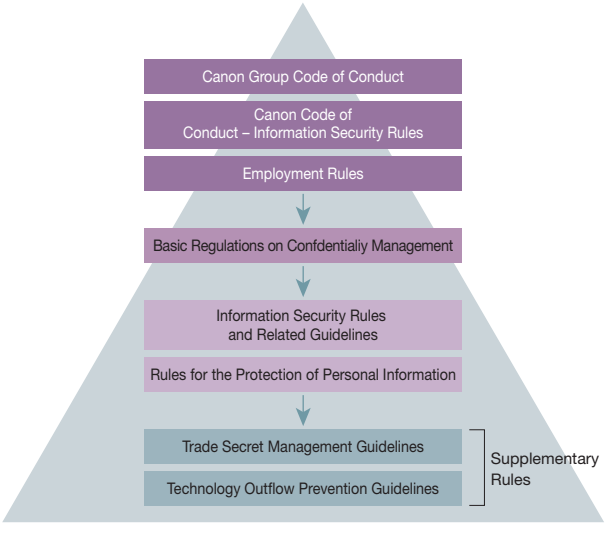
Approach to Security

Canon believes that, in order to protect our companies and employees from increasingly diversified risks and maintain the trust of society, it is necessary to develop a robust risk management system and build a crisis management system capable of rapidly and flexibly addressing incidents should they occur.

Based on this thinking, the Canon Code of Conduct-Information Security Rules stipulates our response to security risks when they materialize. The section clearly states that information is the source of value generated by a company and that the ability to manage information determines whether a company will survive. In accordance with this, we work to eliminate risks by clarifying the factors that put information obtained from customers and business partners at risk of being divulged and by establishing detailed rules and policies. In addition, because unauthorized access to buildings and grounds leads to theft and information leaks, a management system and code of conduct for physical security are also prescribed in the information security section.

In addition to these initiatives, we have constructed a rigorous system of security export control regulations based on international standards, and constantly work to maintain or improve our level of management.

System of Security Rules



Strengthening Information Security

Basic Policies and Priorities

With the occurrence of numerous incidents involving the mistaken outflow of confidential information important to the company or personal information, the development of legal regulations concerning information management has advanced, two examples being the Protection of Personal Information Law in Japan and the Sarbanes-Oxley Act. P24 ▸

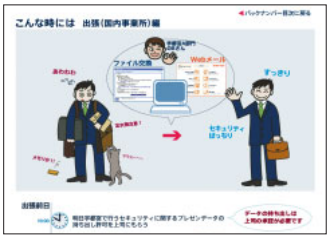
In light of this situation, Canon has established three objectives: strengthening measures to prevent information leaks; raising the awareness of all employees regarding information security; and strengthening our security management system at the global level. We are working to bolster information security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

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

Preventing Information Leaks and Raising Employee Awareness

Canon has developed rules for computer and email use in order to prevent incidents involving information leaks, and conducts employee training programs using e-learning software for the purpose of raising employee awareness of these issues.

In addition, we opened a dedicated information security website in May 2005 on our intranet where we post and update content and news on a monthly basis. It lays out the importance of information security and specific policies in an easy-to-understand manner.



Dedicated intranet site for information security

TOPICS

Developing Information Security Consulting

Since 2004, Canon Marketing Japan Group has provided consulting services to support outside companies in acquiring Privacy Mark certification and information security management system (ISMS) certification, based on expertise gained from the Group's information security management practices.

In the future, we will provide comprehensive support for customers' information security management, which will include audits of information security systems and proposals for improvement measures.

Protecting Personal Information

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

Thirty-four of our major domestic Group companies are currently taking steps to acquire Privacy Mark certification, and as of the January 31, 2006, nine companies had been certified while 19 others had completed the application process. The remaining six are making preparations with a

view to applying in January or February 2006.

Personal information is expected to be increasingly transferred via international networks, so we intend to establish a global personal information protection policy and action plan, and move forward with unified Group management of personal information at overseas Group companies as well.

Trade Secret Management and Technology Outflow Prevention

Canon conducts diverse business in various regions around the world, so we regard the appropriate protection and management of trade secrets and technological information to be an important issue of business continuation. Since 2002, Canon Inc. has held regular meetings attended by the presidents of production affiliates in China and other Asian countries, as well as key executives of Canon Inc. The meetings have served as a forum to discuss practices that have been effective at affiliates for preventing the outflow of technology, and also to fully enforce response measures.

In light of the policies announced in 2003 by the Ministry of Economy, Trade and Industry on managing trade secrets (complying with the Unfair Competition Prevention Law in Japan) and preventing the outflow of technology (preventing technology from flowing to countries where systems to protect intellectual property have not been established), in 2004, we drew up Trade Secret Management Guidelines and Technology Outflow Prevention Guidelines. Furthermore, in 2005, we constructed a computer system for managing trade secrets. In addition to developing infrastructure for the appropriate management of trade secrets, we have also worked to raise the awareness of employees being sent to China and other Asian countries.

Strengthening Physical Security

Basic Policies

We are committed to strengthening physical security systems at each of our operational sites based on the following three policies in order to fully enforce disaster prevention, crime prevention, and health and safety.

1) Establish an overall design at operational sites for physical security in order to optimize entry and exit routes for everyone who enters (employees, delivery personnel, customers) from the viewpoint of security, building safety and convenience.
2) Fully implement onsite and peripheral security to comprehensively prevent company assets (objects, information, etc.) from being removed, suspicious objects from being brought in, and suspicious individuals from entering.
3) Limit entry to onsite rooms to people who have been authorized by management, and build mechanisms that enable the integrated management of room entry and exit logs.

WEB •Physical Security Promotion System

Instituting an Integrated Entry Management System

Canon has instituted an integrated entry management system to serve as its core system for physical security. The system manages and restricts entry and exit for facilities and individual offices via ID cards equipped with a non-contact IC card. For facilities and offices that require a higher level of security like clean rooms and development sites, entry and exit is managed with biometric verification. Individual entry and exit logs are recorded in the integrated system, where they are carefully stored and managed.

We are additionally working to integrate other information, together with entry/exit logs, by using a system that controls facility equipment and devices in an integrated manner by utilizing security cameras, magnetic sensors, flapper gates and other measures. Through this, we are implementing efficient and secure information management. In the future, we intend to make active use of entry and access logs for safety confirmation and management, and to further strengthen our security system using Canon's camera technologies.

Complying with Security Trade Control

Countries with a desire for peace and security, including Japan, have abided by international arrangements and established strict regulations on the export of goods and technologies for civil use that could be diverted to military use.

Canon Inc. has therefore established the Canon Compliance Program for Security Trade Control and the Canon Compliance Program for U.S. Re-export Control. The programs ensure adequate oversight by having divisional export managers conduct an initial screening of the trading partner and the transaction and an initial check for the presence of restricted goods or technologies, then having the Global Manufacturing & Logistics Headquarters conduct an additional inspection and make a final decision.

In addition, because the issue of security requires the concerted efforts of the Group as a whole, Canon Inc. has worked to maintain or improve its level of management in this area by creating a Compliance Program that reflects the business of each company and by offering guidance and support for their implementation. Moreover, in order to properly adjust to ever-changing conditions internationally, we hold training sessions and seminars on a timely basis and publish pamphlets for employees.

WEB •Flow of Export Management

Intellectual Property Activities

Canon regards intellectual property rights as vital to supporting business development, so in addition to protecting its own intellectual property the company is devoted to developing organizational structures and rules for respecting the rights of third-parties.

Basic Policy on Intellectual Property Activities

We have engaged in proactive research and development since the time of our founding, and have been highly successful as an R&D-oriented company in creating new markets and new customer segments by developing products that incorporate proprietary technologies. This history underpins our belief that the results of R&D activities are to be considered products and intellectual property. We clearly hold that the purpose of intellectual property activities is to support business development—by effectively utilizing our intellectual property rights, we enter new areas of business and develop production and marketing on a global scale. In fact, every aspect of our business activities is promoted with an awareness of intellectual property issues.

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

Strictly observing these policies and rules carries with it the additional benefit of allowing us to enter into appropriate, unfettered partnerships with other companies and outside research institutes—including cross licensing and joint research projects—and to generate substantial results that cannot be achieved with our patents alone.

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

Basic Policy on Intellectual Property Activities

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

Culture of Intellectual Property Activities

In order to proactively protect our own intellectual property and to respect that of others, Canon has long told employees working in R&D to write patents (invention proposals) rather than reports, and to read patent specifications rather than research literature. Employees are encouraged to put these requests into practice in conjunction with their daily research and development activities.

Writing an invention proposal involves comparing one's own R&D activities to existing or prior art technologies, objectively understanding them, and creating systematic summaries. One end result of invention proposals is acquiring a patent (intellectual property).

In addition, reading patent specifications for technological information provides background on unresolved technical issues in relevant fields as well as viewpoints on potential solutions. Patent specifications also give information on prior art technologies, competitor activities in relevant fields, and trends. Information on intellectual property rights can alert us to the existence of rights holders we need to be aware of in the course of business development.

At Canon, a corporate culture that constantly spurs higher and higher development objectives has become firmly entrenched as a result of each and every researcher recognizing and acutely sensing the significance of intellectual property issues.

TOPICS

Awarded the Minister of Economy, Trade and Industry's Award at the Intellectual Property Awards

The Intellectual Property Awards are sponsored by the Ministry of Economy, Trade and Industry to recognize companies that effectively utilize Japan's system for industrial property rights and contribute to its smooth operation and development. Canon received the Minister of Economy, Trade and Industry's Award for its excellence in design utilization. The award recognized the design of Canon's digital cameras, inkjet printers and other products, with the points shown on the right in particular evaluated highly.

- As the first company to receive a Good Design Award, Canon has consistently prioritized design since its founding.
- Canon promotes a design strategy that seeks coherence across its product groupings based on a distinctive sensibility, and thanks to its excellent design the company's sales and market share are growing.
- Canon strategically builds a portfolio of design rights as needed by, for example, acquiring related design rights for especially important designs.

The ceremony was attended by Senior Managing Director Nobuyoshi Tanaka (then Managing Director), Chief Executive of the Corporate Intellectual Property and Legal Headquarters, who received the award from the then Minister of Economy, Trade and Industry, Shoichi Nakagawa.

Management System for Intellectual Property

With the global development of our R&D sites progressing, we have built a centralized intellectual property rights management system pivoting on the Corporate Intellectual Property and Legal Headquarters of Canon Inc., which functions as our global headquarters. The system was constructed so that activities would be developed under a unified strategy for intellectual property.

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

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

Additionally, twice a year, in spring and fall, we hold an IP Summit in order to facilitate information-sharing throughout the Group. At the fall summit, the Intellectual Property Committee is also convened. This gathering of Group company presidents is intended to serve as a forum for top management to communicate information and perspectives on social trends relating to intellectual property and their respective companies' initiatives. It also ensures that quick action is always taken when an intellectual property related issue arises.

In recent years, staff members of the Corporate Intellectual Property and Legal Headquarters have rotated to Group companies in order to further bolster their intellectual property activities in Japan and overseas. This also serves to boost the level of intellectual property activities and develop personnel.

Centralized Management System for Intellectual Property

Development of PGA—Improving Invention Quality

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

The activities involve development and intellectual property staff at each development site discussing proposed inventions and confirming whether the essence of the invention is firmly grasped, whether the invention can be expressed with a higher grade technological concept, and whether the specific, workable content of the invention has been disclosed.

We also rank inventions from the perspective of whether patents should be acquired early in Japan and whether patents should be acquired overseas as well.

Through such activities, Canon searches for the essence of inventions when they are still at the idea stage and works to improve their quality.

Moreover, before making actual patent applications, thorough prior art searches are conducted beforehand, utilizing our internal patent data search system and the Group's searching firm Canon Information Technology Services.

Initiatives against Counterfeits

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

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

Since 2005, we have promoted industry-wide activities for improving the effectiveness of prevention measures. For example, we have worked with industry associations to press for the exposure of perpetrators, so that they can be prosecuted by the authorities.

Poster in China promoting original Canon technologies included in genuine products

Patent Applications

Canon has long promoted the globalization of business activities, so the company puts even more emphasis on patent applications overseas than in Japan.

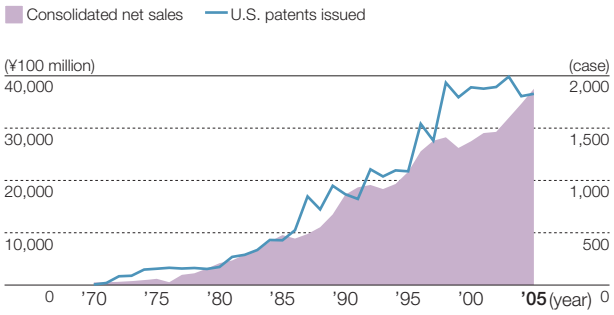
As a result, as of the end of 2005, we possessed approximately 78,000 patents and utility models globally, of which around 26,000 were for Japan, 24,000 for North America, 22,000 for Europe, and 6,000 for other countries.

We file patent applications overseas only after constructing detailed filing strategies based on business strategies, and technology and product trends in each region, and after carefully investigating the regions and countries where the patents are necessary.

We are devoting efforts to patent applications in the U.S., in particular, for the sake of expanding operations and advancing mutually beneficial partnerships, as that country is home to many companies with advanced technologies and an enormous market. The number of U.S. patents we own is expanding at about the same annual rate as our consolidated net sales.

In recent years, we have prioritized the filing of patent applications in the Asian region, where technological innovation has been noteworthy. In particular, China has become both an enormous production site and a major consumer nation, so we are stepping up our filing activities there.

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



WEB
- Top 10 Companies in Terms of U.S. Patents Acquired (2005)
- Chinese Laid-Open Patent Applications Rankings by Company (2002-2005)

Cooperating with the Government on Intellectual Property

In 2003, the Japanese government established the Intellectual Property Policy Headquarters*1 in order to strengthen the international competitiveness of Japanese industry. The headquarters promotes policies on intellectual property creation, protection and utilization in a centralized and planned manner.

Canon Inc.'s President and CEO Fujio Mitarai (currently Chairman and CEO) serves as a member of the headquarters, and in 2005, formally submitted opinions on the necessity of creating flexible rules for expedited academic-industry partnerships in line with actual conditions, speeding up patent examinations, implementing countermeasures against counterfeit products, and addressing the outflow of technology overseas, helping to formulate the Intellectual Property Strategic Program 2005*2, which was announced in June 2005. He will continue his participation in the project by helping to draw up the 2006 version of the plan, which is scheduled to be released this year.

At the same time, Nobuyoshi Tanaka, Chief Executive of our Corporate Intellectual Property and Legal Headquarters, participates in the Task Force on the Intellectual Creation Cycle, a specialist committee organized under the Intellectual Property Strategy Headquarters and launched in November 2005. He provides his opinion on issues surrounding IP creation, protection and utilization, general strategies for training people specialized in intellectual property, and the establishment of international rules to respond to the rise of intellectual property.

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

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

*2 **Intellectual Property Strategic Program 2005**
The program contains the government's understanding of the current situation, action policies, and plans with respect to drastically strengthening measures against counterfeits and pirated copies constructing the world's leading intellectual property system, providing support for small, medium-sized and startup companies, accelerating academic-industry-government partnerships, building a culture-creating nation, promoting a comprehensive strategy for training intellectual property specialists, and engaging in private- and public-sector projects to create strategic international standards.

TOPICS

Revising the Employee Invention System through Dialogue

Against a backdrop of mounting interest in recent years in intellectual property, Article 35 of the Patent Law in Japan was amended in April 2005 and a new employee invention system went into force. Under the new system, voluntary arrangements are made between companies and employees regarding compensation for employee inventions.

At Canon, we believe that making arrangements through discussions with employees will lead to a highly satisfactory system based on the future prospects of business activities, as well as to stronger motivation for research and development. Led by the Corporate Intellectual Property and Legal Headquarters, in February 2005, we began deliberations with employees on partial revisions and new additions to our Rules for Inventions, Devices and Creations. Specifically, we held presentations at R&D sites and worked to promote understanding of the proposals by utilizing our company intranet and printed handouts. In addition, we consolidated and responded to questions and opinions solicited from employees and continually disclosed the status of these deliberations on the intranet to facilitate the creation of a set of rules that would be highly acceptable to employees. The new rules were announced in June 2005.

Canon and the Environment

Mid-Term Environmental Goals

Having achieved almost all our environmental goals in 2005, Canon will raise the bar even higher and work to meet a new set of challenges.

Mid-Term Environmental Goals (2004-2005) – Major Achievements

In 2005, the final year of our Mid-Term Environmental Goals (2004-2005), we attained Factor 1.41 on our overriding indicator for environmental performance, Factor 2, which we hope to achieve by 2010. More of our major achievements follow below. (See the table on P.34 for details on our 2005 achievements.)

With respect to product goals, we successfully acquired eco-labels and achieved almost all our targets related to reducing the energy consumption of our major products while in operation and standby mode, as well as our targets related to reducing the size and weight of major products. This was largely the result of developing technologies for energy and resource efficiency. In the area of eliminating hazardous substances, we initiated early compliance with laws and regulations expected to go into force in the future and steadily commercialized products compliant with the RoHS Directive. These accomplishments were enabled by completing a system to facilitate RoHS compliance.

With respect to operational site goals, we reduced total greenhouse gas emissions (converted to CO_2) per unit of sales by 4 percent through introducing highly efficient, energy-saving facilities, among other initiatives. (Japan figures use the coefficient for converting electricity to CO_2 emissions in 2000.) In the area of waste reduction, we did not meet our target for total waste generation due to the increase in operational sites. However, we did substantially increase our internal recycling percentage and all 17 operational sites outside Japan entirely eliminated landfill waste. Initiatives to eliminate hazardous substances led us to significantly exceed the 2005 reduction targets for the discharge of substances designated by the PRTR Law in Japan.

In addition, in order to bolster environmentally conscious management at the Group, we are pushing ahead with a three-year plan starting in 2005 to acquire ISO14001 consolidated certification for the Group. For Step 1 of the plan, 13 operational sites and 28 subsidiaries and affiliates acquired consolidated certification in 2005.

Establishment of New Mid-Term Environmental Goals (2006-2008)

In 2005 we set Factor 1.7 as our target for 2008 en route to achieving Factor 2, the overriding indicator for environmental performance. In addition, we established 25 individual goals in 4 categories: Environmental Management Goals, Product Environmental Goals, Operational Site Environmental Goals and Common Environmental Goals. The Group as a whole will work together to achieve these goals with initiatives that will include developing a system of environmental assurance, pursuing product goals by segment, and instituting the Canon Eco-Factory certification system.

2006-2008 Mid-Term Environmental Goals

Group Overriding Goal for 2008 Achieve Factor 1.7

Environmental Management Goals		Target Year
Environmental Assurance System	Establish an environmental assurance system throughout the lifecycle of products	2007
	Expand the scope of ISO14001 consolidated certification (Step3)*1	2007
Material Flow Cost Accounting	Globally implement material flow cost accounting	2007

Product Environmental Goals		Target Year
Eco-products	Establish a new information disclosure system	2007
Global Warming Prevention and Energy Conservation	Achieve top-level energy conservation in each product group	2008
Resource Conservation	Achieve top-level size & weight reduction in each product group	2008
	Revise 3R design standards	2007
Chemical Substance Management	Fully operate product chemical substance management systems	2006
	Grasp total volume of 24 environmental impact substances and perform phased-in reductions	2008
Information Paper	Promotion of Environmentally Conscious Paper*2	2008

*1 Scope of Step 3: Japanese and overseas sales companies not included in Step 1 and Step 2
*2 Forest certification paper, recycled paper, ECF (Elemental Chlorine Free) bleaching paper, etc.
*3 Reduce landfill of general waste produced by business activities by 20% from 2004 levels
*4 Outside Japan: Set a voluntary goal if low-emission vehicles are defined by national standards.

Operational Site Environmental Goals		Target Year
Global Warming Prevention and Energy Conservation	Reduce operational site CO_2 emissions per unit of sales by 10% or more from 2000 level	2008
Resource Conservation	Reduce waste consigned to outside processing company (excluding product recycling waste and internally recycled waste) per unit of sales by 44% from 2000 level	2008
	"Zero landfill waste" activity - Phase 2*3 Deploy	2008
	Reduce water use per unit of sales by 25% from 2000 level	2008
	Reduce paper use in offices by 10% from 2005 level	2008
Chemical Substance Management	Reduce discharge volume of controlled chemical substances by 60% from 2000 level	2008
	Reduce PRTR substance discharge by 78% from 2000 level	2008
	Reduce priority-control chemical substance discharge by 15% from 2004 level (chlorobenzene, toluene, methanol, IPA)	2008
	Establish a controlled chemical substances management system for regional HQ sales companies	2007
Eco-factory	Set a Canon Eco-factory certification system and expand it globally	2007

Common Environmental Goals		Target Year
Employee Training	Provide environmental training through e-learning globally	2007
	Carry out environmental professional staff developing programs	2008
Green Procurement	Revise the Green Procurement Standards (Purchased goods) and achieve full compliance	2008
Transportation	Reduce CO_2 emissions in transportation by 20% per unit of sales from 2000 level (global)	2008
	Increase the rate of introducing low-emission commercial vehicles to 90% (in Japan)*4	2008

Vision for 2010

Overriding Indicator		Target Achievement Year	Results for 2005	Related Pages
Factor 2	More than double the ratio of net sales to lifecycle CO_2 emissions, using 2000 as the baseline year	2010	Achieved Factor 1.41	P.14-16

Mid-Term Environmental Goals and Results for 2005

Item		Target Achievement Year	Results for 2005	Level of Achievement in 2005	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	93.8% (45 of 48 products) met standards	○	P.41
	Meet standards and acquire certification for all major eco-labels	2005	Eco Mark (for copying machines and printers): 82.1% of products met standards (32/39 products); Eco-label certification obtained for business machines in various countries and territories (Taiwan, South Korea, Thailand, Hong Kong and Singapore)	○	
Global Warming Prevention and Energy Efficiency	Have products qualify for International ENERGY STAR Program (No. 1 in percentage of products qualifying)	2005	93.5% (43 of 46 products) qualified	○	P.41
	Reduce energy consumption during operation and standby by 30% compared to 2000	2005	Goal met for main business machine products (new engines)	◎	
	Fully meet standards of the Law Concerning the Rational Use of Energy in Japan (copying machines)	2005	Fully met standards for all categories of products (15 of 15 types of products)	◎	WEB
Resource Efficiency	Create recycling systems for Europe, Japan, Asia and North America	2005	Collection and recycling schemes being created in each region	○	P.43
	Recover 90% or more (by mass) of collected products	2005	Copying machines, 98.1%; cartridges, 100%	◎	P.42
	Utilize reused or recycled materials for all products (reused parts, recycling plastics)	2005	Amount of reused or recycled materials used: 5,458 tons (materials used in most printers, including LBPs, inkjet printers, and large-format inkjet printers, as well as in some types of copying machines)	○	P.43
	Reduce product size and weight by 15% compared to 2000	2005	Goal nearly met for main business machine products (new engines)	○	P.42
	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 WEEE standard: 65% of product recyclable by mass, 75% of product recoverable by mass	○	P.42
	Increase recoverability in design to 85% or more of product mass (including thermal recycling)	2005			
	Use green plastics for products and packaging	2005	Planned adoption of packaging bands made of PLA (polylactic acid) materials; technical aspects under consideration in subcommittee	○	P.52
Elimination of Hazardous Substances	Bring all products into compliance with RoHS by end of 2004*1	2004	Commercialized compliant products, including imageRUNNER C6800 series color MFDs, and the EOS-ID Mark II digital SLR camera	○	P.45
	Use fewer types of plastics and unify chassis materials	2005	Reduced the number of types of plastics used by 22% compared to 2003; Halogenated flame retardant plastics not used in all but a few types of products	○	
	Use 100% non-halogenated plastics for product chassis				
	Use substitute materials for circuit boards (non-halogenated)	2005	Paper phenol circuit boards (FR1): 80% non-halogenated	○	
	Use substitute materials for PVC (polyvinyl chloride) in AC/DC harnesses	2005	PVC substitutes: Selected possible substitutes from a technological standpoint	○	
Protecting the Environment during Product Usage	Meet principal environmental standards for noise	2005	BA emission standard*2 met for sound and emissions for all new LBP products	○	P.41
	Meet principal environmental standards for particulates, VOC and ozone	2005			
Management	Implement LCA/LCC in design reviews for main products	2004	LCA system evaluation completed in 2004; Trial LCC evaluation system conducted in 2005 for inkjet printers	○	P.40
Operational Site Goals					
Global Warming Prevention and Energy Conservation	Reduce CO_2 emissions per unit of sales by 5% from 2000 level	2005	4% reduction (calculated using coefficient for converting electricity to CO_2 in Japan from 2000)	○	P.47
Resource Conservation	Increase internal recycling percentage by 40% from 2000 level	2005	792% improvement - Substantial increase in internal recycling of paper at operational sites in Japan	◎	P.48
	Decrease total waste generation by 25% from 2000 level	2005	15% reduction (19.4% reduction when excluding new sites added since 2000)	×(○)	
	Zero landfill waste (achieved in Japan in 2003)	2005	Achieved at all overseas operational sites (17 sites)	◎	
Elimination of Hazardous Substances	Reduce hazardous substance discharges by 50% from 2000 level	2005	49% reduction	○	P.49-50
	Reduce discharges of PRTR Law designated substances by 60% from 2000 level	2005	77% reduction	◎	
Transportation	Reduce CO_2 emissions per unit of sales by 20% from 2000 level	2006	24% reduction (in Japan); Modal shift expanded (Reference: Data collection for overseas transportation begun in 2003)	◎	P.51
Common Group Goals					
Employee Training	Restructure the Group's environmental education system (customize by job type and employee rank)	2005	Reviewed environmental education system, curriculum and mechanisms (Prepared environmental education self-awareness program and an environmental education program for sales and marketing divisions, etc.)	◎	P.38
Social Contributions	Implement new social contribution program	2005	Child photography project and photo exhibitions held; Support provided for Chinese Wildlife Photography Camp	◎	P.65-66
Communications	Establish interactive communication system	2005	Conferences on the environment held for university students and consumers	◎	WEB
	Disclose product environmental efficiency indices	2004	Test introduction and disclosure of LIME method developed under LCA project (LCA Forum, METI)	○	WEB
EMS	Gain ISO14001 consolidated certification	2005	Promoted activities to obtain ISO14001 consolidated certification promoted (3-year plan for 2005–2007); Completed step one of the plan (certification acquired by 13 Canon, Inc. sites and 28 subsidiaries and affiliates)	◎	P.35
		2005	Environmental accounting introduced at overseas manufacturing subsidiaries and affiliates	○	P.37
Environmental Businesses	Establish environmental pollution prevention and remediation businesses	2005	Developed and created prototypes for new VOC removal systems; Marketed environmental analysis equipment; Strengthened consulting and IT services for environmental management	◎	P.39

Evaluation symbols for goals: 100% or higher achievement = ◎, 70% or more = ○. For qualitative goals, ◎ denotes comprehensive achievement, while ○ denotes progress (improvement over previous year.)

*1 Bring all products into compliance with RoHS by end of 2004: Complete assurance system by end of 2004 to ensure new product compliance from 2005, in principle.

*2 BA standard: Sound and emission standard of Blue Angel (environmental label developed in Germany)

Environmental Management

Canon is strengthening the Group's environmental management system in order to promote environmental protection activities on a global scale.

Environmentally Conscious Management System

Global Environmental Promotion System

To promote environmentally conscious management in unison with group companies worldwide, Canon established the Global Environment Promotion Headquarters in 2002. The headquarters oversees two centers: the Environment Management and Engineering Center, which proposes and promotes environmental strategy and promotes the development of environment-related technologies; and the Environment New Business Center, which applies environment-related technologies to new business. There are also divisions and people in charge of promoting environmental assurance activities for each organization at each product group operation, operational site, and main subsidiary and affiliate. In addition to checking on the status of achievement for Mid-Term Environmental Goals set by the Global Environment Promotion Headquarters and ensuring thorough compliance with environmental assurance rules, these divisions share this information with the Global Environment Promotion Headquarters, thus ensuring the entire group knows what is going on and that decisions are made promptly.

Moreover, in 2003, in addition to an Environmental Management System (EMS) centered on the Global Environment Promotion Headquarters, we established the Global Environment Expert Committee under the Management Strategy Committee, which handles matters common to the entire group. We are promoting cross-organizational initiatives related to our environmental assurance activities.

WEB •Holding Regional Environment Meetings

Environmental Evaluation System

Canon already uses its Evaluation System on a Consolidated Basis to evaluate the business conditions of Group companies. In 2001, we incorporated environmental evaluations into the system for product group operations as well as for major manufacturing and marketing subsidiaries and affiliates.

With these environmental evaluations, the Global Environment Promotion Headquarters evaluates and assigns points for tasks like maintenance of the Environmental Management System (EMS), how much environmental burden Canon is generating through its business, and what it is doing to lessen this. This accounts for about 10% of total points in evaluation on a consolidated basis. The results of the evaluations are announced every quarter within the group.

Canon will continue to improve the system by revising its evaluation methods through, for example, the addition of new evaluation items, with a view to raising the level of its environmentally conscious management.

Acquiring ISO Consolidated Certification

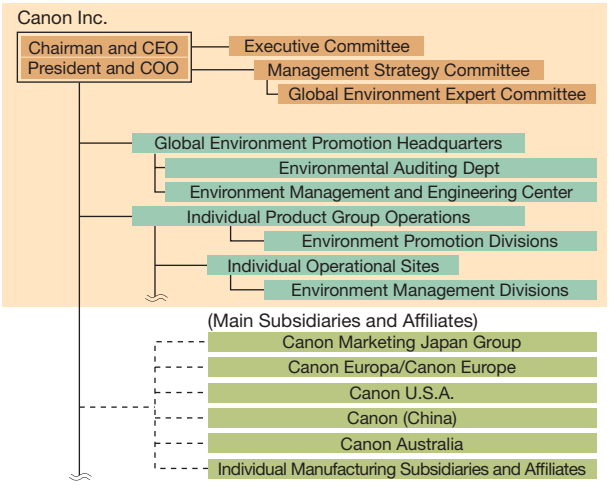
Ever since Canon Inc. became the first company in Japan to be certified for BS 7750, the predecessor to the ISO 14001 International Standard in 1995, we have built Environmental Management Systems (EMS) at individual manufacturing sites and sales companies in Japan and outside Japan.

And because of the increasing importance of strengthening environmentally conscious management throughout the whole group, in 2004 Canon decided to acquire ISO 14001 consolidated certification for the entire group and reviewed its EMS. P36 ▶ We are aiming to acquire consolidated certification for 13 of Canon Inc.'s operational sites and 125 subsidiaries and affiliates, covering a total of approximately 140,000 people including external employees, by 2007.

We took the first step towards this in 2005 with the consolidated certification of Canon Inc.'s 13 operational sites and 22 subsidiaries and affiliates, and 6 sales companies in Europe.

Certificate for ISO 14001 (Step 1)

Global Environment Promotion System



Three Steps toward ISO 14001 Consolidated Certification

Step1▶2005 Evaluation started in March, acquired certification in August.
Scope: • All sites including subsidiaries in Japan (but excluding marketing subsidiaries)
• A number of European marketing subsidiaries

Step2▶2006 Evaluation starts in June, will acquire certification in November.
Scope: • All overseas manufacturing subsidiaries
• A number of European marketing subsidiaries
• A number of Australasian marketing subsidiaries
• Asian marketing headquarters (China, Singapore, Hong Kong)

Step3▶2007 Evaluation starts in June, will acquire certification in August.
Scope: • Overseas marketing subsidiaries (Asia, Australasia, America)
• Canon Marketing Japan Group*
• A number of European marketing subsidiaries

* **Canon Marketing Japan Group**
Acquired ISO14001 certification on a multi-site basis in December 2000
URL: www.canon.com/environment/iso14001/tougou.html

Environmental Auditing

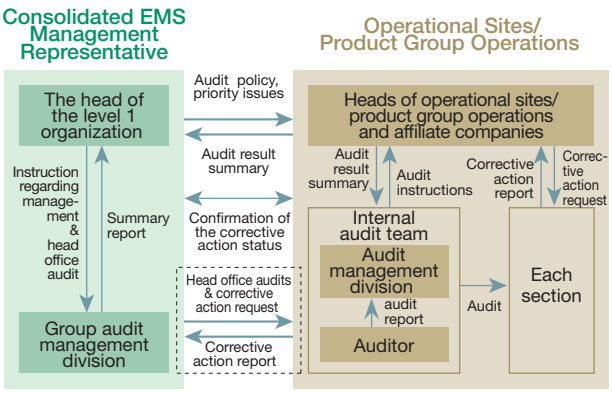
In order for the entire group to acquire ISO14001 consolidated certification, Canon Inc., which oversees environmental audits of group companies, is at the center of efforts currently underway to restructure our internal environmental auditing system.

In 2005, in addition to internal environmental audits at each operational site, we began product assessments at product group operations, audits on product chemical substance assurance and other such activities. We also created the Canon Group Environmental Audit Procedure as common rules for environmental audits based on ISO19011 (an international standard for environmental and quality auditing). These can be referred to on the intranet of major sites in and outside Japan.

Following analysis, the results of these internal audits will be used as documents for the president's management review, and there are plans for them to be incorporated into auditing policies starting from the following fiscal year.

In 2005, environmental audits on Canon concluded that there were no major problems related to laws and regulations. Accordingly, we believe that our important tasks for 2006 and beyond will be the operation of EMS at each operational site, and the establishment of procedures and internal regulations for product chemical substances assurance.

Internal Audit Systems



Environmental Risk Management

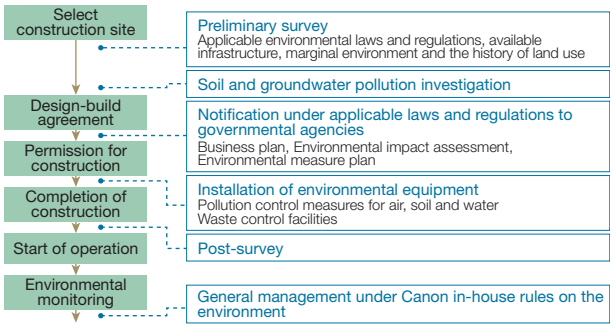
Since 1990, Canon has been conducting environmental assurance activities in and outside Japan under in-house rules that are stricter than environmental laws and regulations.

In 1993, we added a chapter entitled "Preliminary Measures when Constructing Buildings and Structures" to our in-house rules and have been evaluating the validity of measures to prevent environmental burden before we carry out new construction, renewal, or renovations of manufacturing process equipment, buildings, structures and other such items. For daily management of wastewater, soil, air, odor, noise, vibration, etc., we have had their environmental burdens measured by internal and/or external specialists.

In 2004, we added Emergency Response comtrol Procedures for unexpected incidents to our in-house rules, and established a system that enables comprehensive judgments and appropriate responses. For example, we introduced secure wastewater facilities at each operational site, which allow us to check the operating conditions of the facility from every direction. We have also prepared manuals for emergencies. For example, if a natural disaster or other incident should trigger a leakage of waste oil, then personnel experienced in the operation of oil fences will respond and prevent the oil from leaving the Canon facility and, at the same time, the division in charge will be informed of the incident.

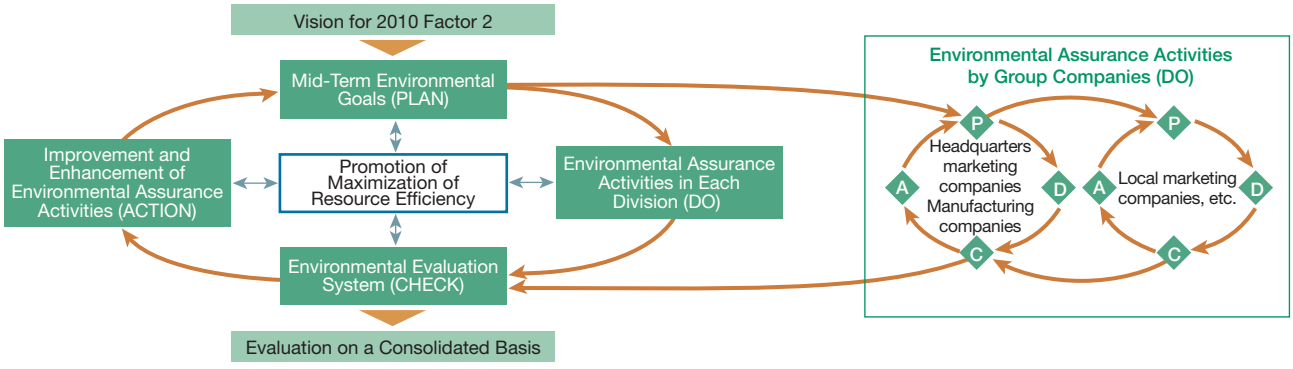
Due in part to these risk management practices, there were no accidents or disasters that had a major impact on the environment in 2005.

Environmental Risk Management Flow for Construction Buildings and Structures



WEB •Environmental Risk Communication

Canon's Environmentally Conscious Management System



Environmental Accounting, Material Flow Cost Accounting

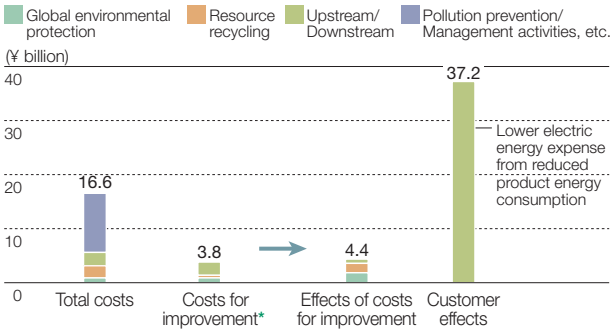
Environmental Accounting

Since instituting environmental accounting in 1983, Canon has gradually expanded its scope and raised its precision. Environmental accounting has been used to facilitate decisions about whether or not management resources are being optimally invested.

Based on amendments made in February 2005 to the Ministry of the Environment's Environmental Accounting Guidelines in Japan, we expanded the scope of our environmental accounting practices from major domestic subsidiaries and affiliates to encompass major overseas subsidiaries and affiliates as well.

Environmental accounting results for Canon in 2005 reveal that Canon invested ¥16.6 billion in environmental protection, including ¥3.8 billion for improvements designed to obtain economic benefits from environmental protection. This investment generated an effect of ¥4.4 billion.

Environment Accounting Results for 2005



* included in the total cost of 16.6 billion yen

Introducing Material Flow Cost Accounting on a Global Scale

Material flow cost accounting is a method of managerial accounting that originated in Germany, one of the most environmentally conscious countries. It involves calculating and managing quantity and cost data for losses incurred in the manufacturing process. In relation to the "positive product," the product that goes to market, there is a "negative product," which represents factors like the waste generated during the manufacturing process, related processing costs and the cost of treating waste. By analyzing how each of these is generated, and by identifying and reducing costs, both environmental burden and costs can be reduced.

Canon introduced material flow cost accounting in 2001, and had implemented it at 12 major operational sites in Japan and at 6 manufacturing sites in China, Malaysia, Thailand, and Vietnam by January 2006.

This method has brought about major success for Canon in the reduction of resources used (raw materials and others) and subsequently in the reduction of waste generated and costs incurred. And because this method can give details of resources used during the production process (energy, water, solvents, etc.), it is effective in promoting environmental assurance activities, including energy and resource conservation initiatives.

Going forward, we hope to introduce material flow cost accounting to all worldwide manufacturing sites by 2007 in order to streamline and stimulate environmental assurance activities throughout the whole group.

Schedule for Introduction of Material Flow Cost Accounting

Introduced	Company Name
2003	Canon Utsunomiya Plant
	Canon Chemicals
	Canon Toride Office (Chemicals)
	Oita Canon
	Canon Electronics
2004	Fukushima Canon
	Ueno Canon Materials
	Oita Canon Materials
	Canon Ecology Industry
	Canon Finetech Fukui Office
2005	Canon Opto (Malaysia)
	Canon Zhuhai
	Canon Precision
	Canon Hi-Tech (Thailand)
	Canon Vietnam
	Nagahama Canon
2006	Canon Inc. Taiwan
	Canon Engineering (Thailand)

Case Example: Trial Introduction of Material Flow Cost Accounting

Canon Utsunomiya Plant

In 2001, the Canon Utsunomiya Plant experimentally introduced material flow cost accounting for lens processing. It was revealed that treatment of the sludge from lens polishing, which is generated during the rough grinding process, accounted for a large percentage of the losses that are part of the overall costs.

In collaboration with a raw material manufacturer, we adopted a near-shape lens (a lens with a thin radial thickness), which enabled the plant to reduce both environmental burden and costs.

Canon Chemicals

Canon Chemicals has been using material flow cost accounting in all manufacturing processes since 2003.

In 2005, thanks to efforts such as improving the efficiency of material processing during cartridge component production, the company reduced annual waste by 1,800 tons. It also reduced costs by ¥120 million by reducing waste disposal costs and the amount of raw material input.

Environmental Education

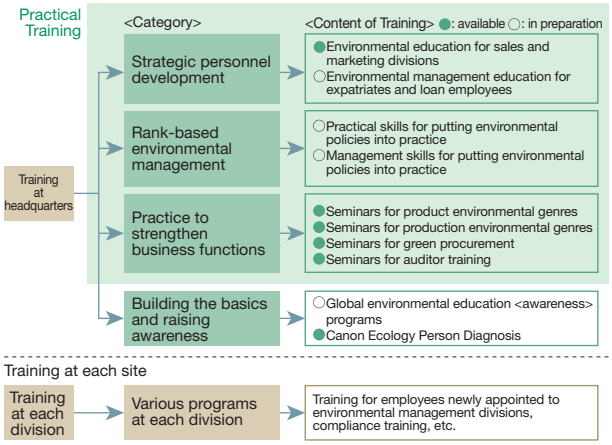
New Environmental Education System

Canon has sought to raise environmental awareness in a manner that emphasizes the individual initiative of each employee. We first introduced full-fledged environmental education and enlightenment activities in 1989. In 2004, we started the Canon Ecology Person Diagnosis to reflect on one's own actions.

In 2005, we revised environmental education systems, content and mechanisms by looking at how we could provide "the right knowledge to the right people at the right time," and thus clarified the educational goals and methods according to key educational themes, the functions of environmental education divisions, and the job types of personnel who are to receive environmental education.

In addition to raising environmental awareness, we are planning to train core environmental personnel who will be the driving force in practical environmental assurance activities at workplaces around the world.

Overall Structure of the New Environmental Education System



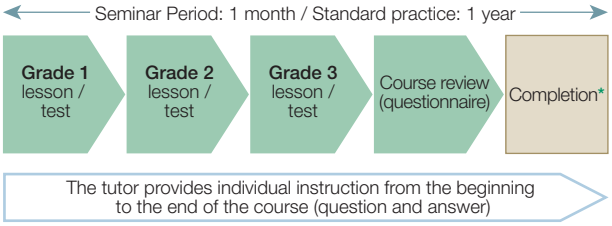
Developing Environmental Education on a Global Scale

In June 2006, Canon will start two e-learning programs towards the goal of providing environmental education through e-learning on a global scale, one of Canon's new Mid-term Environmental Goals set for between 2006 and 2008.

One is the "Canon Global Environmental Self-Awareness Education Program." The aim of this program is to enhance proper knowledge relating to environmental issues and to deepen understanding of the four self-awareness items designated in the ISO14001 standard (environmental policy, environmental aspects, roles, responsibilities, and procedures for rules) and of the group's environmental assurance activities. The other is the "Sales and Marketing Divisions Environmental Education Program," which teaches employees working for sales and marketing divisions the environmental features of Canon products and the group's environmental assurance activities.

Canon currently offers these two programs in Japan and English- and Chinese-speaking countries, and plans to gradually offer them in other languages areas as well. We will also start a new mechanism, in which tutors will provide individual educational guidance, including Q&A, from beginning to end of the training, so as to make the programs go efficiently and effectively for the entire group.

Flow of Environmental Education via E-learning



* Correct response rate of 80% or more on each test, and submission of review (questionnaire)

New Environmental Education Course: Inverse Manufacturing and the (3R)

With the goal of improving the recycling rate (in collection, transportation, dismantling, reuse, and waste disposal) for the end-of-life of products, and to train technicians for this job, we already conduct an educational course for IM (Inverse Manufacturing) as a part of our basic product environmental training.

In 2005, the "IM Environmental Education Course" was established as a separate training course, with the first course being held at Canon Ecology Industry. Participants gained practice in dismantling products and learned about the importance of recycling costs and environmentally conscious product design.

There are plans for similar training to be held each quarter at operational sites in Japan, and we are looking into introducing it to operational sites outside Japan as well.

Product-dismantling Practice

Environmental Education for Sales and Marketing Divisions

In November 2005, at the head office of Canon Marketing Japan in Shinagawa, Tokyo, 174 employees from the sales and marketing divisions gathered to learn the advantages of knowing about a product's environmental background.

The goal of the training was to help Canon employees explain the company's environmental efforts to customers in simple, easy-to-understand language. The two-hour training covered such areas as the environmental features of products and the efforts Canon is making on the environmentally conscious management and technology fronts.

Canon plans to hold similar training at sales bases in Osaka and other cities.

Environmental Business

Canon Environmental Solutions

In 2004, Canon Group companies in Japan started full-scale development of Canon Environmental Solutions. This offers customers a total package including environment-related technologies and know-how that we have built up over the years, environmental purification technology, environmental analysis and assessment technology, and consulting services related to environmental management, as well as methods for introducing information technology that will make environment-related business more efficient.

Consulting for Environmentally conscious Management

In 2005, we offered consulting services to customers mainly in the manufacturing industry, covering support for operating an EMS, the foundation of environmentally conscious management, how to make environmental reports, and how to introduce material flow cost accounting with an eye to reducing material losses in the manufacturing process, and other issues.

Expanding the Lineup of Services

In December 2005, we started a consulting service to help customers save energy by reducing energy loss due to improper placement or operation of office equipment.

At the same time, we started the Service to Support the Introduction of a Product Chemical Substance Assurance System to help companies manage product chemical substance assurance. With this service, Canon helps establish systems for managing chemicals in products, based on the Guidelines for the Management of Chemical Substances in Products published by the Japan Green Procurement Survey Standardization Initiative (JGPSSI), an organization that Canon established in collaboration with other voluntary companies.

Environmentally Conscious Management IT Services

In 2005, we sold a Green Procurement Survey Support System mainly to customers in the electrical and electronics parts fields. This system helps companies carry out more efficient green procurement and keep track of data on chemical substances contained in products and parts.

New Business with Environmentally Conscious Technology

When Japan's Soil Contamination Countermeasures Law went into effect in 2003, Canon Inc. was certified as a soil and groundwater testing organization by the Ministry of the Environment. With this new credential, Canon Inc. launched an engineering business to conduct soil and groundwater environmental surveys and assessments, and to execute measures to remediate contaminated areas.

Canon utilizes its experience in environmental analysis technology, focusing on technological support that includes ultramicro analysis, compliance with the RoHS Directive, and environmental analysis of asbestos. We are in the proces of conducting R&D on a number of environmental technologies for rendering hazardous substances harmless.

Developing New Devices for Removing VOCs

To reduce emissions of the VOCs (volatile organic compounds) that are a cause of air pollution, Japan revised the Clean Air Act in 2004 and put it into effect in April 2006. This revised law obligates companies in many industries, including printing and painting, to reduce VOC emissions by 30% by 2010 compared to 2000. It is expected that regulations will be further strengthened in the future.

Now, all industries are proceeding with measures to reduce VOC emissions. However, for the many small and medium-size enterprises affected by these measures, purchasing a large-scale VOC removing device means huge investment and maintenance costs.

Given this situation, Canon is preparing to commercialize a small, high-performance VOC removing device using our proprietary hybrid plasma technology, which was developed for the removal of VOCs emitted by a subsidiary.

New VOC decomposition device (prototype)

TOPICS

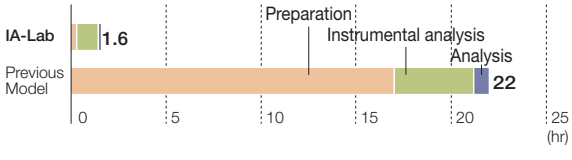
Development of the IA-Lab Environmental Analysis Device

To streamline measuring of additives in resin, which requires long and complicated preparation, Canon Anelva Technix developed an analysis device that can measure additives in resin without any preparation. This device can be used for previously hard-to-inspect brominated flame retardants (PBB, PBDE), which are covered by the RoHS Directive.

Canon Anelva Technix plans to improve this analysis device, so that it can be applied to VOCs and to substances covered by green procurement regulations, such as chlorinated paraffin and phthalate acid ester used as stabilizers and plasticizers.

IA-Lab environmental analysis device

Comparison of past and present measuring time



WEB •Sales of Environmentally-Compliant Paper

Environmentally Conscious Products

Canon is conducting environmentally conscious development and design, and building recycling mechanisms to encompass entire product lifecycles.

Goal Setting and Management

Basic Stance on Environmentally Conscious Products

The largest direct and indirect environmental impacts of Canon's operations and its products throughout their lifecycles come from the manufacture of raw materials and parts by suppliers and from the consumption of electricity by consumers when they use products. P16 ▸ The public is demanding prompt action from manufacturers in preventing global warming, reusing materials from used products, and preventing pollution from discarded products.

Canon is developing environmentally conscious products with a focus on preventing global warming and conserving energy, conserving resources, and eliminating hazardous substances, while at the same time working to comply with standards for environmentally conscious products. Improving our ability to manage environmental impact through prompt action in these areas is one of the aims of our 20 Mid-Term Environmental Goals. P34 ▸

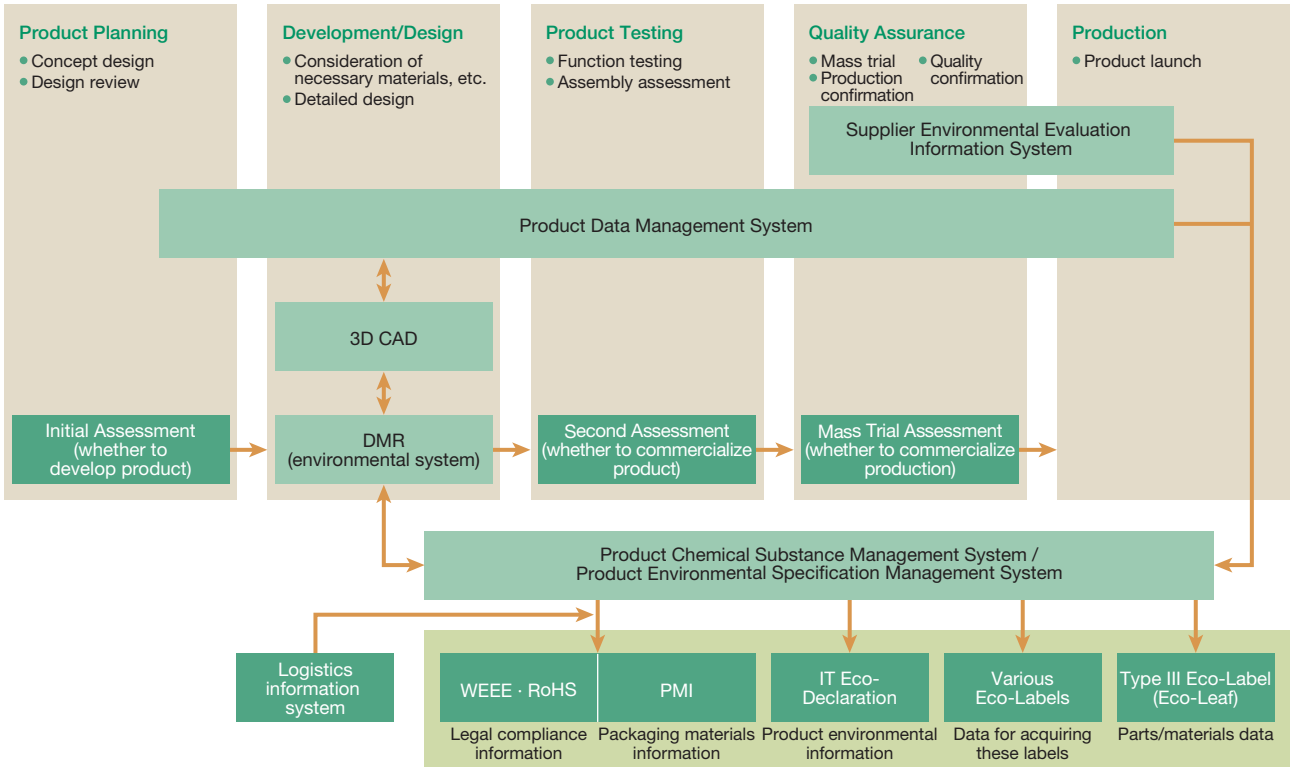
Product Environmental Information System

Canon has built a product environmental information system by compiling environmental data related to products on the company's intranet. Each division was involved in collecting data on product development and design, product prototypes, quality assurance, production and other activities. The divisions use the system to acquire the information they need to develop environmentally conscious products, including information on development, design, procurement and production. Development sites use 3D CAD systems to perform a digital mock-up review (DMR) that verifies factors like ease of product assembly and disassembly, safety, drive mechanisms, and functions. This eliminates the need to build expensive prototypes. For this product development hardware we have created environmental impact assessment software that evaluates recyclability, compliance with the WEEE and RoHS Directives, life cycle assessment (LCA), life cycle cost (LCC) assessment, and the product's environmental impact*, all from initial development and design.

All of this environmental information on products is stored and managed using the latest IT, allowing the development/design and other related divisions to share environmental information on individual products.

* **Product Impact Assessments**
To assess the product's environmental impact in advance, at the product development stage, and to incorporate measures to lessen impact into the product.

Product Environmental Information System



Compliance with Standards for Environmentally Conscious Products

Standards Compliance in 2005

Right from the product planning stage, Canon stresses compliance with regulations like the Law on Promoting Green Purchasing in Japan, and with programs like International Energy Star and the Eco Mark.

In 2005, 93.8% of our products complied with the Law on Promoting Green Purchasing in Japan, up 2.4% from the previous year. And 93.5% of our products comply with the International Energy Star Program. The International Energy Star Program is currently moving to make its criteria stricter, and we are developing products with the goal that all target products qualify with the revised criteria. In 2005, 82.1% of our products acquired Eco Mark product certification, up 13.3% from 2004. The Eco Mark Program established certification criteria for toner cartridges as well in March 2005, and 15 series of Canon cartridges had been certified for these criteria as of the end of 2005.

Canon is also working toward eco-product certification outside Japan. In 2005, we earned Thailand's Green Label, Taiwan's Green Mark, and China Environmental Labelling.

In order to bolster our assessment systems for product safety starting from the product development stage, Canon's chemical emissions testing laboratory became the first in the industry to acquire certification as a laboratory for assessing conformance with the German eco-labeling program "Blue Angel" P56 ▸. It also acquired ISO/IEC 17025 certification. Through these systems we have promoted environmental protection during product use (emissions evaluations etc.) for copiers, laser beam printers and other products.

Meeting Standards for Environmentally Conscious Products in 2005

Product Type	Law Promoting Green Purchasing	Eco Mark	International ENERGY STAR® Program
Copying Machines/MFDs	16/19 (84%)	16/19 (84%)	16/19 (84%)
Facsimile Machines	3/3 (100%)	—	3/3 (100%)
Laser Beam Printers	6/6 (100%)	5/6 (83%)	6/6 (100%)
Inkjet Printers	10/10 (100%)	10/10 (100%)	10/10 (100%)
Large-format printers	4/4 (100%)	1/4 (25%)	5/5 (100%)
Image Scanners	6/6 (100%)	—	3/3 (100%)
Total	45/48 (94%)	32/39 (82%)	43/46 (94%)

* 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 criteria for facsimile machines and image scanners have been established.

WEB •Acquiring the Eco-Mark for toner cartridges

Global Warming Countermeasures and Energy Efficiency

Energy-Efficient Products

Approximately 30% of the environmental impact exerted by Canon's operations and its products throughout their lifecycles comes from the energy used during product use. That is why we have made energy-efficient products a top priority and are doing all we can to reduce product energy consumption right from the product development stage. The Mid-Term Environmental Goals, which were to be achieved by 2005 at the latest, state that Canon will have the highest product qualification rate for the International Energy Star Program, reduce energy consumption during operation and standby by 30% against 2000, and have a 100% compliance rate (for copiers) with the Law Concerning the Rational Use of Energy in Japan.

Thanks to these efforts, energy consumption during product use (converted to CO_2 emissions) in 2005 was 1,770,000 tons, down 21% from the 2,240,000 tons of 2000, despite the fact that net sales were up 31% compared to 2000.

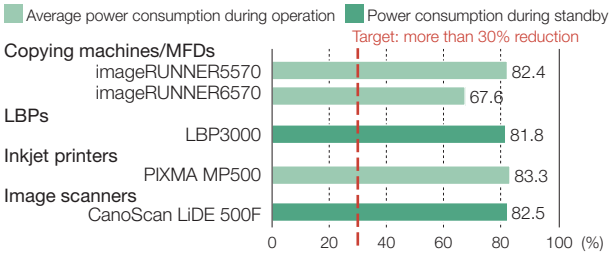
Reducing Energy Consumption During Operation and Standby

Since 2004, Canon has strived to reach the goal of reducing the energy consumption of products during operation and standby by 30% against 2000. This goal was achieved in December 2005 for major business machine products (with new engines).

We have also dramatically reduced warm-up time for copiers, MFPs, and laser beam printers with the introduction of energy-efficient technologies like on-demand fixing and IH (induction heating) fixing; technologies that we are also introducing to high-speed and color machines.

In 2005, we recorded sales gains for our iR5570 and iR6570 series monochrome copiers/MFPs, which are among the most energy-efficient products in their class. We also expanded our lineups of PIXMA iP series inkjet printers and PIXMA MP series inkjet MFPs, consumer products that incorporate energy-efficient technologies for all modes: operation, standby, and power off.

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



WEB •100% compliance with the Law Concerning the Rational Use of Energy in Japan
•Canon's proprietary energy-efficient technologies used in office machines

Resource Conservation

Conserving Resources in Making Products

As a global company working towards a recycling-oriented society, Canon strives to recycle resources efficiently by collecting used products from customers and then disassembling them and separating the different materials. Part of this is an integrated inverse manufacturing (IM) system in which products are collected and their units and parts washed and inspected for reuse in the production of new products.

IM activities also provide valuable information about material recycling that is fed back to the product planning, development, and design divisions. And control information, like the operational status of IM activities, is used not only by collection and recycling sites and marketing companies, but also by our business groups.

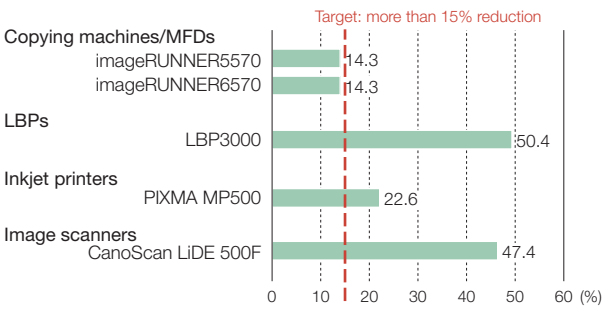
Canon is working to restructure recycling systems for individual product lines and to develop technologies for its 3R* activities, which are the basis of its IM activities, as it continues to pursue economy and efficiency at both the global and regional levels.

* **3R**
3R stands for reduce, reuse, and recycle, the three ways to reduce waste. Reuse includes reusing products, as well as remanufacturing in which reusable parts go into new products. There are three kinds of recycling: material recycling (using waste as raw materials), chemical recycling (chemical treatment allows waste to be converted to a different substance for use), and thermal recycling (using the heat from the incineration of waste). In the broad sense, recycling also includes reuse.

Lighter, More Compact Products

With the goal of reducing product weight by 15% in 2005 compared to 2000, Canon is striving to make new products smaller and lighter. Canon achieved this goal for its main business machines, with the exception of a small group of products that had design limitations and that required expanded machine functions.

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



Recycle Conscious Design

Starting from the development and design stages, Canon has striven to achieve goals of making products 75% recyclable by mass (for reuse and material recycling) and 85% recoverable by mass (including thermal recycling).

Thanks to these efforts, main business machines that underwent product assessment P40 ▸ exceeded the targets specified in the EU's WEEE Directive* (Waste Electrical and Electronic Equipment Directive) in 2005, which are 65% recyclability and 75% recoverability (both by average weight per appliance.)

Canon is also building a system that provides recyclers with the information they need on parts and materials that must be separated, collected, and properly treated under the WEEE Directive.

* **WEEE Directive**
WEEE stands for Waste Electrical and Electronic Equipment. This EU directive requires manufacturers to recover or recycle devices after use for the purpose of preventing environmental pollution caused by waste electrical and electronic equipment.

Recycling Collected Products

Regional sales headquarters outside Japan have rebuilt their own recycling systems optimized for each region, with the aim of reaching Canon's goal of at least a 90% recovery rate for collected products in 2005 and improving the collection rate itself. These systems helped Canon achieve a 98% recovery rate for copiers and a 100% recovery rate for (toner and ink) cartridges (including thermal recycling).

In Japan, in addition to our continuing cartridge collection program, we joined the Bellmark campaign, under which we give registered schools in Japan Bellmark points based on the number of used cartridges they collect.

Collections and Recovery Rate of Products

	2001	2002	2003	2004	2005 (Recovery Rate)
Copying machines (1,000 units)	112	144	137	142	**122 (98.1%)**
Toner cartridges (t)	14,441	15,554	15,773	16,760	**19,713 (100%)**
Ink cartridges (t)	26.0	51.0	70.0	75.0	**75.6 (100%)**

* Ink cartridge collection/recovery only in Japan

Reused Parts and Recycled Plastics

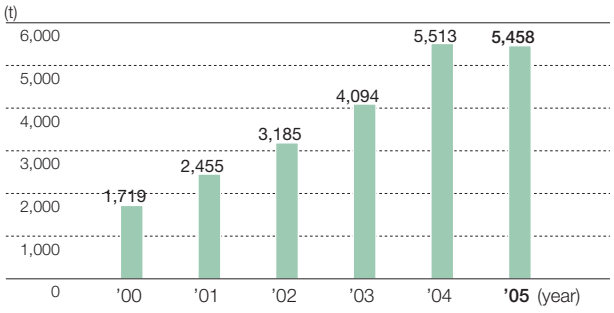
Since 1992, Canon has been introducing its copier remanufacturing* system to an increasing number of worldwide sites, and in 1999, we began reusing parts. For consumables, our Toner Cartridge Collection and Recycling Program began on worldwide basis in 1990. Under this program, after cartridges are separated by product type, their parts and materials are reused and recycled. In 2002, Group company Canon Ecology Industry Inc. in Japan introduced the industry's first toner cartridge automatic recycling plant.

One of our plastic recycling initiatives involves the collection of paper supply cassettes from copiers throughout Japan. The plastic (HIPS) is preprocessed, including washing and removing impurities, in Japan, and then shipped to Thailand, where it is recycled into m-PPE (modified polyphenylene ether resin) at a plastics manufacturer. With the same levels of quality and safety as virgin plastic, it is used to make the power supply casings in inkjet printers.

These efforts allow us to reuse (parts) and recycle (plastic) in almost all products we manufacture. In 2005, about 5,458 tons of reused and recycled material was incorporated into new products.

* **Remanufacturing**
Reproducing products with the same level of quality as new ones through cleaning and replacing parts etc., after collected products have been disassembled and reusable parts separated from worn and deteriorated ones.

Amount of Reused and Recycled Materials Used



Copier Remanufacturing ("Refreshed" Series)

Canon is currently carrying out copier remanufacturing in Japan, the Americas, and Europe.

In Japan, used digital copiers are remanufactured into the "Refreshed" Series (three models: iR3310F-R, Ir3310FL-R, and iR6010-R), which first went on sale in August 2005. Remanufacturing allows up to 89% of parts and materials (by weight) to be reused in products that have the same performance and reliability as new products. This is thanks to technologies like Canon's proprietary blast cleaning, in which a high-speed abrasive spray removes surface dirt and allows exterior parts to be reused.


iR 6010-R – "Refreshed" Series

Remanufactured products reduce environmental burden up to the manufacturing stage by more than 80% (converted to CO_2 emissions) compared to new products that incorporate no reused or recycled parts.

Building Recycling Systems Around the World

The WEEE Directive went into effect in the EU in February 2003. EU countries are establishing and implementing laws to comply with the directive, and are building the infrastructure to collect, reuse, and recycle used equipment.

To fulfill extended producer responsibility in such situations, Canon has been working to meet the WEEE Directive through efforts that include labeling products to be collected separately and providing users with the necessary information. Under the management of the European sales headquarters, national sales companies that cover 25 EU countries are participating in national recycling consortiums or creating their own recycling schemes for commercial and consumer products. These companies register

Global Recycling Structure

themselves as producers in accordance with national laws, and share collection and recycling system costs. As of March 2006, sales companies in Austria, Belgium, Finland, Germany, Ireland, Luxemburg, the Netherlands, Sweden and Switzerland have completed their systems for recycling.

In Japan, Canon Marketing Japan handles most of the collection and recycling of used copiers and business machines. Our operational sites in Japan are fully equipped to implement the 3Rs and have begun operating as a model region for Canon worldwide. We are also looking into building Pan-Asian and other recycling schemes.

Canon Australia Pty. Ltd. has begun outsourcing the disassembly and recycling of collected machines. In North America, a program to collect consumer products was implemented in March 2005.

Building a Recycling System in Japan

Canon used to outsource recycling of the used products collected in Japan to multiple contractors*. In 2004, it established its own recycling sites in Japan, as Canon Ecology Industry Inc. and Top Business Machines Co., Ltd. began handling all such recycling work along with two recycling contractors in Hokkaido and Okinawa.

Our nine collection centers around Japan enable us to handle mainly office machine products and raise our product recycling rate.

* Toner cartridges have traditionally been handled in the Canon Group.

Recycling at Canon Bretagne S.A.S.

Canon Bretagne has long been involved in the recycling of toner cartridges. But since September 2004, the company has partnered with Canon France to jointly recycle major products inside their factories, to comply with the WEEE Directive. There are currently eight stock points around France where used products are collected for transportation to Canon Bretagne, where they are taken apart and separated into usable materials and parts so that material recycling and thermal recycling can be carried out.

As of 2005, Canon Bretagne had a 100% recovery rate (equivalent to 700 tons), and a 78% recycling rate for parts and materials (equivalent to 550 tons). The company also revamped its recycling facilities and doubled its annual capacity for handling used products. The plant can process about 105 kg/hour of used products.

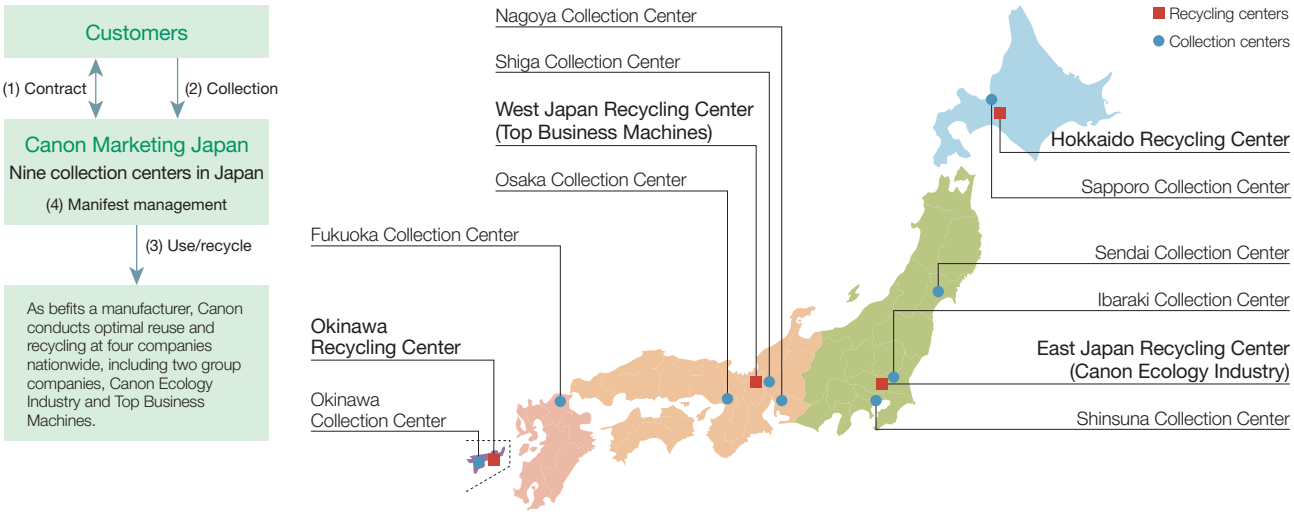
We plan to work with Canon Europe to expand collection areas throughout the continent and increase the number of parts that can be reused.

* **Recyclable products**
Copiers, laser beam printers, inkjet printers, facsimiles, scanners, video cameras, cameras

Disassembling collected products (Canon Bretagne)

WEB •Ardoise, roof tiles recycled from used plastics

Organization and Sites for Product Collection in Japan



Elimination of Hazardous Substances

Eliminating Hazardous Substances from Products

Canon is building a group-wide environmental assurance system to manage chemical substances in products. It is also developing products based on in-house standards that are stricter than laws and industry voluntary restrictions.

Eliminating and Replacing Designated Hazardous Substances

Since 1997, Canon has been studying and managing those substances in products that impact the environment, with the aim of eliminating hazardous substances. Canon was one of the first companies to comply with the EU's RoHS Directive*1, which obligates manufacturers to eliminate or replace six hazardous substances. In the spring of 2004, we became the first company in the industry to release products complying with the RoHS Directive*2, including the iR C6800 Series of MFPs, the EOS-1DMark single reflex digital camera, and the PIXMA iP1500 inkjet printer.

The J-Moss*3 (JIS C0950 "the marking of the presence of specific chemical substances for electrical and electronic equipment") was published in December 2005. Canon correspondingly applies the J-Moss Green Mark to the main bodies of electrical and electronics products for consumers and businesses, and displays its RoHS Directive-compliant products that have already been sold in Japan as "J-Moss Green Mark products" on its Web site.

Green Mark

*1 **RoHS Directive**
RoHS is an abbreviation of "Restriction of the use of certain Hazardous Substances in electrical and electronic equipment." It is a directive for hazardous substances issued by the European Union that restricts the use of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) in electrical and electronic products put on the market in the EU beginning in July 1, 2006.

*2 **RoHS Directive Compliance**
Excludes products, parts and materials that are exempted from the RoHS Directive. Canon already applies its own standards, which are developed based on legal standards related to chemical substance regulations, to items that are to be deliberated on in the small print of the directive.

*3 **J-Moss**
J-Moss requires that the presence of hazardous substances be indicated on specific electrical and electronic products. Showing the non-presence of those substances in products (Green Mark) is voluntary.

Reducing the Types of Plastics Used and Unifying Casing* Materials

Canon has worked to reduce the types of plastics it uses by standardizing plastic types over a range of products. It has also worked to reduce the number of grades containing halogenated flame retardants for various types of plastics used as casing materials.

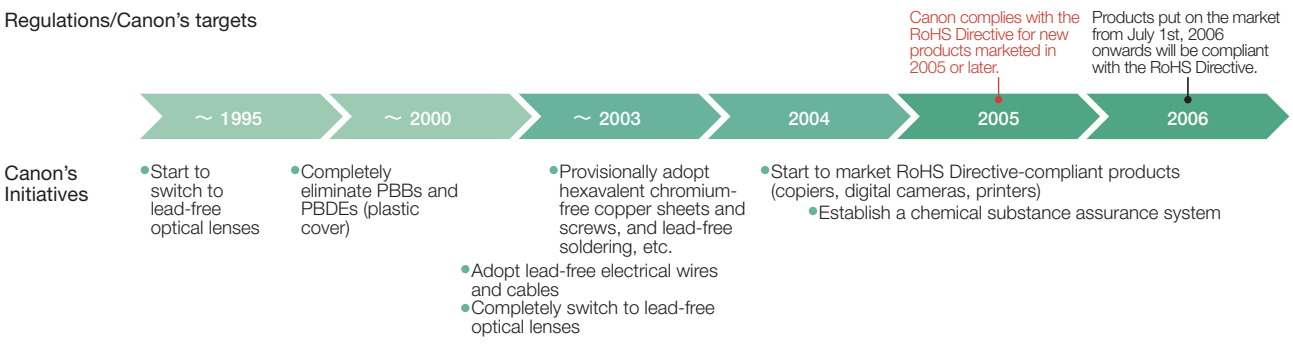
In 2005, Canon procured 22% fewer grades of plastic than in 2003. We switched to grades that either contain phosphorous flame retardants or are free of flame retardants for the plastic materials used in casing for business machines, and took other steps to reduce halogenated flame retardants and convert to 100% non-halogen substances.

* **Casing**
Outside cover of products and component parts

Non-Halogenated Circuit Boards

There are numerous kinds of circuit boards used inside products: rigid PWBs (printed wiring boards), high-density mounted substrates (glass epoxy-based), flexible flat cables (FFCs), and flexible printed circuit boards (PFCs). Since these must be flame resistant, halogenated flame retardants are most commonly used. Canon has been gradually switching to non-halogen substances for single-sided paper phenol circuit boards, a common type of PWB. In 2005, approximately 80% of single-sided paper phenol circuit boards used no halogen. We also carried out mass-production assessment tests to introduce low-odor materials with the aim of reducing VOC (volatile organic compounds) emissions from products. At the same time, we are developing replacements for the brominated flame retardants in other types of circuit boards.

Canon's Compliance with the RoHS Directive



Product Chemical Substance Assurance System

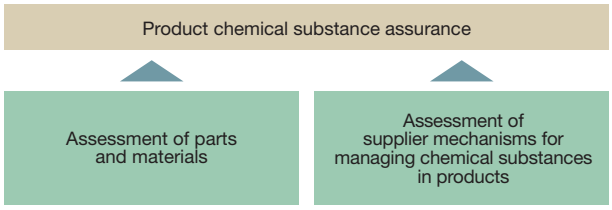
In 1997, Canon distributed the Green Procurement Standards to the approximately 3,000 suppliers of the parts and materials that make up Canon products, and we purchase from those suppliers that best abide by these standards.

The establishment of the RoHS Directive on hazardous substances by the EU in 2003 is just one example of how environment-related regulations are becoming increasingly strict. In response to this trend, we have built an assurance system for the chemical substances contained in our products under which Canon will only buy from those suppliers that comply with the Green Procurement Standards.

Canon's product chemical substance assurance is conducted by assessing parts and materials as well as assessing suppliers' management systems. The latter bolsters the reliability of the former. Regarding parts and material assessments, Canon requests that suppliers survey their parts and materials for chemicals, with the results going into a database which the entire Canon Group uses to develop new products. In the supplier's organization assessments, Canon reviews suppliers whether they contain the mechanisms for managing chemical substances contained in products, as spelled out in the Green Procurement Standards and other guidelines. Canon then carries out a supplier environmental assessment of these mechanisms, with only suppliers passing the assessment granted the right to do business with Canon.

Compliance certificate of supplier environmental evaluation

Basic Stance of Product Chemical Substance Assurance



Maintaining a System for Assuring the Chemical Substance Content in Products

To maintain a system for assuring the chemical substance content in products, Canon believes it is important to reduce the burden on suppliers. We are doing this in two ways.

(1) Standardize parts and material surveys in the industry
- Standardizing surveyed substances
- Standardizing the format for reporting survey results

(2) Standardize the mechanisms for managing information on the chemical substance content in products
- Spread use of the Guidelines for the Management of Chemical Substances in Products (published by the Japan Green Procurement Survey Standardization Initiative (JGPSSI))

Standardize Parts and Material Surveys for the Industry

Previously, Canon and other companies in the electrical and electronics industries would conduct the green procurement based on chemical substance surveys conducted by the suppliers themselves.

However, the fact that there was no common list of surveyed substances and no common format for reporting survey results placed an unnecessary burden on the suppliers conducting the surveys, resulting in late survey responses, inaccurate data, and overall inefficiency.

In 2001, Canon called on companies in the industry to standardize survey substances, with many joining in the formation of the Japan Green Procurement Survey Standardization Initiative (JGPSSI).

The Committee standardized substances in the survey and the format for reporting survey results, and made guidelines for conducting surveys that Canon and other participating companies use in surveying chemical substances. These guidelines were put under consideration to become the international standard, as the Committee met with electrical machinery-related industry associations in the US and Europe. Out of these meetings, an agreement was reached in May 2005 on 24 substances to be included in the survey.

▶ **Reference site: www.canon.com/procurement /green.html**
Canon green procurement

▶ **Reference site: home.jeita.or.jp/eps/009.html**
Japan Green Procurement Survey Standardization Initiative (JGPSSI)

Standardize the Mechanisms for Managing Information on the Chemical Substance Content in Products

Companies in the electrical and electronics industries are becoming increasingly aware of the importance of suppliers creating their own mechanisms for gathering and managing information on the chemical substance content of parts and materials in order to ensure the reliability of green procurement surveys. However, the surveyors individually asking parts and materials manufacturers to build such a system puts extra burden on the suppliers' side. It is also inefficient.

This is the reason Canon prefers to turn the Guidelines for the Management of Chemical Substances in Products published by the Japan Green Procurement Survey Standardization Initiative (JGPSSI) in 2005 into the common standard for the parts and materials industries.

Environmental Activities at Operational Sites

Canon is working to reduce the environmental burden of product manufacturing by setting goals in specific areas that include energy conservation, resource conservation, and elimination of hazardous substances.

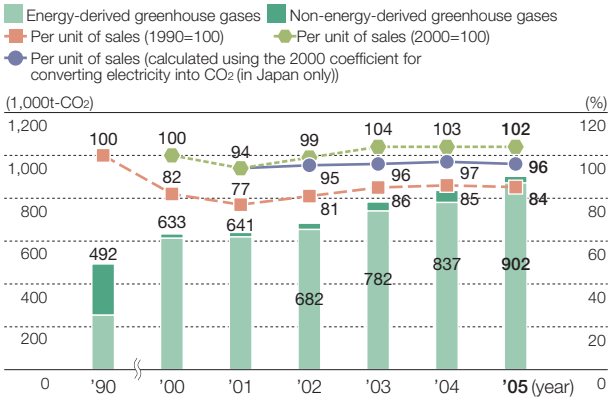
Global Warming Countermeasures and Energy Conservation

Reducing Greenhouse Gas Emissions

Canon has long understood the importance of preventing global warming. In 1996, before the adoption of the Kyoto Protocol[*1], we established the Operational Site Energy Efficient Special Committee under the Global Environment Promotion Committee. Since then, we have promoted energy conservation activities across the group, which have included developing technologies to prevent global warming, as well as making improvements to production facilities and air conditioning equipment that consume substantial amounts of energy.

In 1998, we established the Countermeasure Sub-Committee on PFCs, and by 1999 we had successfully eliminated PFCs, HFCs, and SF6, non-CO_2 greenhouse gases used as cleaners, solvents and aerosol propellants. We have also been reducing greenhouse gases emitted in the semiconductor manufacturing process by installing combustion-type removal devices[*2].

Total Amount of Greenhouse Gas Emissions



* **How Canon calculates total greenhouse gas emissions**
The calculation is a total of greenhouse gases designated in the Kyoto Protocol: the energy-derived greenhouse gas, CO_2, and the non-energy-derived greenhouse gases, PFCs, HFCs, SF_6, and N_20. The conversion of CO_2 is made using annual coefficients for each region. Coefficients supplied by the Ministry of the Environment and the Federation of Electric Power Companies of Japan are used for site activities in Japan, and coefficients supplied the International Energy Agency are used for site activities in regions outside Japan. (See Operational Sites Covered in Report on P.53.)

Canon's Energy Consumption, by Region

	Electricity	Gas	Petroleum	Other (steam, wide-area heating and air conditioning)
	MWh	km^3	kL	MJ
Japan	1,173,532	32,550	30,740	59,653,770
Americas	50,520	71	0	0
Europe	16,981	334	0	1,155,744
Asia (excluding Japan)	257,599	2,229	548	42,258,240
Total	1,498,632	35,184	31,288	103,067,754

These efforts were given a boost in 2005 when we established mid- and long-term goals for the reduction of greenhouse gases at Product Operations. Close cooperation with related operational sites ensures that activities are carried out with these goals in mind.

Despite these efforts, total CO_2 emissions in 2005 were 900,000 tons, up 7.8% against the previous year. This is a result of the Concept of the Excellent Global Corporation Plan, a mid-term management plan under which we are establishing new operational sites and expanding facilities with the aim of starting new businesses and increasing production. However, emissions per unit of sales decreased one percent from the previous year, a 4% reduction compared to 2000.

***1 Kyoto Protocol**
Under the Kyoto Protocol, developed countries are bound to fixed rates of CO_2 emission reductions. The Kyoto Protocol was adopted in 1997 and put into effect on February 16, 2005.

***2 Combustion-type removal device**
A device that burns process gas from production processes, breaking it down and rendering it harmless.

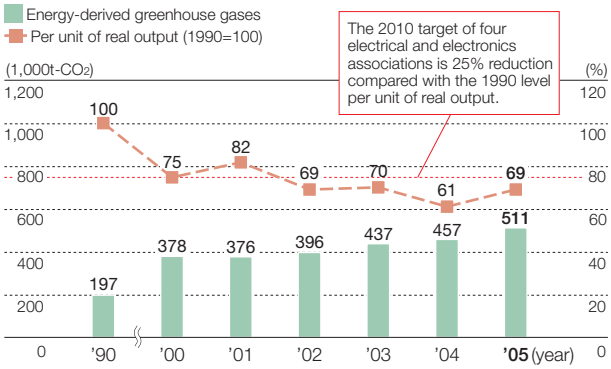
Achieving Voluntary Targets of Four Electrical and Electronics Associations

Four electrical and electronics associations[*1] make joint guidelines related to voluntary action plans for their industries, with one of the targets related to global warming being a 25% reduction in CO_2 emissions per unit of real output[*2] by 2010 against 1990. Canon was well above this with a 31% reduction in 2005 against 1990.

***1 Four electrical and electronics associations**
The Japan Electronics and Information Technology Industries Association (JEITA), the Communications and Information Network Association of Japan (CIAJ), the Japan Business Machine and Information System Industries Association (JBMIA), and the Japan Electrical Manufacturers Association (JEMA)

***2 CO_2 emissions per unit of real output**
A figure adjusted using Japan's domestic Corporate Goods Price Index (CGPI). According to industry structural changes, like changes in product make-up, multi-functionality, or a drop in market price, we derive a close approximation of the unit quantity by using real output, which is adjusted for deflation, instead of the conventionally used nominal output.

Energy-Derived Greenhouse Gas Emissions at Japanese Operational Sites (Canon's results based on targets of four electrical and electronics associations)



* Corresponding to the scope of the Kyoto Protocol set by four electrical and electronics associations, Canon calculates emissions of the energy-derived greenhouse gas, CO_2 for all production sites (Canon Inc.:5 sites and manufacturing subsidiaries: 25 sites) in Japan.

WEB
•Installing a Combustion-Type Removal Device to Reduce Greenhouse Gas Emissions
•Participating in Team Minus 6% Activities, Global Warming Prevention Campaign

Resource Efficiency

Reducing Waste

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

With the aim of reducing the total amount of waste generation*2, our 2003 Mid-Term Environmental Goals state a 25% reduction in waste generation by 2005 against 2000. To increase the internal recycling rate for waste, we developed resource recycling routes for Japan and overseas operational sites, and we established a system in which outside contractors process waste from Group companies into recyclable materials that we buy back to use as raw materials or parts.

These efforts resulted in the recycling of 18,000 tons of internal waste in 2005, nine times the amount recycled in 2000. However, increased production volume led to an increase in the total amount of waste generation. This resulted in a 15.3% decrease in waste generation against 2000, 9.7 percentage points lower than the target set out in our Mid-Term Environmental Goals.

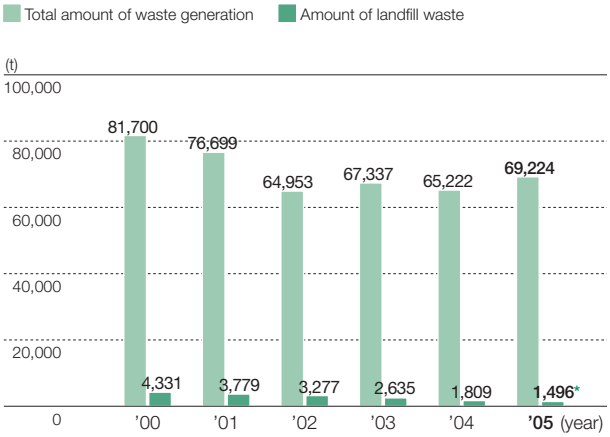
In 2006, we set a goal of reducing the amount of waste outsourced for recycling*3 by 44% per unit of net sales in 2008 against 2000. We are working towards our goal through continued efforts to keep waste to a minimum. We are also working to tie waste reduction to more efficient management of the entire Group through efforts like the elimination of prototypes and the use of material flow cost accounting.

*1 **Zero landfill waste**
100% of all waste generated from operational sites to be recycled. Zero landfill waste is not considered to be achieved if even a small amount of residue after intermediate processing is landfilled. (Note that this does not include waste material for which Canon cannot independently decide the method of recycling due to government directions.)

*2 **Total amount of waste generation**
The total amount of recyclable waste, valuable resources, weight-reduced materials, and landfill waste. This excludes used products collected from consumers and waste reused through internal recycling.

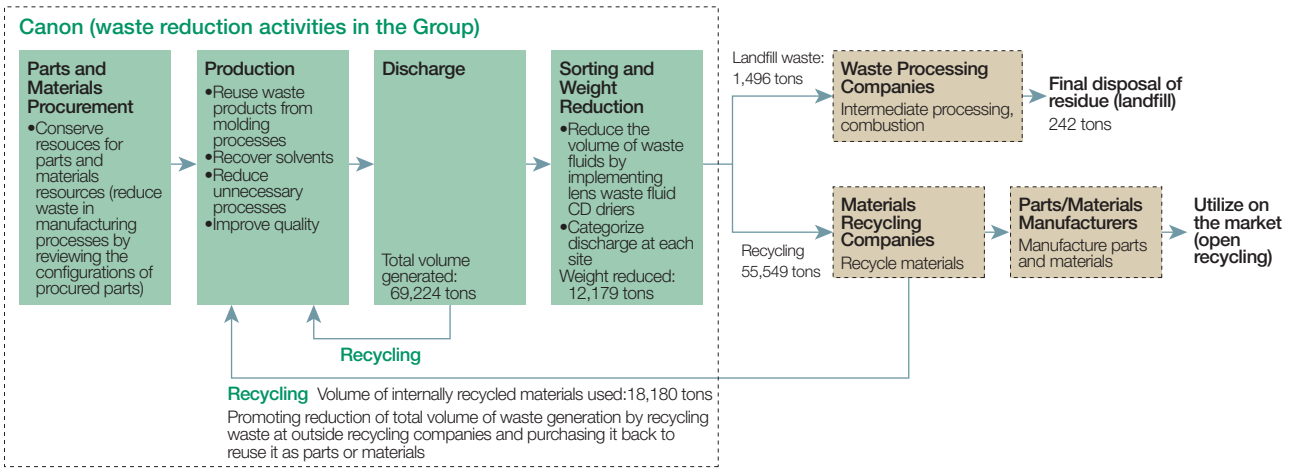
*3 **Amount of waste outsourced for recycling**
The total amount of recyclable waste, valuable resources, and landfill waste. This excludes used products collected from consumers and waste reused through internal recycling.

Reducing Waste Generation



* We achieved zero landfill waste as of the end of 2005. We were unable to process 1,496 tons internally due to directions from governmental authorities.

Waste Treatment Flow



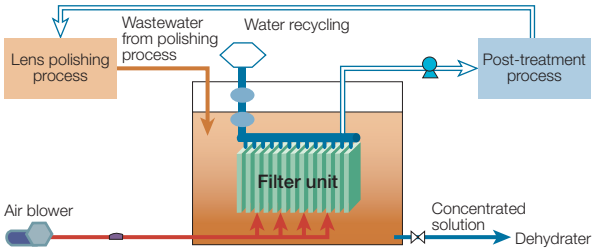
Reducing Water Use

Canon uses 7.8 million m^3 of water annually. Of this 32% is used for production processes, with lens production and semiconductor manufacturing accounting for a large portion.

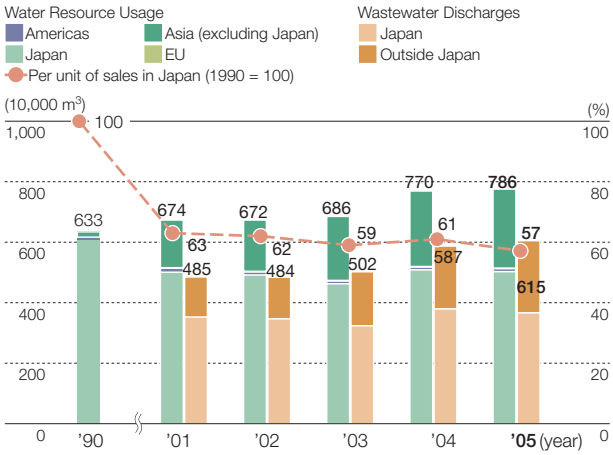
Starting in 1996, Canon introduced closed wastewater recycling systems in turn to Oita Canon Materials, the Hiratsuka Development Center, the Ayase Office, the Utsunomiya Plant, Canon Zhuhai, Inc., and Oita Canon Inc. By purifying and reusing the water used in production processes, these sites use less water and generate less wastewater.

When it built a new wing in December 2005, the Utsunomiya Plant introduced a closed recycling system for the wastewater generated in the lens washing and polishing processes. This system uses an Aqua Closer submerged flat membrane module, which allows the plant to collect water and reuse it with minimal energy cost. This is expected to result in savings of about 50,000 tons of water annually.

Closed Recycling of Water



Use of Water Resources and Discharge of Wastewater



Elimination of Hazardous Substances

Reducing Emissions of Hazardous Substances

Canon promotes the reduction and elimination of hazardous substances used in production. For substances that are difficult to reduce or eliminate, it is our basic policy to minimize discharge into the air and water.

Approximately 2,000 substances we handle are classified into three categories: A) Elimination of use; B) Reduction of use; and C) Control of emission. They are managed appropriately. For the highly hazardous substances categorized in A and B—such as ozone-depleting substances (CFCs), global-warming gases (PFCs and HFCs) and certain, possibly carcinogenic organochlorine solvents—we have already achieved our goals for elimination and reduction.

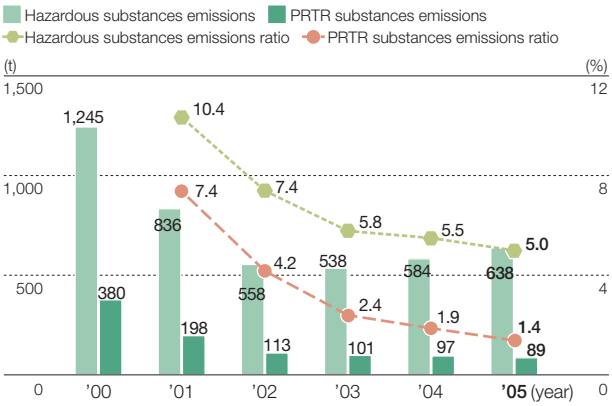
In 2004, we began to enhance control of emissions for category C substances.

As a consequence, we achieved a reduction of emissions by 77%, well over our original goal of "60% reduction for PRTR* substances in comparison with the year 2000" as stated in our Mid-Term Environmental Goals in 2005.

In 2005, we achieved successful reduction of the emission ratio (emissions/amount used) of controlled substances. Also, absolute emissions themselves have been reduced by 49% in comparison with 2000, slightly below the 50% reduction goal set out in our Mid-Term Environmental Goals.

We have set 2008 as the final year to achieve "60% reduction of controlled chemical substances (hazardous substances) emissions" and "78% reduction for chemical substances subject to the PRTR system," both against 2000. We will work towards these goals by enforcing aggressive emission control measures, and will reduce the absolute amount of emissions.

Reduction of Emissions of Hazardous Substances



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

WEB •PCB Waste Management

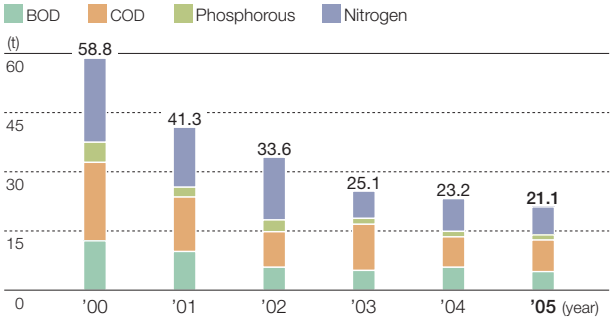
Preventing Air and Water Pollution

Canon addresses alleviation of environmental burden from operational sites by reducing emissions of NOx*1 (nitrogen oxides) and SOx*2 (sulfur oxides), major causes of air pollution and acid rain; reducing BOD*3 (biochemical oxygen demand) and COD*4 (chemical oxygen demand), indexes for environmental burden in water environments; and reducing emissions of phosphorous and nitrogen, which harm water environments.

Specifically, we have switched the type of fuel from heavy oil to kerosene, which generates almost no SOx; we are eliminating the use of hazardous substances; and we have installed air pollutant removal devices like scrubbers and activated carbon absorption filters, as well as the latest wastewater treatment devices.

We also regularly measure the environmental burden of emissions from operational sites under applicable laws and regulations for each region and also under Canon voluntary in-house rules. Environmental burden increased in 2005, however, due to increased production volume.

Environmental Burden on the Hydrosphere



* Calculated as overall water discharges from operational sites in Japan × average annual water quality values. (Discharges into sewers are not included.) Past data are reevaluated because the number of operational sites has increased.

*1 **NOx (nitrogen oxides)**
A major cause of air pollution, acid rain, and photochemical smog, NOx is generated when the nitrogen in fuels is oxidized, or when nitrogen in the atmosphere is oxidized during high-temperature combustion.

*2 **SOx (sulfur oxides)**
A major cause of air pollution and acid rain, SOx is generated when fossil fuels such as oil and coal are burned.

*3 **BOD (biochemical oxygen demand)**
The amount of oxygen consumed when microorganisms degrade organic matter in water.

*4 **COD (chemical oxygen demand)**
The amount of oxygen consumed when oxidizing agents oxidize organic matter in water.

▶ **Reference site: www.canon.com/environment/sites_report/index.html**
Measurement data

Remediation Status of Soil and Groundwater

Since the 1980s, Canon has been focusing on soil and groundwater protection by carrying out regular voluntary surveys of soil and groundwater, using records of past hazardous substance use as a reference.

If we discover that the level of pollutants in the soil or groundwater on Canon premises exceeds legal standards, we find the cause, assess the environmental impact, promptly report to the government, and take remedial action based on government orders if necessary.

Relocation and rebuilding activities in 2005 gave us the opportunity to survey 11 operational sites where the presence of buildings had previously made such site surveys difficult. As a result of surveys based on the Soil Contamination Countermeasures Law and in-house standards, groundwater pollution levels exceeding environmental standards were discovered at the Shimomaruko Headquarters and the Tamagawa Plant. These were reported to the appropriate authorities and proper remediation measures are being carried out. (See the table below.)

As of 2003, Canon had eliminated the use of trichloroethylene, tetrachloroethylene and other chlorinated organic compounds that had polluted these sites.

WEB ▪List of Main Substances Eliminated

Cleanup Progress Based on Results of Soil and Groundwater Surveys

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	cis-1, 2-dichloroethylene	Pumping, aeration, and charcoal absorption
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 (currently monitoring progress)
Tamagawa	2005	Tetrachloroethylene	Carrying out detailed survey

Soil

	Report to Government	Main Pollutants	Remediation Measures
Meguro	2003	cis-1, 2-dichloroethylene	Soil excavation and substance elimination, chemical feed (Soil excavation and substance elimination completed, currently monitoring progress)
Canon Precision Inc., Tokyo office	2004	cis-1, 2-dichloroethylene	Soil excavation and substance elimination, chemical feed (currently monitoring progress)
Nisca Shikijima	2004	Trichloroethylene	Soil excavation and substance elimination, chemical feed (completed)
Shimomaruko (R Building, formerly CD Building)	2003	Trichloroethylene	Soil excavation and substance elimination, chemical feed (currently monitoring progress)
	2005	cis-1, 2-dichloroethylene	

Environmentally Conscious Logistics

Canon is lowering the environmental burden of logistics processes by increasing transportation efficiency to reduce CO_2 emissions and utilizing product packaging materials with a low environmental burden.

Eco Logistics

CO_2 Emission Reduction in Transportation

In 2002, Canon established the Environmental Logistics Working Group with the goal of reducing CO_2 emissions in the logistics process by 20% per unit of sales by 2006 against 2000. Through the Working Group's five sub-working groups, covering parts procurement logistics, manufacturing site logistics, product artery logistics, customer sales logistics, and packaging, we are constantly working towards achieving emission reductions through modal shifts, improved loading efficiency and other measures.

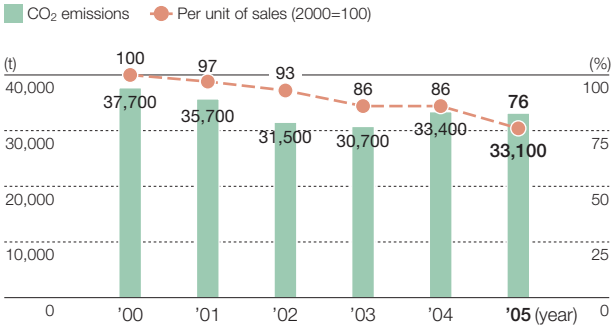
As a result of these efforts, total CO_2 emissions associated with domestic logistics were 33,000 tons in 2005, a reduction of 24% per unit of sales against 2000.

To reduce CO_2 emissions in the logistics process for the entire group, both in Japan and in other countries, in 2003 we began doing an aggregate calculation of CO_2 emissions that are associated with international transportation and transportation within world regions, such as transportation between Canon manufacturing and sales sites. In 2004, we initiated activities worldwide to reduce CO_2 emissions at the same pace as in Japan. These activities have gradually borne fruit, partly thanks to aggressive modal shifts for our European operations.

Additionally, in 2005, we cut CO_2 emissions per unit of sales by 7% compared to 2003, in part by reducing the amount of international shipments sent by air.

WEB
- Understanding Overall Group CO_2 Emissions from Logistics
- Promoting Direct Shipment to Reduce Unnecessary Transportation
- Promoting Diversion (Changing Destinations) to Reduce Transportation Between Warehouses
- Promoting Container Round Use to Reduce Empty Container Transportation
- Utilizing Low-Emission Vehicles

Results for CO_2 Emissions in Logistics (Japan)



Promoting Modal Shifts*

Canon is working to reduce total CO_2 emissions through modal shifts in Japan and around the world.

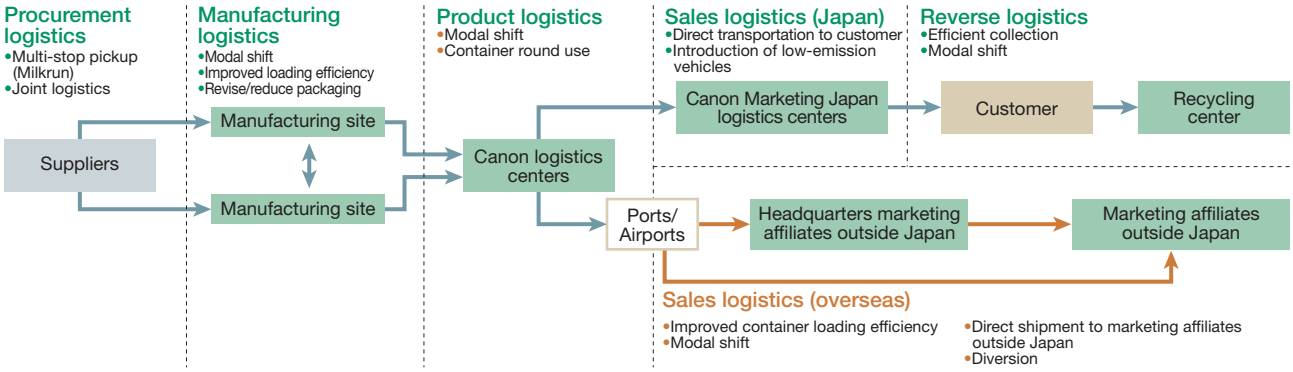
Since 2002 in Japan, we have been using vessels and railroad as much as possible for parts logistics between group manufacturing sites, and for product artery logistics to regional sales logistics centers. We have especially focused on using rail for a greater percentage of our transportation, working with logistics companies to develop specially made large containers for product artery logistics. As a result of these efforts, in 2005 Canon became one of the first companies in Japan to acquire corporate certification for the Eco Rail Mark system being promoted by Japan's Ministry of Land, Infrastructure and Transport. In our reverse logistics as well, we have started using rail for a portion of the transportation from collection sites to recycling sites.

These efforts also extend to our international operations. From the logistics center of our regional headquarters marketing affiliates in the Netherlands, we use rail for a portion of the product transportation to the warehouses in various countries, and intend to use vessels in the near future. For a portion of imports, we use rail and feeder boats for transportation from the ports to the warehouses in each country.

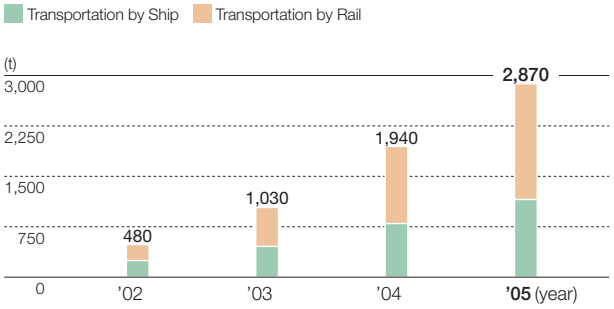
Eco Rail Mark

* **Modal shift**
Switching to a mode of transportation 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 one-eighth that of truck transportation, while vessel transportation produces one-quarter the emissions.

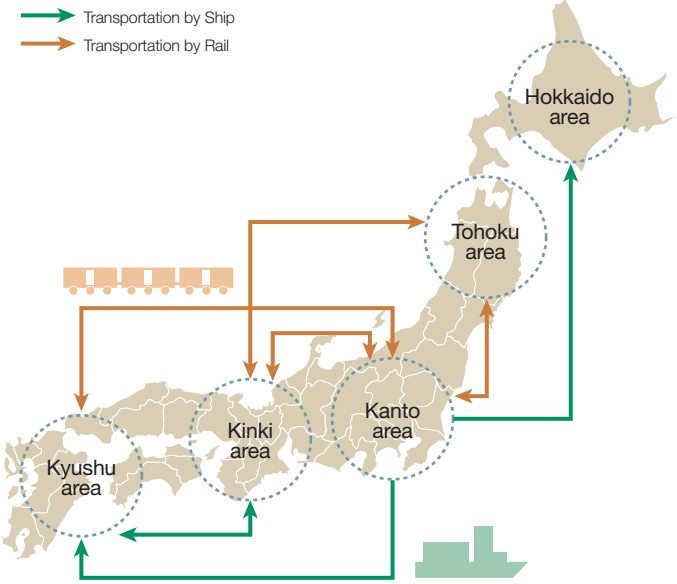
Environmental Activities in Logistics (example of products made in Japan)



CO_2 Reduction Due to Modal Shifts (Japan)



Implementation of Modal Shifts

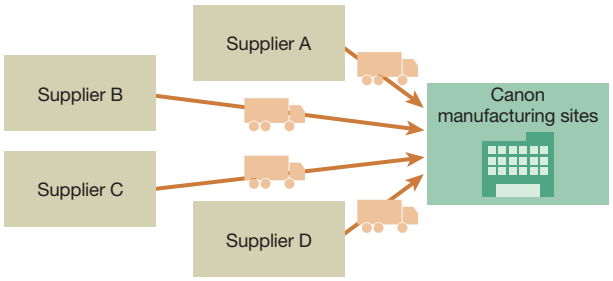


Adopting Multi-stop Pickup (Milkrun)

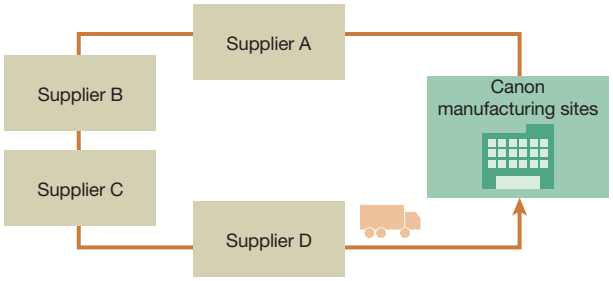
For parts procurement both in and outside of Japan, Canon Inc. makes use of multi-stop pickup, in which transport companies go around to a number of suppliers to load parts for delivery. Multi-stop pickup allows for better loading efficiency of transportation vehicles than if each supplier delivers its parts independently. It also means a reduction in the number of transportation vehicles and a reduction in transportation distances.

How Multi-stop Pickup (Milkrun) Works

Independent Transportation



Multi-stop Pickup (Milkrun)



TOPICS

Adopting Product Packaging Materials with a Low Environmental Burden

Utilizing Biodegradable Plastics in Product Packaging Materials

Starting in 2006, Canon plans to progressively convert the bands used in packaging medical equipment from petroleum resin to biodegradable plastic (polylactic acid).
Because the bands are made from bio-based materials like corn that can be produced with human hands, they do not emit any hazardous gases when burned. Further, even if they are put in a landfill, microorganisms in the soil will cause them to decompose into water and carbon dioxide*.

* This carbon dioxide was originally taken in from the air by plant life, so the decomposition process is not thought to produce any new carbon dioxide.

Biodegradable plastic bands

Introducing New Packaging Materials for Toner Cartridges to Raise Transportation Efficiency

In 2005, Canon started using a packaging and cushioning material called AIR SHELL for its toner cartridges, which uses air pressure to improve cushioning. Use of this material served to reduce the size of product packaging by 30%. This, in turn, served to improve loading efficiency and reduce CO_2 emissions during transportation by 20% compared to previously.

AIR SHELL won the World Star Award at the 2004 World Star Packaging Competition

Operational Sites Covered in the Environmental Section

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, operations and other functions
Yako Development Center	Kanagawa	Development of inkjet printers and largy-format printers,inkjet chemical products
Tamagawa Plant	Kanagawa	Development of inkjet printers,inkjet chemical products
Kosugi Office	Kanagawa	Development of software for office imaging products
Hiratsuka Development Center	Kanagawa	R&D of displays, manufacturing of semiconductor devices.
Ayase Office	Kanagawa	R&D and manufacturing of semiconductor devices
Fuji-Susono Research Park	Shizuoka	R&D in electrophotographic technologies
Utsunomiya Plant	Tochigi	Manufacturing of EF lenses, video camcorder lenses, broadcasting lenses, lenses for business machines, LCD projector lenses, other specialized optical lenses
Toride Plant	Ibaraki	Manufacturing of office imaging products and chemical products; R&D in electrophotographic technologies; mass-production trials and support; manufacturing of chemical products
Ami Plant	Ibaraki	Manufacturing of mirror projection aligners; design and manufacturing of factory automation equipment and metal molds
Utsunomiya Optical Products Plant	Tochigi	R&D, manufacturing, and servicing of semiconductor equipment; development of mirror projection aligners
Optics R&D Center	Tochigi	R&D in optical technologies, development and sales of broadcasting equipment
Kamisato Office	Saitama	Development of devices for medical equipment
Tsukuba Parts Center	Ibaraki	Storage of parts and management of shipping within and outside Japan
Marketing Subsidiaries and Affiliates in Japan		
Canon Marketing Japan Inc.*1	Tokyo	Marketing of Canon products and related solutions in Japan
Manufacturing Subsidiaries and Affiliates in Japan (17 companies, 25 operational sites)		
Canon Electronics Inc. Headquarters, Chichibu Plant	Saitama	Magnetic/business machine components, document scanner, portable data terminals
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	Business machines, business machine peripherals, industrial-use printers and chemical products
Canon Finetech Inc. Mitaka Office	Tokyo	Development and sales of inkjet printers
Canon Finetech Inc. Kofu Office	Yamanashi	Production of page printers, digital MFDs, large-format printers/plotters, and chemical products
Canon Finetech Inc. Fukui Office	Fukui	Development and production of photosensitive paper and chemical products
Nisca Corporation	Yamanashi	Office automation machines, optical measuring equipment
Top Business Machines Co., Ltd.	Shiga	Recycling of copying machine; chemical products; consignment of copying machine peripherals
Canon Precision Inc. Headquarters, Kitawatoku Plant	Aomori	Production of toner cartridges
Canon Precision Inc. Ishiwatari Plant	Aomori	Production of direct-drive micromotors and sensors
Canon Chemicals Inc. Headquarters, Tsukuba Site	Ibaraki	Production of toner cartridges
Canon Chemicals Inc. Iwama Site	Ibaraki	Production of toner cartridges
Canon Chemicals Inc. Ishige Site	Ibaraki	Production 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	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 production of semiconductor production-related equipment
Canon Ecology Industry Inc.	Ibaraki	Recycling of toner cartridges; repair and recycling of business machines
Ueno Canon Materials Inc.	Mie	Chemical products for copying machines and printers
Fukushima Canon Inc.	Fukushima	Production of inkjet printers, print heads/ink tanks; analysis of software
Igari Mold Co., Ltd*2	Ibaraki	Design and production of precise plastic molding

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 and mold die
Custom Integrated Technology, Inc.	U.S.A.	Office product refurbishing and remanufacturing
Industrial Resource Technologies, Inc.	U.S.A.	recycling of toner cartridges
Canon Giessen GmbH	Germany	Production and remanufacturing of copying machines; refilling of toner cartridge; refurbishing of semiconductor equipment
Canon Bretagne S.A.S.	France	Cartridge manufacturing and recycling; PCB (Printing Circuit Board) assembbly; packaging; after sales service
Canon Inc., Taiwan	Taiwan	SLR and compact cameras, EF and other lenses, precision-metal molds
Canon Opto (Malaysia) Sdn. Bhd.	Malaysia	Digital cameras, EF lenses, optical lens parts
Canon Hi-Tech (Thailand) Ltd.	Thailand	Inkjet printers, personal-use copying machines, facsimile machines, MFPs
Canon Engineering (Thailand) Ltd.	Thailand	High precision molding dies, Plastic injection molding parts
Canon Dalian Business Machines, Inc.	China	Production and recycling of toner cartridges; production of Laser beam printers, MFPs
Canon Zhuhai, Inc.	China	Compact cameras, digital cameras, Laser beam printers, MFPs, 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	Production and Sales of color and monochrome MFPs, color Laser beam printers
Canon Finetech (Suzhou) Business Machines Inc.	China	Production and sales of business machines, business machine peripherals
Marketing Subsidiaries and Affiliates Outside Japan (29 companies)		
Canon U.S.A., Inc.	U.S.A.	All products
Canon Canada, Inc.	Canada	All products
Canon Business Solutions, West, Inc.	U.S.A.	Business machines
Canon Business Solutions, Central, Inc.	U.S.A.	Business machines
Canon Business Solutions, East, Inc.	U.S.A.	Business machines
Canon Financial Services, Inc.	U.S.A.	Commercial lease financing for all Canon products
Canon Latin America, Inc.	U.S.A.	All products
Canon Panama, S.A.	Panama	All products except cameras
Canon do Brasil Indútria 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	All products
Canon Italia S.p.A.	Italy	All products
Canon (Schweiz) A.G.	Switzerland	All products
Canon Nederland N.V.	Netherlands	All products
Canon Danmark A/S	Denmark	All products
Canon 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	All products
Canon GmbH	Austria	All products
Canon Singapore Pte. Ltd.	Singapore	All products
Canon Hongkong Co., Ltd.	Hong Kong	All products
Canon (China) Co., Ltd.	China	All products
Canon Australia Pty. Ltd.	Australia	All products

*1 Canon Sales Inc. changed its name to Canon Marketing Japan Inc. in April 2006.
*2 Yako Office and Igari Mold Co., Ltd. have been added to the companies covered in this report.

Reference site: www.canon.com/about/group/list.html
Group Company Information

Canon and Stakeholders

Relations with Customers

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

Realizing Canon Quality

Canon's Standard of Quality

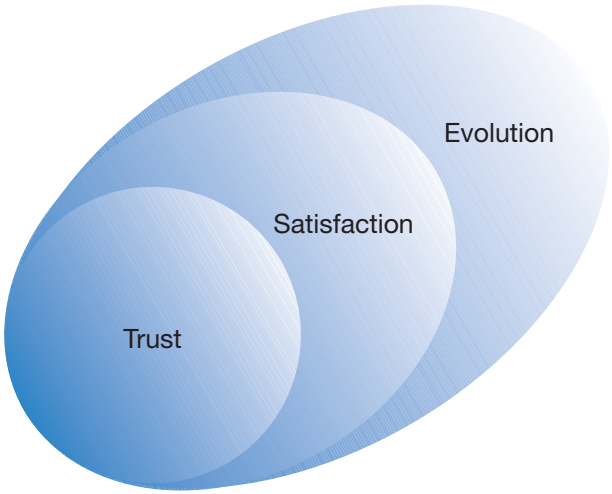
One of our company objectives is to create products without rival in quality and service, which contribute to the improvement of societies around the world. In order to fulfill this objective, we constantly work to improve quality by 1) utilizing the latest technology to provide exceptional, high-quality products and prompt service based on a careful assessment of customer needs, and by 2) devoting our full efforts to preventing consumers and their property from being harmed or damaged by a product or service malfunction.

Canon products and services must embody "trust," "satisfaction," and "evolution" in order 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 providing products or services that are easy to use and understand, as well as careful and considerate support to customers. "Evolution" is also essential to keep the quality of products and services relevant in a constantly changing world, and meet the needs of tomorrow.

Canon Quality also embodies the three guiding principles: trust, satisfaction and evolution. We have promoted quality assurance activities on a global scale based on these principles at every stage—from planning, development, and production through to sales and service.

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



Global Quality Assurance System

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

Given this requirement, in 2004 we established our Global Quality Policy based on the quality assurance system we had developed. The policy states Canon's rules for enhancing quality.

Optimizing Quality Assurance Systems to Local Conditions

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

In order to support and enhance these systems, the Quality Management Headquarters of Canon Inc. dispatches personnel to key regions to cooperate with local employees in developing optimal quality assurance systems.

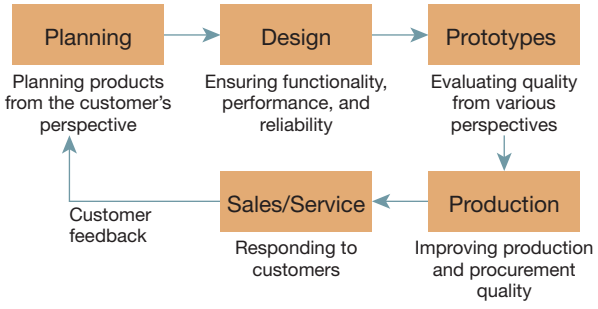
Quality Awareness Education

We conduct diverse quality-related education, covering all levels from the basics to specialized knowledge. This raises awareness and ensures each and every Group employee has a sufficient understanding of Canon Quality. We endeavor to raise the awareness of employees by various means such as the publication of handbooks, awards programs, and presentations of quality improvement activities, which are introduced in an easy-to-understand manner with various exhibits. We also conduct lectures on quality-related issues given by lecturers from inside and outside the organization.

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

Lecture by Group Exective in charge of the Quality Management Headquarters

Global Quality Assurance Activity



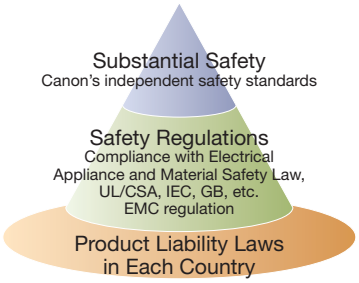
Eliciting Trust

In Pursuit of Trustworthy Quality

Product safety and durability is the basis of quality that is trusted by consumers.

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

Canon's Substantial Safety Policy*



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

WEB •Improving the Quality of Procured Parts
•Computer Simulation Evaluation

Approach to Quality Risk

Canon defines quality risk as including not just problems related to product safety, but all potential problems that can arise in relation to the quality of products and services provided to customers.

Based on this approach, we have established a system, which prevents physical harm to customers, damage to their property and problems that would degrade the Canon brand. This system also ensures a prompt response in the event of such problems.

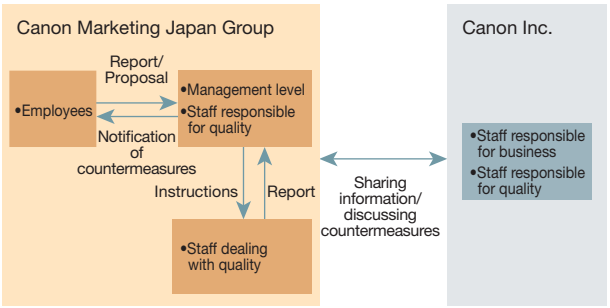
Responding when Quality Risk Materializes

In the event of a problem related to product quality or safety, we immediately disclose the information on the problem via our website's Important Notices section. Regarding problems that are judged to substantially impact customers, we publicize information through newspapers in accordance with our rules.

In 2005, when some quality issues were discovered in some of our copiers, laser printers, digital cameras, digital camcorders and lenses, we posted this information and the response measures on our website. Later on, when preparations were in place, we published further information on free repair services and firmware updates.

The group companies of Canon Marketing Japan operate an emergency contact network (Quality Hotline) regarding products and services provided to customers, so that information recognized as important by employees is quickly conveyed to management and staff involved in quality issues, and the right actions are taken based on accurate judgment, while sharing the information with Canon, Inc.

Quality Hotline Operational Overview



TOPICS

Ensuring safety from the early stages of product development by taking advantage of the technology of our internationally recognized Chemical Emissions Laboratory.

With the mounting awareness of chemical emissions* safety among customers, Canon is promoting product safety assessments and quality assurance at our Chemical Emissions Laboratory.

In December 2004, the lab was accredited as a laboratory deemed to be in conformance with Germany's eco-labeling program, Blue Angel. In February 2005, it also received ISO/IEC17025 accreditation from the Japan Accreditation Board for Conformity Assessment. As the first research lab in the world to be doubly accredited in this way, it also participates in formulating international standards for VOCs measurement, which is being promoted by the ECMA (European Computer Manufacturer Association), an international standards organization.

We have established our own standards for chemical emissions, and the Chemical Emissions Laboratory, which possesses advanced technological capacities, develops quality measures that reduce chemical emissions from the early stages of product development. It is in this way that we ensure product safety and provide products that are worthy of our customers' trust.

* **Chemical Emissions**
Chemical substances emitted by various materials, including volatile organic compounds (VOCs), ozone and particles.

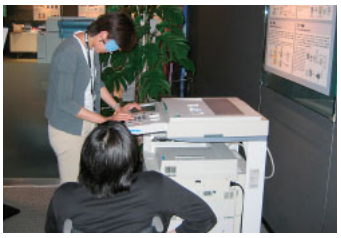

Chemical emissions testing for color MFDs

Customer Satisfaction
Further Evolution of Quality

In Pursuit of People-Friendly Products

In recent years, the electronic devices industry has been characterized by intensifying competition among manufacturers, and a succession of new products is being launched on the market. Against this backdrop of market competition, products are advancing and becoming multifunctional at an accelerating pace. However, Canon has chosen not merely to pursue product performance and function, but to create people-friendly products that give precedence to functionality, operability and convenience, from the point of view of the customers who actually use the products.

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



Accessibility Training

Researching Usability by Measuring Physiological Response

We quantify the eye fatigue and muscle load that occurs when using a product by measuring physiological response, then incorporate this information into developing products with image displays and operating procedures that feel most pleasing to users.

Pursuing Muscle—and Joint-Friendly Operations

We have researched movements and postures that put minimal stress on the body by measuring electrical activity in muscles and joint angles during the operation of products such as copiers and printers. With regard to heavy roll paper, for instance, we conduct user tests with an electromyograph and study positions that put less burden on the muscles, so that the paper can be set in place with minimal stress on the body.

Evaluation of posture when loading roll paper

Quantifying Human Sensibility to Pursue the Most Pleasing Images and Sounds

It has often been said that quantitatively measuring and analyzing color is difficult because the images people find beautiful differ depending on the photographic subject, purpose and environment.

Canon, however, launched a company-wide development project, and succeeded in quantifying beauty and comfort as sensed by people. Based on this achievement, we are currently involved in research on development tools, evaluation techniques and measurement technologies, with the aim of reproducing Unified Canon Color regardless of how our products are combined.

With respect to sound, we have researched the auditory impact on users of sounds from product operations and surrounding noise, and have created sounds that are the most pleasing to the ear. We have been working to develop quiet products with minimal operating noise.

Evaluation to reproduce Unified Canon Color

WEB •Researching Eye-Friendly Video Displays

Initiatives to Improve Service and Support

Canon endeavors to respond promptly to customer needs. We not only provide product information but also offer a range of support, including usage suggestions.

Instituting WSSS

Canon instituted the Web Self-Service System (WSSS) in order to provide advanced service and support for our customers using cameras, printers and other consumer products.

With WSSS, we provide service and support information such as FAQs, troubleshooting techniques, product specifications, user's manuals and driver download methods on Canon's website. This enables customers to solve problems themselves by accessing the site whenever problems arise while using our products.

As of December 2005, WSSS is available in 13 languages: Japanese, American English, French, Spanish, Chinese, British English, German, Dutch, Italian and four Scandinavian languages.

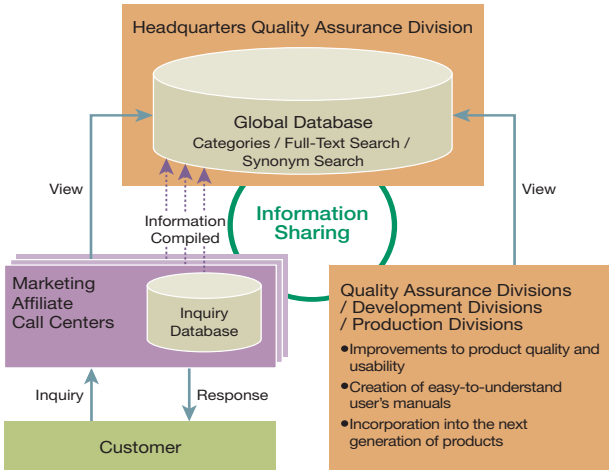
Incorporating Customer Opinions into Product Development

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

Call Centers have been established at our marketing affiliates around the world, to respond to customer inquiries and provide thorough support. We have built a system to analyze information from customer calls, named the Call Analysis Tracking System (CATS), which compiles information from our worldwide call centers into a global database at Canon Headquarters. This information can be accessed by development divisions, production divisions and marketing affiliates around the world. Development and production divisions effectively utilize the information to develop new products and improve the quality of existing products and user's manuals.

We also conduct surveys to gauge customer satisfaction levels and needs, so that we can remain constantly aware of our customers' requirements.

Call Analysis Tracking System (CATS)

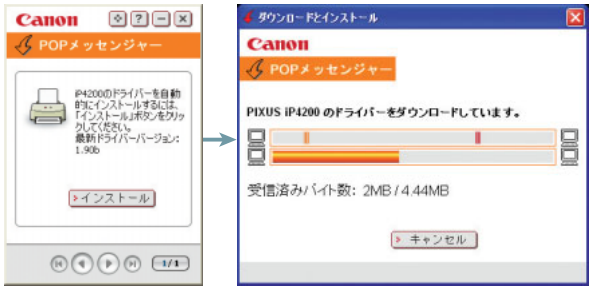


TOPICS

Launching Canon POP Messenger— An Automatic Self-Help Support Tool

The group companies of Canon Marketing Japan have developed a variety of customer-oriented service and support activities. In recent years, they have focused on utilizing the Internet as a means of quickly and accurately providing the information and services that are needed by customers.

One example is the automatic installation service launched in 2003. This service diagnoses problems with Canon printers and scanners connected to a computer via the Internet, and automatically installs the latest driver, or restores settings. In March 2005, we launched Canon POP Messenger (C-POP) to enhance this service. When customers install C-POP on their computer, a driver diagnosis is automatically conducted every time the customer's computer is connected to a product. If there is a problem, a notice automatically pops up and the latest driver is installed or settings are restored. C-POP allows customers to always use Canon products with the latest available driver without performing any complicated operations.



Drivers are downloaded and installed with only the push of a button on the pop up screen.

Relations with Shareholders and Investors

Canon promotes the fair and prompt disclosure of information and endeavors to maintain a stable dividend policy.

Dialogue with Shareholders and Investors

In addition to the Tokyo Stock Exchange, Canon Inc. is listed on the New York, Frankfurt, Osaka, Nagoya, Fukuoka, and Sapporo exchanges. As of December 31, 2005, Canon had approximately 890 million shares issued and outstanding, and approximately 77 thousand shareholders.

In order to disclose information on its management strategy, business strategy and performance to shareholders, investors and securities analysts in an accurate, fair and timely manner, Canon Inc. holds regular briefings, and posts the latest information and various types of disclosure materials on its website.

As part of its efforts to ensure the fair and prompt disclosure of information, it also established its own Disclosure Guidelines concerning the standards, procedures and methods to be used for disclosing information.

In April 2005, Canon established a Disclosure Committee to ensure strict compliance with the disclosure rules laid down by stock exchanges, creating a framework for the comprehensive and accurate disclosure of all necessary information.

Through these efforts, Canon endeavors to gain the trust of capital markets and thus ensure proper stock price formation. It also feeds back the opinions and requests received from shareholders and investors to the relevant internal divisions as occasion demands to make sure they are used to improve the management of the company and its business.

Reference Site: www.canon.com/ir/
Information for shareholders and investors

Dialogue with Investors Outside Japan

The percentage of Canon Inc. shares owned by non-Japanese investors rose to more than half of all outstanding shares as of December 31, 2004, and stood at 51.1% as of December 31, 2005.

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

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

Canon Inc.'s IR website

IR Meetings Held in the U.S.A. and Europe to Coincide with Canon EXPO 2005

At product and technology shows (Canon EXPO 2005) held in New York in September 2005 and Paris in October 2005, Canon Inc. held IR meetings for overseas investors.

After Canon Inc.'s President and CEO, Fujio Mitarai, gave a presentation on the company's management policy and business strategy, he answered questions posed by the participants.

TOPICS

Canon Wins the IR Grand Prix Business Award at the Tokyo IR Convention 2005

Canon won the IR Grand Prix Business Award at the Tokyo IR Convention 2005 held at the Imperial Hotel in Tokyo in December 2005.

This convention has been held every year since 1996 by the Japan Investor Relations Association (JIRA), a non-profit body working for the "proliferation and improvement of IR activities in Japan." Prizes are awarded to member companies in recognition of their deep understanding of the meaning of IR, their proactive approach to IR activities, the support they have garnered among market players, and other excellent results in the field of IR.


Toshizo Tanaka, Senior Managing Director and Group Executive of the Finance & Accounting Headquarters attended the award ceremony, where he received the award certificate and trophy from Chairman Katsuhiro Utada, Chairman of JIRA.

The IR Grand Prix Business Award was inaugurated in 2005 and is presented to companies that have received the IR Prime Business Award three times. Because Canon has won the IR Prime Business Award three times since it joined the JIRA in 2002, it was given the IR Grand Prix Business Award this time.

Evaluation Points

- The company discloses detailed segment information and information on factors behind changes in performance on an ongoing basis.
- Top management is proactive towards IR, using briefings on management policy (presented by Canon's President and CEO) to provide clear explanations of medium- and long-term business plans, concrete measures for achieving them and progress in implementing them, and policy for returning profits to shareholders.
- The company is also proactive towards IR activities aimed at overseas investors, and has deployed full-time staff overseas for that purpose.
- The company has initiated IR activities aimed at individual investors, and the President and CEO himself speaks about expansion strategies at briefings.

Dialogue with 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.

At the same time, Canon created a special portal for individual investors on its IR website, and started holding briefings on the company's activities for them. To date, two briefings have been held—in September 2004 and September 2005—and some 400 individual investors attended each.

As part of its efforts to disclose information that gives individual investors an accurate understanding of the company's business situation, Canon also holds regular briefings and similar events for salespersons from securities companies as required.

Main IR Activities

Main Events

- Corporate strategy conference hosted by the President and CEO for institutional investors and analysts (annually, about 150 participants)
- Financial results conference for institutional investors and analysts (quarterly, about 180 participants)
- Financial results conference calls for institutional investors outside Japan (quarterly)
- Individual meetings with institutional investors in Japan to discuss financial results (quarterly)
- Business conference for institutional investors and analysts (semiannually)
- Conference for individual investors hosted by the President and CEO (annually, about 400 participants)
- Small meetings of investors hosted by securities companies (as needed)
- Meetings with major institutional investors outside Japan to discuss management policy (U.S.A., Europe)
- Company briefings to salespersons of securities companies for individual investors (as needed)

Daily Activities

- Responding to institutional investor and analyst enquiries by conducting interviews (some 300 a year)
- Responding to phone enquiries
- Responding to survey requests regarding SRI (socially responsible investment)

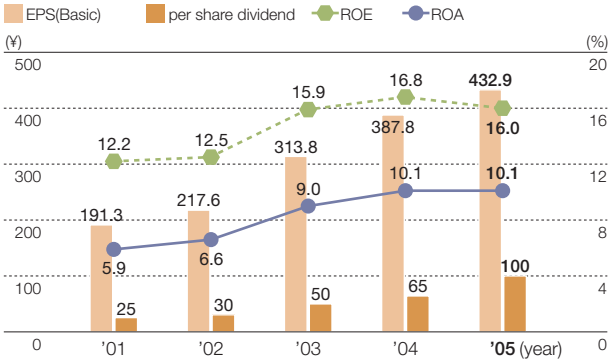
Return to Shareholders

In December 2005, Canon Inc. announced a new policy regarding return to shareholders and being more proactive in returning profits to shareholders.

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

In accordance with this new policy, Canon plans to raise its full-year dividend by 35 yen, from 65 yen per share in 2004 to 100 yen in 2005.

Trends in EPS and Dividends



Credit Rating

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

Ratings by Key Agencis

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

(as of February 28, 2006)

Canon's Inclusion in Sustainability Investment Indexes

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

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

Key Sustainability Investment Indexes

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

Relations with Employees

In accordance with its Guiding Principles, which are rooted in the philosophy of *kyosei* and the "Three Selfs" concept, Canon provides training for both our employees and executives, and conduct fair and impartial performance evaluations.

Communication with Employees and Human Resource Development

Basic Human Resources Policy

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

To this end, and based on the *kyosei* philosophy embodied in the Guiding Principles, Canon will work to foster a corporate culture that encourages an enterprising spirit by guaranteeing respect for the human values of ambition, responsibility, and mission, and by guaranteeing fair and impartial evaluation based on meritocracy. At the same time, Canon will focus on educating the next generation of leaders through employee and management education.

Guiding Principles and the Three Selfs

Canon's Guiding Principles originate in the Three Selfs, a concept created when the company was first founded. Employees are urged to take a positive approach in their work through (1) self-motivation: aggressively taking the initiative; (2) self-management: taking care of one's own business; and (3) self-awareness: knowing one's position, roles and surroundings.

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

The Canon Group has approximately 116,000 employees worldwide. Of these, approximately 20,000 work for Canon Inc., and Japanese employees account for about 42% of all group employees. In recent years there has been an increase in the number of employees belonging to countries in the "Other" category, including Asia, as Canon moves more of its manufacturing to Asian countries.

With this change in the employee make-up, each Canon Group company is establishing its own human resource system that respects things like the laws, working environment, and culture of the host country, as well as worker unions and worker/union-compatible organizational structures.

In Japan, seven worker unions take part in the Canon Group Workers' Union Conference, while in Europe, group companies in EU countries join the Labor-management Council Meeting at the Pan-European Level.

All Canon Group companies manage human resources in compliance with the laws and social norms of each country, and company regulations, and none have ever been in violation of laws relating to child labor, forced labor, or compulsory labor.

Employee-Management Relations at Canon Inc.

Canon Inc. has a union shop system and the Canon Workers' Union counted 16,173 members as of the end of 2005. At the monthly Central Worker/Management Conference, representatives from the management and worker sides share opinions and information on a variety of relevant issues. Both sides meet on separate committees for wages, working hours, and safety and health, where they reach mutually beneficial decisions on how systems should be changed or updated.

Supporting Growth and Skill Development

Supporting Employee Career Advancement

Canon employees gain all-important motivation and specialized skills through a range of training and recognition and award programs. In recent years, we have worked to create strong individuals and a strong organization by focusing on management-level employees through programs that include rank-based training for all managers appointed to new positions. We are also diversifying our training format and content through the active implementation of e-learning courses and other efforts. In addition, to help those motivated get started right away, our Training Operation Support System (TOSS) allows employees to use the intranet to search and apply for courses themselves.

Each group company has training programs to meet individual employee needs. Canon Europe, for example, has Pan-European e-learning and rank-based training.

International Training

Since 1980, Canon has invited management-level and above employees from subsidiaries and affiliates outside Japan to the 10-day Tokyo Seminar. In addition to deepening understanding of Canon and raising awareness of one's job as a manager, the seminars aim to make participants more effective in their daily work by encouraging them to make the most of this opportunity for frank opinion exchange with their peers. As of 2005, Canon had held 41 Tokyo Seminars for more than 900 participants.

Other programs include the Canon Corporate Executive Development Program (CCEDP) for fostering internationally minded management and annual training at Canon in Japan for approximately 15 exchange student trainees from other countries.

Results of Canon Inc. Training

In 2005, Canon held Active Leaders' Program 2005 (ALP2005) training for the approximately 2,700 general managers, and managers instrumental in leading on-the-job training.

In addition, approximately 16,500 non-management personnel completed the My Action Program 2005 (MAP2005), which is designed to promote understanding of our new human resources system between both those involved in evaluating and those subject to evaluation, and to contribute to better workplace management.

Recognition and Award Programs

Canon honors group employees for their success with a range of recognition and award programs.

The Canon President Award of the Year honors employees who have made a major contribution to the development of the company or an outstanding contribution to business in either the activities category (management, technology, production, marketing, etc.) or the product category (hit products, key components, etc.) Other awards include the Invention Award to honor contributions to inventions and the company's intellectual property; the Production Innovation Award for outstanding technology and production-related innovations; the Canon Expert (Excellent Craftsman) Award and the Meister (Multi-Skilled Worker) Award to recognize individual specialties that contribute to superior production; and the Quality Award for contributions to quality improvement. In 2004, Canon started its Member of the Canon Academy of Technology program to recognize engineers for outstanding achievements.

Career Matching System

Canon has a career matching system (internal recruiting system) aimed at prompt and prioritized action on matters including helping individuals achieve the careers they seek, matching the right people to the right job, and preparing key people to step into the business areas and groups where they are most needed.

The introduction of a position-based pay program in April 2005 jump-started the existing system by further integrating the company measures of strengthening key personnel and building individual careers, and by improving the mobility of human resources within the company.

In 2005, 128 employees of Canon Inc. applied for the program.

Employee-Friendly Work Environment

Ensuring and Furthering Diversity

The Canon Group Code of Conduct promotes individual respect and forbids discrimination and sexual harassment. Through this code of conduct, we strive to maintain a fair, comfortable, and safe working environment by having zero tolerance for any discrimination based on race, religion, nationality, sex, or age. This applies to all management and non-management employees, no matter what their rank or duties, and to all matters of human resource policy.

Making Subsidiaries and Affiliates Outside Japan a Part of the Local Community

In efforts to build locally based management systems, Canon is appointing locals as presidents of marketing companies outside Japan and having Japanese employees provide support in decision-making.

As of the end of 2005, about 80% of subsidiaries and affiliates in Europe had locally hired presidents.

Canon Educational 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						

Supporting Success for Women

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

As of the end of 2005, the average length of service at Canon was 16.9 years for men and 17.4 for women. There are also 126 women who hold positions at the level of assistant manager or higher, an 8.6% increase over a year earlier.

Measures to Support Working Women

- Child-care leave
- Part-time employment
- Re-employment after child care
- Sexual harassment consultation office

Hiring the Physically Challenged

With respect for the ideal of normalization as advocated by the United Nations, Canon does its utmost to choose the physically challenged when hiring new graduates and mid-career workers.

These employees are placed not in a special subsidiary for the physically challenged but rather in Canon Group companies, where they work with other employees in a cooperative environment that brings out the best of their abilities.

Canon Inc. has maintained its percentage of physically challenged employees in excess of the 1.8% figure required under employment laws.

Re-employment After Retirement

In 1982, Canon Inc., which in 1977 had become one of the first companies in Japan to set the retirement age at 60, introduced a system for re-employing personnel until age 63. In 2000, we introduced an open recruitment system for re-employment, and as of the end of 2005, 193 employees had taken advantage of this system and put their valuable years of experience and knowledge to work. In 2005, 65 of those who reached retirement age chose re-employment.

Compensation System

In order to create a pay system that aims for fairness and impartiality in areas such as equal opportunity, from 1999 Canon Inc. has been revising its employee evaluation and compensation systems from an equality-based approach to a merit-based approach. In 2001, we eliminated mandatory pay raises, and introduced a position-based pay system that compensates management at the level of section chief and above based on duties and achievements. This system was applied to all employees in 2005.

In a position-based pay system, employees are compensated for what they do in their job. Pay scales are based on the ranking of a person's job title, which is based on factors like the difficulty of the job. Where employees fall within the pay scale depends on how well they perform, regardless of factors like age. There is also a bonus system based on individual and company performance.

A pay system based on job duties has been in place for some time now at Canon U.S.A. and Canon Europe, along with other group companies in North America and Europe, and it is being phased in at Asian operational sites as well.

Canon is conducting in-house surveys to determine the effects of the merit-based pay system, and survey results will be used to establish new measures.

Canon Inc. Employee Data

	2001	2002	2003	2004	2005
Percentage of regular hire office employees (male)	56.6%	56.5%	55.1%	66.2%	64.0%
Percentage of regular hire office employees (female)	43.4%	43.5%	44.9%	33.8%	36.0%
People who have taken child-care leave	138	113	107	113	86
People who have taken nursing-care leave	25	12	18	7	12
Internal recruiting/ non-management	107	163	128	120	49
Internal recruiting/ management*	4	24	7	2	7

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

TOPICS

Compliance with the Law for Measures to Support the Development of the Next Generation

In efforts to slow the rapidly declining birthrate in Japan by giving working parents more time to take care of children, the government enacted the Law for Measures to Support the Development of the Next Generation in April 2005.

Canon Inc. is actively working to meet the intent of the law and help all employees reach their potential in a worker-friendly environment with the introduction of an original "employee support program for the term of their Child-care Leave."

Intranet home page of the "Sunflower Club," which supports working parents.

Safety and Health Management System

Canon Group Introduces Occupational Safety Management System

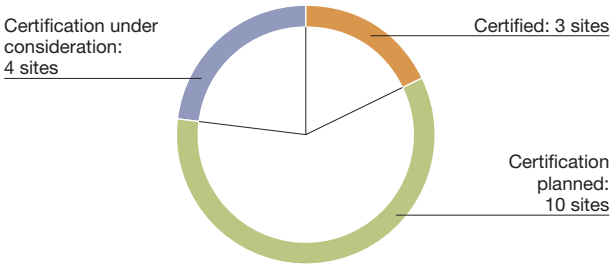
Canon Inc. began introducing the Occupational Safety Management System in 2000 and established an internal auditing system in 2003. These are being implemented at production sites, currently with a focus on Japan.

The implementation of this system is being certified by the Japan Industrial Safety and Health Association (JISHA), which operates under guidelines from the Ministry of Health, Labour and Welfare, and under the OSHMS*1 Guidelines of the International Labour Organization. We are also actively working to acquire JISHA OSHMS Certification*2. In 2005, Ueno Canon Material Inc. and the Utsunomiya Optical Products Plant of Canon Inc. were designated as JISHA OSHMS Certification companies.

Along with the introduction of the Occupational Safety Management System, we established the Safety and Health Auditing Standard, which monitors compliance with related laws in research and development sites. This standard boosts company-wide occupational safety and health efforts through regular audits.

In addition to being the first company in Thailand to receive TIS 18001*3 certification, Canon High-Tech (Thailand) Ltd. is also OHSAS 18001*4 certified. As well, Canon Engineering (Thailand) Ltd. was certified for both TIS 18001 and OHSAS 18001 in 2005.

OSHMS Certification among Japanese Manufacturing Sites*2



*1 **OSHMS**
Occupational Safety and Health Management Systems.

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

*3 **TIS 18001**
Thailand's occupational safety and health management system.

*4 **OHSAS 18001**
An international certification standard for occupational health and safety.

WEB •Labor Accident Rate at Canon Inc. (percentage requiring time off)
•Number of Labor Accidents, by Region (worldwide)

Eliminating Workplace Accidents

In addition to introducing the Occupational Safety Management System throughout the group companies, Canon is striving to improve working environments by promoting 5S activities (*seiri* (streamlining), *seiton* (organizing), *seiso* (cleaning), *seiketsu* (hygiene), and *shitsuke* (discipline)) in each region, which are aimed at preventing accidents through conscientious workplace habits. In order to carry out these activities thoroughly, in January 2006, a 5S Handbook containing the objectives and legal basis of 5S activities as well as examples was published and distributed to all employees of Group companies.

We have also established workplace safety and health standards for the cell production system in Japan. P9 And we are eliminating excess and waste in work processes in order to maintain and improve the level of safety and health. Fukushima Canon has been a success story under these efforts, going for more than 54 million hours of work time with no accidents.

Keys to the No-Accident Campaign

- Analyze accident causes and prevent similar accidents
- Inspect new equipment for safety
- Manage chemical substances for occupational safety and health

Maintaining and Improving Employee Health

Keeping employees mentally and physically healthy not only contributes to a satisfying workplace; it also drives the engine of a vibrant company organization. Based on an awareness of this, around the country, health care professionals of the Canon Health Insurance Union, which is made up of employees of Canon Group Companies in Japan, conduct health checkups, give health seminars and advise employees on a variety of health matters. With the enacting of laws like Health Japan 21 and the Health Promotion Law, all group companies in Japan have promoted health activities while setting up common numerical targets such as medical examination results, with the aim of preventing lifestyle-related diseases. The past five years have seen nearly 100% of employees in group companies in Japan take regular health checkups.

Canon Inc. conducts seminars on the prevention of infectious diseases like SARS, and offers mental health checkups and training based on guidelines from the Ministry of Health, Labour and Welfare.

Canon High-Tech (Thailand) Ltd. and Canon Engineering (Thailand) Ltd. support health management of employees through health-related training, emergency medical care and by having their own ambulances.

Mental Healthcare Activities

- Self-care: Regular mental healthcare checkups (JMI: Japan Mental Health Inventory)
- Care by the boss: Mental Health Training for new managers; Stress Management Training for assistant managers
- Care by on-site industrial health staff: medical specialists, counselors, individual consultations
- Outside care: introductions to outside medical specialists

Relations with Various Communities

Rooted in the *kyosei* philosophy, Canon is engaged in activities worldwide that contribute to society in an effort to facilitate rich and fulfilling lives for all people.

Social Contribution Activities

Policy on Social Contribution Activities

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

We are developing broad-ranging activities, such as forming partnerships with organizations whose practices we approve, and matching the donations raised by our employees.

Reference site: www.canon.com/scsa
Detailed information on these activities is available in the pamphlet Canon Social & Cultural Support Activities 2006/2007. The pamphlet can be downloaded as a PDF file at the above URL address.

Conservation of the Environment

Canon Europe has supported the activities of the World Wildlife Fund (WWF) since 1998, when it became the first corporate WWF Conservation Partner.

In addition, Canon China became the sole sponsor of the China Wildlife Photography Training Camp, the first program in China providing training and equipment for wildlife photography. The program promotes the conservation of nature and wildlife through the power of video. We lend specialized photography equipment to wildlife conservationists, researchers and photographers.

Supporting wildlife conservationists, researchers and photographers in China

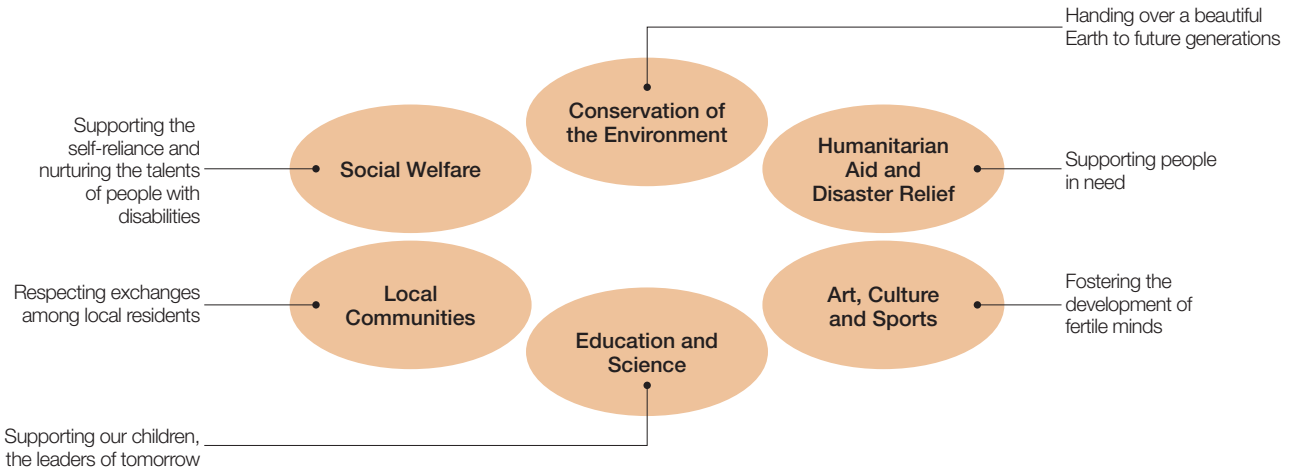
Social Welfare

Since 1997, Canon USA has been working with the National Center for Missing & Exploited Children, an organization dedicated to the problems of child abduction and exploitation. Through Canon's support it provides digital cameras, printers and other equipment to assist authorities in locating missing children, and runs advertisement campaigns with pictures of missing children in newspapers and magazines nationwide.

Additionally, Canon Europe held an event called "The Other Side of Football" in London and other major European cities. The event featured photo exhibits and auctions of photographs taken by 100 famous European soccer players with digital cameras given to them by Canon. All the proceeds from the event were donated to the European Red Cross.

Providing donations to help quickly locate missing children

Main Areas of Canon's Social and Cultural Support Activities



Local Communities

In 1990, Canon UK established an internal organization called “CARE” to serve as a contact point for local citizen groups and charities. Since then, CARE has provided wide-ranging support for the activities of various groups, including local community-building, educational activities, artistic and cultural initiatives, humanitarian aid activities and environmental conservation projects.

In addition, Oita Canon Materials holds “Eco-Festa,” an annual event that seeks to facilitate communication with local children and community members around environmental themes. The event draws the participation of over 1,000 people every year and features experiments on water purification and other environmental subjects as well as free handouts of tree saplings.

Employees plant trees as a part of the company’s CARE program

Eco-Festa facilitates communication with local residents through environment-related experiments and other activities.

Education and Science

Canon U.S.A. and Canon Canada sponsor the Canon Envirothon, the largest high school environmental competition in North America. The contest pits teams of five against each other to test their environmental knowledge. Every year it draws over 500,000 high school students and volunteers from the US and Canada.

In China, Canon Dalian has held an annual Japanese speech contest called the “Canon Cup” since 1990 with the Dalian International Friendship Society. The contest is intended to promote cultural ties between Japan and China and help train people to contribute to Dalian’s economic development. It attracts the participation of many people in Dalian, both students and non-students.

High school students discussing a problem at the Canon Envirothon, an environmental science contest

A participant gives a speech at the Japanese speech contest in Dalian

Art, Culture and Sports

Since 1991, Canon Inc. has promoted the “New Cosmos of Photography,” a cultural support project designed to discover, foster and support new photographers who are pursuing new possibilities in photographic expression.

In addition, since 1992 Canon Europe has served as a corporate sponsor of the World Press Photo Contest, based in the Netherlands.

Since its inception in 1991, New Cosmos of Photography has turned out many promising photographers.

Humanitarian Aid and Disaster Relief

Canon has provided corporate donations, and donations raised through the fundraising activities of its employees, to aid in the relief of victims of natural disasters, including Hurricane Katrina in the southern United States and the recent earthquake in northern Pakistan.

Raising funds inside the company to be used for disaster relief

Volunteer Activities by Employees

Employees of Canon U.S.A. participate in “Making Strides Against Breast Cancer” as a part of the company’s support for the American Cancer Society.

Employees of Canon Nederland volunteer to visit the AMC Hospital to help children there print out photos they have taken and send them to their families.

Pictures the children have taken are put into albums and given to them and video game consoles are donated to the hospital

Relations with Suppliers

From the selection of suppliers to the procurement of parts, Canon builds close cooperative bonds with suppliers based on fair and transparent procurement policies.

Building Strong Ties with Suppliers

Basic Procurement Policies

The cooperation of suppliers is essential to implementing Canon's EQCD concept*, which calls for the delivery of high-quality, appropriately priced products to customers around the world in a timely manner while minimizing the environmental burden in every possible way.

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 shall work 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* .

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

Support for Suppliers

Canon's Group companies and divisions cooperate in making regular visits to suppliers and devising measures to further the objectives of EQCD. More specifically, Canon provides suppliers with on-site support and guidance on environmental assessments, technical guidance and support for improving product quality, collaborative proposals based on VA and VE (value analysis and value engineering), and guidance and support in production reform activities to enhance the just-in-time supply system.

It also holds regular policy briefings for suppliers at its operational sites, manufacturing subsidiaries and affiliates to explain its business plans and procurement policies.

Briefing on chemicals procurement (held April 2005 at Canon Marketing Japan S Tower)

▶ **Reference site: www.canon.com/procurement**
Canon's procurement information

Promoting Compliance in Procurement

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

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

Canon has also established a special department within its Global Procurement Headquarters to carry out internal audits P23 ▸ to ensure strict compliance with laws and regulations, and the rules of fair trading.

Fair and Transparent Selection of Suppliers

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

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

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

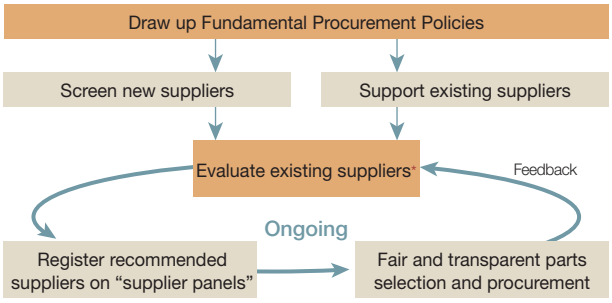
* **Green Procurement**
Favoring the procurement of materials and products that have a lower burden on the environment.

Introducing Training for Supplier Evaluators

In 2005, Canon introduced supplier evaluator training to ensure that its assessments of suppliers are fair and transparent. Designed to standardize evaluation criteria and adjust variations between evaluators, the training also involves evaluator assessments.

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

The Mechanism for Fair and Transparent Parts Selection and Procurement



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

GRI Guideline Inplementation

1. Vision and Strategy

1.1 Statement of the organization's vision and strategy	P.7-16
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.5-6
2.3 Operational structure of the organization	P.5-6, 16, 23, 35, 53
2.4 Description of major divisions, subsidiaries, etc.	P.53
2.5 Countries in which the organization's operations are located	P.53
2.6 Nature of ownership (legal form)	P.2, 53
2.7 Nature of markets served	P.5-6
2.8 Scale of the reporting organization	P.5-6
2.9 List of stakeholders, key attributes of each, and relationship to the reporting organization	P.13, 54-67, Web Report (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	Web Report
2.13 Boundaries of report	P.1, 53
2.14 Significant changes that have occurred since the previous report	P.53
2.15 Basis for reporting situations that can significantly affect comparability from period to period and/or between reporting organizations	P.53
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	P.13-16, 37, 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 accuracy, completeness, and reliability	P.1, 14-16, AR (accounting standards, etc.)
2.21 Policy and current practice with regard to providing independent assurance	P.1, 69-70, Web Report
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, 35
3.2 Percentage of the board of directors that are independent, non-executive directors	P.23
3.3 Process for choosing board members	Omitted (reference: P.23)
3.4 Board-level processes for overseeing the organization	P.23-24, 35
3.5 Linkage between executive compensation and achievement of the organization's goals	Omitted (reference: P.8, 35, 63)
3.6 Organizational structure and key management individuals	P.23, 35-36, FB
3.7 Mission and values statements (codes of conduct or principles, performance policies, etc.)	P.13-14 (management philosophies), P. 25 (codes of conduct), P.61 (guiding principles)
3.8 Mechanisms for shareholders to provide recommendations	P.23, 59-60

Stakeholder Engagement

3.9 Basis for identification of major stakeholders	P.13
3.10–12 Approaches to stakeholder consultation; Type of information generated by stakeholder consultations; Use of information resulting from stakeholder engagements	P.9. 13-14, 31 (revising the employee invention system through dialogue), P.55-62, 66-67, Web Report (risk communication)

Overarching Policies and Management Systems

3.13 Explanation of precautionary approach or principle	P.23-31
3.14–15 Charters, sets of principles which the organization subscribes to endorses	Web Report (primary partners in environmental protection activities)
3.16 Managing upstream and downstream impacts (policies and systems) • Supply chain management: • Products and service:	P.37 (material flow cost accounting), P.46, 51-52, 67 P.14-16, P.28 (complying with export security regulations), P.29-31, 40-45
3.17 Reporting organization's approach to indirect impacts resulting from its activities	P.5-12, 14-16, etc.
3.18 Major changes during the reporting period regarding the location of operations or operations themselves	P.53
3.19 Performance programs and procedures	P.7-16, 23, 33-36, AR (audit report), etc.
3.20 Status of certification for management systems	P.28 (Privacy Mark), P.35 (ISO14001), P.64 (OSHMS)

4. GRI Content Index

4.1 Index showing the location of each element	P.68

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Integrated Indicators:	P.14-16

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Customers	EC1	P.5
Investors	EC6–7	AR
Public Sector	EC8	AR

Environmental Performance Indicators

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EN2		P.42-44, 48 (internal recycling)
Energy		
EN3-4,18-19		P.15-16, 41, 47
Water		
EN5, 21-22		P.16, 49
Emissions, Effluents, and Waste		
EN8, EN30		P.16, 48
EN9		Already eliminated (Web Report: list of eliminated substances)
EN10		P.50
EN13		P.50
Products and Services		
EN14		P.16, 17-21, 41-45
EN15		P.42-44
Shipping		
EN34		P.51-52
Other		
EN35	P.37, Web Report (environmental accounting)	

Social Performance Indicators

Labor Practices and Decent Work		
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Training and Education	LA9	P.63
Diversity and Opportunity	LA10-11	P.63-64
Human Rights		
Strategy and Management	HR1	P.61-63
Non-Discrimination	HR4	P.62
Freedom of Association and Collective Bargaining	HR5	P.61
Child Labor	HR6	P.61
Forced and Compulsory Labor	HR7	P.61
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Product Liability		
Customer Health and Safety	PR1, 6	P.55-58
Products and Services	PR2, 8	P.55-58
Respect for Privacy	PR3	P.28

* 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 2005, "FB" for Canon Fact Book 2005/2006, and "Web Report" for the HTML version of the Sustainability Report.

Related URLs
GRI Guidelines URL: www.globalreporting.org/guidelines/2002.asp
Canon Annual Report URL: www.canon.com/ir/annual/index.html
Canon Fact Book URL: www.canon.com/about/library/canon_factbook.pdf
HTML version of Sustainability Report URL: canon.com/environment/report/sustainability.html

Third-Party Opinions

About the Third-Party Opinions

We believe that these third-party opinions* serve two purposes. First, they give readers information that helps them judge how well Canon has met their expectations and that hints at what can be expected from Canon in the future. Second, the issues raised in these opinions can be used by Canon as reference for improvements in future sustainability activities and in information disclosure through this report and other media.

This 2006 Sustainability Report contains third-party opinions from the same two stakeholder groups (hereafter called commentators) that contributed to the 2005 edition. These commentators have provided their opinions on how well this report, with a triple-bottom-line approach improved over last year, meets their expectations regarding information included in the report, the quality of performance it conveys, and its usefulness for meaningful engagement.

We have also improved on several aspects of the third-party-opinion process for the 2006 Sustainability Report. Previously, we received opinions on the report from the commentators and then wrote a response to the issues raised in these opinions. But this year, we gave the commentators a draft of the report, then held telephone discussions with the commentators based on this draft. This allowed for a deeper, more extensive exchange of opinions. Wherever possible, we took commentators' ideas for improvements and immediately reflected them in this year's report.

These third-party-opinion pages include the main items discussed with the commentators; specifically, those items worthy of praise or key issues that need to be addressed over the long term. For details of this duscussion, see the Canon website (URL: canon.com/environment).

Based on issues raised by commentators and opinions from other stakeholders, Canon is stepping up its sustainability activities and providing more complete information disclosure through this report and other media. And discussions with commentators scheduled for this autumn will provide the basis for improvements in the next Sustainability Report.

For more information on the third-party-opinion process and how our approach has evolved, see the Canon website (URL: canon.com/environment).

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

Third-Party Opinion from Volker Türk, Wuppertal Institute

Volker Türk

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

In this third consecutive opportunity to provide an external view on Canon's sustainability report, we have seen with appreciation that the company has taken its commitment to seeking third-party opinions one step further. This statement is part of a more in-depth interaction involving a telephone conference which allowed for the discussion of a variety of issues, some of which we will raise here.

An editorial improvement that has made this report more accessible without loosing comprehensive data is the disclosure of detailed information on the web with clear links to them signalised on the printed report.

In pursuing the *Kyosei* philosophy, Canon has set itself a challenging and exciting agenda in aiming at becoming a "truly excellent global corporation by pursuing environmental and social sustainability." Their environmental goals are clear and Canon's performance against these targets is easy to track. Various aspects are continuously improving and many of the mid-term environmental goals set for 2005 have been achieved; we congratulate the company for these accomplishments. The pursuit of sustainability should be further extended in the social arena, with statements of priorities and targets on social indicators. For example, we read with interest that Canon provides an "employee-friendly work environment" and "manages human resources in compliance with the laws and social

norms of each country" the organisation operates in, but would consider it to be an added value to include social targets as quantifiable and traceable as the ones for environmental issues. Furthermore, we would welcome a disclosure of what Canon considers to be "social material" for sustainability.

Living up to Canon's goal of becoming a "Top 100 Company," we would encourage Canon to include at least one sustainability measure as Key Management Indicator in addition to current business indicators. As stated on p.60 of the report, Canon is included in key sustainability indices. Such achievement demonstrates that their sustainability performance is of relevance to investors, which should be given a more central position in the overall performance assessment.

We believe that as a pioneer—a concept intrinsic to the *Kyosei* philosophy—Canon should demonstrate leadership, which involves being more daring in its targets and going beyond compliance. Guiding principles to do so could be international initiatives such as Global Compact and the Millenium Development Goals, and to further engage in sustainable consumption. The latter demands an involvement in how products are used and disposed of. This means for example reaching out for consumers - informing and educating them—as well as governments - to provide the necessary facilitating infrastructure and mechanisms, such as recycling systems. It involves consolidating partnerships and creating new ones, in order to attain a more sustainable global society.

This can, we believe, be a fundamental part of Canon's challenge to create new values and cultures: to be proactive in leading theirs and other sectors, companies, suppliers and customers, raising a flag for sustainable production and consumption and its benefits, and continue the good work they have been doing so far.

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

David St. Maur Sheil

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

Overall I found the report more readable than previous reports, with useful links to information on the Canon website. The vision and commitment of the company on sustainability issues comes through strongly in the top management's introduction. The emphasis on identifying and addressing the concerns of different stakeholders is useful, and initiates a positive process which can be deepened in the future. Canon provides useful reviews and even indicates sector leadership on several key areas of material concern for investors, including toxic chemicals (related to such as the European RoHS legislation), reducing global warming impacts via a range of life-cycle initiatives (the Factor 2 commitment), intellectual property protection policies, and corporate governance and assurance policies. The section on the environmental design elements in products and the use of computer design to reduce the wasteful production of prototypes, among a range of other measures, is valuable.

However the reporting on social and human rights issues, particularly in relation to the most potentially vulnerable staff, still seems superficial. One gets the sense that polices are in place and promoted group wide via such as the '*Kyosei*' principles and the Canon code of conduct. However, the report could be more explicit and provide more data and statistics on worker health and safety, conditions and training of contract and casual workers outside Japan and policies on workplace diversity and inclusion. The Canon supplier procurement policies are strong on environmental aspects but also do not seem specific on social aspects.

Canon clearly states its ambition to be an industry leader and there are indications in the report that Canon realises that in order to be a leader, it must draw not only on its clear technological and inventive skills, but also act to foster a global outlook within the group, strengthen industry and stakeholder co-operation and raise above a focus on legal compliance on sustainability related issues. The extent to which Canon successfully achieves this will go a long way to assure its continued success with Phase III of its Excellent Global Corporation Plan. Canon have made some impressive progress since they instituted their sustainability reporting and I strongly wish them well in this continued and challenging endeavour.

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Tell Us Your Opinions

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Thank you for taking the time to read the *Canon Sustainability Report 2006*. 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
☐Environmental personnel of a company or other organization
☐Environmental NGO/NPO personnel
☐Stockholder/investor
☐Employee of a research/educational institution
☐Canon employee or a member of an employee's family
☐Government/regulatory authority
☐Student
☐Other (　　)
☐Residential neighbor of a Canon operational site/plant
☐Press

■How did you come to know about this report?

☐Canon's website
☐Canon sales personnel
☐Newspaper, magazine (　　)
☐Other (　　)
☐Seminar, exhibition (　　)

■Please evaluate the contents of this report.

• How would you rate this report in terms of its content?
☐Very detailed　☐Detailed　☐Not so detailed　☐Not detailed at all
Reason (　　)

• How would you rate this report in terms of its clarity?
☐Very clear　☐Clear　☐Not so clear　☐Not clear at all
Reason (　　)

■Which sections of the report did you find most interesting? (Feel free to choose more than one section.)

☐Message from Top Management　☐The Excellent Global Corporation Plan　☐Pursuing Sustainability
☐People-Friendly, Environmentally Conscious Products　☐Corporate Governance　☐Compliance
☐Security Measures　☐Intellectual Property Activities　☐Mid-Term Environmental Goals
☐Environmental Management　☐Environmentally Conscious Products
☐Environmental Activities at Operational Sites　☐Environmentally Conscious Logistics
☐Relations with Customers　☐Relations with Shareholders and Investors　☐Relations with Employees
☐Relations with Various Communities　☐Relations with Suppliers　☐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 2005 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.

(From the viewpoint of personal information protection, we do not request any personal information from the respondents to this survey.)