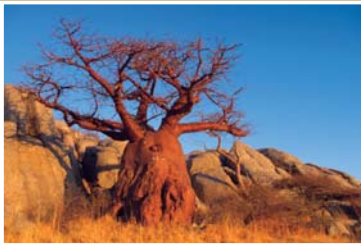# Canon
Sustainability
Report
2008

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 easily understandable ways for a wide audience. It is available in both Japanese and English.

● A Web marker in the margins means that detailed information is available on Canon's website (canon.com/environment/).
● U.S. dollar conversions appearing in the report have been calculated at the rate of JPY114 = US$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 28, 2007, solely for the convenience of the reader.

Reporting Scope
In principle, this report covers Canon's economic, social, and environmental activities within the scope of consolidated accounting for the 2007 fiscal year (January 1 to December 31, 2007).

The scope of environmental activities is not limited just to activities (development, production, and sales operations) at Canon's operational sites, 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 our Environmental Goals, found on page 44.) Page 61 lists activities at operational sites covered in this report.

Also, supplemental information on important targets and initiatives prior to fiscal 2006 and beyond fiscal 2008 are also referenced in this report. Information limited to certain regions or organizations is indicated as such.

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

Reference Guidelines
● GRI Sustainability Reporting Guidelines 2006
● Environmental Reporting Guidelines (2007 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 enclosed questionnaire.
(E-mail: eco@web.canon.co.jp, Fax: +81-3-3758-8225)

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

**Canon
Sustainability Report
2008**

Main Features of the *Canon Sustainability Report 2008*

Structure

(1) A new section summarizing our five materiality themes, entitled "Pursuing Sustainability," has been added to the first half of the report.

(2) As this report is issued annually, particular attention has been given to including new policies from 2007 and for the future, taking PDCA trends into account. Detailed information and articles that remain unchanged are disclosed on Canon's website. (canon.com/environment/)

Contents

(1) **Vision and Strategy**

The current state of the Canon Group and its future objectives are outlined in the two sections "Basic Strategies of the Canon Group" and "The Excellent Global Corporation Plan (1996–)— Canon's Mid- to Long-Term Management Plan."

(2) **Pursuing Sustainability**

The report describes, using actual case examples, the five materiality themes (sound growth, corporate governance/compliance, technological innovation, developing diverse human resources, and social and cultural contributions) that we are promoting in pursuit of sustainability.

(3) **Management Systems**

The report describes the management systems put in place to operate our businesses with integrity and propriety.

(4) **Canon and the Environment**

The report describes the progress made in 2007 toward our Environmental Goals and overriding indicator Factor 2. It also presents the advanced environmental assurance activities of the Canon Group.

(5) **Canon and Stakeholders**

The report describes our basic approach to relations with stakeholders and specific actions we are taking.

Company Overview (As of May 15, 2008)

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: (As of December 31, 2007)	¥174,698 million
Group Companies: (As of December 31, 2007)	239 consolidated subsidiaries, 15 companies accounted for under the equity method

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 readers in this regard.

Message from Top Management

Fujio Mitarai
Chairman and CEO
Canon Inc.

Tsuneji Uchida
President and COO
Canon Inc.

In keeping with our corporate philosophy of *kyosei*, as a global corporation striving for excellence, we will continue to contribute to the realization of a sustainable society.

Fulfilling social responsibilities as we aspire to be a truly excellent global corporation

Canon celebrated its 70th anniversary in 2007 with record-high consolidated net sales and net income, representing an eighth consecutive year of sales and profit growth. While maintaining our high-profit structure, we are striving to achieve the sound growth that represents the main objective of Phase III (2006–2010) of the Excellent Global Corporation Plan, our mid- to long-term management plan. We will continue to innovate as we pursue our quest to be a truly excellent global corporation capable of evolving and thriving over the next century and beyond.

The management conditions we face today change at a breathtaking pace. Amid a dramatic rise in the worldwide consumption of energy and resources, problems such as global warming and the depletion of resources have become increasingly pressing issues. Meanwhile, the importance of corporate social responsibility continues to grow. Faced with such conditions, Canon conducts its corporate activities with the belief that only companies that address these issues sincerely will be able to aid in preserving the environment while also contributing to a more comfortable and convenient sustainable society.

Realizing a sustainable society in keeping with our philosophy of *kyosei*

Canon's corporate philosophy is *kyosei*. *Kyosei* aspires to a society in which all people, regardless of race, religion, or culture, harmoniously live and work together for the common good into the future. *Kyosei*, in other words, is an attempt to bring about a society characterized by sustainable prosperity. In keeping with this philosophy, Canon aims to become a truly excellent global corporation worthy of admiration and respect around the world. We consider the fulfillment of our social responsibilities to be a natural obligation as we respond to various challenges and work to fulfill the expectations of our stakeholders, beginning with our customers, our shareholders and investors, our employees, and the local communities in which we operate.

Becoming an industry leader in product quality and the environment

As a manufacturer that takes pride in the craftsmanship of its products, product quality and environmental consciousness are of vital importance to Canon. A problem involving quality or safety, areas that represent the foundation on which trust in the Canon name is based, could instantly erode the brand reputation that we have cultivated over many years. More importantly, such problems would cause great inconvenience to our many stakeholders. As such, we maintain a renewed awareness of the important roles that quality and safety play and continuously strive to improve the quality of both the products we produce and the people who produce them.

On the environmental front, Canon pursues the maximization of resource efficiency in a way that balances environmental concerns and economic development by targeting the entire product lifecycle, which includes the stages of production, usage, and recycling. In 2007, within our Management Strategy Committee, which is responsible for deliberating on important matters, we established the Global Environment Strategic Expert Committee with the aim of further strengthening our environmental management and promoting environmental initiatives as an environmental frontrunner within the industry.

Ensuring the passing on of Canon's corporate DNA

Looking back on our 70-year history, the origins of Canon's corporate DNA lie in: respect for human dignity; an emphasis on technology; and an enterprising spirit. We have always encouraged innovation and supported the progress and development of industry and lifestyles through technology. Under the basic strategies of globalization and diversification, we have greatly expanded our business domains as well as the number of regions in which we operate. As such, the number of people with a connection to the company, and the number of regions in which Canon has an influence on the community, increases almost daily, and we must continue building relationships of trust with even more people and across even wider regions.

Supporting all of Canon's activities is the adherence of each employee to the "*San-ji*," or "Three Selfs," spirit—self-motivation, self-management, and self-awareness—a guiding principle that dates back to the company's founding. In addition to cultivating a spirit of compliance befitting a truly excellent corporation, we will strive to pass on the values comprising Canon's DNA to the next generation of employees and maintain an awareness of the "Three Selfs" spirit as we continue to innovate, working with our valued stakeholders toward the realization of a sustainable society.

In closing, we ask for your continued understanding and support.

Vision and Strategy

Since its founding in 1937, Canon has managed its business operations based on the core strategies of diversification and globalization. In keeping with our corporate philosophy of *kyosei,* we have been moving forward with the Excellent Global Corporation Plan since 1996 as our mid- to long-term management plan for the Group.
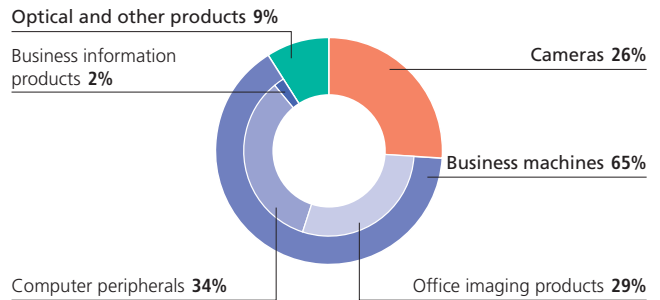
Basic Strategies of the Canon Group

Diversification | **Businesses and Products**

Diversifying Operations through Proprietary Imaging Technologies

Canon has continually leveraged original imaging technologies to develop its operations since its beginning as a camera manufacturer. We have extended our businesses beyond personal-use and business products to include medical equipment, semiconductor equipment, and other fields. We are developing proprietary technologies and cultivating the spirit of enterprise to reform ourself in order to continuously provide products that appropriately address the needs of society.

Net Sales by Product

Optical and other products **9%**
Business information products **2%**
Cameras **26%**
Business machines **65%**
Computer peripherals **34%**
Office imaging products **29%**

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 copying machines
- Inkjet printers
- Inkjet all-in-ones

Business Products

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

Industry Products

- Semiconductor exposure equipment
- Mirror projection aligners
- Broadcasting equipment
- Digital radiography systems
- Ophthalmic equipment
- Components

Digital radiography system

Digital SLR camera

Inkjet all-in-one

Office color MFP

Semiconductor exposure equipment

Net Sales

(¥ billion)

	'03	'04	'05	'06	'07
	3,198.1	3,467.9	3,754.2	4,156.8	4,481.3 ($39,310 million)

(Year)

Net Income

(¥ billion)

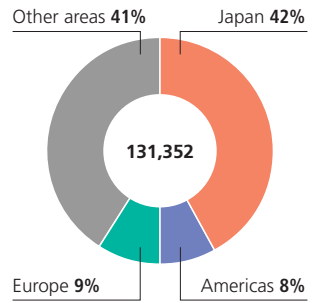|	'03	'04	'05	'06	'07
	275.7	343.3	384.1	455.3	488.3 ($4,284 million)

(Year)
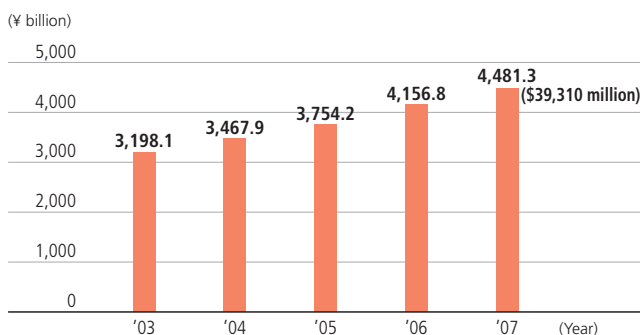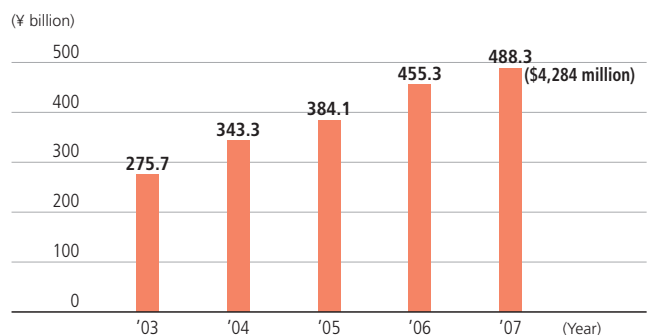
Developing Localized Businesses as a Truly Excellent Global Corporation

Since the company's founding in 1937, Canon has aspired to develop its business globally, establishing sales, production, and R&D sites in the Americas, Europe, and Asia. In line with our corporate philosophy of *kyosei*, we respect local laws and customs as well as the culture of our approximately 130,000 employees working in 239 consolidated subsidiaries around the world (as of December 31, 2007). The Canon brand is a registered trademark in over 180 countries and regions across the globe.

Net Sales by Region (2007)

$39,310 million

- Other areas **16%**
- Japan **21%**
- Europe **33%**
- Americas **30%**
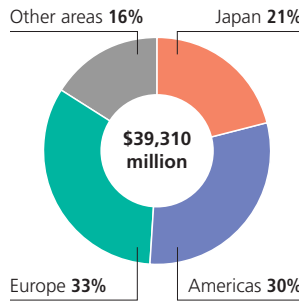
Employees by Region (2007)

131,352

- Other areas **41%**
- Japan **42%**
- Europe **9%**
- Americas **8%**

Europe, Africa & the Middle East

Canon Europe Ltd. commemorated its 50th anniversary in 2007. As our regional headquarters for Europe, the company is spearheading the expansion of our business operations across Europe and is actively developing markets in Russia, the Middle East, and Africa. Focusing on production activities and regionally based R&D, the company aims to establish independent businesses in the European market.

Asia & Oceania

In Japan, our worldwide R&D base, we are focused on cultivating new businesses while working through Canon Marketing Japan Inc. to strengthen relations with our customers. In other Asian countries and regions, we are bolstering sales, production, and development activities with a particular focus on China. In Oceania, we are engaged in marketing operations and the development of digital imaging technologies.

Americas

As our regional headquarters for North and South America, Canon U.S.A., Inc. is subdividing sales areas to strengthen service- and sales-related infrastructure in an effort to increase customer satisfaction. The company is also developing new businesses in life science and other fields to flexibly respond to changes in the market through the establishment of localized R&D bases and production sites.

Canon Europe Ltd.

Canon Marketing Japan Inc.

Canon U.S.A., Inc.

Total Assets & Stockholders' Equity

■ Total assets ■ Stockholders' equity
(¥ billion)

Year	Total assets	Stockholders' equity
'03	3,182.1	1,865.5
'04	3,587.0	2,209.9
'05	4,043.6	2,604.7
'06	4,521.9	2,986.7
'07	4,512.6 ($39,584 million)	2,922.3 ($25,635 million)

Employees

Year	Employees
'03	102,567
'04	108,257
'05	115,583
'06	118,499
'07	131,352
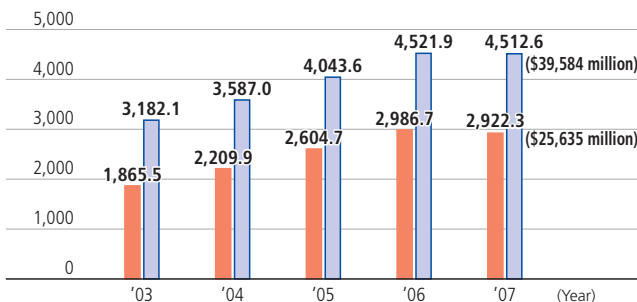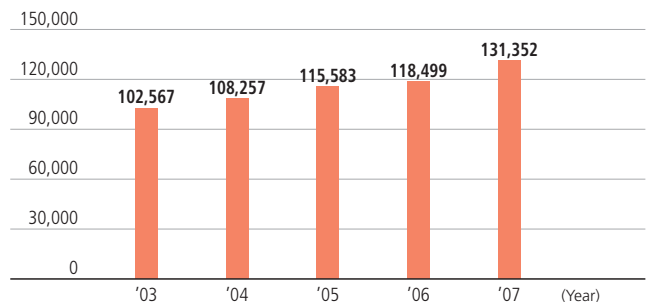
Vision and Strategy

The Excellent Global Corporation Plan (1996–)—Canon's Mid- to Long-Term Management Plan

Continuing the quest to become a truly excellent global corporation, Canon entered Phase III of the Excellent Global Corporation Plan, its mid- to long-term management plan, in 2006. This plan outlines our vision of continuing to contribute to society through technological innovation in accordance with our corporate philosophy of *kyosei* while aiming to be a corporation worthy of admiration and respect worldwide. During Phase III, under the theme of sound growth, we aim to join the world's top 100 companies in terms of key performance indicators by 2010, the final year of the plan.

Corporate Philosophy:
Kyosei
Living and working together for the common good

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

Phases I and II 1996–2005	Phase III 2006–2010
Building a strong financial structure Becoming No. 1 in the world in all major areas of business	Innovation and sound growth

Pursuing Sustainability

Phases I and II Developments

Phase I (1996–2000)

Targeting a Strong Financial Structure

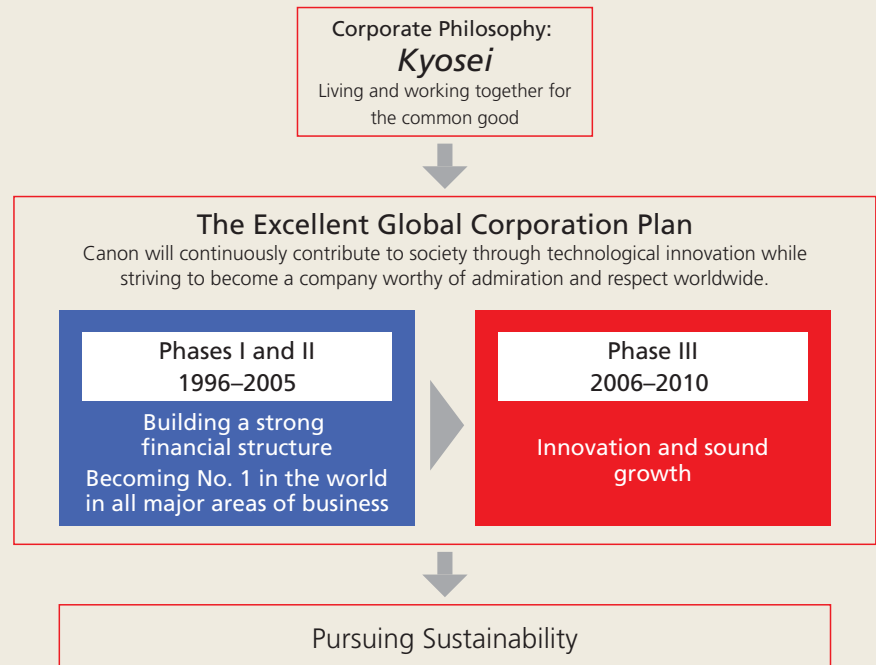In 1995, Canon's financial position made it difficult for the company to sustain the kind of long-term investment in research and development required in the manufacturing industry.

Phase I of the Excellent Global Corporation Plan centered on building a strong financial structure. We began by transforming our mindset from partial optimization to total optimization, and by shifting from a focus on sales to a focus on profit. While promoting the selection and concentration of core businesses, we launched management reforms to address common issues involving all of the company's businesses, including production methods, development infrastructure, and global logistics, and propel us into the 21st century.

Phase II (2001–2005)

Becoming No. 1 in All Major Areas of Business

Under Phase II, we worked to thoroughly bolster product strength by initiating various reforms among our product divisions and subsidiaries worldwide. To deliver new value in an increasingly networked world, we have stepped up efforts to digitize our products. As a result, in 2005 we achieved our sixth consecutive year of sales and profit growth. And, compared to 1995, the year before we launched our management innovation activities, net sales increased 1.8 times, net income expanded 7.0 times, and ROE jumped from 6.5% to 16.0%.

Introducing the cell production system in which an individual worker performs multiple processes
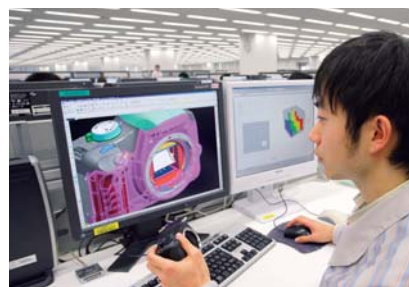
Introducing 3D computer-aided design (CAD) systems to improve development efficiency

Achieve Global Top 100 Ranking in Key Performance Indicators

Net Sales

target
¥6,000 billion

¥4,156.8 billion

2006   **2010**

Operating Income Ratio

target
more than 20%

¥707 billion
(17%)

2006   **2010**

Net Income Ratio

target
more than 10%

¥455.3 billion
(11%)

2006   **2010**

Ratio of Stockholders' Equity to Total Assets

target
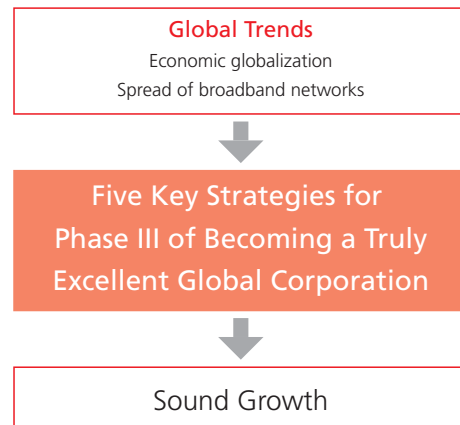**more than 75%**

66.0%
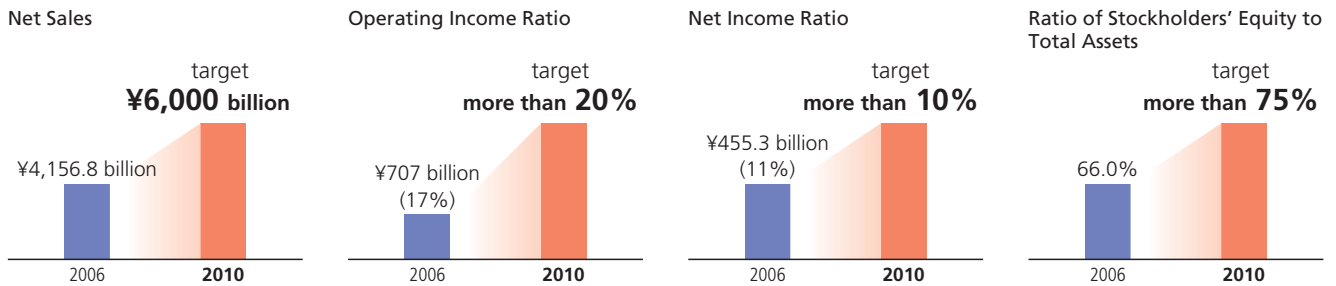
2006   **2010**

Phase III Developments

Phase III (2006–2010)

Becoming a Top 100 Global Company

In 2006, Canon began Phase III of its Excellent Global Corporation Plan, building on the accomplishments of Phases I and II. Marking the halfway point of Phase III, 2008 will be a pivotal year for us. We will steadily execute our five key strategies, further strengthening the solid profit structure that we have established over the past decade to achieve sound growth. And, as we do so, we will also continue to pursue our goal of joining the world's top 100 companies in terms of all key performance indicators by 2010.

Global Trends
Economic globalization
Spread of broadband networks

⬇

Five Key Strategies for Phase III of Becoming a Truly Excellent Global Corporation

⬇

Sound Growth

1 Achieve the Overwhelming No. 1 Position in Existing Businesses

Canon's market edge lies in the products we create, with technological innovation being the key to making them highly competitive. Promoting innovations in each of its businesses, Canon aims to achieve the overwhelming No. 1 position worldwide for its existing core businesses, the mainstay of the company's growth. We will further our cross-media imaging endeavors through sophisticated linking of imaging devices while reinforcing our platform technologies and developing key components and devices.

The Rebel XSi/EOS 450D digital SLR camera

2 Expand Business Operations through Diversification

Canon has continued to grow by diversifying its business. Leveraging the resources we have accumulated thus far, we continue to diversify, branching out into new fields, starting with our increasingly important display businesses, but also including solution businesses and the digital commercial print market. We are pursuing diversification in a truly global context. Our regional marketing headquarters in Europe and the United States are utilizing their human resources and capital to develop independent new businesses that make the most of their specialized technical expertise and regional characteristics.

An imagePRESS digital production printing press

3 Identify New Business Domains and Accumulate Required Technologies

To ensure corporate growth beyond 2010, Canon is enhancing its research capabilities to explore technological innovations and developing new business domains utilizing these technologies. We are promoting both basic research and state-of-the-art technology development in medical imaging, robotics for factory automation, and product safety, which is a platform technology for improving product quality. We will forge closer ties with leading research institutes and universities around the world to acquire cutting-edge technologies.

Joint research on image-processing technologies at Carnegie Mellon University in the United States

4 Establish New Production Systems to Sustain International Competitiveness

Canon has been making its operations fully automated, introducing highly productive automated systems and robotics with an eye to maintaining and improving the international competitiveness of its products to meet increasing demand. We are integrating product development, production technology, and manufacturing expertise to realize a production system utilizing automated assembly lines that operate non-stop. Canon intends to lower its cost rate by increasing its cost competitiveness through such measures as promoting in-house production and improving the efficiency of procurement processes.

Automated production of ink tanks

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

A strong, independent-minded workforce and corporate organization are the driving forces of corporate innovation. To foster employees who are trusted by society, Canon is strengthening its education and training systems to heighten the spirit of compliance among individual employees while also encouraging practical application of the guiding principles of the "*San-ji*" or "Three Selfs" spirit. Cultivating insightful global leaders, Canon works to develop human resources capable of making meaningful contributions to both industry and society at large.

Training course aimed at cultivating insightful global leaders

Global Rankings in 2006–2007

FORTUNE Global 500*
- Global ranking of **182**nd in revenues, **124**th in profits
  (August 6, 2007 issue)

  Evaluation of five performance indicators for fiscal 2006, including total sales, profits, and total assets.

  *"FORTUNE Global 500" is a registered trademark of Time Inc., in the United States.

BusinessWeek
Best Global Brands
- Overall ranking of **36**th
  (August 6, 2007 issue)

  Fiscal 2007 brand value ranking based on future earnings potential

Financial Times
FT Global 500
- Global ranking of **100**th
- **7**th in the Technology, Hardware and Equipment sector
  (June 30/July 1, 2007 edition)

  Market capitalization in 2007 (the number of shares issued and outstanding multiplied by the price per share) ranking

Pursuing Sustainability

Materiality Themes for Pursuing Sustainability

Realizing *Kyosei*

Canon introduced its philosophy of *kyosei*—living and working together for the common good—in 1988, the 51st year since the company's founding. This philosophy clarifies Canon's stance on partnerships formed with stakeholders around the world.

Our three Corporate Goals set out Canon's ultimate objectives in pursuing *kyosei*. Reaching these goals means fulfilling both business aspirations and obligations to society. We pursue coexistence with the environment as we forge stronger connections with clients, local communities, employees, and other stakeholders.

In order to realize *kyosei*, we must seek to address various imbalances in the world. We have integrated our three Corporate Goals with social issues and the expectations toward us identified through dialogue between our stakeholders and relevant company divisions. Through repeated outreach and revision we have come to specify materiality themes that we will pursue to establish sustainability in our operations.

We will consider these social issues and expectations, revising our key strategies to address any imbalances that emerge. Through this process, Canon is taking steps to achieve sustainability—*kyosei*—in the truest sense.

Corporate Philosophy

Kyosei

Living and working together for the common good

Corporate Goals

Establish a Truly Global Corporation

Transcend borders to actively fulfill our social responsibility to all humankind, in every region of the world

Accept the Responsibility of Being a Pioneer

Create products without rival in quality and service, and which contribute to the improvement of societies around the world

Ensure the Happiness of All in the Canon Group

Contribute to continuing prosperity by building an ideal corporation

Canon Stakeholders

Suppliers

National and Local Governments

Shareholders & Investors

Universities & Research Institutes

Canon

The Environment

Local Communities

Other Companies

Customers
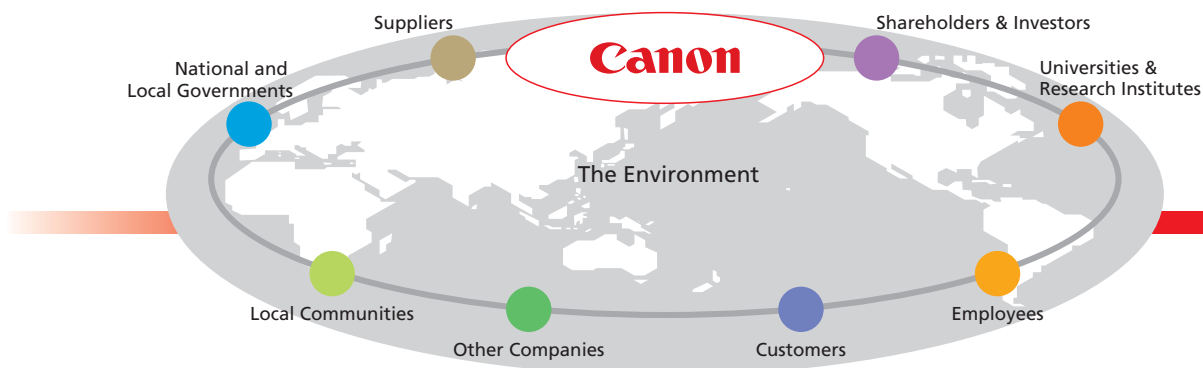
Employees

Sound Growth   Page 13

Canon will continue to promote an appropriate profit return to stakeholders. Under the Excellent Global Corporation Plan, we will expand our corporate scale while maintaining a sound profit structure.

Corporate Governance Compliance   Page 17

Canon takes thorough steps to prevent fraud and violations of laws and regulations. We are enhancing employee awareness of compliance while maintaining a corporate governance structure befitting a truly excellent global corporation that is trusted by society.

Technological Innovation   Page 19

Canon strives to continually contribute to society through technological innovation. We aim to create innovative new products through the development of environmentally friendly and cutting-edge futuristic technologies in addition to technologies that enrich lives and society.

Developing Diverse Human Resources   Page 23

Canon strives to be an ideal company that optimizes its diverse human resources. We guarantee our employees fair and impartial performance evaluations and provide training for the personal growth of employees and protection of occupational health and safety.

Social and Cultural Contributions   Page 25

Canon will contribute to local communities and cultures. As a good corporate citizen, we engage in diverse community support activities to appropriately address social needs and issues.

- Mitigating global warming
- Managing chemical substances
- Coping with resource depletion
- Concerning diversity
- Spreading primary education
- Eliminating poverty and hunger
- Returning profits to shareholders
- Disclosing information appropriately in a timely manner
- Conducting joint research in pioneering technologies
- Nurturing human resources responsible for the next generation
- Providing equal opportunity and supporting self-growth
- Enhancing occupational health and safety
- Developing technologies and products to enable rich and fulfilling lives
- Improving product quality
- Providing superior support for our customers
- Promoting industry to stimulate local communities
- Offering localized community support
- Paying taxes
- Complying with laws and regulations
- Respecting intellectual property rights
- Ensuring fair and transparent transactions

Stakeholder Expectations and Social Issues

Contributing to a Sustainable Society by Generating Profits and Corporate Growth

Canon believes that a solid platform for sustainability is sound growth—achieving continuous growth while maintaining a sound profit structure and financial balance. Only by ensuring profitability can we contribute to society over the medium and long term, invest for the future, provide dividends to shareholders, and maintain stability in employees' lives. Ever cognizant of this principle, Canon is strengthening its market competitiveness through creative technologies and launching new businesses useful to society as we look to the future.

Naturally, fostering good relations with the environment and local communities is an important part of pursuing sustainability. Environmental conservation activities at Canon are carried out with a particular focus on mitigating such environmental problems as global warming and resource depletion.

Sound Growth

Pursuing Sustainability

Joint R&D in medical imaging between Canon and Kyoto University

Cross-Media Imaging: Advanced Synergies Between Imaging Devices

Canon has achieved business expansion by leveraging its technological capabilities to create a variety of products that make daily life more convenient and change the way people live. In our drive toward sound growth, cross-media imaging is critical.

Cross-media imaging realizes advanced synergies between digital imaging devices, enabling the expression or recreation of images and information exactly as users envision. This is made possible through coordinated compatibility among the input engines (such as cameras and video camcorders), output engines (typically printers or displays), and numerous technology domains (including image-processing technologies and color-management technologies) that Canon has accumulated as an industry leader in the field of imaging. We have already established cross-media imaging between our high-resolution digital single-lens reflex (SLR) cameras and large-format inkjet printers. The achievement of reproducing impressive large-format photographs in previously unseen art-quality form has lead to the birth of new forms of artistic expression and business opportunities.

Canon is creating new value while realizing total optimization by upgrading various technologies to provide even more advanced solutions.

The Challenge of New Business Domains

As a further goal, Canon is exploring next-generation businesses and technology domains for development beyond 2010. Medical imaging technology is a prime example. Canon is pursuing the development of medical imaging technology aimed at ultra-early disease detection, in other words, the discovery of diseases or disease predictors at an earlier stage than what is possible with existing medical technologies, and ultimately earlier diagnosis and treatment. Moreover, such technology would eliminate exposure to radiation during examinations, reducing the physical impact on patients and enabling small clinics to more easily make diagnoses. The very early detection of diseases would not only dramatically enhance the likelihood of complete recovery, but also lessen the impact on the lives of family members and other people in the patients' lives.

We have partnered with Kyoto University and other universities around the world having state-of-the-art medical technology and knowledge to pursue medical imaging research and development. Bringing together all of our experience and knowledge, we are determinedly moving toward practical applications for this technology.

Advancing Cross-Media Imaging and Establishing Next-Generation Business Domains

Producing impressive photographs through cross-media imaging between digital cameras and large-format printers

Sound Growth

Produce, use, and recycle—
pursuing enhanced environmental efficiency throughout
the entire product lifecycle to reduce CO_2 emissions

Maximizing Resource Efficiency and Setting Factor 2 as the Overriding Indicator

To help build a sustainable society, Canon implements environmentally conscious management with a view to maximizing resource efficiency. This involves raising environmental efficiency (value divided by environmental burden) throughout the entire product lifecycle while increasing the quality of our products and services. In other words, we strive to derive maximum value from minimum resources.

In 2003, we set forth the overriding indicator Factor 2 in our Vision for 2010 to put resource efficiency maximization into more concrete practice. The Group's emission volumes are compiled for Canon lifecycle 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). By 2010, we aim to double this basic unit, compared with the 2000 level, resulting in a factor of two.

We approach this challenge from the three perspectives of produce, use, and recycle, moving forward with our environmental assurance activities by setting targets specific to individual products operations and operational sites.

2007 Factor

In 2007, we consistently strove to reduce the environmental burden throughout the entire product lifecycle, focusing on efforts to introduce energy-saving equipment at operational sites and to make products more energy-efficient, smaller, and lighter. We succeeded in raising our level of performance from a factor of 1.38 in the previous year to a factor of 1.57 as a result of reductions in environmental burden during customer usage and transportation to sales outlets.

Material Balance in the Product Lifecycle

The Canon product lifecycle is made up of four principal stages: 1) the manufacture of raw materials and parts by suppliers, 2) Canon's operational site activities (development, production, and sales), 3) transportation to sales outlets and other locations (logistics), and 4) customer usage.

For 2007, the material balance of our environmental burden was as shown at right.

Reducing CO_2 Emissions throughout the Entire Product Lifecycle
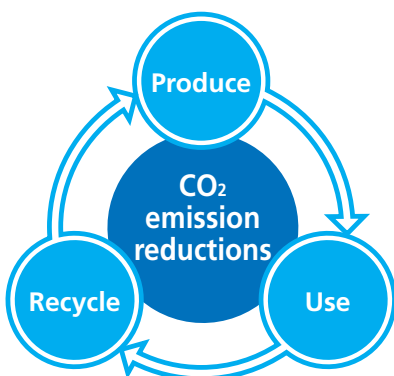
Environmental Burden, Factor 2 Targets and Achievements
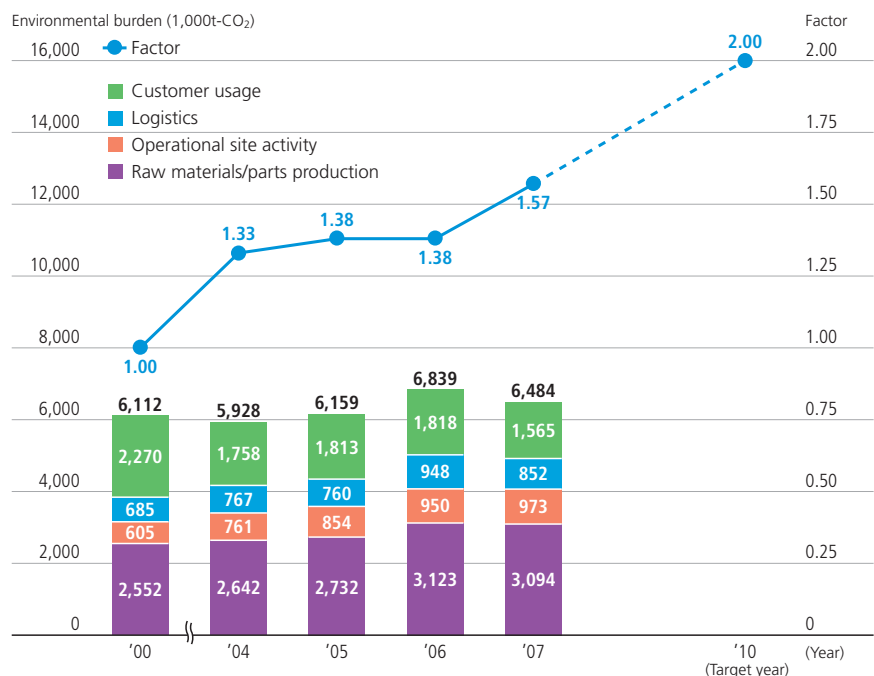
2007 Material Balance CO₂ Emissions

INPUT

Energy Resources
(crude oil equivalent)
············1,268,904kL
Steel/Nonferrous Metals
··················314,000t
Plastic············ 308,000t
Electronic Parts···· 8,000t
Glass················ 9,000t
Paper············ 262,000t

Electricity
·········1,818,772MWh
Gas············ 47,983km³
Kerosene/Heavy Oil
·················22,402kL
Steam···········94,211GJ
Water Resources
··········9,020,000m³
Indirect Materials
(chemical substances)
··················16,778t

Shipping Fuel
(crude oil equivalent)
··················295,547kL

Electricity
·········4,139,331MWh

Recycling

Manufacture of raw materials and parts by suppliers

Operational site activities (development, production, sales)

Transportation to sales and other outlets

Total weight of products shipped 770,000 tons

Customer usage

	2000	2007				
Lifecycle CO₂ Emissions	6,112 (1,000t-CO₂)	6,484 (1,000t-CO₂)	CO₂··3,094 (1,000t-CO₂)	CO₂·····973 (1,000t-CO₂)	CO₂·····852 (1,000t-CO₂)	CO₂··1,565 (1,000t-CO₂)

SOx······················· 2t
NOx·······················95t
Wastewater
············6,510,000m³
BOD····················· 6.1t
COD····················· 7.7t
All Nitrogen············8.1t
All Phosphates········ 0.8t
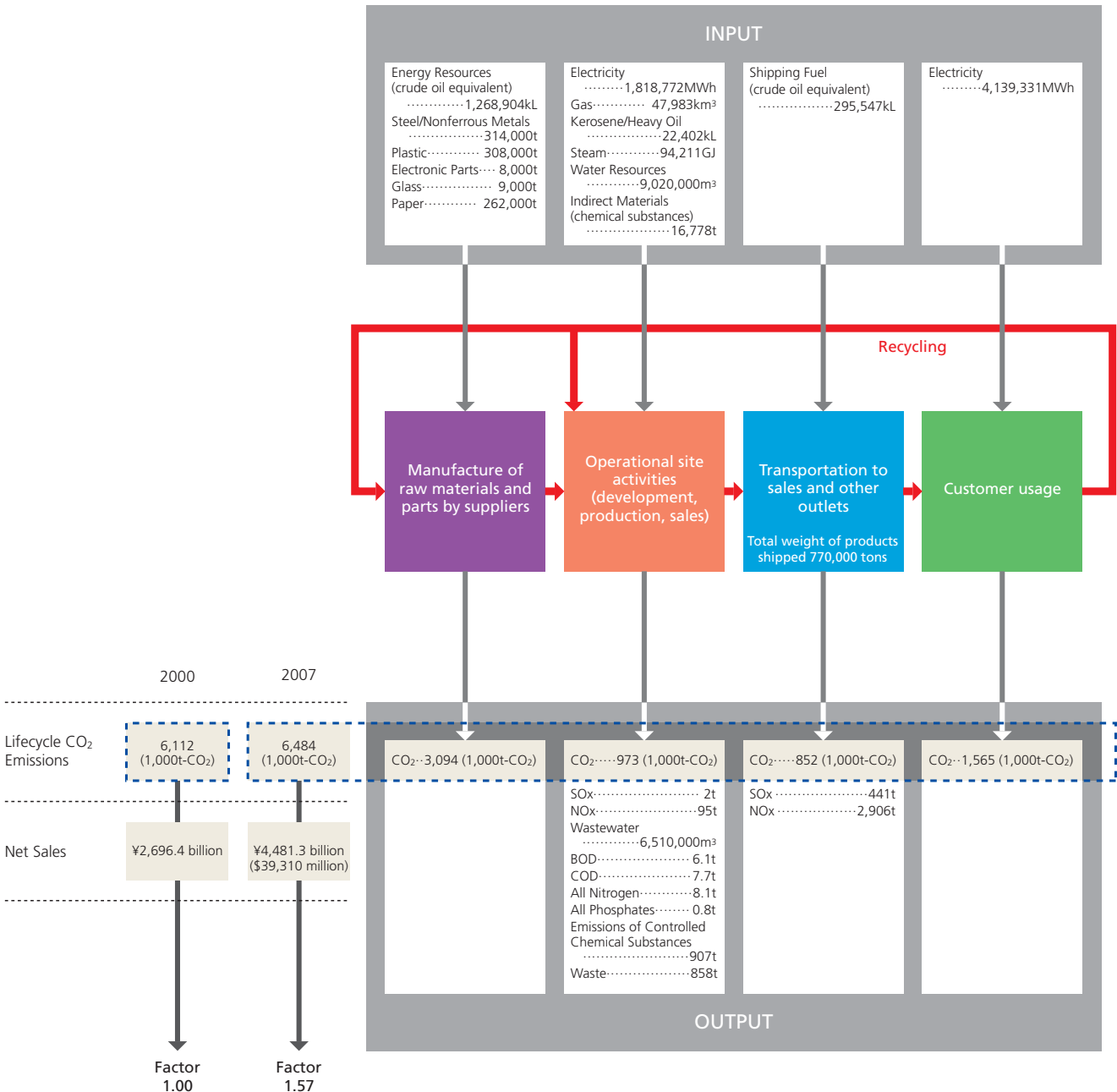Emissions of Controlled
Chemical Substances
························907t
Waste·················858t

SOx ····················441t
NOx ·················2,906t

	2000	2007
Net Sales	¥2,696.4 billion	¥4,481.3 billion ($39,310 million)

OUTPUT

Factor
1.00

Factor
1.57

Basic Approach to CO₂ Calculations

Among the greenhouse gases designated under the Kyoto Protocol, we compile data for CO₂, an energy-derived greenhouse gas. Although the baseline year is 2000, past data may be revised, including for the baseline year, due to improvements in the precision of data calculations. Also, data on the environmental burden associated with logistics outside Japan for 2000 were estimated based on shipping weights.

We use different CO₂ conversion coefficients for each region and year. In Japan, coefficients are supplied by the Ministry of the Environment and the Federation of Electric Power Companies. Coefficients outside Japan are provided on a region-by-region basis by the International Energy Agency. (The activities of all the operational sites listed on page 61 are included in the calculations, except for marketing subsidiaries.) With regard to customer usage, CO₂ emissions are calculated from the amount of power consumed by products shipped in a given year over their average lifespan, using coefficients stipulated by the Ministry of the Environment in Japan in 2000. Other CO₂ coefficients are provided by the JEMAI-LCA lifecycle assessment software from the Japan Environmental Management Association for Industry.

Corporate Governance Compliance

Promoting Efficient and Highly Transparent Business Activities Backed by High Ethical Standards

Canon recognizes corporate governance and compliance as major premises for becoming a truly excellent global corporation. Corporate scandals, violations of laws and ordinances, and problems with product quality diminish trust in the brand and can cause inconvenience and confusion for our customers and the market.

To ensure that Canon remains an excellent global corporation, the company introduced an internal control system from early on as a means to strengthen its corporate governance. We are also carrying out various compliance activities to prevent frauds.

Global Legal Affairs Seminars to Enhance Understanding of Legal and Regulatory Frameworks

Explaining Legal Guidelines and Regulations

In 2007 Canon began holding in-house seminars on global legal issues and regulations. At these sessions, we explain to relevant personnel at Group companies in detail the key points and specific means for implementing the contents of the guidelines and guidebooks on legal regulations published by the Global Legal Affairs Committee (see page 32).

Along with raising interest in legal affairs, these seminars, through their direct communication approach, including opportunities for Q&A, promote deeper understanding and increased awareness of compliance with major legal and regulatory frameworks around the world.

Global legal affairs seminar held in 2007

Organizing Compliance Training for Managers and Newly Hired Engineers

Raising Awareness

Canon has been conducting rank-based training for a number of years in order to raise awareness about compliance. In 2007 we began carrying out training for senior managers or higher and providing engineering ethics education for newly hired engineers assigned to specific divisions.

The training for managers reconfirms their grasp of compliance issues and the conduct expected of them while also promoting shared understanding and values.

Compliance training for managers in 2008

Ethics coursework for engineers promotes awareness of attitudes required for an engineer and the importance of the engineer's role.

Successful compliance requires a high degree of awareness among individual employees in the course of their work. We will continue to conduct various types of education and training for employees.

Introducing an Executive Officer System to Follow Business Expansion

Fostering More Flexible and Efficient Business Operations

Business diversification and globalization are two basic strategies for the Canon Group. Toward these ends, we intend to accelerate optimal decision-making processes in order to carry out efficient business operations.

Canon Inc. introduced an Executive Officer System in April 2008. Based on our belief that the most appropriate managerial decisions are made when decision makers know their workplaces intimately, members of our Board of Directors are directly in charge of operations for particular products operations or business areas, thus contributing to more effective, thorough information sharing at board meetings as well as quick and accurate decision-making.

With the newly launched Executive Officer System, we intend to keep the current managerial system at a suitable size while assigning the execution of business affairs to executive officers selected for their depth of business knowledge. The purpose of this is to promote a managerial structure through which we can respond properly to future business expansion and globalization by strengthening executive functions. While the number of executive officers currently stands at eight, we intend to gradually increase this number in the future.

Contributing to Society and the Environment through our Technological Strengths

Since its founding, Canon has contributed to society with ground-breaking, innovative technology. Our history is bright with technological accomplishments. We have emphasized research and development, focusing on our proprietary technologies in every era. By constantly providing society with truly innovative products, we are creating new value and enhancing the level of convenience in society.

Technological development enables us to reduce environmental burden and strengthen security management while increasing product usability and accessibility. Even as we help our customers fulfill their own social responsibilities, we would like to continue in their favor as their partner of choice.

Technological Innovation

Pursuing Sustainability

Making Printing Accessible through POD Technology Innovation

The imagePRESS C7000VP receives the Masuda Award, the highest award of the 50th Nikkan Kogyo Shimbun's 2007 Best Ten New Products Prize

Entering the Expanding Digital Commercial Print Market

The digital commercial print sector is currently capturing attention within the printing industry. This method, also known as Print on Demand (POD), involves the direct transmission of digital data to a printer, eliminating the need for the printing plates used in conventional offset printing. It is therefore well suited for a range of short-run, variable data jobs, such as booklets and brochures. Demand has been growing for such high-speed digital systems, which improve work efficiency through time and cost savings due to the elimination of the plate-making process.

Meeting Rigorous Requirements through Uncompromising Product Development

The digital press has become the business lifeline for manufacturers in the commercial print market. As the printed materials themselves are the product to be sold, these materials must meet the rigorous demands of industry professionals for image quality and production in high volumes.

Canon methodically prepared for its full-fledged entry into the digital commercial print market, seeking to design an ideal product. While the resulting product offers technical specifications far exceeding those of conventional digital MFPs, the path from the development stage through to production was fraught with numerous technical difficulties. Our development and production divisions, however, worked in unison to tackle the challenge head-on, pursuing uncompromising technology and quality to create and commercialize a revolutionary product, the Canon imagePRESS C7000VP.

POD Technological Innovations Unlock the Potential of Printing

Incorporating a range of Canon's state-of-the-art technologies, the imagePRESS C7000VP handles 800 types of paper stock, including thick and coated paper, with a high print speed of 70 sheets per minute regardless of paper type. Furthermore, the C7000VP prevents uneven gloss during printout, a weak point in the electro-photographic printing process. Newly developed toner produces smooth images with reduced graininess, achieving a level of image quality rivaling that of offset printing.

POD is increasingly employed for self-publishing and the creation of photo albums in the consumer market. High-quality print on demand is now easily available to everyone. Canon will continue cultivating original technologies as a means of contributing to the realization of a more prosperous world.

The imagePRESS C7000VP digital production printing press

*The printout in the photo was designed by Europa Quality & Style Inc. N.Y.

Technological Innovation

Improving Color MFPs to Offer Superior Usability and Energy Efficiency in Standby Mode
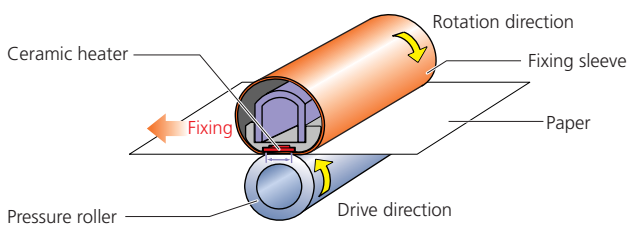
Canon develops people- and environmentally-friendly products at all the produce, use, and recycle stages in the product lifecycle.

In the iR C3580/iR C3580i color MFP, we use proprietary on-demand fixing technology[1], resulting in a warm-up time of only 30 seconds[2] and recovery from sleep mode in 15 seconds. Compared to our conventional models using roller-fixing methods, power consumption in standard use[3] has been cut by approximately 75%. Even with such dramatically improved energy efficiency in color copying machines and MFPs, users still enjoy speeds of 30 ppm for color and 35 ppm for black-and-white printing.

Through a large color LCD touch-panel we provide superior visibility and operability. This ease of use is complemented by voice operation and voice guidance, which bring accessibility for a greater number of users. With our ADF access handle assisting wheelchair-bound users in opening and closing the auto document feeder, our products feature superior usability for every kind of user.

The iR C3580/iR C3580i boasts various functions to make the flow of office information more secure: the deletion or encryption of copied or printed data saved in hard discs, security screen pattern technology to deter unauthorized copying of important documents, a user authorization management system, and encrypted PDF creation.

Voice guidance option for users with difficulty in seeing the operating screen

On-Demand Fixing Technology

Ceramic heater

Rotation direction

Fixing sleeve

Fixing

Paper

Pressure roller

Drive direction

The iR C3580/iR C3580i color MFP

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*1 On-demand fixing technology
   A proprietary fixing technology in which a ceramic heater directly heats a thin fixing sleeve, allowing instantaneous heat transfer to the fixing point.
*2 For the iR C3580 (38 seconds for the iR C3580i)
*3 Calculated using the criteria for the Typical Electricity Consumption (TEC) approach stipulated by the International Energy Star® Program for typical weekly energy consumption (five days of alternating between Active and Sleep or Off modes and two days in only Sleep or Off modes.)

# Dramatic Power Savings with On-Demand Operation Technology

With on-demand operation technology and energy-efficient technologies for standby and power off modes, Canon has dramatically reduced power consumption in its MP610 inkjet all-in-one, achieving an approximately 86% reduction compared to our conventional MP760 model. A compact design has made the MP610 around 46% smaller and 19% lighter. We reuse recycled plastic from products to manufacture power supply casings. In recognition of these achievements, we received the Chairman's Prize from the Clean Japan Center in the category of 3R (Reduce, Reuse and Recycle)-Oriented, Sustainable Technology.

The printer's "Quick Start" allows the operating keys to be used only four seconds after the power is switched on, and its "Easy-scroll Wheel" increases user comfort when selecting operations, demonstrating our concern for enhancing usability.

The MP610 inkjet all-in-one

Overall Power Consumption Comparison*

314.6kWh

Approximately 86% reduction

43.8kWh

Previous model (MP760) MP610
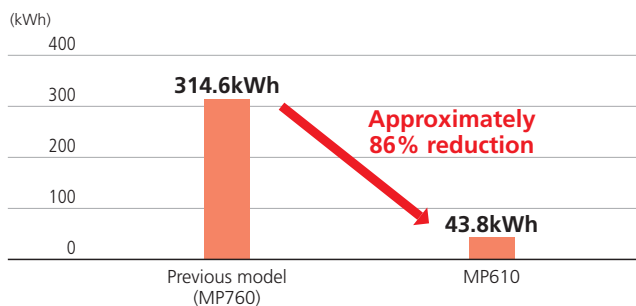
*Calculation of power consumption

Assumed daily usage: Power is assumed to be off for 16 hours. Of the remaining eight hours, operation time is taken as the time needed for "operation" taken continuously, with the remaining time calculated as standby mode.

Power consumption during "operation": Daily operation using the printing function only, with five sheets of color and five sheets of black-and-white output printed out in succession.

Total power consumption: Daily power consumption × days of use per year (240 days = 20 days × 12 months) × number of years of use (5 years).

Reducing Power Consumption Further and Realizing Smaller and Lighter Camera Bodies

The Canon digital single lens reflex (D-SLR) camera EOS Rebel XSi/EOS 450D has contributed to energy conservation and resource saving by achieving approximately 20% less power consumption and a 7% lighter body than its predecessor, the EOS Rebel Xti/EOS 400D. It has the lightest camera body in the EOS series. Boasting an advanced DIGIC III imaging processor, the EOS Rebel XSi/EOS 450D produces high-quality images without sacrificing speed. It comes equipped with a 3-inch large-screen LCD monitor as well as top-of-the-line functions such as Live View shooting at a quality level normally found in professional-level cameras.

Canon conducts objective product evaluations based on its internal guidelines that are stricter than those stipulated under Section 508 of the U.S. Rehabilitation Act. Giving careful attention to ease of use from the design stage, Canon is working to launch cameras that anyone can use without any difficulties.

The EOS Rebel XSi/EOS 450D D-SLR camera

Other Environmentally-Conscious Aspects of Products
Use: Environmentally Conscious Products (see pages 55–58)

Cultivating Truly Autonomous Individuals to Ensure Sustainable Corporate Growth

Canon's corporate culture places great importance on its employees and treating individuals with respect. Our corporate identity has been shaped by the principle of the "Three Selfs" spirit and respect for human dignity, which includes ambition, responsibility, and mission, values that have remained unchanged since the company's founding.

Truly autonomous individuals and a strong organization are what sustain Canon's innovation. We focus on cultivating "excellent employees," guaranteeing fair and impartial evaluations based on merit so that each employee is highly motivated to do his or her best.

Proactively taking the initiative

Self-motivation

Three Selfs

Self-awareness **Self-management**

Knowing one's position, roles, and circumstances

Conducting oneself responsibly and with accountability

Developing Diverse Human Resources

Developing Leaders to Ensure Innovation

As an important strategy of Phase III of the Excellent Global Corporation Plan, Canon fosters truly autonomous individuals to promote corporate innovation. In May 2006, we established the Canon Global Management Institute (CGMI) as a training facility to nurture future Group executives.

The facility provides rank-based training in a collaborative environment to help selected personnel grasp the managerial theories requisite for Group executives, with participants motivating each other to hone their skills and expand their awareness of the roles of an executive.

Passing on Canon's DNA at its Birthplace

Training programs provide systematic education in corporate strategy, accounting, and other types of managerial theory. Canon Inc. executives lecture top-track managers on such topics as the nuances of cash-flow consolidated management and the experiences and preparations required of a Group executive.

The CGMI has been designed for smooth and efficient training sessions, with classrooms, discussion rooms, and simultaneous interpreting booths, among other features. This dedicated training provides a forum for Group executives from around the globe to expand their network of colleagues and exchange ideas openly.

This institute is located in the Nakane area of Meguro in Tokyo, the birthplace of Canon. It was here that Canon's forerunner, Precision Optical Industry Co., Ltd., started its operations. We are passing on to our next-generation executives the core corporate principles of respecting human dignity, emphasizing technology, and encouraging an enterprising spirit, thereby cultivating these future executives into world-class leaders.

The Canon Global Management Institute in Meguro, Tokyo

Other Human Resource Activities
Relations with Employees (see pages 71–74)

Nurturing Tomorrow's Business Leaders at the Canon Global Management Institute

The Canon Corporate Executive Development Program (CCEDP), aimed at developing global leaders

Being a Corporation Admired and Respected the World Over

Canon seeks to be a corporation that is admired and respected the world over. This desire inspires us to embrace social and cultural activities underpinned by our philosophy of *kyosei*.

In every region in which we operate, we fulfill all tax obligations and other social responsibilities, earmarking a portion of business profits for addressing local needs or global concerns.

We build relationships of trust with various stakeholders, accurately assessing the needs and issues of communities in order to promote social contributions from a medium- to long-term perspective.

Humanitarian Aid and Disaster Relief

Environmental Conservation

Local Communities

Canon's Main Social and Cultural Support Activities

Social Welfare

Education and Science

Art, Culture and Sports

Social and Cultural Contributions

Pursuing Sustainability

Classes in international humanitarian law at the University of Paris in France

Partnering with the Red Cross to Support and Educate Youth, the Leaders of Tomorrow

Canon Partnerships Giving Rise to New Social Contribution Initiatives

Canon is forming partnerships around the world with organizations that share the same approach to social contribution activities, to provide economic support and volunteer assistance grounded in local communities.

In July 2006, Canon Europe Ltd. formalized its partnership with the Red Cross, the world's largest humanitarian organization. Canon is providing support for programs conducted by 13 Red Cross National Societies across Europe, with a particular focus on Red Cross youth projects that support and educate young people.

Fostering Instructors to Promote International Humanitarian Law

The French Red Cross is carrying out a project to introduce teenagers to the basic rules of International Humanitarian Law (IHL) on the protection of victims of war and related issues.

The project uses role-playing to help young people understand rules put in place to minimize the number of war victims. Participants take on the roles of various persons found within a conflict, such as aid workers and prisoners of war, raising their awareness of issues faced during wartime in a very tangible way.

Canon Europe supports the French Red Cross to train instructors and facilitators to more effectively run these projects.

The Belgian Red Cross cultivates understanding of emergency measures through Youth Challenges and Children's Camps

The Spanish Red Cross educates youth about HIV through the World AIDS Day Campaign

Other Activities to Contribute to Society and Culture
Relations with the Local and Global Community (see pages 75–76)

Social and Cultural Contributions

Life-size printing of original works using the imagePROGRAF large-format printer (Printed by Nakanuma Art Screen Co., Ltd.)

Combining Canon Proprietary Technologies with Traditional Artisan Skills to Create High-Resolution Duplicates

Original Canon technologies are being combined with traditional skills of Kyoto artisans to reproduce high-quality replicas of Japan's treasured cultural assets. The beauty of these reproductions is truly overwhelming.

Canon and the Kyoto International Culture Foundation, an organization with many years of experience in preserving cultural assets through digital archiving, have launched a three-year Cultural Heritage Inheritance Project called the TSUZURI Project. The Foundation has been trying to achieve near-perfect duplicates of original works, and the sophisticated technological capabilities of Canon's large-format printers provide just what the foundation is looking for.

First, high-resolution digital data from various priceless Japanese cultural assets, such as decorative folding screens, sliding doors, and other centuries-old national treasures and important cultural properties, is created using Canon digital SLR cameras. Then the data is printed out using Canon's large-format printers. The images undergo repeated color calibration and adjustments and are finally decorated with gold leaf and other mountings using techniques handed down by artisans in Kyoto across generations. The completed works are comparable to the originals in their reproduction of delicate color gradations and three-dimensional effects.

TSUZURI Project: Using Digital Technologies to Pass Down Priceless Cultural Assets to Future Generations

Reproduction of *Rakuchu Rakugai-zu Byobu* (Landscape around Kyoto) *Uesugi-bon* (a heirloom of the Uesugi clan) by Kano Eitoku through the TSUZURI Project (Original owned by Yonezawa City Uesugi Museum)

Kinkishoga-zu (Chinese Chess and Chinese Harp), attributed to painter Kano Takanobu, originally appearing on a sliding door in the monastery of Ryoan-ji Temple in Kyoto, returns home thanks to the TSUZURI Project

Preserving Cultural Assets and Presenting Them to the Public

For this project, we are planning to create 15 or more carefully chosen works by 2010, taking into account cultural importance and rarity. We intend to donate the finished works to not only the original owners, but also the shrines and temples closely associated with the works' heritage or museums, to be used in education or cultural appreciation. This project enables the original artworks to be stored in a controlled environment to prevent deterioration that occurs through exposure to light and ambient air, making it possible to share them with generations to come.

Another aim of the TSUZURI Project has been to make these reproductions available for public display, giving as many people as possible the opportunity to appreciate Japan's historical culture and art while deepening their familiarity with Japanese culture.

Canon's focus on beauty in the TSUZURI Project has spawned a new kind of social contribution that supports the preservation of cultural assets for future generations. Canon will continue to utilize its exclusive imaging technologies to foster social and cultural development.

Application of gold leaf by lacquer artisan Hiroto Rakusho

Social and Cultural Contributions

Students enjoy classes in their new schoolhouse

Supporting Construction of Schools for Children, the Future of the World

The Vietnamese have a saying that "children are the future of the world." In some regions of the country, however, it is a challenge to provide enough schools and classrooms for the children.

Canon Vietnam Co., Ltd. hopes to contribute to the society of this country in which it has been doing business since 2001. Canon Vietnam launched the Canon Friendship School Chain Project in July 2007 to support the construction of schools in Vietnam, so that all children can receive a sufficient education. The company will provide aid to the 12 provinces in northern Vietnam to construct, enlarge, and renovate school buildings in at least three provinces every year until 2010.

Project's First Schoolhouse Completed

In October 2007, the schoolhouse for the Canon-Bet Tray Elementary School in the village of Cam Thach in Than Hoa Province was completed. This schoolhouse was the first to be constructed under the auspices of the project. New schools were also built in the villages of Hien Luong and Cao Son in Hoa Binh Province in December 2007.

Looking at the brand-new school building, one of the students remarked, "I want to study hard so that I can build a schoolhouse as beautiful as this someday." Striving to make *kyosei* a reality, Canon is pleased to provide learning spaces for these children, who represent the hopes of the next generation.

Enhancing the Learning Environment in Vietnam through the Canon Friendship School Chain Project

Students at the newly completed Canon-Bet Tray Elementary School

Management Systems

Corporate Governance

● **Began holding global legal affairs seminars for employees to enhance understanding of legal and regulatory frameworks**

Governance Structure

Canon has strengthened its corporate governance by adopting an independent internal auditing structure in addition to the establishment of a General Meeting of Shareholders, a Board of Directors, and a Board of Corporate Auditors in accordance with the Company Law of Japan.

● Board of Directors

Canon Inc.'s Board of Directors comprises 25 members, all of them inside directors. All directors participate in monthly meetings of the Board of Directors and also attend meetings of the Executive Committee.

Various special cross-divisional management committees, established to address important themes, take responsibility for supporting and checking products operations.

Auditing

● Board of Corporate Auditors

The Board of Corporate Auditors of Canon Inc. is made up of five corporate auditors, three of whom are external auditors with no personal, capital, or business affiliations with Canon or other interests of any kind in the Canon Group. The corporate auditors conduct strict audits, which 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.

With the aim of ensuring the independence of accounting firms, Canon Inc. is introducing a pre-approval system for the content of external audit contracts and the amounts involved. To this end, the company is setting policies and procedures for pre-approval of both auditing and non-auditing services.

● External Auditing

Accounting firms audit our accounting statements based on the Company Law of Japan, our financial statements based on the Financial Instruments and Exchange Law of Japan, and our internal control based on the Sarbanes-Oxley Act*1 of the U.S. Through these audits, Canon's systems have been verified as sound.

● Internal Auditing

The Corporate Audit Center is responsible for internal auditing. It monitors risk management and internal control systems (including internal control over financial reporting to comply with the Sarbanes-Oxley Act), provides evaluations, and makes recommendations. The Corporate Audit Center also works closely together with various administrative divisions to monitor product quality, environmental conservation, security, and other areas.

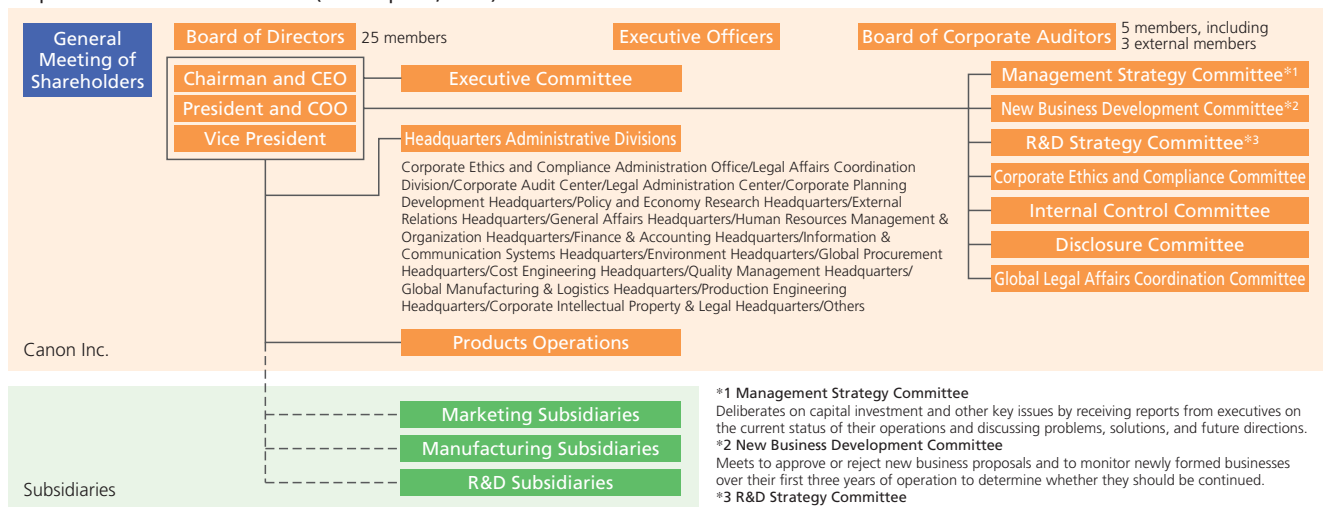**Divisions Responsible for Internal Audits**

Corporate Audit Center	Auditing of management functions, operations, accounting, internal control over financial reporting to comply with the Sarbanes-Oxley Act, and compliance (focusing on compliance with laws, internal regulations, social customs and morals), etc.
Quality Management Headquarters	Quality assurance
Environment Headquarters	Environmentally conscious management and performance 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

Glossary

*1 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.

Corporate Governance Structure (As of April 1, 2008)

General Meeting of Shareholders

Board of Directors — 25 members

Executive Officers

Board of Corporate Auditors — 5 members, including 3 external members

Chairman and CEO
President and COO
Vice President

Executive Committee

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

Management Strategy Committee*1
New Business Development Committee*2
R&D Strategy Committee*3
Corporate Ethics and Compliance Committee
Internal Control Committee
Disclosure Committee
Global Legal Affairs Coordination Committee

Canon Inc.

Products Operations

Subsidiaries
Marketing Subsidiaries
Manufacturing Subsidiaries
R&D Subsidiaries

*1 Management Strategy Committee
Deliberates on capital investment and other key issues by receiving reports from executives on the current status of their operations and discussing problems, solutions, and future directions.
*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 R&D Strategy Committee
Deliberates and decides on technology strategies and important matters for Headquarters R&D with representatives from products operations and Headquarters R&D divisions.

Activities of Specialized Committees

●Corporate Ethics and Compliance Committee

The Corporate Ethics and Compliance Committee is a body of executives and representatives from each headquarters and from all products operations, operating under the chairmanship of the President and COO of Canon Inc. The committee meets four times a year to discuss and approve compliance and corporate ethics policies and measures. In light of the nature of the committee, a corporate auditor attends the meetings as an observer. Once a year, the committee invites the presidents of Canon's regional headquarters worldwide as well as Group companies in Japan to attend an expanded committee meeting.

The expanded committee meeting in 2007 featured a lecture by Shigeru Nakajima, a distinguished lawyer in the area of compliance and corporate risk management. This contributed to further increasing the awareness of top management.

Expanded Corporate Ethics and Compliance Committee

●Internal Control Committee

The Internal Control Committee oversees the internal control structures and activities for the Group. All executives of Canon Inc. as well as the presidents of all Group companies serve on the committee under the chairmanship of the President and COO of Canon Inc.

As in 2006, Canon concluded that in 2007 the Group's internal control over financial reporting under Section 404 was effective. This confirmation is required for the internal control audit under the Sarbanes-Oxley Act of 2002, which applies to SEC-registered companies in the U.S.

The committee will in the future also work to raise its activity levels further with a view to establishing a more efficient operational flow.

●Disclosure Committee

The Disclosure Committee is responsible for making decisions regarding the necessity of disclosures, their content, and their timing. It works toward the swift, accurate, and comprehensive disclosure of important company information, in accordance with related laws and regulations and financial instruments exchange rules. Personnel in charge of the information disclosure working group in each division headquarters report to this committee information that requires timely disclosure.

●Global Legal Affairs Coordination Committee

In order to ensure compliance with laws and regulations around the world, the Global Legal Affairs Coordination Committee is organized into cross-organizational working groups. Each group investigates and analyzes issues related to the group's core theme. They publish guidelines and guidebooks on new legislative directions (IT, the environment, and China) to raise the level of company-wide awareness of legal issues facing the Group.

The committee convenes annual meetings of presidents from Group companies worldwide to exchange information and foster their activities.

In 2007, the committee published eight kinds of guidelines covering such topics as EU REACH legislation and open-source software, which were used in global legal affairs seminars (see page 18) to educate Canon employees.

Principal Working Themes of the Global Legal Affairs Coordination Committee

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

Formulating a Business Continuity Plan

Canon is upgrading the earthquake resistance of older buildings, concluding disaster prevention agreements with local communities, and phasing in a structure through which information can be gathered and reported. Given the key role of our Shimomaruko Headquarters in Tokyo as the company's global headquarters, we have reconstructed all of the buildings on site, set up backup generators, stockpiled facilities, fuel, equipment, and supplies, and established a multiplex communication system. We have further added a disaster recovery center to back up information systems so that the mainframe system can operate securely even in the event of a disaster.

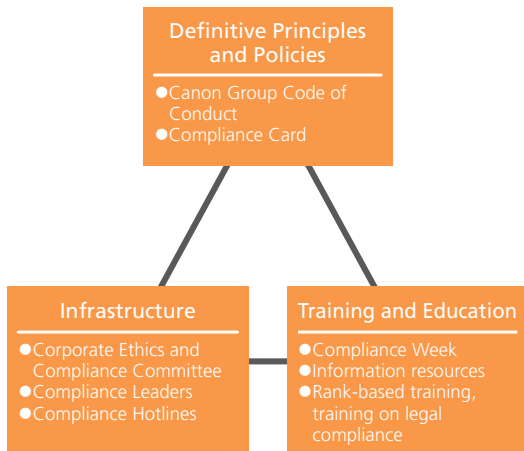

Canon Inc. Shimomaruko Headquarters

Compliance

●**Canon began ethical education program for newly hired engineers (see page 18).**

A Shared Understanding of Compliance

Compliance activities form the critical foundation for Canon to become a truly excellent global corporation.

Canon Inc. ensures that all company executives and employees share common values with regard to legal compliance and corporate ethics and maintain appropriate business activities through its three pillars of action (see chart below). Canon Group companies in Japan undertake similar activities, while Group companies outside Japan carry out compliance-related activities in accordance with local laws and customs.

Overview of Compliance Promotion Activities

Definitive Principles and Policies
●Canon Group Code of Conduct
●Compliance Card

Infrastructure
●Corporate Ethics and Compliance Committee
●Compliance Leaders
●Compliance Hotlines

Training and Education
●Compliance Week
●Information resources
●Rank-based training, training on legal compliance

Canon distributes Compliance Cards to its employees around the world

●**Canon Group Code of Conduct**

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

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

Canon Inc. and its Group companies distribute a booklet of case studies, entitled *Practice! A Corporate Ethic Reader*, to all Canon employees in Japan. This booklet uses familiar examples to deepen understanding of compliance and corporate ethics.

The *Canon Group Code of Conduct*

Overview of Canon Group Code of Conduct

Management Stance

Contribution to Society
•Provision of excellent products •Protection of consumers
•Preservation of the global environment
•Social and cultural contributions •Communication

Fair Business Activities
•Practice of fair competition •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

Promoting Employee Awareness

●Compliance Week

Canon Inc. and its Group companies in Japan hold a Compliance Week twice annually—once in each half of the fiscal calendar—providing employees the opportunity to contemplate the meaning of compliance and corporate ethics and reflect on how it affects them personally. Every year during Compliance Week, over 40,000 employees take part in workplace meetings to discuss issues related to corporate ethics.

In 2007, employees confirmed that their actions were appropriate for their workplaces and areas of responsibility, examining product quality and compliance with rules and standardized practices. Opinions received from different divisions are analyzed and provided to employees as feedback, leading to further improvements.

Procedure during Compliance Week

```
                    ┌─────────────────────┐
                    │     Workplace       │◄──────┐
                    │    discussions      │       │
                    └─────────────────────┘       │
                    ┌─────────────────────┐       │
                    │  Reports prepared   │       │
                    │    by managers      │       │
                    └─────────────────────┘       │
┌──────────────┐    ┌─────────────────────┐       │
│   Division   │    │ Submission of reports│  Feedback
│ headquarters │    │  to division heads  │       │
└──────┬───────┘    └─────────────────────┘       │
       │            ┌─────────────────────┐       │
       └───────────►│ Corporate Ethics and│       │
                    │Compliance Administration Office│
                    └─────────────────────┘       │
                    ┌─────────────────────┐       │
                    │ Corporate Ethics and│───────┘
                    │ Compliance Committee│
                    └─────────────────────┘
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●Rank-Based Training

Each January and July, Canon Inc. provides newly appointed managers with compliance training that enables them to approach their work with a strong awareness of key issues. Various resource materials, such as videos, are used to instruct recently graduated and mid-career new, thus teaching them about Canon's strict approach to compliance and the importance of abiding by the law.

Compliance training for newly hired employees

●Canon Compliance Card

Canon distributes Compliance Cards to all executives and employees of the Canon Group worldwide to reinforce the importance of demonstrating a high standard of personal conduct and a strict sense of compliance. The card, which is produced in 17 languages, contains a definition of the "*San-ji*" spirit on one side and a compliance test on the other.

Canon Inc. also works to ensure that employee actions are in observance of all applicable laws and regulations through monthly computer-based compliance tests in the workplace.

Compliance Card

Canon's Compliance Hotline and Monitoring

Canon Inc. maintains a Compliance Hotline and works to prevent illegal behavior. The Compliance Hotline guarantees strict confidentiality and ensures that a caller's career is not jeopardized in any way. Employees may also contact any director or corporate auditor by e-mail, not just the departments in charge of compliance. The company has set up hotlines at all Group companies in Japan and at major Group companies outside Japan.

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

Management Systems

Canon and the Environment

Canon and Stakeholders

Security

Approach to Security

Canon is implementing a comprehensive security management system to protect its companies and employees from increasingly diverse risks and maintain the trust of stakeholders and society. We have also established a crisis management system to ensure a swift and flexible response in the event that an incident does occur.

System of Security Rules

- Canon Group Code of Conduct
- Canon Code of Conduct—Information Security Rules
- Employment Rules
- Basic Regulations on Security Control
- Information Security Rules and Related Guidelines
- Canon Group Information Security Rules
- Rules for the Protection of Personal Information
- Trade Secret Management Guidelines
- Technology Outflow Prevention Guidelines

Supplementary rules

Strengthening Information Security

● Information Security Management Structure

In July 2007, Canon formulated a unified set of rules for all Group companies with the aim of having each company maintain or enhance information security to a high level. Ways to manage corporate assets and human resources as well as physical and environmental security are defined. Forty companies in Japan and 66 companies outside Japan are implementing information security measures based on a common policy.

● Ongoing Review of Information Security Measures

Canon has established an Information Security Committee to decide on company-wide information security measures. Within this committee, specialized divisions overseeing information security, human resources security, and physical security cooperate to enforce and manage security policies.

We improve and maintain policy effectiveness by applying a PDCA cycle. The cycle includes regular audits by the Corporate Audit Center and improvements generated through the coordination between specialized divisions and relevant workplaces.

● Preventing Information Leaks and Raising Employee Awareness

Canon has established a system to prevent information security incidents that it is currently expanding to its Group companies. For example, Canon employees can now access their own company's information from any Group company, eliminating the need to carry portable computers.

Beyond this, we published an information security handbook that uses familiar examples to reinforce to employees the importance of security.

Should an incident occur even at a Group company, Canon Inc. will immediately receive a report and promptly address the situation.

Information security handbook (in Japanese)

Protecting Personal Information

Canon recognizes personal information as an important form of information asset and does its utmost to protect it in order to fulfill its social responsibilities.

In 2007, we kept our employees informed and aware through e-learning-based education programs for all employees and personal information protection audits for all divisions. No cases of personal information loss or leakage occurred in 2007.

Education for personal information protection through an e-learning based program

Canon's Activities for Protecting Personal Information

Year	Activity
2002	Launched a project for protecting personal information Established personal information protection policy for Canon Inc.
2003	Canon Inc. acquired Privacy Mark certification
2006	Established a global personal information protection policy and action plans
2007	Canon Inc. renewed Privacy Mark certification (second renewal) Forty Group companies have acquired Privacy Mark certification

Trade Secret and Technology Outflow Prevention Management

As a company that carries out development, production, and sales activities around the world, Canon recognizes the importance of taking appropriate measures to protect and manage trade secrets and technological information and is making various efforts in this area.

● Trade Secret Management

In 2007 Canon Inc. drew up trade secret management rules in line with Group-wide guidelines in each of its division headquarters and now manages information as appropriate for each of its activities.

Group companies in Japan manage trade secrets under rules established in conjunction with Canon Inc. headquarters, while Group companies outside Japan have begun to implement similar measures.

Canon's Activities for Managing Trade Secrets

2004	Drew up Trade Secret Management Guidelines
2005	Created an intracompany trade secret management system
2007	Trade secret management rules drawn up by each division of Canon Inc. Group companies implemented rules in conjunction with Canon Inc. headquarters

● Technology Outflow Prevention Management

Canon recognizes technology as a critical asset and has been working since 2002 to prevent inappropriate technology outflow.

All products operations have drawn up management rules in line with Group-wide guidelines to ensure the prevention of technology outflow as appropriate for its operations.

We established a committee comprising key executives from Canon Inc. and the presidents of 11 manufacturing subsidiaries to strengthen management structures for the prevention of technology outflow in countries and regions where the protection of intellectual property rights is still insufficient. We have reinforced our confidential information management by preparing guidelines for manufacturing subsidiaries in China and other countries in Asia and auditing the state of implementation at each subsidiary.

Canon's Activities for Managing the Prevention of Technology Outflow

2004	Drew up Technology Outflow Prevention Management Guidelines
2005	Began training regarding confidential information management for employees being sent to manufacturing subsidiaries in China and other countries in Asia
2006	Prepared confidential information management guidelines for manufacturing subsidiaries in China and other countries in Asia
2007	Identified manufacturing subsidiaries where risk management structures needed strengthening. Manufacturing subsidiary presidents reported to the Headquarters committee on the results of their confidential information management efforts

Security gate at Shimomaruko Headquarters

Strengthening Physical Security

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

1) Establish and put into practice at operational sites an overall design from the viewpoint of disaster prevention, crime prevention, and health and safety to optimize entry and exit routes for everyone who enters.

2) Fully implement strict internal and external 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 certain areas to people who have been authorized by area managers and build mechanisms that enable the integrated management of room entry and exit logs.

Complying with Security Trade Control

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

Canon Inc. has established structures and rules to assure compliance with export control regulations. Specifically, related divisions and the export control administrative division double check whether goods and technologies are restricted by law and whether trading parties are engaged in the development of weapons of mass destruction. Canon Inc. also supports Group companies in the creation of administrative structures and management rules to match their type of business.

Canon Inc. will continue to ensure thorough security trade control management across the entire Canon Group. In 2008, the company plans to launch e-learning-based education programs and publish new guidelines and relevant guidebooks.

Web

● Physical Security Promotion System
● Integrated Entry and Exit Management System

Management Systems

Canon and the Environment

Canon and Stakeholders

Intellectual Property Activities

● **Canon won its lawsuit on patent infringement involving recycled ink cartridges.**

Approach to Intellectual Property Issues

Canon has actively engaged in technology research and development since its founding, achieving great success as an R&D-oriented company in creating new markets and new customer segments by developing products with proprietary technologies. This history underpins the company's belief that the results of R&D activities are products and intellectual property rights. At Canon, the purpose of intellectual property activities is to support business development. As such, we promote the various aspects of our business activities, including entry into new business areas, business diversification, and global expansion of production and marketing operations, with a focus on the effective utilization of intellectual property rights.

● Respecting Intellectual Property Rights

Canon has devised and implemented protective safeguards and policies to guard against counterfeit products and other forms of intellectual property infringement that pose a threat to its business. At the same time, we have established clear rules for product development and conduct searches on third-party rights from the R&D stage to ensure that the intellectual property rights of other companies are respected and that our products do not infringe on the rights held by others. By firmly instilling such approaches and rules in the company, we can enter into appropriate and smooth partnerships with other companies and outside research institutions for cross-licensing or joint research projects. This makes it possible for Canon to achieve greater results than what we could get using only our own patents.

● A Corporate Culture that Promotes Intellectual Property Activities

Canon proactively secures its own intellectual property rights while respecting those of others. We ask employees in R&D operations to draft patents (invention proposals) rather than reports and to read patent bulletins rather than research literature. Employees strive toward these goals as they pursue their day-to-day R&D activities.

To draft an invention proposal, a researcher must compare his or her own R&D activities with prior art technologies, understanding them objectively and summarizing them systematically. This leads to the acquisition of a patent (intellectual property) as one of the goals of the process. With regard to technological information, patent bulletins provide background on unresolved technical issues in relevant fields as well as viewpoints on potential solutions. They also give information on prior art technologies, competitors' activities in relevant fields, and trends. As for intellectual property rights information, these bulletins alert researchers to the existence of rights holders that need to be taken into consideration during business development.

The corporate culture at Canon consistently sets high development objectives while each and every researcher involved in R&D is keenly aware of the significance of intellectual property issues.

● Emphasizing Patents for Solution Services

The unique functions of individual machines and devices are important in modern society. However, rapid advances in networking have increased the value of solution services that interconnect machines and equipment.

Therefore, Canon goes beyond its former focus on the invention of machinery and devices, giving attention to the acquisition of intellectual property rights from a new point of view. For example, we pursue ideas and inventions generating client-based solutions and invent the machines and equipment necessary to bring those solutions into being.

Basic Policy on Intellectual Property Activities

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

Management System for Intellectual Property

In order to carry out its intellectual property-related activities under a unified strategy, Canon has built a centralized intellectual property rights management system under the direction of the Corporate Intellectual Property and Legal Headquarters at Canon Inc.
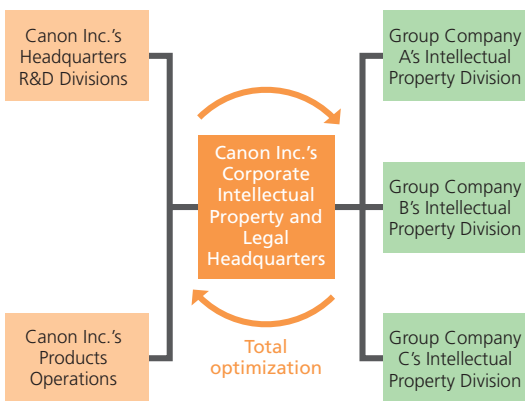
Specifically, the intellectual property rights of Canon Inc.'s R&D divisions, its other products operations, and Canon Group companies are managed from the perspective of optimizing the overall intellectual property portfolio. For example, when concluding a patent licensing agreement with another company (a third party), the Corporate Intellectual Property and Legal Headquarters gives approval only after considering overall coordination. This step ensures that the Group maintains an appropriate intellectual property portfolio. We review our portfolio regularly so that only necessary rights are being reserved.

●Management System of the Group

Global management rules have been established for Canon Group companies to clarify the roles and responsibilities of the intellectual property divisions at the respective Canon Group companies and Corporate Intellectual Property and Legal Headquarters as well as the process for formulating policies for intellectual property (IP)-related activities.

Moreover, twice a year we hold an IP Summit in order to facilitate information sharing throughout the Group. This is intended to serve as a forum to communicate information and perspectives on trends in society as well as intellectual property initiatives being undertaken by the respective Group companies. It also ensures that prompt action can be taken when an intellectual property-related issue arises. In recent years, staff members of the Corporate Intellectual Property and Legal Headquarters have been dispatched to Canon Group companies in order to further bolster global intellectual property activities and develop human resources.

Centralized Management System for Intellectual Property

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Canon Inc.'s                              Group Company
Headquarters                              A's Intellectual
R&D Divisions                             Property Division

                Canon Inc.'s
                Corporate                 Group Company
                Intellectual              B's Intellectual
                Property and              Property Division
                Legal
                Headquarters

Canon Inc.'s                              Group Company
Products              Total               C's Intellectual
Operations            optimization        Property Division
```

●Improving the Quality of Inventions

Canon engages in Patent Grade-up Activities, or PGA, to ensure close coordination between researchers and intellectual property staff. Development staff and intellectual property staff at each development site confirm whether the essence of an invention is firmly ascertained, whether the invention can be expressed with a higher-grade technological concept, and whether the specific, workable content of the invention has been disclosed. This process improves the quality of inventions from the idea stage.

When filing patent applications, we use our proprietary patent search system, P/Net II, to search for relevant prior art. In 2006, we incorporated an English-Japanese translation function into the system to allow

R&D at Canon U.S. Life Sciences, Inc.

efficient searches for U.S. patents as well. In addition, we employ Canon Technology Information Services Inc.—a Canon Group company specializing in technology search and translation services—to perform prior art searches.

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

●Initiatives against Counterfeits

Canon's stance against counterfeits has always been strict. They are impermissible because they not only damage the brand but may also endanger the customer.

Accordingly, we are actively involved in anti-counterfeit efforts based on our trademark rights. We are engaged at several levels in exposing factories that manufacture counterfeits and retail locations that sell them while pressing national customs bureaus to stop their importation.

With the spread in recent years of Internet-based retailing in which the authenticity of products is often not confirmed, there is an extremely high risk of counterfeit items entering the market. Our countermeasures involve monitoring counterfeits on the Internet and exposing counterfeiters.

Authenticity has not been a very prominent issue in Japan. A number of vendors, however, have been found to be selling counterfeit toner cartridges on the open market. In 2007, Canon sought to halt the counterfeiting by litigating against these vendors and taking other strict measures.

Patent Applications

As a company that has promoted the globalization of its business operations from early on in its history, Canon puts a greater emphasis on filing patent applications outside Japan than within. As a result, as of the end of 2007, Canon possessed approximately 80,000 patents and utility models globally, of which around 25,000 were for Japan, 25,000 for North America, 21,000 for Europe, and 9,000 for other regions.

When filing patent applications outside Japan, our teams develop detailed patent filing strategies based on the business strategies and the technology and product trends in each region where the patents are necessary.

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

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

■ Consolidated net sales
— Number of patents registered in the United States
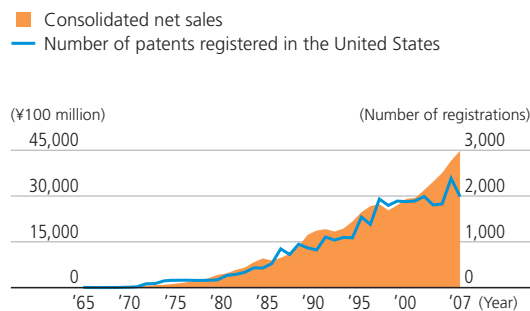
Contributing to Policymaking on Intellectual Property (Japan)

The Japanese government established the Intellectual Property Policy Headquarters*1 in 2003 under the Basic Law on Intellectual Property, with a mission of formulating an Intellectual Property Strategic Program to make Japan the world's leading intellectual property (IP) nation. Canon Inc. Chairman and CEO Fujio Mitarai served as a member of this body from 2003 through 2006. Nobuyoshi Tanaka, group executive in charge of the Corporate Intellectual Property and Legal Headquarters at Canon Inc., was until 2006 a member of the Task Force on the Intellectual Creation Cycle, a specialized committee of the Intellectual Property Strategy Headquarters launched in 2005. Additionally, he has been a member of the Task Force on Enhancement of Competitiveness through Intellectual Property since 2007.

Many executives of Canon Inc. serve as members of industrial bodies, including the Japanese Industrial Standards Committee of the Ministry of Economy, Trade and Industry, the Committee on Intellectual Property of Nippon Keidanren, the Japan Intellectual Property Association, the Japan Business Machine and Information System Industries Association (JBMIA), and the Japan Electronics and Information Technology Industries Association (JEITA), demonstrating Canon's commitment to formulating comprehensive IP strategies in Japan from the perspective of strengthening international competitiveness through IP utilization.

TOPICS

Successful Lawsuit on Patent Infringement by Recycled Ink Cartridges

Canon Inc. filed a patent infringement suit against Recycle Assist Co., Ltd. with the Tokyo District Court in April 2004 for patent infringement by used proprietary ink cartridges that had been refilled as recycled ink cartridges and imported for resale by Recycle Assist.

In November 2007 the Supreme Court of Japan ruled in favor of Canon, stating that Recycle Assist's recycled cartridges could be recognized as being newly produced patented products. With the court acknowledging Canon's patent right (patent no. 3278410) as enforceable against the cartridges, it issued an injunction against their import and resale and ordered the destruction of existing cartridges.

Canon will continue to protect its profits through strict observance of intellectual property rights in its management and redouble its efforts to provide high-quality products and services that satisfy its customers. We will further contribute to the establishment of global standards and regulations and the healthy development of industry.

Canon and the Environment

Environmentally Conscious Management System

● **Canon acquired ISO 14001 consolidated certification for 13 Canon Inc. operational sites and 103 subsidiaries, fulfilling its three-year plan to obtain consolidated certification.**

Approach to Environmental Assurance Activities

Canon began emphasizing environmental assurance activities in its approach to worldwide sustainability, specifically from the viewpoint of such environmental issues as global warming and resource depletion.
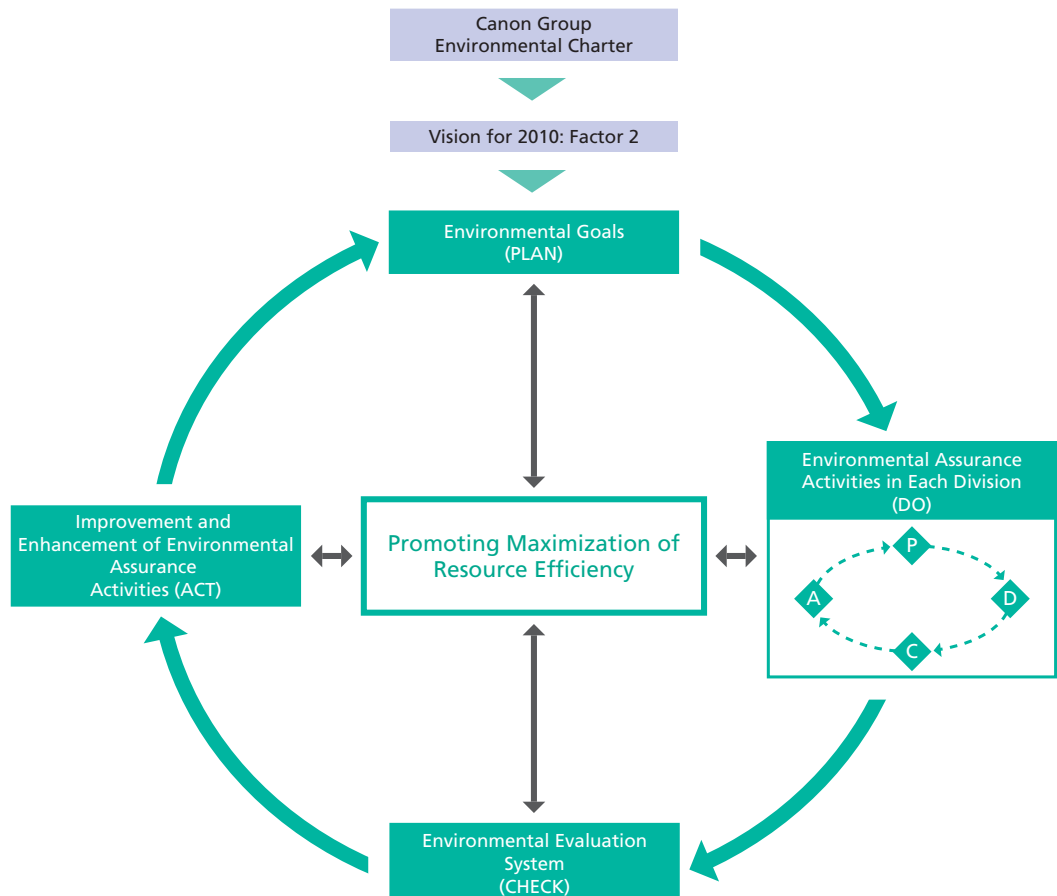
Formulated in 1993, the Canon Group Environmental Charter serves as the basis for these activities. The charter addresses the theme of maximizing resource efficiency from the dual approaches of environmental assurance and economic activities, considers the entirety of product lifecycles, and clearly sets forth environmental assurance activities for the entire Group. As worldwide awareness of environmental issues has increased, environmental laws and regulations have been rapidly enacted and made stricter. As compliance is both the most fundamental and the most important facet of environmental assurance activities, we have sought out the latest available information and mounted efforts to achieve ISO 14001 consolidated certification for the Canon Group and to strengthen environmental management.

Maximizing Resource Efficiency

Canon's environmentally conscious management aims to maximize resource efficiency, with the overriding indicator Factor 2—its Vision for 2010—as a concrete numerical target. To this end, we have established an environmentally conscious management system (shown in the diagram below), pursuing our specific targets by raising the level and efficiency of all our environmental assurance activities.

Under environmentally conscious management, we link the activities of the company's divisions (operational sites of the products operations and Group companies) to follow the Plan-Do-Check-Act cycle. Under this cycle, we carry out environmental assurance activities (Do) through our Environmental Goals (Plan), which are reflected in our business targets; we also implement the environmental evaluation system (Check) to assess performance and then work to improve and enhance our environmental assurance activities (Act). Through the PDCA cycle we can accelerate the environmental assurance activities of the entire Group.

Canon's Environmentally Conscious Management System

Canon Group Environmental Charter

(Established in 1993, revised in 2007)

Corporate Philosophy: *Kyosei*

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

Environmental Assurance Philosophy

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

Fundamental Policies for Environmental Assurance

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

EQCD Concept

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

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

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

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

Environmental Assurance Activities in 2007

Canon has formulated its environmental assurance activities from the perspectives of "produce," "use," and "recycle" in order to achieve Factor 2 in 2010.

We focused on further reinforcing our environmental assurance system, energy and resource conservation activities, and chemical substance management in 2007, attaining a factor of 1.57.

By September 2007, we accomplished the plan we had commenced in 2005 to acquire ISO 14001 consolidated certification for the Group.

In product-related environmental activities, we largely achieved our goals for making most new products more energy-efficient, smaller, and lighter. In operational site-related activities, we introduced high-efficiency facilities and strengthened our energy management measures at workplaces, enabling us to reduce greenhouse gas emissions (CO_2 equivalent) by 12% per unit of net sales compared with 2000.

We will continue to work on such actions as designing more energy-efficient, smaller, and lighter products, reinforcing energy saving at operational sites, and reducing our use of chemical substances.
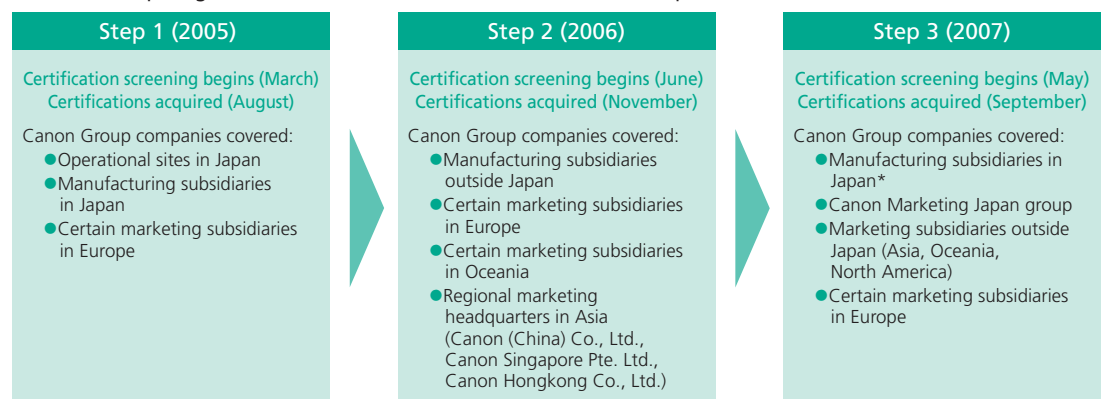
Achieving ISO 14001 Consolidated Certification for the Canon Group

Canon has since 1995 been creating environmental management systems (EMSs) and acquiring ISO 14001 certification at individual operational sites around the world. However, establishing EMSs at individual sites has resulted in a lack of standardization in rules and in the overall orientation of these systems. To resolve this, we needed an overarching system through which we could devise unified policies and rules, gather environmental information from each operational site, and smoothly communicate the intentions of the Group.

Canon unified its rules with a view to attaining consolidated ISO 14001 certification, enabling our Environment Headquarters to make and communicate appropriate decisions promptly based on environmental information from the entire Canon Group. In 2004 we stipulated a set of common rules for the Group and launched a three-year plan for the attainment of consolidated certification the following year. We fulfilled this plan in 2007 at not only our operational sites and subsidiaries in Japan but also our manufacturing and marketing subsidiaries in 38 countries and regions around the world (Canon Inc. and 103 subsidiaries), including North America, Europe, Asia, and Australia.

We will be undertaking continual revisions and improvements to the system to strengthen our basis for environmental efforts still further.

Process for Acquiring ISO 14001 Consolidated Certification for the Group

Step 1 (2005)	Step 2 (2006)	Step 3 (2007)
Certification screening begins (March) Certifications acquired (August)	Certification screening begins (June) Certifications acquired (November)	Certification screening begins (May) Certifications acquired (September)
Canon Group companies covered: ● Operational sites in Japan ● Manufacturing subsidiaries in Japan ● Certain marketing subsidiaries in Europe	Canon Group companies covered: ● Manufacturing subsidiaries outside Japan ● Certain marketing subsidiaries in Europe ● Certain marketing subsidiaries in Oceania ● Regional marketing headquarters in Asia (Canon (China) Co., Ltd., Canon Singapore Pte. Ltd., Canon Hongkong Co., Ltd.)	Canon Group companies covered: ● Manufacturing subsidiaries in Japan* ● Canon Marketing Japan group ● Marketing subsidiaries outside Japan (Asia, Oceania, North America) ● Certain marketing subsidiaries in Europe

Scope of consolidated certification (as of September 2007, upon acquisition of certification):
● Canon Inc. and 103 subsidiaries (719 sites)
● 38 countries and regions including Japan, North America, Europe, Asia, and Australia
● 161,500 people

*Manufacturing subsidiaries in Japan joining the Canon Group since 2005

Environmental Goals and Results for 2007

Item		Results for 2007	Evaluation*1	Further Details
Overriding Indicator				
Factor 2	More than 1.7 times the ratio of net sales to lifecycle CO_2 emissions in 2008, using 2000 as the baseline year	Achieved Factor 1.57	○	P15–16
Environmentally Conscious Management Goals				
Environmental Assurance System	Establish an environmental assurance system throughout the lifecycle of the products	Assessed environmental aspects of products at certain products operations	○	—
	Expand the scope of ISO 14001 consolidated certification (Step 3)	·Proceeding with acquisition of ISO 14001 consolidated certification (three-year plan: 2005–2007) ·Completed Step 3 of consolidated certification (13 Canon Inc. sites and 103 subsidiaries)	○	P43
Material Flow Cost Accounting	Globally implement material flow cost accounting	Newly introduced at 3 sites in Japan and 1 site outside Japan, resulting in 15 sites in Japan and 9 sites outside Japan in total	○	P47
Product Environmental Goals				
Eco-Products	Establish a new information disclosure system	·Started indicating RoHS marks for Canon products on the web at the beginning of September, in accordance with the revised J-Moss ·Implemented The Eco Declaration (TED) in January based on the latest version of ECMA 370; started disclosing this on Canon Europe N.V. (CENV) website in December.	○	—
Global Warming Prevention and Energy Conservation	Achieve top-level energy efficiency in each product group	Goals achieved for new products in main product groups	○	P55
Resource Conservation	Achieve top-level size and weight reductions in each product group	Goals achieved for new products in main product groups	○	P55
	Revise 3R design standards	Carried out revision of guidance for Design for the Environment (DfE)	○	—
Chemical Substance Management	Assess total volume of 24 environmental impact substances and begin phasing in reductions	Assessed total volume of 24 substances at major products operations	○	—
Paper for printing	Promotion of environmentally conscious paper	Verified Canon brand paper as not containing 13 prohibited substances	○	WEB
Operational Site Environmental Goals				
Global Warming Prevention and Energy Conservation	Reduce operational site CO_2 emissions per unit of net sales by 10% or more in 2008 from 2000 level	12% reduction from 2000 level (calculated using the 2000 coefficient for converting electricity into CO_2 in Japan only)	○	P49
Resource Conservation	Reduce waste consigned to outside processing company per unit of net sales by 44% in 2008 from 2000 level*2	Waste consigned to outside processing company was 62,407 tons, a reduction of 40% per unit of net sales from 2000 level	○	P50
	Deploy Phase 2 of zero landfill waste activity (general landfill waste produced by business activities by 20% in 2008 from 2004 level)	Waste to landfill was 858 tons, a 53% reduction from 2004 level	○	P50
	Reduce water use per unit of net sales by 25% in 2008 from 2000 level	Water use was 9.02 million m^3, a 25% reduction per unit of net sales from 2000 level	○	WEB
	Reduce paper use in offices per unit of net sales by 10% in 2008 from 2005 level	Paper use was 698 tons, a 22% reduction per unit of net sales from 2005 level	○	—
Chemical Substance Management	Reduce discharge volume of controlled chemical substances by 60% in 2008 from 2000 level	Discharge volume of controlled chemical substances was 907 tons, a 27% reduction from 2000 level	✕	P51
	Reduce discharge volume of chemical substances designated under the PRTR system by 78% in 2008 from 2000 level	Discharge volume of chemical substances designated under the PRTR system was 80 tons, a 79% reduction from 2000 level	○	P51
	Reduce discharge volume of priority controlled chemical substances by 15% in 2008 from 2004 level (chlorobenzene, toluene, methanol, IPA)	Discharge volume of priority controlled chemical substances was 455 tons, a 53% increase from 2004 level	✕	WEB
	Establish a controlled chemical substances management system for regional marketing headquarters	Assessed state of chemical substances management system for regional marketing headquarters	○	—
Eco-Factory	Set up a Canon Eco-factory certification system and expand it globally	(Planning to reappraise the target)	—	—
Common Environmental Goals				
Employee Training	Globally, provide environmental training through e-learning	·Continued Global Environmental Education Self-Awareness Program (in Japanese, English, and Chinese) ·Continued environmental training for sales and marketing divisions (in Japanese)	○	WEB
	Carry out environmental professional staff developing programs	Continued environmental management training for managers (in Japanese)	○	WEB
Green Procurement	Revise the Green Procurement Standards (purchased goods) and achieve full compliance	Examined revised proposals	○	—
Transportation	Reduce CO_2 emissions in transportation per unit of net sales by 20% in 2008 from 2000 level (globally)	Reduce CO_2 emissions per unit of net sales by 25% from 2000 level	○	P53
	Increase the rate of introducing low-emission commercial vehicles to 90% in 2008 (in Japan)*3	Achieved a rate of 100%, with all 92 commercial vehicles newly introduced in 2007 being low-emission ones (including 21 hybrid vehicles)	○	WEB

*1 Evaluation criteria for 2007: achieved more than in the previous year or otherwise improved performance = ○, achieved less than in the previous year = ✕.
*2 Excluding used products collected from the market and internally recycled waste.
*3 Outside Japan: Set a voluntary goal where low-emission vehicles are defined by national standards.

Global Environmental Promotion System

Canon set up an Environment Headquarters to promote concerted environmentally conscious management among Group companies worldwide. The Environment Planning Center and Environment Promotion Center were established under this headquarters in 2008 in order to strengthen our organizational framework. These centers are now shifting from an objective-based structure to a function-based one. This is expected to stimulate cooperative activities between the centers, with a view to increasing the certainty and efficiency of their actions. Canon also created the Global Environment Strategic Expert Committee under the auspices of the Management Strategy Committee. This special committee will formulate strategic planning under specific important themes to be considered across the entire Group.

Furthermore, there are divisions and personnel in charge of promoting environmental assurance activities for products operations, at operational sites, and in all major subsidiaries. Their duties include checking the status of progress toward the Environmental Goals set by the Environment Headquarters and compliance with various internal environmental assurance rules and ensuring that environmental management is

being thoroughly executed. Information from each Group organization is gathered by the Environment Headquarters to facilitate prompt and appropriate decision-making.
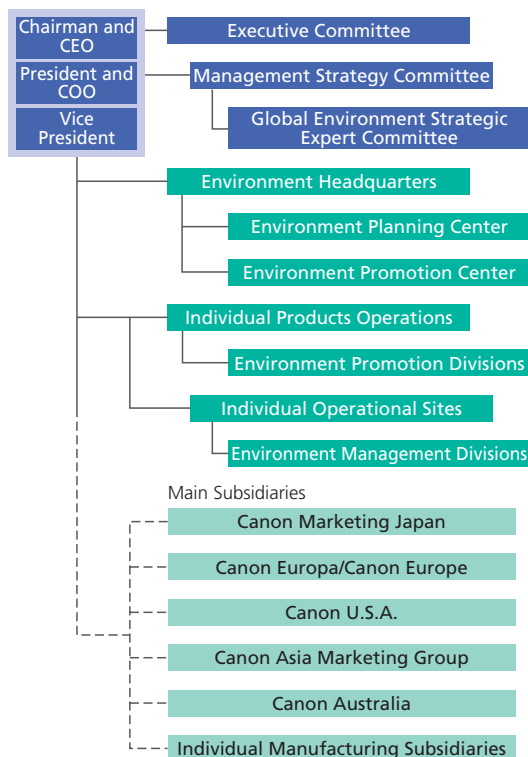
●Environmental Evaluation System

Canon conducts a Consolidated Performance Evaluation, assessing the management status of company products operations and Group companies. Since 2001, we have incorporated environmental evaluation into operational activities under this system to ensure more aggressive and autonomous promotion of environmental assurance activities across these products operations and manufacturing and marketing subsidiaries.

In this environmental evaluation, the Environment Headquarters evaluates and scores the degree to which environmental goals and other major objectives have been achieved. This environmental evaluation accounts for about 10% of total points in evaluation on a consolidated basis. The results of these evaluations are announced every quarter within the Group.

We will continue to revise and improve the system to raise the level of our environmentally conscious management.

Global Environmental Promotion System

Environmental Evaluation Process
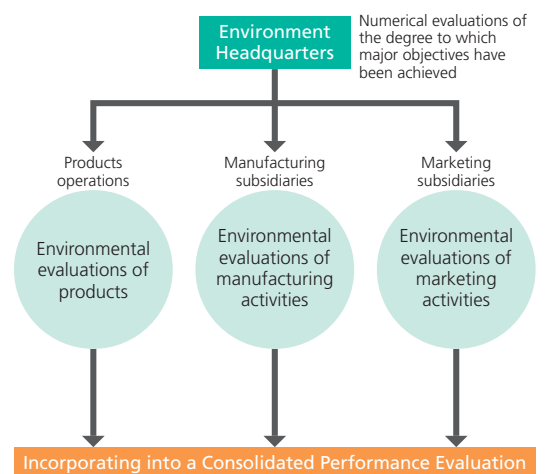
Environmental Audit

Canon's environmental audits assess compliance with environmental laws and regulations as well as with the environmental standards of the Canon Group. They also address implementation of the Group's internal EMS, with the objective of continuously raising the degree to which we have achieved our environmental management goals.

The EMS management representative issues the audit policies of the Canon Group. In keeping with these policies, the Environment Headquarters conducts Headquarters environmental audits on operational sites, while the audit divisions at operational sites and products operations conduct both operational site environmental audits and product environmental audits on divisions under their administration. Audit results are reported to the Group Audit Management Division of the Environment Headquarters. Consolidated audit results for the entire Canon Group are presented to the EMS management representative as information for management review.

In 2007, some problems were found in contract documents with waste processing companies, but those were promptly remedied though detailed examination by the Environment Headquarters and subsequent requests for modification.

Management of Environmental Risk and Compliance with Product Environmental Regulations

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

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

Regional headquarters also constantly monitor how Canon products are affected by current laws and legislative processes. This information is gathered by the Environment Headquarters, and after analysis it is used to determine response methods. The results serve as feedback to the design and development divisions of products operations to ensure their thorough understanding.
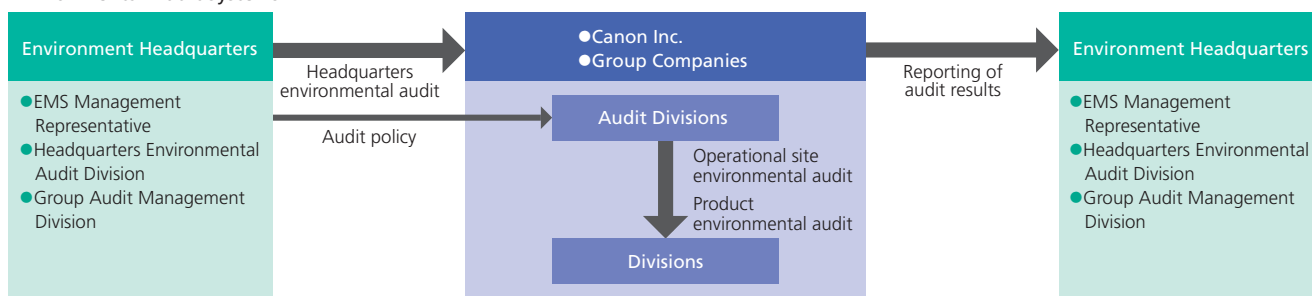
Measures in Response to Major Global Environmental Laws and Regulations

Environmental Areas	Environmental Laws, Regulations, or Initiatives		Canon's Actions	Details
	Name	Content		
CO₂ Reductions (Energy Conservation)	Kyoto Protocol	International protocol for climate change mitigation	Focusing on lifecycle CO_2 reductions, we are aiming to achieve our Factor 2 target in 2010.	P15–16
	EuP Directive	Improving the efficiency of energy use	Canon is proactively introducing energy-efficiency measures, such as on-demand fixing technology.	P55
Recycling (Resource Conservation)	WEEE	European Union (EU) Waste Electric and Electronic Equipment Directive	When implementing this law, Canon joined in formulating recycling schemes and is now recycling via these schemes in EU member states. At the same time, Canon has developed its own cartridge recycling system on a global scale. We also employ a thorough recyclability evaluation from the product design stage.	P55, WEB
Management of Chemical Substances	RoHS	Restrictions on the use of Hazardous Substances in the EU. Similar laws are being introduced in other countries, such as Japan, China, and South Korea.	Prior to the 2006 implementation of this EU directive, in 2004 we started introducing compliant products.	P56
	REACH	Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (Chemicals contained in products are also regulated.)	In addition to continuing to manage chemicals as we have done in the past, we are preparing for REACH in collaboration with the industry.	P56
	IEC TC111 Material Declaration	International standard for green procurement	We are promoting standardization in Japan through the Green Procurement Survey Standardization Initiative (chaired by Canon) and globally through the International Electrotechnical Commission (IEC).	P57
Provision and Disclosure of Environmental Information	Eco-Declarations	Format for providing customers and other parties with environmental information about products	We participate actively in discussions on formats, such as The Eco Declaration (TED).	P58

Environmental Audit Systems

Environment Headquarters
● EMS Management Representative
● Headquarters Environmental Audit Division
● Group Audit Management Division

Headquarters environmental audit
Audit policy

● Canon Inc.
● Group Companies

Audit Divisions
Operational site environmental audit
Product environmental audit
Divisions

Reporting of audit results

Environment Headquarters
● EMS Management Representative
● Headquarters Environmental Audit Division
● Group Audit Management Division

Management Systems
Canon and the Environment
Canon and Stakeholders

Environmental Accounting

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

Environmental accounting for 2007 indicates an investment of ¥20.8 billion ($182 million) in environmental protection, including ¥6.9 billion ($60.5 million) for improvements in global warming prevention measures and advances in the efficient use of resources. This investment generated benefits of ¥8.9 billion ($78.1 million).

Environmental Accounting Results for 2007

- 🟧 Pollution prevention/management activities, etc.
- 🟪 Upstream/Downstream
- 🟩 Resource recycling
- 🟩 Global environmental protection

(¥ billion)

Lower electric energy expenses from reduced energy consumption by products

| Total costs	Costs for improvement*	Effects of costs for improvement	Customer effects
20.8	6.9	8.9	59.5
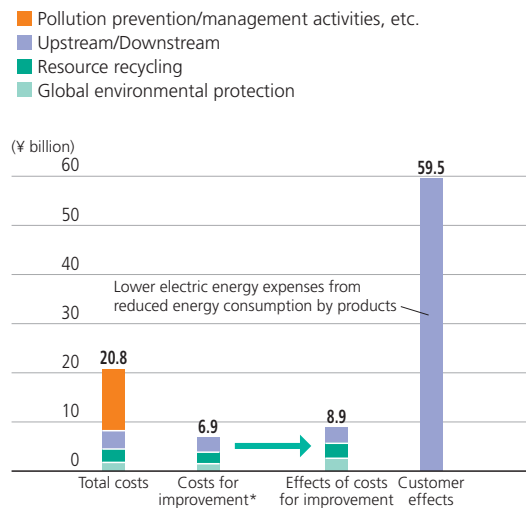
*Included in the total cost of ¥20.8 billion

Promoting Material Flow Cost Accounting

Canon began introducing material flow cost accounting (MFCA)[1] at its manufacturing sites in Japan in 2001 and outside Japan in 2004. As of December 2007, MFCA was being used by a total of 15 sites in Japan and nine outside Japan. A joint MFCA project between Canon and its raw material suppliers was initiated in 2004, with both sides working to reduce environmental burden and costs.

The economic effect of these efforts at major manufacturing sites worldwide was ¥1.3 billion ($11.4 million) in 2007.

As part of its promotion of MFCA, in November 2007 Japan's Ministry of Economy, Trade and Industry (METI) proposed an international standardization of material flow-based cost accounting to the International Organization for Standardization (ISO). Aiming towards its standardization in 2011, we have been working in cooperation with METI to formulate this proposal based on our successful experience in applying MFCA.

Economic Effects of MFCA

(¥ billion)

'04	'05	'06	'07 (Year)
0.10	0.62	1.00	1.30 ($11.4 million)
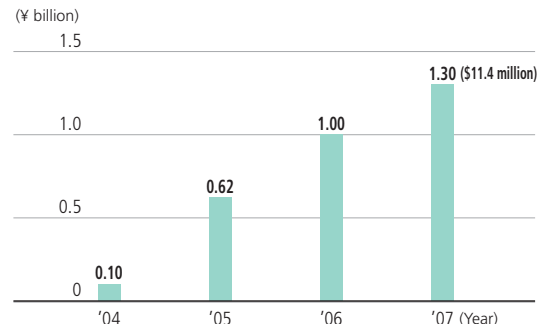
Note: Totals are the economic effects from reduced purchasing of raw materials (main and secondary materials).

● Devising Workplace-Centered Environmental Assurance Systems through MFCA

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

After introducing MFCA in 2005, Nagahama Canon Inc. designated a person in charge of MFCA for the site. Workplaces producing key parts took the initiative for the company's activities. By emphasizing MFCA's effectiveness at regular meetings and in internal reports, the company enhanced awareness and firmly established this approach.

Since the company introduced MFCA in 2003, individual workplaces at Canon Chemicals Inc. have worked to reduce waste and costs. The company has thoroughly adopted MFCA practices by sharing the results of analyses of workplaces. Employees' awareness and actions have changed positively, shifting from QCD to EQCD activities. The company's processing, development, and technological divisions will be promoting MFCA in a concerted manner. These pioneering MFCA measures at Canon Chemicals were recognized with a special MFCA prize in the 2007 Eco-Efficiency Awards. This marked the second year in a row that a Canon Group company received an Eco-Efficiency Award, with Canon Inc. having been recognized the previous year.

Canon Chemicals receives a special prize for MFCA in the 2007 Eco-Efficiency Awards

Glossary

[1] Material flow cost accounting (MFCA)

A method of environmental managerial accounting that incorporates the calculation and management of quantity and cost data for losses of resource inputs to the manufacturing process. This model accounts for final shipped products as "positive products" and everything else released during the manufacturing process as "negative products." Analyzing negative products and reducing their amount result in lower environmental burden and costs, because the resource inputs to the manufacturing process are reduced by an amount equivalent to the decrease in negative products.

Canon Environmental Solutions

Canon Marketing Japan Inc. (Canon MJ) is developing Canon Environmental Solutions so that customers can benefit from the wealth of environmental technologies and expertise that Canon has built up over the years. Canon MJ helps customers to promote environmentally conscious management by providing the following environmental solutions.

● Material Flow Cost Accounting Business

MFCA is an accounting method for effectively raising material productivity and reducing costs in manufacturing industries.

In 2006, Canon MJ began using Canon's accumulated knowledge to offer consulting services to manufacturing companies looking to introduce MFCA. The company also developed Japan's first Material Flow Cost Accounting Analysis Support System in September 2007.

● CSR and Environmental Reports Production Support Service

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

The company provides a full spectrum of support, from planning to drafting and printing, to facilitate the creation of these reports even by companies lacking the know-how or human resources to write them independently.

● Green Procurement Survey Support System

Canon MJ has offered the Green Procurement Survey Support System since 2004 to assist customers mainly in the electrical and electronic parts fields in conducting green procurement more efficiently and in managing data on the scientific properties of products and parts more effectively.

The company is developing a new version incorporating customer demand, with aims to release it in the first half of 2008. Canon MJ is also expanding its range of consulting services to help customers devise a management system for chemical substances in their products.
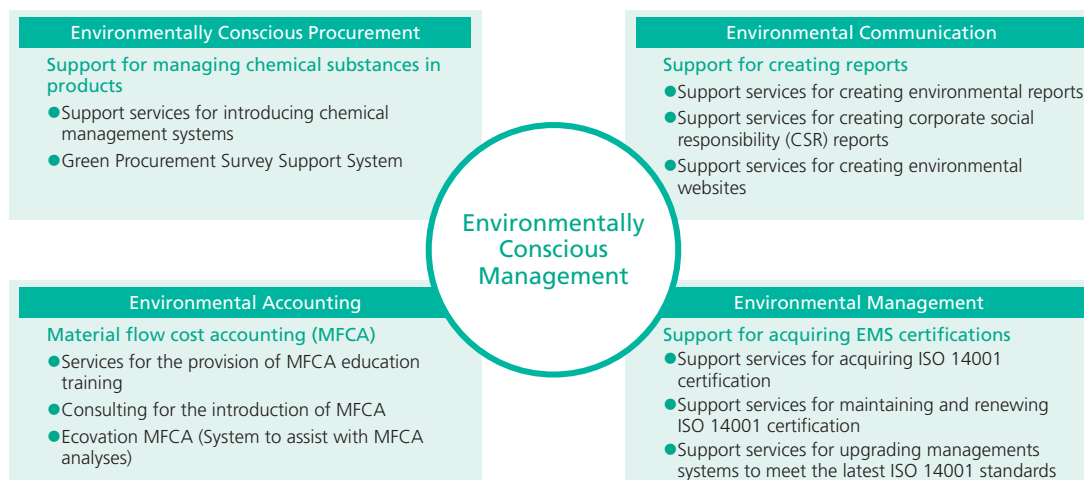
Environmental Education

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

Education System

Specialized education
Aims to impart expertise and specialized environmental knowledge
Targets employees involved in operations with significant environmental burden
(Trainees during 2007: 1,191)

Awareness training
Aims to impart basic environmental knowledge
Targets all employees
(Trainees during 2007: 5,454)

Solutions System for Providing Customers with Canon's Environmental Technologies and Expertise

Environmentally Conscious Procurement

Support for managing chemical substances in products
- Support services for introducing chemical management systems
- Green Procurement Survey Support System

Environmental Communication

Support for creating reports
- Support services for creating environmental reports
- Support services for creating corporate social responsibility (CSR) reports
- Support services for creating environmental websites

Environmentally Conscious Management

Environmental Accounting

Material flow cost accounting (MFCA)
- Services for the provision of MFCA education training
- Consulting for the introduction of MFCA
- Ecovation MFCA (System to assist with MFCA analyses)

Environmental Management

Support for acquiring EMS certifications
- Support services for acquiring ISO 14001 certification
- Support services for maintaining and renewing ISO 14001 certification
- Support services for upgrading managements systems to meet the latest ISO 14001 standards

Produce: Environmental Activities at Operational Sites

2007 Highlights

- Canon reduced its total amount of greenhouse gas emissions per unit of net sales by 12% compared with the 2000 level, achieving a 3% reduction year-on-year.
- We reduced the amount of waste outsourced for recycling per unit of net sales by 40% compared with the 2000 level, achieving a 10% reduction year-on-year.

Web

- Energy Consumption by Region in 2007
- Results of Canon's 2007 Energy-reduction Policy
- Changes in Energy-Derived Greenhouse Gas Emission Volumes at Manufacturing Facilities in Japan
- Reducing Use of Water Resources
- Waste Processed by Category in 2007 (Japan)

Global Warming Prevention and Energy Conservation

Canon has long understood the importance of preventing global warming. In 1996, even before the adoption of the Kyoto Protocol, we established the Operational Site Energy Efficient Special Committee under the Global Environment Promotion Committee. Since then, we have promoted energy conservation activities across the Group, including developing technologies to prevent global warming and making improvements to production facilities and air conditioning equipment that consume substantial amounts of energy.
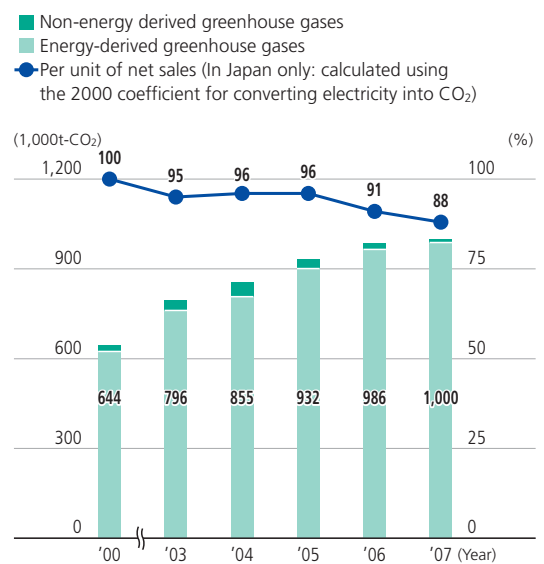
In 1998, we established the Countermeasure Sub-Committee on PFCs, and by 1999 we had successfully eliminated PFCs, HFCs, and SF_6, non-CO_2 greenhouse gases used as cleaners, solvents, and aerosol propellants. We have also been reducing greenhouse gases emitted in the semiconductor manufacturing process by installing burners to eliminate greenhouse gases through forced combustion. Further, in 2005 we established mid- and long-term goals for the reduction of greenhouse gases for individual products operations. These operations are conducting activities to achieve their targets, working in cooperation with related operational sites.

In 2007, we adopted energy-efficient equipment and devices such as free cooling systems and turbo refrigerators. To reduce greenhouse gas emissions, we strictly control energy usage by conducting an energy conservation patrol and using a monitoring system that controls power consumption by workplace. However, under the Excellent Global Corporation Plan, we are expanding the scale of our business activities. As a result, greenhouse gas emissions in 2007 were 1,000,000 tons with a 1.4% increase from the previous year.

Emissions per unit of net sales have decreased by 12% from the 2000 level (in Japan only; this has been calculated using the 2000 coefficient for converting electricity into CO_2).

Total Greenhouse Gas Emissions[1]

- ■ Non-energy derived greenhouse gases
- ■ Energy-derived greenhouse gases
- ●— Per unit of net sales (In Japan only: calculated using the 2000 coefficient for converting electricity into CO_2)

(1,000t-CO_2)						(%)
'00	'03	'04	'05	'06	'07	
100	95	96	96	91	88	
644	796	855	932	986	1,000	

Glossary

[1] Calculation of total greenhouse gas emissions

This calculation provides a total of the greenhouse gases designated in the Kyoto Protocol: the energy-derived greenhouse gas, CO_2, and the non-energy-derived greenhouse gases, PFCs, HFCs, SF_6, and N_2O. The conversion to 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 by the International Energy Agency are used for site activities in regions outside Japan.

TOPICS

Engaging in Global Warming Prevention Activities at Marketing Subsidiaries in Europe

Canon marketing subsidiaries in Europe began a transition to purchasing electricity produced from renewable energies in 2006. In 2007, marketing subsidiaries in seven European countries such as the U.K., Germany, and the Netherlands purchased 14,700 MWh of electricity from renewable energy resources, specifically from biomass power stations and hydropower stations. This was equivalent to approximately 60% of their total electricity usage.

Celebrations to commemorate the fiftieth anniversary of Canon Europe, our European regional headquarters, were held in Monaco in 2007 as a fully carbon-neutral event. The approximately 1,600 tons of carbon dioxide generated at the meeting itself and through the transportation of some 4,000 participants to the venue, including air transportation, were offset by carbon credits from an investment in biomass operations in Thailand. This as well as the environmental programs launched at the event have been highly evaluated and as a result Canon Europe, together with the Grimaldi Forum Monaco (the venue of the fiftieth anniversary event), received the Gold Award for the best demonstration of corporate social responsibility in a European event in 2007 from Eventia, the international events industry association.

Receiving the Gold Award from international events industry association Eventia
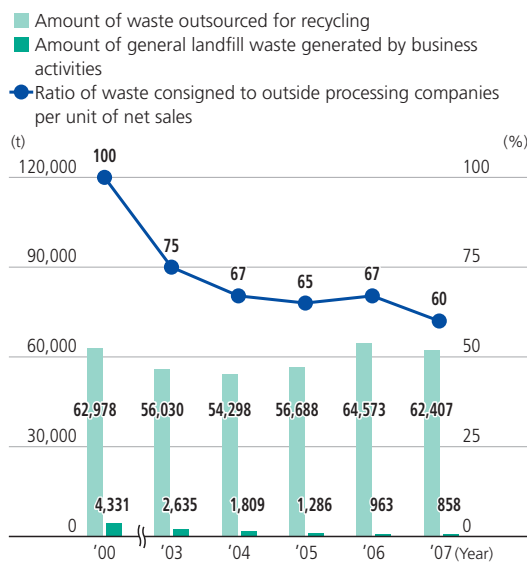
Reducing Waste

In 1990, Canon's Japanese operational sites alone generated 35,000 tons of landfill waste. In 2001, we began our zero landfill waste campaign, and as a result of 3R efforts since then to recycle waste by sorting and collecting it by material type, all manufacturing sites in Japan succeeded in generating zero landfill waste*2 as of December 2003. This goal was also achieved by all 17 manufacturing sites outside Japan as of December 2005.

Under phase 2 of our zero landfill waste campaign, we have set a goal of reducing landfill of general waste produced by business activities by 20% against 2004 levels. In 2007, we were able to reduce this amount by 53% against 2004 by controlling waste generation through reductions of sludge in clarification tanks and the separation of waste wherever possible.

We also set a goal of reducing the amount of waste outsourced for recycling*3 by 44% per unit of net sales against 2000 and have been working toward this goal by reducing the amount of waste generated. In 2007, we reduced the amount of waste outsourced for recycling per unit of net sales by 40% against 2000 figures as a result of such efforts as recycling waste effluent and creating routes for recycling paper internally at operational sites outside Japan.

We will move forward with constructive steps to reduce waste through the introduction of equipment for waste reduction and other measures.

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

- Amount of waste outsourced for recycling
- Amount of general landfill waste generated by business activities
- Ratio of waste consigned to outside processing companies per unit of net sales

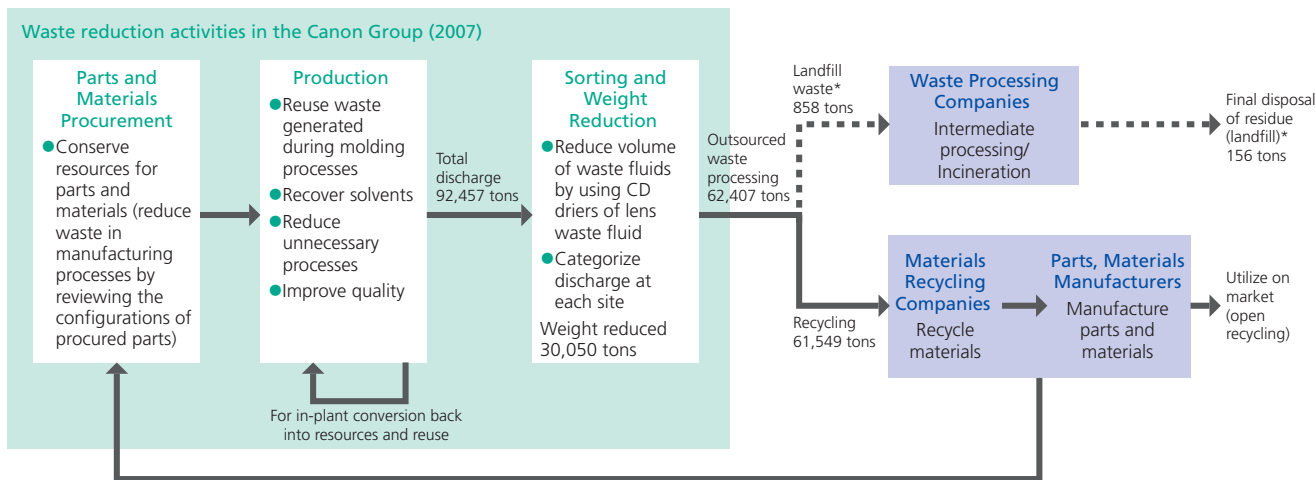| (t)	'00	'03	'04	'05	'06	'07 (Year)
Ratio (%)	100	75	67	65	67	60
Amount of waste outsourced for recycling	62,978	56,030	54,298	56,688	64,573	62,407
Amount of general landfill waste	4,331	2,635	1,809	1,286	963	858

Glossary

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

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

Waste Treatment Flow

Waste reduction activities in the Canon Group (2007)

Parts and Materials Procurement
- Conserve resources for parts and materials (reduce waste in manufacturing processes by reviewing the configurations of procured parts)

Production
- Reuse waste generated during molding processes
- Recover solvents
- Reduce unnecessary processes
- Improve quality

Total discharge 92,457 tons

Sorting and Weight Reduction
- Reduce volume of waste fluids by using CD driers of lens waste fluid
- Categorize discharge at each site

Weight reduced 30,050 tons

Landfill waste* 858 tons

Outsourced waste processing 62,407 tons

Waste Processing Companies
Intermediate processing/ Incineration

Final disposal of residue (landfill)* 156 tons

Recycling 61,549 tons

Materials Recycling Companies
Recycle materials

Parts, Materials Manufacturers
Manufacture parts and materials

Utilize on market (open recycling)

For in-plant conversion back into resources and reuse

Recycling (internally recycled materials) 29,424 tons
Recycle waste at outside recycling companies and purchase it back to reuse as parts or materials. This reduces total volume generated.

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

Reducing Emissions of Controlled Chemical Substances

Canon strives to eliminate or reduce harmful chemical substances used in the manufacturing process. For substances difficult to eliminate or reduce, our policy is to minimize their release into the air or water.
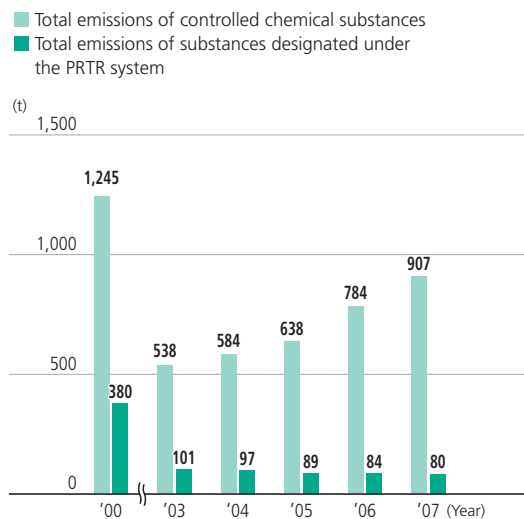
Approximately 2,000 controlled chemical substances[1] that we handle are classified into three categories, namely A) for elimination of use; B) for reduction of use; C) for reduction of emission. We have attained positive results by applying different measures to these substances based on the level of their classification.

To step up emission reductions of chemical substances that are difficult to eliminate, we set goals of achieving a 60% reduction from 2000 figures in controlled chemical substances and achieving a 78% reduction from 2000 figures for substances designated under the PRTR system[2].

In 2007, we attained a 27% reduction in emissions of controlled chemical substances compared to 2000 figures, but this represented an increase over the previous year to 907 tons as a result of growth in manufacturing volumes. We also reduced the amount of PRTR-designated substances emitted 79% from the 2000 figure by replacing substances and improving the painting and cleaning processes.

Since 2007, we have been introducing devices for the elimination of controlled chemical substances at operational sites that emit these substances. We will introduce hydrofluoroether (HFE) collection devices in 2008 among other measures to continuously reduce controlled chemical substances.

Emissions of Controlled Chemical Substances

- Total emissions of controlled chemical substances
- Total emissions of substances designated under the PRTR system

(t)

Year	Total emissions of controlled chemical substances	Total emissions of substances designated under the PRTR system
'00	1,245	380
'03	538	101
'04	584	97
'05	638	89
'06	784	84
'07	907	80

Remediation of Soil and Groundwater by the Canon Group

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

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

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

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

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

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

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

Review of Soil and Groundwater Surveys in 2007

Reconstruction occurring under our site relocation plan gave us an opportunity to conduct soil surveys in keeping with relevant regulations. In 2007, we surveyed the Canon Finetech Inc. Mitaka Office. Upon determining that the site exceeded environmental standards for soil pollution, we reported this situation to the proper authorities and carried out remediation measures by excavation and elimination. We also disclosed relevant information to the public after discussions with local authorities.

Beyond this, we have assessed the usage of designated hazardous substances at all of our operational sites in Japan. We have placed monitoring wells for more suitably confirming the direction of groundwater currents in order to reinforce our groundwater monitoring to be appropriate for our use of designated hazardous substances.

Glossary

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

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

●Future Cleanup Efforts

In line with its basic policies, Canon is currently implementing firm remediation measures at sites with pollution issues outstanding in 2008. We are assessing chemical substances in use at operational sites outside Japan and developing risk countermeasures appropriate for national and regional circumstances. Nine of our 16 sites have completed remediation measures to date.

●Waste Issues at Nagahama Canon

Since confirming soil contamination in 2006, Nagahama Canon Inc. has investigated causes, implemented preventive measures, and undertaken restorative efforts based on governmental guidance. This is a legacy from improper treatment of waste by the company. To prevent recurrence, Nagahama Canon is further strengthening education in legal compliance for all employees and reinforcing its internal system of checks and balances, among other actions taken. The cleanup work to restore the environment was completed in November 2007.

Status of Soil and Groundwater Cleanup Activities

Operational Site	Current Status				Measure	Year Reported to Authorities
	Soil		Groundwater			
Shimomaruko R wing Former CD wing	Class I designated hazardous substances (trichloroethylene, etc.)	Measures complete*	Class I designated hazardous substances (cis-1, 2-dichloroethylene, etc.)	Measures complete	R wing: Chemical feed	2003
					Former CD wing: Excavation and elimination, chemical feed	2005
Former L wing	Class I designated hazardous substances (trichloroethylene, etc.) Class II designated hazardous substances (lead and its compounds, etc.)	Measures complete	Class I designated hazardous substances (cis-1, 2-dichloroethylene, etc.)	Measures complete	Excavation and elimination, chemical feed	2006
F wing	Not contaminated		Class II designated hazardous substances (arsenide and its compounds)	Adjusting	Monitoring	2008
Meguro (Training Center)	Class I designated hazardous substances (tetrachloroethylene, etc.)	Measures complete	Class I designated hazardous substances (tetrachloroethylene, etc.)	Measures complete	Chemical feed	2003
Meguro (Dormitory)	Class I designated hazardous substances (tetracholoroethylene, etc.)	Measures complete	Class I designated hazardous substances (tetrachloroethylene, etc.)	Measures complete	Chemical feed	2004
Tamagawa	Class I designated hazardous substances (tetrachloroethylene, etc.)	Measures complete	Class I designated hazardous substances (tetrachloroethylene, etc.)	Measures complete	Excavation and elimination, chemical feed	2006
	Class II designated hazardous substances (lead and its compounds, etc.)		Not contaminated		Excavation and elimination	
Utsunomiya Former plant site	Class I designated hazardous substances (tetrachloroethylene, etc.)	Measures complete	Not contaminated	Measures complete	Excavation and elimination, hot soil	2006
Parking lot I	Class II designated hazardous substances (lead and its compounds, etc.)		Class II designated hazardous substances (fluorine and its compounds, etc.)		Excavation and elimination, pumping	2007
Kanuma	Class I designated hazardous substances (tetrachloroethylene, etc.)	Cleanup in progress	Class I designated hazardous substances (tetrachloroethylene, etc.)	Cleanup in progress	Pumping, aeration, soil flushing	1990
	Class II designated hazardous substances (lead and its compounds, etc.)	Cleanup complete	Not contaminated		Excavation and elimination	2007
Toride	Class I designated hazardous Substances (trichloroethylene, etc.)	Measures complete	Class I designated hazardous substances (trichloroethylene, etc.)	Measures complete	Pumping, aeration, soil flushing, chemical oxidation method	1994
	Class II designated hazardous substances (hexavalent chromium and its compounds)	Adjusting	Class II designated hazardous substances (hexavalent chromium and its compounds)	Adjusting	Monitoring	2007
Kosugi	Class I designated hazardous substances (tetrachloroethylene, etc.)	Measures complete	Class I designated hazardous substances (tetrachloroethylene, etc.)	Measures complete	Chemical feed	2006
Canon Electronics, Yokoze	Class I designated hazardous substances (trichloroethylene, etc.)	Adjusting	Class I designated hazardous substances (trichloroethylene, etc.)	Adjusting	Monitoring	1999
Canon Electronics, Yamada	Class I designated hazardous substances (trichloroethylene, etc.)	Adjusting	Class I designated hazardous Substances (trichloroethylene, etc.)	Adjusting	Monitoring	Not implemented
Canon Finetech (Mitaka)	Class II designated hazardous substances (lead and its compounds, etc.)	Cleanup complete	Not contaminated		Excavation and elimination	2007
Canon Semiconductor Equipment	Class I designated hazardous substances (1,1-dichloroethylene, etc.)	Cleanup in progress	Class I designated hazardous substances (1,1-dichloroethylene)	Cleanup in progress	Covering, excavation and elimination, pumping, aeration	2002
	Class II designated hazardous substances (lead and its compounds, etc.)	Measures complete	Not contaminated			2006
Fukushima Canon	Not contaminated		Class I designated hazardous substances (cis-1, 2-dichloroethylene)	Measures complete	Pumping, aeration	1990
Nagahama Canon Eastern part of site	Class II designated hazardous substances (lead and its compounds, etc.)	Measures complete	Not contaminated		Excavation and elimination	2007
A wing and its surroundings	Class II designated hazardous substances (hexavalent chromium and its compounds, etc.)	Adjusting	Not contaminated		(Soil pollution from soil improvement agents)	2007
Canon ANELVA (Fuchu)	Class I designated hazardous substances (trichloroethylene, etc.)	Adjusting	Class I designated hazardous substances (trichloroethylene, etc.)	Cleanup in progress	Pumping, aeration	2007
Nisca (Shikishima)	Cleanup complete		Cleanup complete		Excavation and elimination	2004

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

Produce: Environmentally Conscious Logistics

- CO_2 emissions per unit of net sales were reduced 24% (in Japan) from the 2000 level as a result of such factors as shorter transportation routes and the promotion of modal shifts.
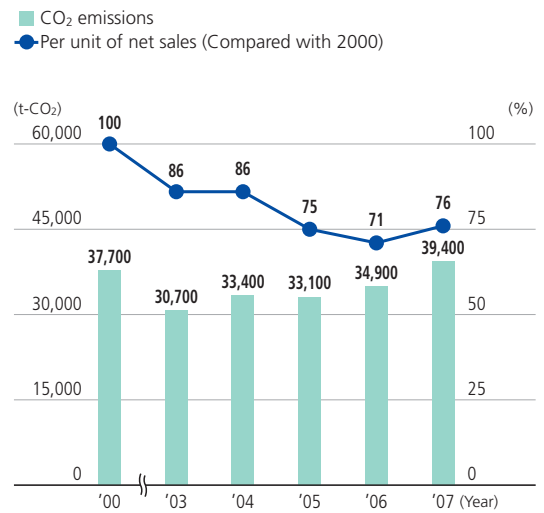
CO_2 Emission Reduction in Transportation

In 2002, Canon established the Environmental Logistics Working Group with the goal of reducing CO_2 emissions per unit of net sales in logistics processes 20% by 2006, compared with 2000 levels. The working group strives to promote modal shifts[*1] and improve loading efficiency through five categories of actions in Japan, specifically parts procurement, efforts at manufacturing sites, product arteries, sales to customers, and packaging. As a result of these endeavors, we have attained our goal.

CO_2 emissions associated with logistics in Japan were 39,000 tons in 2007, which represented a reduction of 24% against 2000's results in emissions per unit of net sales.

To reduce global CO_2 emissions from logistics processes for the entire Canon Group worldwide, since 2003 we have carried out aggregate calculations of CO_2 emissions from international transportation, such as between manufacturing sites and sales subsidiaries, and for transportation within regions outside Japan. Based on estimates of standard values for 2000 from relative production volumes, we are conducting

activities to propel us toward our Environmental Goals (reducing global CO_2 emissions per unit of net sales by 20% by 2008, compared with figures for 2000). In 2007, we achieved a 25% reduction compared to 2000, mainly due to reductions in air shipments.

Logistics-Related CO_2 Emissions in Japan

- ■ CO_2 emissions
- ● Per unit of net sales (Compared with 2000)

(t-CO_2)	'00	'03	'04	'05	'06	'07 (Year)
CO_2 emissions	37,700	30,700	33,400	33,100	34,900	39,400
Per unit (%)	100	86	86	75	71	76

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

Procurement Logistics
- ●Multi-stop pickup (Milkrun)
- ●Joint logistics

Manufacturing Logistics
- ●Modal shifts
- ●Improved loading efficiency
- ●Revise/reduce packaging

Product Logistics
- ●Modal shifts
- ●Container round use

Sales Logistics (Japan)
- ●Direct transportation to customer
- ●Introduction of low-emission vehicles

Reverse Logistics
- ●Efficient collection
- ●Modal shifts

Sales Logistics (outside Japan)
- ●Improved container loading efficiency
- ●Modal shifts
- ●Direct shipment to marketing subsidiaries outside Japan
- ●Diversion

Glossary

*1 Modal shifts
This phrase describes switching from truck- and air-based transport to rail- and sea- based transportation, placing a lower burden on the environment.

● Shortening Transportation Distances by Changing Logistics Sites and Distribution Routes

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

In North America, in addition to our previous mid-continent logistics site for inkjet printers, we established another logistics base on the West Coast in the second half of 2004, radically shortening the transportation distance to this market. For business machines, we are promoting direct delivery to outlets, bypassing marketing subsidiaries. For Europe, shipments to Eastern and Northern Europe, the Middle East, South Africa, and other areas are dispatched directly from Asian manufacturing sites.

In Japan, we are using regional ports to shorten the transportation distances for imports and exports. We have increased our imports via Osaka port, adding to the importing we conduct through ports in the Kanto (Tokyo) region. We have also further shortened transportation distances for the products we export. We now use the port of Hachinohe in Aomori (in the far north of Japan) and have reorganized our warehousing in the Kinki (Osaka) region to be closer to the port of Nagoya.

● Promoting Modal Shifts

Canon strives to reduce CO_2 emissions through modal shifts around the world.

Since 2002 in Japan, we have been using ships and railroads as much as possible for parts logistics between Group manufacturing sites, and for product logistics to regional logistics centers. For logistics of used products collected for recycling as well, we use ships and railroads for some of the transportation from collection sites to recycling sites. We have especially focused on using rail for a greater percentage of our transportation, working with logistics companies to develop specially-made large containers for product artery logistics. As a result of these efforts, in 2005 Canon became one of the first companies in Japan to acquire corporate certification for the Eco Rail Mark[*2] system promoted by Japan's Ministry of Land, Infrastructure and Transport. In 2007 we again fulfilled the recertification criteria. We were able to shift approximately 8,450 large truckloads worth of cargo (including cargo transported by ship) to rail transport, reducing CO_2 emissions by 3,840 tons.

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

For shipping goods between Japan and China, we have shifted from air to sea shipments between Hakata (Japan) and Shanghai (China). Once the products arrive in Shanghai, their transportation within China is now done through a new system that connects to a high-speed freight railroad heading to Beijing or Guangzhou. Canon developed this new transportation system jointly with an outside logistics company, enabling us to shift from truck-based transport to rail transportation.

We have been promoting modal shifts by shipping products through combinations of sea- and rail-based transportation, which have a low environmental burden.
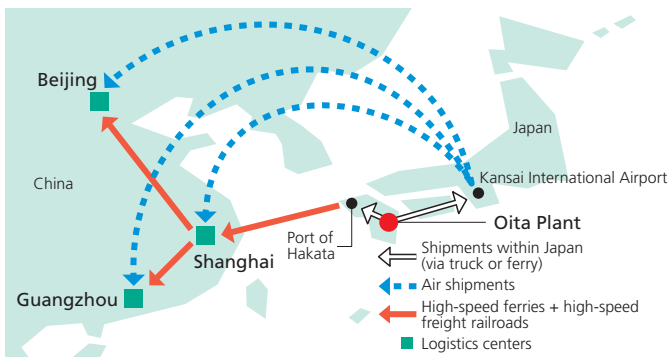
Eco Rail Mark

CO_2 Reductions due to Modal Shifts (Japan)
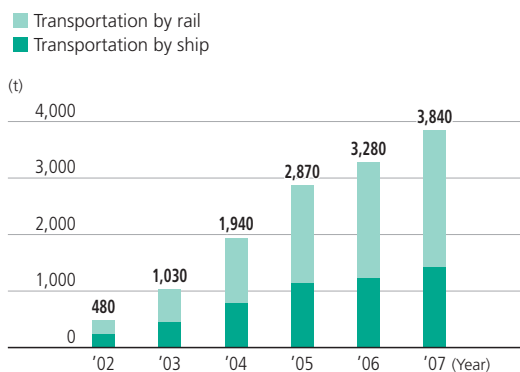
■ Transportation by rail
■ Transportation by ship

(t)

| Year	Total
'02	480
'03	1,030
'04	1,940
'05	2,870
'06	3,280
'07	3,840

Glossary

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

Modal Shifts between Japan and China

- Shipments within Japan (via truck or ferry)
- Air shipments
- High-speed ferries + high-speed freight railroads
- Logistics centers

Comparison of CO_2 Emissions (Ratio of emissions generated by truck, maritime, and rail transportation compared to air shipment emissions, with air shipment emissions at 100)

Air : truck : ship : rail = 100 : 15 : 4 : 2
(Rough guide to the environmental burden resulting from transporting one ton of freight over one kilometer in Japan)
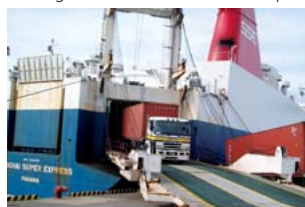
High-speed ferry

High-speed freight railroad

Use: Environmentally Conscious Products

| 2007 Highlights | • Canon reduced CO₂ emissions in the product use stage by 31% compared with the 2000 level, achieving a 14% reduction year-on-year. |

Global Warming Prevention and Energy Conservation

Canon aims for top-level energy efficiency in all product groups. Emissions of CO_2 during the product use stage were reduced by 31% in 2007 compared to 2000 (See page 15 for "Environmental Burden, Factor 2 Targets and Achievements").

● Applying Energy-Efficient Technologies to Broader Product Ranges

Canon uses energy-efficient technologies such as induction heating (IH) and on-demand fixing (see page 21) to drastically shorten warm-up times in copying machines, MFPs, laser beam printers, and other printers. We have expanded the application of these technologies to high-speed and color machines, thus advancing our overall energy efficiency.

Induction Heating (IH) Fixing Technology
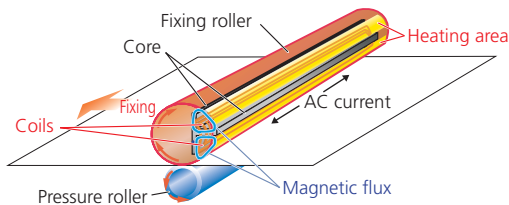
An electromagnetic induction heater induces an eddy current when magnetic flux passes through metal coils, heating the fixing roller itself. In this way, overall heat efficiency is improved and energy consumption can be reduced.

Resource Conservation

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

● Smaller, Lighter Products

Canon aims to make its products rank among the very smallest and lightest available in each product group. To improve on product functions and usability yet use fewer resources, we focus on reducing weight and size right from the development stage. Canon is extending this approach to include business machines, mirror projection aligners, and medical equipment, overcoming issues related to design and expansion of functions.

● Recycle-Conscious Design

From the development and design stages, Canon strives to attain 65% recyclability and 75% recoverability for its products, as stipulated by the EU Waste Electrical and Electronic Equipment Directive (WEEE Directive)[1]. We used assessment and evaluation results for all products to confirm that in 2007 we were meeting these targets during the design stage.

*Recyclability and recoverability apply to products falling under WEEE Directive Category 3 (IT and Telecommunications Equipment) and Category 4 (Consumer Equipment)

TOPICS

Receiving the 2008 ENERGY STAR® Award – Excellence in Product Labeling

Canon U.S.A., Inc. has been selected by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy to receive the 2008 ENERGY STAR® Award for Excellence in Product Labeling. This award recognizes Canon's high percentage of products qualifying for the ENERGY STAR® program and consistency in promoting public awareness of the program.

Canon remains a committed partner in reducing greenhouse gas emissions through continuous innovation of energy-efficient products. To date, Canon U.S.A., Inc. has received 10 ENERGY STAR® awards.

Receiving the ENERGY STAR® Award for Excellence in Product Labeling

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

Eliminating Designated Hazardous Substances from Products

Canon has built a Group-wide environmental assurance system for managing chemical substances in products. We have also developed products based on in-house standards that are more stringent than laws and industry voluntary restrictions.

● Eliminating and Replacing Designated Hazardous Substances

Since 1997, Canon has been working to eliminate designated hazardous substances by determining and controlling the substances contained in its products and developing substitution technologies as necessary.

The mercury in fluorescent lamps for printers and the lead in scanner lenses are currently exempted from the EU RoHS. However, Canon has been substituting parts and materials containing these substances with those not containing designated chemical substances, in anticipation of a future strengthening of regulations.

Compliance with REACH

Multiple laws and regulations addressing chemical substances have historically been in effect in the EU. Calls for a new management framework for these substances led to the integration of existing laws and regulations, which in turn led to the enforcement of the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) in June 2007. This regulation is applicable to all chemicals*1 and chemical substances within articles*2 that are manufactured in or imported to the EU. It mandates the registration of chemicals and notification of designated chemical substances found within articles.

Canon has been engaged in ongoing efforts to comply with this regulation concerning its chemicals, focusing on the assessment and pre-registration of chemical substances in use. We are actively involved in the industry's formulation of a relevant scheme for articles as we look ahead to the beginning of mandatory notification of chemical substances in 2011. Once the scheme is finalized, we will reflect it in our internal systems and steadily implement measures to meet the regulation's new requirements.

Managing Chemical Substances in Products and Promoting Green Procurement

Canon has made compliance with its Green Procurement Standards a condition for transacting business with suppliers since 1997. Our aim is to have all suppliers comply with rules for designated chemical substances in both parts and materials, thus ensuring the proper management of chemical substances in products. We hold explanatory meetings for suppliers in regions around the world so that they become thoroughly aware of and abide by these standards.

Under our Green Procurement Standards, we implement two tracks of assessments, first of the chemical management initiatives and organizational structure in place at our suppliers, and second of the chemical substances contained in the parts and materials procured from them. Canon carries out a further analysis in-house in the case of parts and materials with manufacturing processes that have the potential for commingling of designated chemical substances.

Green Procurement Standards

Canon's Primary Measures to Comply with REACH
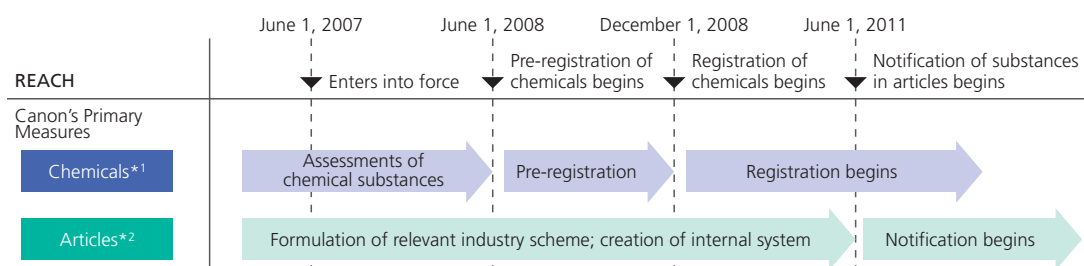
*1 Toners, inks, adhesives, and other chemical substances on their own or in preparations
*2 Copying machines, printers, cameras, and other such items produced

Improving the Reliability of Information Provided by Suppliers and Reducing the Burden on Suppliers

If every manufacturer were to require suppliers to carry out individual chemical substance surveys and build management systems, it would impose a burden on them. To resolve these problems, Canon is working on the following measures with other companies.

●Streamlining Environmental Assessments of Suppliers

Canon previously assessed environmental aspects of our suppliers' plants one by one for each company from which we purchased parts, resulting in a substantial burden for our suppliers and ourselves.

We have been using a simpler system since 2007 to assess corporate groups with an internal administrative division that have also formulated rules, conveyed them properly, and conduct internal audits. We now evaluate all suppliers' plants within such a group by assessing the group's situation on a consolidated basis as well as one representative plant (including through on-site assessments). Through this system we have significantly reduced the burden at these suppliers and improved efficiency at Canon.

When selecting a representative plant to assess, we choose the one we deem most likely to have the potential for commingling of designated chemical substances or other such risks. We work to reduce risks there to the same degree as in our conventional environmental assessments.

●Common Guidelines on Managing Chemical Substances

The Japan Green Procurement Survey Standardization Initiative (JGPSSI) was inaugurated in 2001 through Canon's efforts in mobilizing other companies in the industry. The JGPSSI has standardized both the substances to be assessed in surveys (24 substances) and the survey format, reaching agreement with industry associations in the United States and Europe to make these guidelines an international standard.
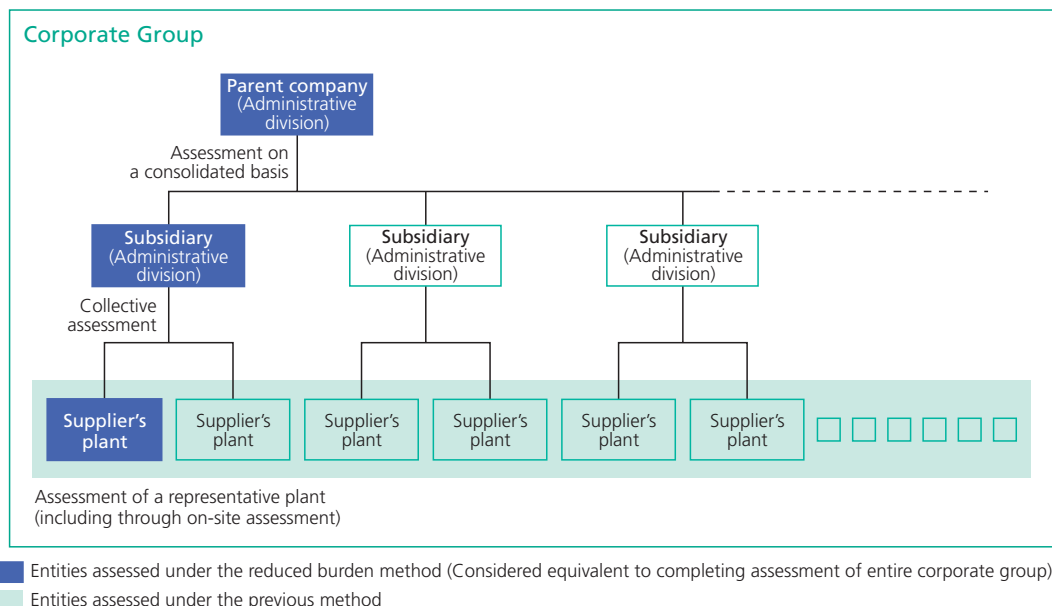
Based upon this agreement, in 2005 the JGPSSI formulated its Guidelines for the Management of Chemical Substances in Products, which defined a system for suppliers to manage chemical substances.

In line with these guidelines, in August 2006 Canon incorporated into its Green Procurement Standards various structures for managing procurement and processes with the aim of developing activities to spread the use of the guidelines among like-minded electrical and electronic equipment manufacturers and to further strengthen management throughout the supply chain.

Managing and Providing Product Environmental Information

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

Structure for Assessing Entire Corporate Groups

Entities assessed under the reduced burden method (Considered equivalent to completing assessment of entire corporate group)
Entities assessed under the previous method

●Compliance with the EuP Directive

The Directive on the eco-design of Energy-using Products (EuP) and associated Implementing Measures for groups of products have been under discussion in the European Union. When the EuP Implementing Measures enter into force, companies will be required to incorporate eco-design into their environmental management structure, assess environmental burden across entire product lifecycles, and disclose these assessment results. Canon is revising its Product Assessment Program and product environmental information system to prepare for compliance with this directive.

●Providing Product Environmental Information

Canon actively discloses a variety of product environmental information in Japan. Under the Eco-Leaf[1] program, begun in 2002, we disclose quantitative data on the environmental burden during the product lifecycle.

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

Eco-Leaf product environmental information

Providing environmental information through TED

Qualified Environmentally Conscious Products

From the product planning stage, Canon emphasizes compliance with regulations like Japan's Law on Promoting Green Purchasing[2] and programs like the International ENERGY STAR® Program[3] and the Eco Mark[4]. The table below shows the 2007 rate of compliance for Canon's main products and products covered by various standards. Our compliance rate remains among the very highest in the industry, with many product groups at 100% compliance.

The International ENERGY STAR® Program issued revised Energy Efficiency Standards Version 1.0 for imaging equipment as of April 1, 2007, and Canon is making sure that its products meet the increasingly strict stipulations of this new standard.

Canon is also hard at work qualifying under eco label programs outside Japan. With an eye on green purchasing laws around the world, we develop and design products that meet each country's standards. We also actively contribute public comments on the procurement standards of governmental organizations around the globe.

Major Eco-Labels

Eco Mark

Eco-Leaf

International ENERGY STAR®

Meeting Standards for Environmentally Conscious Products in 2007

Model	Law Promoting Green Purchasing (Japan)	Eco Mark (Japan)	International ENERGY STAR® Program
Copying Machines/MFDs	25/29 (86%)	26/29 (90%)	24/29 (83%)
Facsimile Machines	1/1 (100%)	—	1/1 (100%)
Laser Beam Printers (LBPs)	7/7 (100%)	7/7 (100%)	7/7 (100%)
Inkjet Printers	8/9 (89%)	9/9 (100%)	9/9 (100%)
Large-Format Printers	9/9 (100%)	0/9 (0%)	9/9 (100%)
Image Scanners	6/6 (100%)	—	5/6 (83%)
Total	56/61 (92%)	42/54 (78%)	55/61 (90%)

*Values show the number of models meeting specifications out of the number of models on sale in Japan, with the conformance ratio in parentheses. Facsimile machines and image scanners are outside the scope of Eco Mark specification.

Glossary

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

*2 Law on Promoting Green Purchasing
An abbreviation of the Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and other Entities, this Japanese law was enacted in April 2001. It stipulates that goods purchased by the national government and other public entities should be environmentally conscious.

*3 International ENERGY STAR® Program
This energy efficiency program was announced in 1992 by the U.S. Environmental Protection Agency (EPA). Products that meet energy efficiency standards bear the ENERGY STAR® logo.

*4 Eco Mark
This mark or label is given to products certified as protecting the environment or reducing environmental burden throughout the product lifecycle. Begun in 1989, it is the only Type I eco label in Japan consistent with ISO 14024.
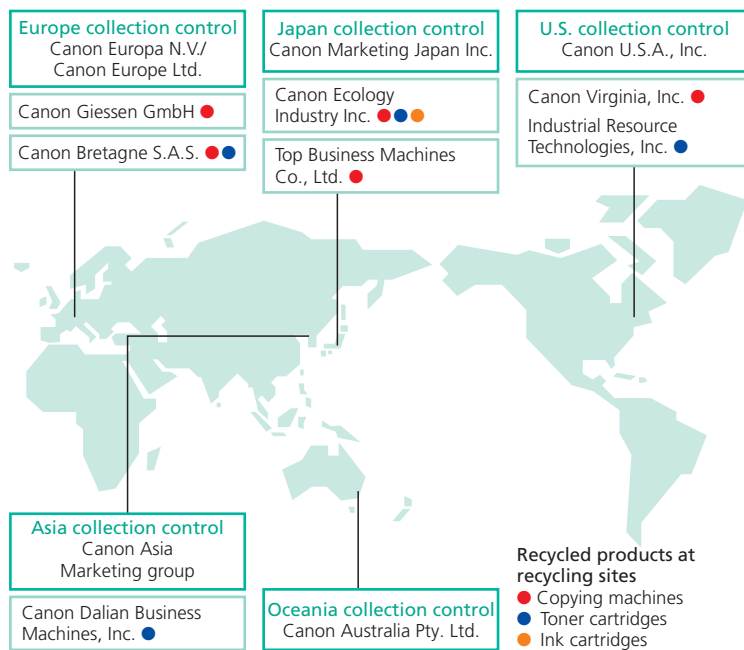
Recycle: Collection and Recycling

- Canon received several awards for its ongoing recycling initiatives and technologies.
- We began remanufacturing used color MFPs.

Recycling Systems Around the World

To help foster a sound material-cycle society, Canon is building recycling systems in regions around the world. We are promoting inverse manufacturing (IM), in which used products collected from customers are disassembled and sorted and their parts reused.

Canon Global Collection and Recycling System

Europe collection control
Canon Europa N.V./
Canon Europe Ltd.

Canon Giessen GmbH ●

Canon Bretagne S.A.S. ●●

Japan collection control
Canon Marketing Japan Inc.

Canon Ecology
Industry Inc. ●●●

Top Business Machines
Co., Ltd. ●

U.S. collection control
Canon U.S.A., Inc.

Canon Virginia, Inc. ●

Industrial Resource
Technologies, Inc. ●

Asia collection control
Canon Asia
Marketing group

Canon Dalian Business
Machines, Inc. ●

Oceania collection control
Canon Australia Pty. Ltd.

Recycled products at recycling sites
● Copying machines
● Toner cartridges
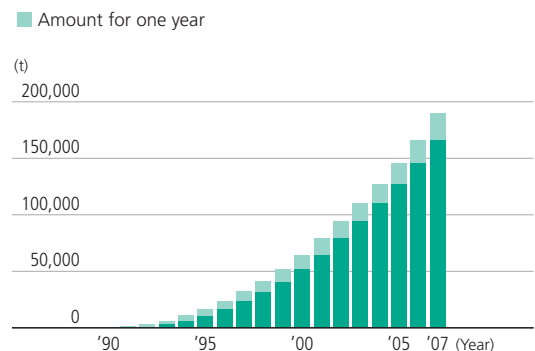● Ink cartridges

Various Recycling Activities

Remanufacturing Operations

Canon is remanufacturing used copying machines in Japan, the Americas, and Europe. In Japan we remanufacture used digital MFPs in the "Refreshed" series for the Japan market. Color MFPs were added in 2007 to the "Refreshed" product lineup. In our original remanufacturing systems we thoroughly clean exterior covers normally difficult to reutilize due to their soiled appearance, attaining a parts reuse ratio of up to 83% in terms of weight. The total environmental burden for all stages until the manufacturing stage has been reduced by approximately 76% in CO_2 equivalent.

iR C3200N-R: the first color MFP in the "Refreshed" series

Toner Cartridge Recycling Activities

In keeping with its corporate responsibility, Canon pioneered the collection of used toner cartridges in 1990 as a voluntary measure, even before regulations were established. We started toner cartridge recycling the following year.

It has been 17 years since we started the program and now our initiatives go so far as to include stipulations on green purchasing in Japan. To date, we have collected a total of 190,000 tons globally. All collected cartridges are utilized as reused parts in new products or in material recycling, and now we achieve 100% recovery. Through this toner cartridge recycling program, we have reduced the use of new resources by 110,000 tons and CO_2 emissions by 310,000 tons. These activities were honored with the Chairperson's Award from the Eco-Products Awards Steering Committee in 2007 and the Fuji Sankei Group Award at the 17th Global Environment Awards of Fuji Sankei Business in 2008.

Receiving the Fuji Sankei Group Award at the 17th Global Environment Awards

Toner Cartridges Collected (Accumulated volume by weight)

■ Amount for one year

(t)
200,000
150,000
100,000
50,000
0
'90 '95 '00 '05 '07 (Year)

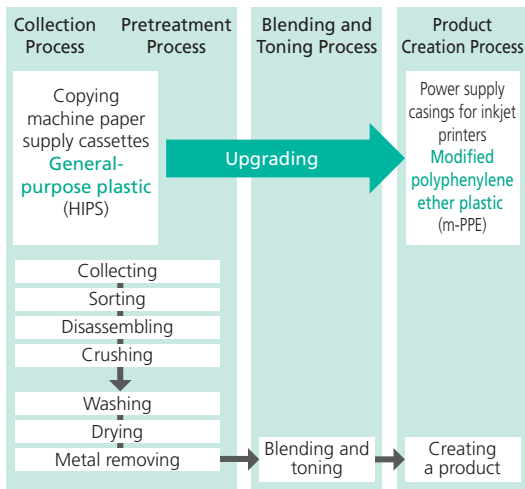### Closed loop recycling for toner cartridges

Collection

Closed Loop Recycle

Recycling

Use

●Using Recycled Plastic in Inkjet Printers

Canon uses the recycled plastic from copying machine paper supply cassettes to manufacture power supply casings for inkjet printers. In recognition of our recycling technology that delivers higher product quality, lower cost, and sufficient supply, combined with our cumulative achievements since 2002, in 2007 we received the Chairman's Prize from the Clean Japan Center in the category of 3R(Reduce, Reuse and Recycle)-Oriented, Sustainable Technology.

Recycling Process

Collection Process	Pretreatment Process	Blending and Toning Process	Product Creation Process
Copying machine paper supply cassettes **General-purpose plastic** (HIPS)	→ Upgrading →		Power supply casings for inkjet printers **Modified polyphenylene ether plastic** (m-PPE)
Collecting			
Sorting			
Disassembling			
Crushing			
Washing			
Drying			
Metal removing	→	Blending and toning	→ Creating a product

●Ink Cartridge Recycling Activities

Canon led the industry to launch a collection and recycling program for used ink cartridges at mass retailers and companies in Japan in 1996. We opened a plant for recycling materials at Canon Ecology Industry Inc. The material from the collected ink cartridges is recycled into the production of new ink cartridges, pallets for stacking products, eco-material containers, and other items.

The collection volume for 2007 totaled 103 tons (an 8% increase over the previous year), with 100% recovered (including by energy recovery). We have set a goal of collecting 180 tons in fiscal 2008.

Ink cartridges and stacking pallet made from collected ink cartridges

●Cartridge Collection Activities

Since 2005, Canon has expanded its collection network for used ink and toner cartridges to include schools in Japan. As a result, we can cooperate with the Bellmark Foundation's educational support activities for promoting environmental conservation and education and contributing to local communities. The number of schools participating rises steadily each year, with the number expected to top 10,000 in 2008.

To make employees throughout the entire Canon Group increasingly attuned to the need for recycling and resource conservation, since July 2007 we have set up collection booths at each Group company site to facilitate collection internally.

Collection through the Bellmark Campaign

TOPICS

Six Manufacturers' Used Ink Cartridge Joint Collection Project

Canon pioneered the collection and recycling of used ink cartridges in 1996. To boost collection rates still further, we considered it necessary to increase the number of collection points. We decided to create common collection points with other printer manufacturers, adding to our independent locations. We began a project in 2007 to achieve this, calling on five other inkjet printer manufacturers to participate. Joint collection was launched in April 2008, with over 3,600 post offices throughout Japan having common collection boxes for these six companies. This project has brought greater convenience to customers while reducing costs and collection burdens for the participating manufacturers. The collection rate is now expected to rise.

Moreover, we choose sorting companies employing large numbers of physically challenged persons, thereby assisting in increasing employment opportunities for them.

Collection box

Operational Sites Covered in the Environmental Section

Name	Location	Activities
Canon Inc. (14 operational sites)		
Shimomaruko Headquarters	Tokyo	R&D, corporate administration, operations, and other functions
Yako Office	Kanagawa	Development of inkjet printers and large-format printers, inkjet chemical products
Tamagawa Plant	Kanagawa	Development of quality management technologies
Kosugi Office	Kanagawa	Development of software for office imaging products
Hiratsuka Development Center	Kanagawa	Manufacturing of semiconductor devices
Ayase Office	Kanagawa	R&D and manufacturing of semiconductor devices
Fuji-Susono Research Park	Shizuoka	R&D in electrophotographic technologies
Utsunomiya Plant	Tochigi	Manufacturing of EF lenses, video camcorder lenses, broadcasting lenses, lenses for business machines, LCD projector lenses, other specialized optical lenses
Toride Plant	Ibaraki	Manufacturing of office imaging products and chemical products; R&D, mass-production trials and support in electrophotographic technologies
Ami Plant	Ibaraki	Manufacturing of mirror projection aligners and semiconductor exposure equipment
Utsunomiya Optical Products Plant	Tochigi	R&D, manufacturing, and servicing of semiconductor equipment; development of mirror projection aligners
Optics R&D Center	Tochigi	R&D in optical technologies, development and sales of broadcasting equipment
Kamisato Office	Saitama	Development of devices for medical equipment
Tsukuba Parts Center	Ibaraki	Storage of parts and management of shipping within and outside Japan
Marketing Headquarters in Japan		
Canon Marketing Japan Inc.	Tokyo	Marketing of Canon products and related solutions
Manufacturing Subsidiaries in Japan (20 companies)		
Canon Electronics Inc.	Saitama	Magnetic / business machine components, document scanners, portable data terminals
Canon Finetech Inc.	Saitama	Business machines, business machine peripherals, industrial-use printers and chemical products
Nisca Corporation	Yamanashi	Business machines, optical equipment
Top Business Machines Co., Ltd.	Shiga	Recycling of business machines
Canon Precision Inc.	Aomori	Micromotors; production of toner cartridges and sensors
Canon Chemicals Inc.	Ibaraki	Toner cartridges, advanced functional polymer components
Oita Canon Inc.	Oita	Digital cameras, digital video camcorders, EF lenses, compact photo printers, and others
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	LBPs, toner cartridges, A-Si drums
Oita Canon Materials Inc.	Oita	Chemical products for copying machines and printers
Canon Semiconductor Equipment Inc.	Ibaraki	Development and production of semiconductor production-related equipment
Canon Ecology Industry Inc.	Ibaraki	Recycling of toner cartridges; repair and recycling of business machines
Ueno Canon Materials Inc.	Mie	Chemical products for copying machines and printers
Fukushima Canon Inc.	Fukushima	Production of inkjet printers, print heads / ink tanks; analysis of software
Canon Mold Co., Ltd.	Ibaraki	Design and production of precise plastic molding
Canon ANELVA Corporation	Kanagawa	Development, production, sales, and maintenance of semiconductor, electronic, and R&D equipment
Canon Machinery Inc.	Shiga	Semiconductor and precision automation equipment
SED Inc.	Kanagawa	SED panels

Name	Country/Region	Activities
Manufacturing Subsidiaries Outside Japan (17 companies)		
Canon Virginia, Inc.	U.S.A.	Toner cartridges, toner for copying machines, OEM products, and mold die
Industrial Resource Technologies, Inc.	U.S.A.	Recycling of toner cartridges
Canon Giessen GmbH	Germany	Remanufacturing of copying machines; refilling of toner cartridges; refurbishing of semiconductor equipment
Canon Bretagne S.A.S.	France	Cartridge manufacturing and recycling; printed circuit board (PCB) speaker; medical peripherals
Canon Inc., Taiwan	Taiwan	EF lenses for cameras, projector lenses and other lenses, precision-metal molds
Canon Opto (Malaysia) Sdn. Bhd.	Malaysia	Digital cameras, EF lenses, optical lenses
Canon Electronics (Malaysia) Sdn. Bhd.	Malaysia	Magnetic components
Canon Hi-Tech (Thailand) Ltd.	Thailand	Inkjet printers, facsimile machines, MFPs
Canon Ayutthaya (Thailand) Ltd.	Thailand	Printed circuit board (PCB) units for inkjet printers
Canon Engineering (Thailand) Ltd.	Thailand	High precision molding dies, plastic injection molding parts
Canon Dalian Business Machines, Inc.	PRC	Production and recycling of toner cartridges; production of LBPs
Canon Zhuhai, Inc.	PRC	Digital cameras, LBPs, MFPs, contact image sensors
Canon Vietnam Co., Ltd.	Vietnam	Inkjet printers, LBPs, image scanners
Canon Zhongshan Business Machines Co., Ltd.	PRC	LBPs
Canon (Suzhou) Inc.	PRC	Color and monochrome MFPs, color LBPs
Canon Finetech (Suzhou) Business Machines Inc.	PRC	Business machines, business machine peripherals
Canon Finetech Nisca (Shenzhen) Inc.	PRC	Business machines, business machine peripherals
Marketing Headquarters outside Japan[1]		
Canon U.S.A., Inc.	U.S.A.	All products
Canon Europa N.V.	Netherlands	All products
Canon Europe Ltd.	U.K.	
Canon (China) Co., Ltd.	PRC	All products
Canon Australia Pty. Ltd.	Australia	All products

Other Companies Covered[1]		
In Japan (19)		Marketing (10), other (9)
Outside Japan (41)		Marketing (34), other (7)

[1] Including data only for companies attaining ISO 14001 consolidated certification. However, for major marketing subsidies, this incorporates data on product collection volumes and recovery rates as well.

Canon and Stakeholders

Canon and Stakeholders

Relations with Customers

- Canon formulated a Basic Policy on Product Safety to offer products and services that bring enhanced safety and peace of mind to customers.
- Construction began on the Tamagawa Laboratory (provisional name) in Japan.

Realizing Canon Quality

●Approach to Quality

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

1) utilizing the latest technology to deliver exceptional, high-quality products and prompt service based on a careful assessment of customer needs, and

2) making every effort to prevent consumers and their property from being harmed or damaged by a product or service malfunction.

Ensuring product safety is the foundation of our quality-assurance activities. That is where the value lies in the products that Canon has developed as a precision equipment manufacturer, remaining unchanged over time. We are fully committed to earning the trust of customers by providing well-developed services and support along with well-designed products that are easy to use and reliable.

In 2007, Canon adopted the theme of safety, smartness, and satisfaction to reflect the essence of its product quality. To offer customers products that are

Realizing Canon Quality: Safety, Smartness, and Satisfaction

Canon Quality
safety+smartness+satisfaction

Safety
Products that do not break, cause injury, or have defects
Smartness
Products that are easy to use, well-designed, and reliable
Satisfaction
Products that the customer is happy to own, impressed by, and eager to keep using

safe while also providing peace of mind and satisfaction, we implement stringent quality-control measures at every stage from planning, development, and production to sales and after-sales services.

●Making a Total Commitment to "Quality First"

Canon has built quality assurance systems appropriate for different countries and regions based on the Canon Quality policy. Canon Group companies around the world work collaboratively to develop optimal quality assurance systems of their own.

In 2007 Canon inaugurated the Quality Innovation Strategy Committee under the chairmanship of the President and COO. The committee aims to further improve product quality across the full range of processes, from development to production, sales, and after-sales services. In 2008 the entire Canon Group is working to uphold the President and COO's policy of making a total commitment to "quality first."

Ensuring Customer Safety

●Responding to Product Safety or Quality Issues

Canon regards the prevention of product safety or quality issues to be the most fundamental imperative for manufacturers. Besides refining our quality testing through the construction of the Tamagawa Laboratory (provisional name) in Japan, should a problem arise, we ensure prompt and appropriate countermeasures, such as investigating the cause, undertaking repairs free of charge, and disclosing information to the public.

We keep our valued customers informed about product safety or quality issues and remedial procedures by putting Product Advisory Statements on our company website immediately. In 2007 we disclosed product malfunction information for eight instances, including for personal-use copying machines, digital cameras, and facsimile machines. We promptly took measures such as inspecting the causes and undertaking repairs free of charge.

Measuring chemical substances released from a digital MFP

● Establishing a Voluntary Action Plan for Product Safety

In July 2007, Canon's Board of Directors set down the company's Basic Policy on Product Safety as a part of its fundamental policy on establishing an internal control system. This policy is currently posted on the Canon website.

That policy was the springboard for formulating a Voluntary Action Plan for Product Safety in March 2008 to ensure that we are customer-oriented and focused on product safety. Every Group company is now advancing these Group-wide initiatives.

● Pursuing "Substantial Safety"

Product safety and durability are critical aspects of quality for customers.

We have established our own product safety technical standards that not only meet legally stipulated safety standards, but also take into account customer perspectives on product use. We conduct rigorous safety control in design, evaluation, and manufacturing as we strive to create substantially safe products ("substantial safety*1") that meet all of these standards.

● Safety Assessments of Chemical Substances Released from Products

Consumers have recently become more aware of product safety as a result of newspaper and other media reports on the release of chemical substances from home appliances. At Canon, we assess chemical emissions*2 from the earliest stages of product development so that customers can use our products with complete confidence. We measure emissions of benzene, styrene, ozone, and dust as necessary to earn Germany's Blue Angel environmental label and additionally assess chemical substances for which human exposure limits have been established around the world. We verify that emission levels meet our own independent standards, which are set at higher safety levels.

The testing laboratory carrying out these assessments is an impartial and neutral organization that has been certified as a test facility for applications for the Blue Angel mark and has received ISO/IEC 17025 certification from the Japan Accreditation Board for Conformity Assessment. Its assessments comply with ISO/IEC 28360 methods.
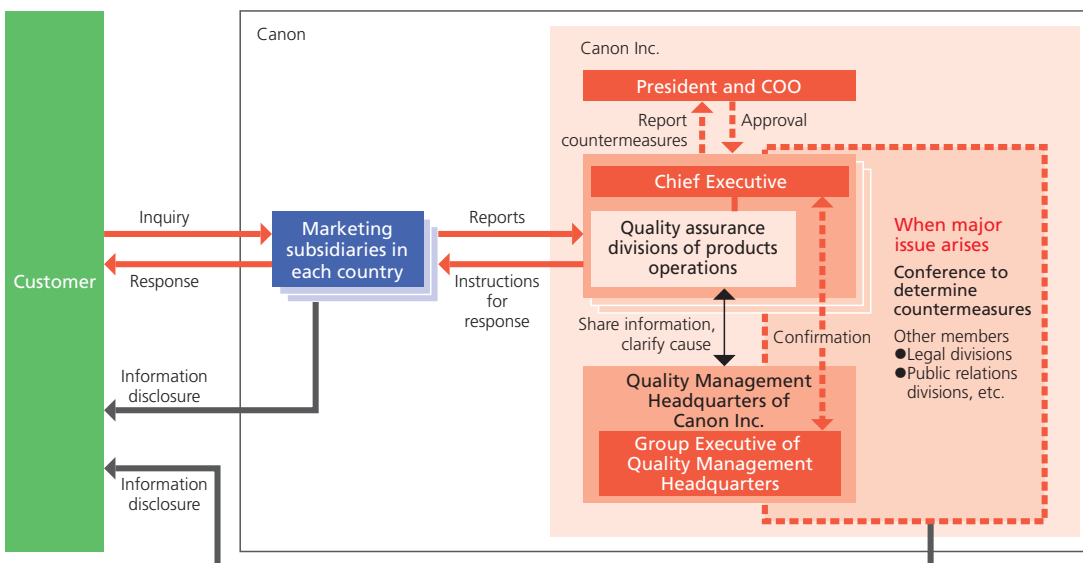
Glossary

*1 Substantial safety
An approach to ensuring product safety by taking into account the overall social climate, technological advances, and anticipated customer usage, moving beyond what is prescribed in legal and regulatory frameworks

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

Flowchart of Countermeasures to Product Malfunctions or Quality Issues

→ When issue arises   ▪▪▶ When major issue arises   ➡ Information disclosure

Canon

Canon Inc.

President and COO

Report countermeasures ↕ Approval

Chief Executive

Customer

Inquiry →

Response ←

Marketing subsidiaries in each country

Reports →

← Instructions for response

Quality assurance divisions of products operations

Share information, clarify cause

Confirmation

When major issue arises

Conference to determine countermeasures

Other members
● Legal divisions
● Public relations divisions, etc.

Quality Management Headquarters of Canon Inc.

Group Executive of Quality Management Headquarters

Information disclosure

Information disclosure

Instilling Customer Trust

● Pursuing Beauty and Comfort

Canon has formulated methods for quantitatively evaluating and measuring the "beauty" and "comfort" that people feel toward printed materials. We have used these methods to develop practical-use development tools to achieve uniform high-quality color reproduction consistently from input to output. We have cultivated academic-industrial alliances to establish techniques for evaluating and measuring the beauty and comfort of TV images and motion pictures.

With respect to sound, we have researched the auditory impact on users of sounds from product operations and ambient noise, with the aim of creating sounds that are the most pleasing to the ear. We are also developing quiet products with minimal operating noise.
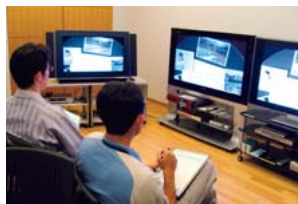
Test to evaluate beauty and comfort

● Analyzing Emotional Reactions and Realistic Sensations

No established indicators exist for evaluating the effect that a visual image makes on people, such as its ability to move someone emotionally or give someone the feeling of really being there in the scene.

Canon analyzes the psychological factors involved when a person regards an image as "high quality" in the hopes of establishing metrics for emotional reactions, realistic sensations, and other feelings that emerge when viewing a visual image.

Evaluating people's comfort toward images

TOPICS

Building the Tamagawa Laboratory (provisional name) in Japan

Canon has been enhancing its testing capabilities to accommodate planning for increasingly sophisticated new products. We are ensuring that radio-frequency testing facilities, VOC experiment facilities, and various other testing equipment meeting public standards are installed in every location needing them.

The Tamagawa Plant (Kawasaki, Kanagawa) in Japan, our base for quality management technology development, now has under construction comprehensive testing facilities conforming to measurement testing demands for the vast array of highly advanced digital products under development. Measurement testing of radio frequencies, electrical waves, sound, and other variables can now be conducted under a single roof.

The new laboratory facility will include a state-of-the-art radio frequency anechoic chamber, semi-anechoic chamber, and flame resistance evaluation facility, solidly reinforcing Canon's testing capabilities. The facility will become a model for assessing the level of quality management in measurement testing precision and efficiency improvements.

The measurement capabilities of this facility are expected to be among the most advanced in the industry. We will bring our products fully in line with public standards, utilizing these new in-house capabilities for accreditation testing for ISO/IEC and UL standards addressing noise and radio frequencies and evaluating flame-retardant materials.

The new laboratory facility will be available for use by the entire Canon Group, effectuating higher testing efficiency and greater measurement precision across the Group. Construction is scheduled for completion in autumn 2008.

Features of the Tamagawa Laboratory (provisional name)

- Accreditation facility compliant with ISO/IEC and UL specifications (accreditation expected in fiscal 2009). Capable of conducting in-house accreditation testing for FCC, VCCI, CISPR, BAM (Blue Angel), and UL
- Features a chamber not using any wedge-shaped absorbers with a wide effective measuring area, enabling measurement of large-size copying machines (Semi-anechoic chamber)
- Capable of measuring at 1.6 times the demands of the CISPR 22 standards (Radio frequency anechoic chamber)
- Capable of measuring high frequency range exceeding 1 Ghz (Radio frequency anechoic chamber)
- Capable of evaluating flame resistance in accordance with IEC flame spread standards (Flame resistance evaluation facility)
- Capable of conducting in-house experiments in a 4m × 4m evaluation facility to recreate combustion of components and units (Flame resistance evaluation facility)

Image of the completed Tamagawa Laboratory (provisional name)

We are also using data from biological reactions of the visual and autonomic nervous systems to research methods for quantitatively evaluating feelings of comfort or discomfort that occur when viewing images.

● **Pursuing Operability that Puts Less Stress on Muscles and Joints**

Canon is using physiological response measuring devices to assess the electric potential within muscles and the angles of users' joints when operating copying machines and other devices to research movements and postures that impose less stress on the body.

Simulations to estimate muscle strain have led to product quality improvements, including large-format printers in which roll paper can be set with minimal stress to the body.

Assessment using a physiological response measuring device

Fostering Customer Satisfaction

● **Customer Support Online**

Canon has launched a global customer relationship management (GCRM) platform in order to offer online support services to its customers.

Through this platform, we provide support-related information on our website, including answers to FAQs, product specifications, user guides, and drivers and other downloadable software, to help customers resolve problems by themselves whenever necessary.

To improve customer accessibility, in 2007 we posted this information on the websites of our marketing subsidiaries around the globe, converting to a system in which all support processes are conducted on identical sites.

Site usage will be continually monitored with feedback going to the respective products operations. We update the site as appropriate to incorporate frequently searched key words, making it easier for customers to make full use of the contents.

GCRM platform screen

Call center at Canon Europe responding to customer inquiries from 20 countries

● **Incorporating Customer Opinions into Product Development**

Canon has established call centers at its marketing subsidiaries around the world to respond to customer inquiries and provide comprehensive support. Our Call Analysis Tracking System (CATS) compiles information from all of our call centers into a global database at our company Headquarters. This information is effectively utilized by the divisions in charge of development and production along with our regional marketing subsidiaries to improve the quality of our products and user guides and to develop new products. In addition to these measures, we conduct surveys to gauge customer satisfaction levels and user needs in order to better understand the demands of our customers.

● **Assessing Customer Satisfaction through an In-House Monitoring System**

When conducting highly confidential user tests prior to the launch of a new product, we have employees evaluate the product from the user's point of view through our in-house monitoring system. User-oriented evaluations help us enhance a product's ease of use by assessing the preferred image quality and the realistic sensations perceived during operation. Such activities benefit both the division running the assessment and the monitors, who find ideas to improve their own work and products.

In-house monitoring system

Relations with Shareholders and Investors

2007 Highlights	●Acquired approximately 71 million of Canon's own shares ●Raised the full-year dividend per share by ¥27

Dialogue with Shareholders and Investors

●Prompt and Appropriate Information Disclosure

As of December 31, 2007, Canon Inc. was listed on the Tokyo, New York, Osaka, Nagoya, Fukuoka, and Sapporo exchanges, with approximately 1,334 million outstanding shares and approximately 160,000 shareholders.

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

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

Through these efforts, the company endeavors to gain the trust of capital markets and enable proper assessment of its corporate value and appropriate stock price. The company has also created systems enabling feedback of opinions and requests received from shareholders and investors to relevant internal divisions. In 2000, Canon Inc. began publishing a monthly IR report, which is distributed to the company's executives and the presidents of major Group companies in order to help improve the management of the company and its businesses.

●Dialogue with Individual Investors

Canon Inc. has adopted various measures to encourage broader participation in the company by individual investors.

The share trading unit for Canon Inc. stock was lowered from 1,000 to 100 shares on May 6, 2004, and the company conducted a 3-for-2 stock split of its common shares on July 1, 2006. The objective of these measures was to reduce the unit investment amount, making it easier for individuals and others to invest in the company's shares.

Canon Inc. also created a special portal site for individual investors on its IR website that provides easy access to various kinds of corporate information, from business operations and financial information to descriptions of new technologies and environmental initiatives.

The number of individual shareholders as of December 31, 2007 was approximately 155,000, marking an increase over the previous year of roughly 37,000.

Reference: Canon Inc. Investor Relations
http://www.canon.com/ir/

●Dialogue with Investors outside Japan

The percentage of Canon Inc. shares owned by non-Japanese investors is high, at 43.5% as of December 31, 2007.

Canon Inc. therefore makes diligent 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, the company has also created IR bases in Europe and the United States.

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

English-language IR site

Main IR Activities

Main Events
- Corporate strategy conference hosted by a Representative Director for institutional investors and analysts (held annually, about 120 participants)
- Financial results conference for institutional investors and analysts (held quarterly, about 170 participants)
- Financial results conference calls for institutional investors outside Japan (held quarterly)
- Individual visits to institutional investors in Japan to discuss financial results (conducted quarterly)
- Business conference for institutional investors and analysts (held semiannually)
- Small meetings of investors hosted by securities companies (held as needed)
- Visits to major institutional investors outside Japan to discuss management policy (North America, Europe)
- Company briefings to salespersons of securities companies for individual investors (held as needed)

Daily Activities
- Responding to inquiries and requests for information from institutional investors and analysts (more than 400 a year)
- Responding to phone inquiries
- Responding to surveys inquiring about Canon's socially responsible investment (SRI)

Return to Shareholders

●Policy on Shareholder Return

Dividends are central to Canon Inc.'s policy of returning profits to shareholders directly. The company's consolidated payout ratio for 2007 was 28.8%, bringing it closer to its commitment to attain a consolidated payout ratio of 30% through gradual increases in dividends.

In returning profits to shareholders, Canon Inc. raised its full-year dividend for the year ended December 31, 2007, to ¥110 ($0.96), an increase of ¥27 per share (calculated on a post-July 2006 stock split basis).

EPS and Dividends

■ EPS (basic)
■ Per share dividend
● ROE
■ ROA
▲ Consolidated payout ratio
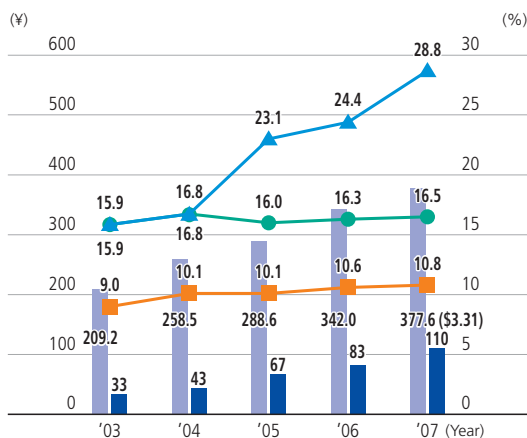
Note: EPS (basic) and dividends per share are shown at post-stock split value.

External Corporate Assessments

●Credit Rating

Canon Inc. is rated by one Japanese and two U.S. credit rating agencies. Canon's rating is extremely high, reflecting the company's strong financial position.

In February 2008, Moody's Investors Service upgraded the long-term rating of Canon Inc. from Aa2 to Aa1. This was a result of favorable evaluations for the ongoing robust performance of core products and the company's expected ability to maintain high financial flexibility over the medium term through strong cash flow.

Ratings by Key Agencies

Credit Rating Agencies	Long-Term Credit Rating	Short-Term Credit Rating
Standard & Poor's	AA	A-1+
Moody's	Aa1	—
Rating and Investment Information	AA+	—

(As of April 30, 2008)

●Canon's Inclusion in Sustainability Investment Indexes

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

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

Key Sustainability Investment Indexes

Sustainability Investment Indexes	Management Body
FTSE4Good Global 100 Index	FTSE (U.K.)
Ethibel Sustainability Index Global	Ethibel (Belgium)
Morningstar Socially Responsible Investment Index	Morningstar Japan K.K. (Japan)

TOPICS

Acquisition of Canon's Own Shares in Five Tranches

In 2007, Canon Inc. put in place measures to purchase its own shares, acquiring some 71 million shares in five tranches through September 25, 2007, for a total of approximately ¥450 billion. In addition to raising the company's capital efficiency, these acquisitions allow the company to pursue a flexible capital strategy, making possible future M&As and the like.

Canon Inc. will continue to implement measures for such purposes as circumstances demand, taking into account future investment and capital plans.

Relations with Suppliers

- **Thirteen manufacturing sites in Japan completed training seminars for supplier evaluators.**
- **All major manufacturing sites outside Japan undertook supplier evaluator training.**

Promoting Fair and Transparent Business Transactions

● Fundamental Procurement Policies

The cooperation of suppliers is essential to implementing Canon's EQCD concept*[1], which stipulates the timely delivery of high-quality products at reasonable prices to customers around the world while showing due consideration for the environment.

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

Canon has promoted a policy of green procurement*[2] since 1997. As an extension of this strategy, we are now making comprehensive arrangements to prepare for the introduction of a new policy for Corporate Social Responsibility (CSR) procurement. In keeping with our corporate philosophy of *kyosei*, our CSR procurement will address not only environmental concerns but also issues of social welfare.

Fundamental Procurement Policies

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

● Reinforcing Compliance in Procurement

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

This code falls under the wider Canon Group Code of Conduct and stipulates that Group employees of the procurement divisions abide by its content, maintaining compliance with all applicable laws and ordinances at all times while upholding corporate ethics.

Canon has also established a specialized department within its procurement division to conduct internal audits. We are strengthening procurement compliance around the globe by concentrating on the enhancement of procurement ethics at our manufacturing sites outside Japan, especially in Asia, and on greater fairness in subcontracting agreements at our manufacturing sites in Japan.

Partnership with Suppliers

● Cooperative Activities with Suppliers

Canon holds regular briefings for suppliers on procurement policies and business trends at its operational sites and manufacturing subsidiaries to boost understanding of the company's business plans and procurement policies. These activities promote cooperation with suppliers.

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

Briefing on business trends by the Peripheral Product Operations Division at Canon's Shimomaruko Headquarters

● Development of Procurement Information Infrastructure

Canon is redeveloping its procurement information infrastructure through the introduction of electronic ordering and estimate systems to improve the exchange and sharing of procurement information with suppliers. These initiatives promote increased productivity and greater time savings in business operations for both Canon and its suppliers.

Renewal of electronic ordering systems for all manufacturing sites in Japan was completed by the end of 2006. The first stage involved upgrading systems for procuring production materials. Expansion to manufacturing sites outside Japan commenced in 2007 and will be completed in 2008. We will renovate ordering systems for indirect materials and expand them to associated suppliers from 2008.

We intend to introduce electronic estimate systems at manufacturing sites in Japan, to be followed by manufacturing sites outside Japan.

Glossary

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

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

Promoting Open Procurement

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

This site solicits marketing information, including products handled and manufacturing consignment information, from companies worldwide (excluding intellectual property such as designs, ideas, and inventions). We started raising in-house awareness of marketing information in 2006 to increase usage of the site. Products proposed on this site are now being used in Canon products.

In addition, an Open Call Parts List announces parts and materials that Canon is seeking to purchase through open tender.


Canon's Suppliers Proposal Site

Fair and Transparent Selection of Suppliers

Mechanism for Supplier Selection

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

Canon also subjects existing suppliers to regular 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.

Mechanism for Parts Selection and Procurement
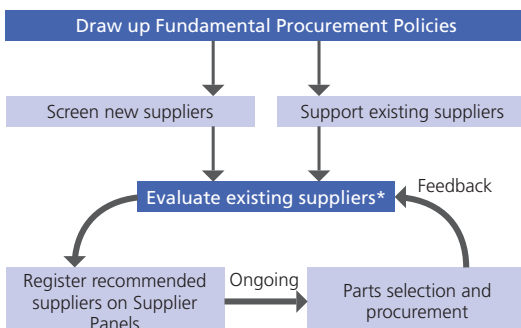
*Carry out evaluator training to standardize evaluation criteria and adjust variations between evaluators

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

Training for Supplier Evaluators

Since 2005, Canon has made use of a supplier evaluator training system to ensure that its assessments of suppliers in Japan are fair and transparent. Designed to compensate for variations among evaluators, the training program aims to raise evaluator levels by fostering evaluation knowledge using sample evaluations of hypothetical suppliers. In 2007, training seminars were held in Japan for supplier evaluators who had never undertaken the coursework before. Programs were completed at 13 manufacturing sites, including Canon Inc. Toride Plant, Canon Electronics Inc., Canon Finetech Inc., and Canon Chemicals Inc.

For sites outside Japan, training for supplier evaluators was first conducted in 2006, with all major manufacturing sites adopting this system by 2007.

Through evaluations based on these activities, we come to understand the strengths and weaknesses of suppliers. By sharing the evaluation results with suppliers, Canon promotes future mutual development.

Relations with Employees

- **Six operational sites in the Canon Group were designated as JISHA OSHMS certified sites.**
- **Canon Inc. introduced maternity leave and a fertility treatment cost assistance system.**

Canon's Employment Concept

●Basic Human Resource Policy

To become a truly excellent global corporation, Canon must create fair worker-management relations and use open communication and practical education to motivate each employee to continue growing as an "excellent person."

Based on this objective, Canon is building a corporate culture that encourages an enterprising spirit by guaranteeing human respect for the values of ambition, responsibility, and mission, and by guaranteeing fair and impartial evaluation based on merit. At the same time, we emphasize education of the next generation of leaders through employee and management training (see page 24).

●Guiding Principles of the "Three Selfs" Spirit

Since the company's founding, Canon's guiding principles have been based on the "*San-Ji*" or "Three Selfs" spirit. All employees are urged to pursue excellence in their day-to-day activities, demonstrating 1) self-motivation: proactively taking the initiative; 2) self-management: conducting oneself responsibly and with accountability; and 3) self-awareness: knowing one's position, roles, and circumstances.

Guiding Principles

Three Selfs	Adhere to the principles of self-motivation, self-management, and self-awareness in day-to-day activities
Meritocracy	Make Vitality (V), Specialty (S), Originality (O), and Personality (P) daily pursuits
Internationalism	Strive to become a culturally sensitive, internationally minded, sincere and active person
Familism	Strengthen trust and understanding of others and work together in a spirit of harmony
Health First	Live by the motto "healthy and happy" and work to cultivate character

Supporting Personal Growth and Skill Development

●Supporting Employee Career Advancement

Canon Inc. employees increase their motivation and specialized skills through various training schemes.

In recent years, Canon Inc. has worked to develop strong individuals and a strong organization by focusing on management-level employees through programs that include rank-based training for all managers appointed to new positions. The company is diversifying its training format and content through the active use of various e-learning-based training programs.

Canon Inc. has also set up a career-matching system to support our employees in building satisfying careers. The system aims to match the right people to the right jobs, promote internal mobility of human

resources, and bring greater vitality to its internal organization. Canon Inc. continuously posts vacancies and has in-house career consultants conduct interviews during the selection process to encourage individuals to further their careers.

●Recognition and Award Programs

Canon supports recognition and award programs to honor employees for their outstanding achievements. The Canon President Award of the Year honors employees who have made a major contribution to the development of the company or an outstanding contribution to business in such categories as management, technology, production, and key components.

Other awards include the Invention Award, which is given to recognize employees who have contributed to inventions and intellectual property; the Member of the Canon Academy of Technology designation, which is bestowed on engineers with outstanding skills; the Production Innovation Award, which recognizes outstanding technology and production-related innovations; the Canon Master Craftsman System and the Canon Expert (Multi-Skilled Worker) System, which recognize individual specialties that contribute to superior production; and the Quality Award for contributions to quality improvement.

A Super-Grade Expert (the highest rank)

●"Job Card" System

Canon Inc. supports the Japanese government's introduction of the "job card" (certificate of practical job skills) system, which fosters employment opportunities for people who have not experienced favorable job training opportunities in the past. The company implemented its job card system in March 2008, ahead of the proposed launch date. As of April 2008, Canon Inc. is providing vocational training to 17 job seekers for a six-month period and plans to issue job cards documenting their program of study once the training is complete.

A Master Craftsman at the Utsunomiya Plant

Creating a Comfortable Work Environment

● Employment and Worker-Management Relations

The Canon Group has approximately 131,000 employees worldwide. Of these, approximately 55,000 work in Japan, accounting for 42% of all Group employees. That number has been increasing as a result of more robust production activities and enhanced research and development. Employment in China and Southeast Asia has also greatly expanded, contributing to the economic development of the region.

Canon's worker-management relations are founded on a spirit of prior consultation so that problems are resolved through thorough discussion. Candid and sincere discussions with employees are held whenever we implement policies that affect wages, working hours, health and safety, and welfare.

In Japan, Canon Inc. convenes a Central Worker/ Management Conference with the Canon Workers' Union every month in order to maintain good worker-management relations, while Group companies have formed the Canon Group Workers' Union Conference to do the same.

We will continue to encourage changes leading to the continuous development of the company through the concerted efforts of workers and management, based on mutual understanding and trust.

● Promoting Respect for Individuals and Prohibiting Discrimination

The Canon Group Code of Conduct promotes respect for individuals and prohibits discrimination and sexual harassment. We strive to maintain a fair, comfortable, and safe work environment by having zero tolerance for any discrimination based on race, religion, nationality, gender, or age. This applies to all Group executives and employees, no matter what their rank or duties, and to all matters of human resource policy.

● Eliminating Child Labor and Forced/ Compulsory Labor

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

● Supporting Work-Life Balance and Success for Women

Canon Inc. offers support for employees raising children up to the age of three through childcare leave, a childcare leave support program, and reduced work hours for parents with small children. These initiatives extend beyond legal requirements, enabling employees to concentrate on childcare responsibilities with ease of mind. In fiscal 2007, seven male employees in addition to all female employees with newborns took advantage of childcare leave. Also in 2007, Canon Inc. introduced various pregnancy-support systems, including maternity leave to protect the health of pregnant women, a fertility treatment cost-assistance program that covers 50% of related medical expenses, and a fertility treatment-leave system.

Also, the company places importance on fostering the careers and activities of women, creating a work environment in which motivated women can flourish over the long term. As a result of these improvements, the average length of service at Canon Inc. as of the end of 2007 was 16.0 years for men and 16.1 for women. There are now 148 women who hold positions at the level of assistant manager or higher, with that number increasing yearly.

Furthermore, the company will establish a licensed day-care facility that is open to the local community in 2009 at its Shimomaruko Headquarters in Ohta-ku, Tokyo to actively support parents in working and raising children in their local community.

● Making Group Companies a Part of the Local Community

In an effort to build locally based management systems, Canon is appointing appropriate personnel as presidents of marketing subsidiaries, regardless of nationality. As of the end of 2007, about 90% of Canon subsidiaries in Europe had locally hired presidents.

Web

● International Training
● Canon Educational System
● Canon Inc. Worker-Management Relations

● **Hiring the Physically Challenged**

With respect for the ideal of normalization*1 as advocated by the United Nations, Canon is proactive in employing the physically challenged. We are taking various steps to create a work environment that is more comfortable for physically challenged employees, including the preparation of barrier-free facilities and workplace systems.

Canon Inc. currently employs over 300 people with physical challenges, who serve as full-time employees in an extensive array of positions. Our efforts in introducing worker-friendly measures has brought the percentage of physically challenged employees to 1.9% as of April 2008, expanding employment opportunities for people with physical challenges.

● **Reemployment After Retirement**

In 1977, Canon Inc. became one of the first companies in Japan to set the retirement age at 60. Five years later, in 1982, it introduced a system for reemploying retired employees until the age of 63. Next, in 2000, the company revised its recruitment system for reemployment and launched an internal offering system to recruit employees for repeat hiring. Most recently, in 2007, Canon Inc. boosted this upper limit from 63 to 65.

Through the aggressive promotion of such strategies, Canon Inc. seeks to build a work environment that enables veteran employees to utilize valuable years of experience and knowledge and enjoy "Active Aging."

In 2007, 90 of the 193 who reached retirement age chose reemployment, with 210 working under this system by the end of that year. These veterans draw on their experience and expertise to foster junior engineers and serve as consultants for production operations, among other important responsibilities.

● **Promoting Proper Management of External Personnel**

Canon prioritizes compliance in all its operations. In recent years, employment practices toward dispatch and contract workers have become a growing social issue in Japan. In August 2006, Canon Inc. established the Promotion of Proper External Personnel Management Committee, headed by the President and COO, to ensure proper management of these workers across the company.

In April 2007, we initiated the Workforce Configuration Reform Program Division as a specialized organization within the Human Resources Management & Organization Headquarters. We developed this division into a committee in October, launching the Workforce Configuration Reform Committee. This committee is responsible for maintaining and managing appropriate employment of external personnel. It is also charged with ensuring ideal employment structures and optimal personnel breakdowns across the Canon Group.

Canon continues to refine its proactive approach to employment practices. We have strengthened Group-wide initiatives to reassess employment plans at Group manufacturing divisions. In 2007, some 5,400 people were employed at Canon Group companies and operational sites in Japan, hired mostly from the local communities. In 2008, the Group plans to hire approximately 6,000 people, furthering employment opportunities for these communities.

The Canon Group has introduced an examination system through which employees currently working for Group companies under limited-term employment contracts can become full-time employees. We seek candidates with a broad understanding of job responsibilities to take the initiative in workplace management, production reform, and cost reduction.

● **Compensation System**

Canon Inc. has introduced a position-based pay system to evaluate and compensate individuals fairly and impartially, regardless of gender or age.

In this system, remuneration is determined based on job duties and performance. Basic pay scales incorporate rankings of various positions in the company based on the degree of difficulty and other factors. An employee's individual achievements as well as work-related processes and performance over the course of the year are then evaluated to finalize the amount of annual remuneration. Bonuses reflect both individual achievements and the company's performance for the year.

Canon U.S.A. and Canon Europe, along with other Group companies in North America and Europe, have for many years used a compensation system based on job duties and performance. This is gradually being introduced at operational sites in Asia as well.

Glossary

*1 The Ideal of Normalization
According to the World Programme of Action concerning Disabled Persons in the United Nation's International Year of Disabled Persons, our society is made up of many different types of people and it is the normal human condition for people with and without disabilities to co-exist in all kinds of settings. Therefore, we should create an environment in which everyone can live and work together.

Canon Inc. Employee Data

	'03	'04	'05	'06	'07
Employees taking child-care leave	107	113	86	94	110
Employees taking nursing-care leave	18	7	12	9	8
Non-managerial employees who have transferred via internal recruiting	128	120	49	64	61
Managers who have transferred via internal recruiting	7	2	7	13	15

Enhancing Occupational Health and Safety

● Protecting the Health and Safety of Employees

Canon places high priority on the health and safety of employees as it carries out business activities, adhering to the company's philosophy of "management without safety is not management." Since our founding, we have promoted the "Health First" principle.

We consider maintaining employee health pivotal to corporate and individual prosperity. Based on this awareness, we promote training for independent health management (self-care) as well as strategies to bolster employee well-being and mental healthcare.

Policy and Slogans of Central Health and Safety Activities

Central Health and Safety Policy
- Acting in unison to raise the health and safety standards of the Canon Group under our belief of "management without safety is not management"
- Maintaining and improving the mental and physical health of individuals and fostering a work environment that is healthful, comfortable, and pleasant to work in

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

● Health and Safety Measures

Although the number of workplace accidents has stayed roughly the same in recent years, rapidly changing environments arising from technological innovations have increased latent hazards.

Canon is promoting occupational health and safety activities to establish a preemptive safety structure that can respond to these changes in the environment. The Health and Safety Committee, comprising managers and regular employees, takes the initiative to coordinate these activities.

● Promoting the Introduction of an Occupational Safety and Health Management System

Canon began introducing an Occupational Safety and Health Management System (OSHMS)*2 in 2000 and established an internal auditing system in 2003.

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

Status	Sites/Group Companies
Certified*	2 sites, 6 Group companies (8 operational sites)
Introduced	0 sites, 1 Group company
Introduction planned	3 sites, 3 Group companies

(As of December 31, 2007)

*"Certified" refers to sites or companies that have been inspected by the certifying body and passed the inspection; "introduced" refers to sites or companies where the system has been introduced, with inspection by the certifying body typically conducted approximately one year later.

Aiming to implement OSHMS at all of our manufacturing sites, we are actively integrating International Labour Organization (ILO) OSHMS guidelines into our operations as well as incorporating evaluation and consulting results based on guidelines stipulated by Japan's Ministry of Health, Labour and Welfare. Our sites are also moving to acquire JISHA OSHMS Certification*3.

In 2007, six operational sites—the Toride Plant, Nagahama Canon Inc., Canon Components, Inc., and three sites at Canon Precision Inc.—were designated as JISHA OSHMS certified sites. Other operational sites, mainly in Japan, are preparing to introduce JISHA OSHMS as well.

● Implementing Health and Safety Auditing and Appropriate Risk Assessment

In 2005, Canon established the Health and Safety Auditing Standard to monitor compliance with related laws and regulations at operational sites not implementing OSHMS. Health and safety auditing has been implemented since 2006.

Before, risk assessments were conducted primarily at production divisions. These will be extended to research and development divisions in compliance with amendments to Japan's Occupational Health and Safety Law from April 2006, which make risk assessment measures for the prevention of workplace accidents mandatory.

● Prevention of Lifestyle-Related Diseases

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

We intend to cooperate with the corporate health insurance union to respond to revisions to the healthcare system taking effect in 2008. We will be making greater efforts to raise awareness of metabolic syndrome as well as employees' overall health and fitness levels throughout the year.

Targets and Performance (Canon Inc.)

Total cholesterol of 240 mg/d or more

(%)	0	10	
		Target: 10%	
'05		11.4	
'06		11.0	
'07		10.6	
(Year)			

Smoking rates

(%)	0	30	
		Target: 31%	
'05		31.5	
'06		30.0	
'07		29.4	
(Year)			

Management Systems

Canon and the Environment

Canon and Stakeholders

Glossary

*2 OSHMS
Occupational Safety and Health Management System

*3 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. As of December 31, 2007, 215 sites had acquired this certification.

Relations with the Local and Global Community

Social Contribution Activities

● Humanitarian Aid and Disaster Relief

Canon (China) Co., Ltd. extended assistance to the residents of the city of Pu'er, located in Yunnan Province in southwestern China, in response to the magnitude-6.4 earthquake that struck the area on June 3, 2007. Learning that the disaster area was lacking supplies for schoolchildren in particular, the company sent a panel with signed messages and 10,000 pairs of shoes as a gift to the municipal government and the citizens of Pu'er, funded in part through donations raised by employees.

Canon Marketing (Malaysia) Sdn. Bhd. and Canon Opto (Malaysia) Sdn. Bhd. provided support in southern Malaysia, which has been suffering flood damage due to heavy rains since the end of 2006. Employees of the two companies donated food, water, clothing, and other relief goods, filling a 40-foot container. The companies raised approximately ¥4.6 million ($40,351) in donations and a relief party of Canon employees visited the evacuation areas, distributing some 30 tons of relief goods by hand to the affected people.

In Japan, Canon Inc. supports the Office of the United Nations High Commissioner for Refugees (UNHCR), which works to protect the rights of refugees, resolve refugee issues, and provide assistance of food, medical care, and housing.

Donation to the municipal government of Pu'er, Yunnan Province, China

● Conservation of the Environment

Canon supports the activities of the World Wide Fund for Nature (WWF) in Europe, Canada, and Asia. Since becoming the WWF's first corporate Conservation Partner in 1998, Canon Europe Ltd. has supported the WWF in numerous ways.

Canon (China) supports the China Wildlife Photography Training Camp. At this camp, wildlife conservationists and photographers use Canon equipment to capture images of nature and animals. The company hopes that the appeal of these images will foster wildlife conservation and research.

Canon Inc. works to beautify the local environment around its operational sites throughout Japan. Canon Inc. employees and their family members held a cleanup campaign for a two-kilometer strip along the banks of the Tama River next to the company's Shimomaruko headquarters, which had been strewn with large amounts of debris during Typhoon in September 2007.

The China Wildlife Photography Training Camp

● Social Welfare

At Canon Cares for Your Life, an event held in July 2007 to commemorate the 70th anniversary of the founding of Canon Inc., four Canon Group companies based in Thailand donated laser surgery equipment to the Prasat Neurological Institute, the National Cerebro-neurological Research Institute of Thailand. The donation will contribute to the enhancement of medical techniques for treating cerebrovascular disorders, one of the three leading causes of death in Thailand.

In 2008, Canon U.S.A., Inc. celebrates ten years of partnership with the National Center for Missing & Exploited Children, an organization dedicated to the problems of child abduction and exploitation, providing funding and equipment to support the center's activities.

Canon donates medical equipment to the Prasat Neurological Institute in Thailand

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●Local Communities

At Canon U.S.A., an employee volunteer team called the Canon Clean Earth Crew participates in local volunteer activities across North America. This group has contributed to local communities by improving parks, cleaning up coastal areas, and restoring historical sites.

Canon (UK) Ltd. has an in-house organization known as Community Action Review Enterprise (CARE) that interacts with local communities and charity projects in the U.K. The group supports a number of educational, humanitarian, and environmental endeavors. Canon UK employees regularly volunteer for charity fund-raising and other events.

Canon Clean Earth Crew

●Education and Science

Canon provides funding and educational support to the Center for Optical Research & Education at Utsunomiya University, which was established with the aim of cultivating engineers to support optics technology industries in the future and advancing technological development in the field of applied optics.

In addition, Canon U.S.A. sponsors the Canon Envirothon, the largest-scale high school environmental competition in North America. Each year, students from the United States and Canada participate in the competition, testing their knowledge of the environment while deepening their understanding of science.

Canon Envirothon

●Art, Culture and Sports

Canon was active in promoting activities for the Japan-China Exchange Year of Culture and Sports 2007, which marked the 35th anniversary of the normalization of diplomatic relations between Japan and China, taking on the role of chairman of the executive committee. This initiative involved the citizens of both countries in various cultural and sporting events, providing an opportunity to advance bilateral understanding.

Canon sponsors Canon Cup Junior Soccer, a championship futsal (five-a-side soccer) tournament for elementary school-aged boys and girls from across Japan. Outstanding players in the tournament are selected to join a representative team and participate in an international soccer tournament to deepen international goodwill.

The Japan-China Exchange Year of Culture and Sports 2007

Canon Cup Junior Soccer 2007: Representative team for Japan

Third-Party Opinions

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

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

David St. Maur Sheil

Canon's 2008 CSR report is comprehensive in covering a wide range of CSR issues as well as providing an introduction to the guiding *Kyosei* philosophy, vision and strategy of the Group. As with previous years significant detail is provided on key areas of Canon's strength, in particular environmental management, related technological innovation and intellectual property protection activities.

A key challenge for Canon is the process they use to identify and highlight the major sector and company issues facing the Group and how this is presented in future reports. The importance of this is that it provides a means to assess the evidence and degree of strategic focus by Canon on environmental, social and governance issues. Canon has taken a very valuable step forward on this by introducing a materiality section, highlighting five "materiality themes" in the report. It is hoped that this signals the start of an ongoing process towards identifying and providing information on the key materiality issues not only from the perspective of Canon but also from it's leading stakeholders. It will therefore be interesting to see what steps Canon continues to take to develop the materiality process both within the group and via dialogue with key stakeholder groups, and how this influences the strategic focus of Canon. One way that this could be developed in future reports is to re-organize relevant content around the materiality themes, as currently some issues get covered in different sections of the report. This is notable for instance with such issues as governance, climate change activities and supply chain sourcing. Another way is to provide one or more focus items in the front-section of each report on key themes.

Material areas in which it would be valuable to have more detailed information include the extent to which Canon is co-ordinating with industry groups and competitors on supply chain sourcing and the social and ethical aspects of supply-chain sourcing. The protection of personal and consumer data is also an area that is developing into an increasingly challenging theme.

Overall, I would like to congratulate Canon once more on producing a detailed CSR report and also on continuing to place a strong emphasis on engaging in a sincere manner with the third-party commentators as an integral part of the CSR reporting process.

About the Third-Party Opinions

Canon has received third-party opinions* from two commentators every year since 2003, Mr. David St. Maur Sheil of the Association for Sustainable and Responsible Investment in Asia (AsrIA) and a prominent expert from the Wuppertal Institute (Mr. Justus von Geibler, beginning this year). As a result, the commentators are able to offer opinions from a medium- to long-term perspective on how well this report meets their expectations regarding the information included in the report, the quality of performance it conveys, and its usefulness for substantial engagement.

To ensure a meaningful exchange of views with the commentators, we held dialog sessions both at the planning stage of this report and at the preparatory stage of third-party opinions, reflecting the commentators' suggestions in the report to the greatest extent possible. (See the table at the right for details.)

These third-party opinion pages include the main items discussed with the commentators—specifically, the items worthy of praise and the key issues to be addressed over the long term.

Based on the issues raised by the commentators and opinions from other stakeholders, Canon is stepping up its sustainability activities and striving for more complete information disclosure through this report and other media. For more information on the third-party opinion process and the main points brought up in the dialogs with the commentators, see the Canon website (URL: canon.com/environment).

*These third-party comments are the personal views of the authors and not the verification of the report contents or data. They do not imply any endorsement from their organizations.

Third-Party Opinion from Justus von Geibler, Wuppertal Institute

Project co-ordinator,
Sustainable Production and
Consumption Department,
Wuppertal Institute for Climate,
Environment, Energy
URL: www.wupperinst.org

Justus von Geibler

For realizing sustainable development, all actors in the society need to acquire the ability to cope with existing and new challenges and to adapt to new conditions through active learning. An effective and proactive approach to innovation and organisational leaning requires a shared vision, a clear understanding of responsibilities, openness to stakeholders as well as a positive culture to deal with recognized shortcomings. From reading the Canon Sustainability Report 2008 and being involved in the third-party commentary process, I see that Canon is proactively addressing those challenges.

One of outstanding improvements made in this year's report is the newly introduced presentation of "materiality themes". In my view, the identified themes are significant for Canon's economic, environmental, and social performance and relevant to the assessments and decisions of most of stakeholders. With respect to the theme of technological innovation, Canon could more explicitly direct their search for innovation towards core sustainability issues such as overall reduction of greenhouse gases through use-phase contributions or suitable health care technologies in developing countries. This way, Canon could develop new business opportunities and at the same time promote new sustainable markets.

To fulfill Canon's ambition to be an industry leader, a key future challenge will be to take this "materiality process" forward. This includes a specification of more explicit objectives, measures, indicators for all material issues, a more integrated and coherent business management system and continuous reporting on progress against those indicators. Hereby, an open and transparent way of dealing with current shortcomings and underachievements for some targets is crucial in order to continue learning and developing the trust necessary for industry leaders. I highly welcome Canon's plan to conduct a materiality theme review through a stakeholder survey to substantiate the reporting process. I believe that Canon is well-prepared to keep learning and to continue the impressive progress in Canon's sustainability reporting in coming years.

Commentator Opinions and Canon's Responses in the Dialogue Sessions

Main Suggestions	Main Reflections in the Report (New Content in the 2008 Report)	Location in the 2008 Report
Introduce a materiality section to pursue sustainability.	A new materiality section "Pursing Sustainability" has been introduced.	P11–29
Carry out a survey of stakeholders to identify materiality themes for the 2009 report.	A plan for a stakeholder survey to identify materiality themes for the 2009 report will be examined.	—
Describe Canon's actions about the development of medical products and other innovative products.	The development of medical products and other innovative products has been explained in the new materiality section "Pursing Sustainability."	P14
Explain information security in the products and in the corporate management.	Information security in products (iR C3580/iR C3580i as a representative case) as well as in corporate management has been explained.	P21, P35–36
Describe Canon's actions in supporting education.	Activities to support youth education have been explained in the new materiality section "Pursing Sustainability."	P25–26
Explain that third-party opinions are not verification of the report contents or data.	An explanation has been added that third-party opinions are not verification of the report contents or data.	P77

Cover Photo

1	
	2
3	4

Canon Europe has supported WWF activities since 1998 when it became WWF's first Conservation Partner.

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PUB.ECO04E 0807T12.7 Printed in Japan