CANON INC
Form 20-F
April 13, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO
SECTION 12(b)
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005
OR
o TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
OR
o SHELL COMPANY REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission file number
001-15122

CANON KABUSHIKI KAISHA
(Name of Registrant in Japanese as specified in its charter)
CANON INC.
(Name of Registrant in English as specified in its charter)
JAPAN
(Jurisdiction of incorporation or organization)
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan
(Address of principal executive offices)
Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
(1) Common Stock (the shares)	New York Stock Exchange*
(2) American Depositary Shares (ADSs), each of which represents one share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.
None
(Title of Class)

Securities for which there is a reporting obligation pursuant
to Section 15(d) of the Act.

None
(Title of Class)
* Not for trading, but only for technical purposes in connection with the registration of ADSs.
Indicate the number of outstanding shares of each of the issuer s classes
of capital or common stock as of the close of the period covered by the
annual report.
As of December 31, 2005, 888,742,779 shares of common stock, including 49,384,651
ADSs, were outstanding.

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 þ Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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CERTAIN DEFINED TERMS, CONVENTIONS AND PRESENTATION OF FINANCIAL INFORMATION

All information contained in this Annual Report is as of December 31, 2005 unless otherwise specified.

References in this discussion to the Company are to Canon Inc. and, unless otherwise indicated, references to the financial condition or operating results of Canon refer to Canon Inc. and its consolidated subsidiaries.

On March 31, 2006, the noon buying rate for yen in New York City as reported by the Federal Reserve Bank of New York was Yen117.48= U.S.$1.

The Company s fiscal year end is December 31. In this Annual Report fiscal 2005 refers to the Company s fiscal year ended December 31, 2005, and other fiscal years of the Company are referred to in a corresponding manner.

FORWARD-LOOKING INFORMATION

This Annual Report contains forward-looking statements and information relating to Canon that are based on beliefs of its management as well as assumptions made by and information currently available to Canon Inc. When used in this Annual Report, the words anticipate, believe, estimate, expect, intend, may, plan, project and sho expressions, as they relate to Canon or its management, are intended to identify forward-looking statements. Such statements reflect the current views and assumptions of the Company with respect to future events and are subject to risks and uncertainties. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon s targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. Canon Inc. does not intend or assume any obligation to update these forward-looking statements.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected financial data

The following selected consolidated financial data has been derived from the consolidated financial statements of Canon as of each of the dates and for each of the periods indicated below. This information should be read in conjunction with and qualified in its entirety by reference to the Consolidated Financial Statements of Canon Inc. and subsidiaries, including the notes thereto, included in this Annual Report. These financial statements have been audited by Ernst & Young ShinNihon, Independent Registered Public Accounting Firm as of and for the year ended December 31, 2005 and 2004. The financial statements for periods prior to the year ended December 31, 2004 were audited by KPMG AZSA & Co., Independent Registered Public Accounting Firm.

Selected financial data *1:	2005	2004	2003	2002	2001
	(Millions of yen except average number of shares and per share data)				
Net sales	¥3,754,191	¥3,467,853	¥3,198,072	¥2,940,128	¥2,907,573
Operating profit	583,043	543,793	454,424	346,359	281,839
Income before cumulative effect of change in accounting principle	384,096	343,344	275,730	190,737	163,869
Net income	384,096	343,344	275,730	190,737	167,561
Advertising expenses	106,250	111,770	100,278	71,725	66,837
Research and development expenses	286,476	275,300	259,140	233,669	218,616
Depreciation of property, plant and equipment	205,727	174,397	168,636	158,469	147,286
Capital expenditures	383,784	318,730	210,038	198,702	207,674
Long-term debt, excluding current installments	27,082	28,651	59,260	81,349	95,526
Common stock	174,438	173,864	168,892	167,242	165,287
Stockholders equity	2,604,682	2,209,896	1,865,545	1,591,950	1,458,476
Total assets	4,043,553	3,587,021	3,182,148	2,942,706	2,844,756
Average number of common shares in thousands	887,174	885,365	878,649	876,716	875,960
Per share data:					
Income before cumulative effect of change in accounting principle:					
Basic	¥ 432.94	¥ 387.80	¥ 313.81	¥ 217.56	¥ 187.07
Diluted	432.55	386.78	310.75	214.80	184.55
Net income:					
Basic	¥ 432.94	¥ 387.80	¥ 313.81	¥ 217.56	¥ 191.29
Diluted	432.55	386.78	310.75	214.80	188.70
Cash dividends declared	100.00	65.00	50.00	30.00	25.00
Cash dividends declared (U.S.$)*2	$ 0.870	$ 0.601	$ 0.464	$ 0.254	$ 0.196

Notes:

1. The above financial data are prepared in accordance with U.S. generally accepted accounting principles.

2. Annual cash dividends declared (U.S.$) translated from yen based on a weighted average of the noon buying rates for yen in New York city as reported by the Federal Reserve Bank of New York in effect on the date of each semiannual dividend payment.

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The following table provides the noon buying rates for Japanese yen in New York City as reported by the Federal Reserve Bank of New York expressed in Japanese yen per U.S.$1 during the periods indicated and the high and low noon buying rates for Japanese yen per U.S.$1 during the months indicated.

Yen exchange rates per U.S. dollar:	Average	Term end	High	Low
2001	122.18	131.04	114.26	131.47
2002	124.81	118.75	115.71	134.77
2003	115.83	107.13	106.93	121.42
2004	107.63	102.68	102.56	114.30
2005 - Year	110.74	117.88	120.93	102.26
- 1(st) half		110.91	110.91	102.26
- July		112.25	113.42	110.47
- August		110.84	112.12	109.37
- September		113.29	113.32	109.66
- October		116.36	116.36	113.54
- November		119.66	119.66	116.63
- December		117.88	120.93	115.78
2006 - January		116.88	117.55	113.96
- February		115.82	118.95	115.82
- March		117.48	119.07	115.89

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk Factors

Canon is one of the world s leading manufacturers of plain paper copying machines, digital multifunction devices, laser beam printers, bubble jet printers, cameras, steppers and aligners.

Primarily because of the nature of the business areas and geographical areas in which Canon operates and the highly competitive nature of the industries to which it belongs, Canon is exposed to a variety of risks and uncertainties in carrying out its businesses, including, but not limited to, the following:

Risks Related to Canon s Industries

Canon has invested and will continue to invest heavily in next-generation technologies. If the market for these technologies does not develop as Canon expects or if its competitors produce these or competing technologies in a more timely or effective manner, Canon s operating results could be materially adversely affected.

Canon has made and will continue to make investments in next-generation technology research and development initiatives. Canon s competitors may achieve research and development breakthroughs in these technologies more quickly than Canon, or may achieve advances in competing technologies that render products under development by Canon uncompetitive. In step with the continuous evolution in technologies, Canon has increased the size of its investment in development and manufacturing. If Canon s business strategies diverge from market needs, Canon may not recover some or all of its investment, lose business opportunities, or both, which may materially adversely affect Canon s operating results. While differentiation in technology and product development is an important part of Canon s strategy, Canon must also accurately assess the demand for and perceived market acceptance of new technologies and products that it develops. If Canon pursues technologies or develops products that do not become commercially accepted, its operating results could be adversely affected.

It is assumed that Canon will enter into the new business field by having next-generation technology as Canon s corporate strategy. However, even if Canon enters into new field of business, there are risks that Canon may not establish a business model or may get involved in competition with new competitors. If such risks arise, Canon s operating results will be adversely affected.

If Canon does not effectively manage transitions in its products and services, its operating results may decline.

Many of the businesses in which Canon competes are characterized by rapid technological advances in hardware performance, software functionality and product features, the frequent introduction of new products, short product life cycles, and continual improvement in product price characteristics relative to product performance. If Canon does not make an effective transition from existing products and services to new offerings, its revenue and profits may decline. Among the risks associated with the introduction of new products and services are delays in development or manufacturing, low product marketability due to poor product quality, variations in manufacturing costs, delays in customer purchases in anticipation of new introductions, difficulty in predicting customer demand for new product offerings and difficulty in effective management of inventory levels in line with anticipated demand. Canon s revenue and gross margin also may suffer due to the timing of product or service introductions by its competitors. This risk is exacerbated when a product has a short life cycle or a competitor introduces a new product just before Canon s introduction of a similar product. Furthermore, sales of Canon s new products and services may replace sales of, or result in discounting of, some of its current product offerings, sometimes offsetting the benefits derived from the introduction of a successful new product or service. Canon must also ensure that its new products are not duplicative or do not overlap with existing products and operations. Given the competitive nature of Canon s businesses, if any of these risks materialize, future demand for its products and services will be reduced and its results of operations may decline.

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Canon s businesses, especially the digital multifunction device and camera businesses in which Canon operates, is highly competitive.

The recent trend of rapid digitalization has resulted in the entry of new competitors, such as electronics manufacturers and other specialized companies which were not active during the analog camera era. If the digital camera industry develops more rapidly than at the pace that Canon anticipates, Canon may not be able to maintain its position as an industry leader in many of its business categories. Although Canon believes that it has successfully kept pace with this trend toward digitalization, its survival in this increasingly competitive environment will depend on our investments in research and development, ability to cut costs and commitment to continuously providing the market with attractive products offering high added-value.

In addition, the unexpected emergence of strong competitors through mergers and acquisitions or the formation of business alliances may change the competitive environment of the businesses in which Canon engages, thereby affecting Canon s future results of operations.

Because the semiconductor industry is highly cyclical, Canon may be adversely affected by any downturn in the industry.

The semiconductor industry is characterized by up and down business cycles, the timing, length and volatility of which are difficult to predict. Recurring periods of oversupply of integrated circuits have at times led to significantly reduced demand for capital equipment, including the steppers and aligners Canon produces. Despite this cyclicality, Canon must maintain significant levels of research and development expenditures in order to maintain its competitive position. Canon s business and operating results could be materially adversely affected by future downturns in the semiconductor industry and related fluctuations in the demand for capital equipment in general, and particularly by memory manufacturers.

In addition, liquid crystal display (LCD) panel manufacturers are facing severe price-reduction of LCD panels as a result of intense competition of LCD televisions and LCD monitors used in PCs. As a result, panel manufacturers may reduce equipment investment, which may adversely affect Canon s business operations.

Downturns in the semiconductor industry have caused Canon s customers to change their operational strategies, which in turn may affect Canon s business.

Many device manufacturers have changed their business models to focus on the design of semiconductors, while consigning the production of semiconductors to lower-cost foundries. Canon cannot accurately predict the future effect of these trends on its business. However, as research and development, manufacturing and sales activities become increasingly globalized in response to these trends, shifting particularly to emerging markets, unexpected global developments, such as adverse regulatory or legal changes and unanticipated events, such as natural disasters, may adversely affect Canon s business operations.

In addition, there are only approximately ten companies in the world which produces large-sized LCD panels in the world. If Canon cannot keep up with the market trend of LCD panel industries, including market reorganization, Canon may not be able to maintain its customer which may materially adversely affect Canon s business operations.

The semiconductor equipment industry is characterized by rapid technological change. If Canon does not constantly develop new products to keep pace with technological change and meet its customers requirements, Canon may lose customers and its business may suffer.

Canon s steppers and mask aligners are affected by rapid technological change and can quickly become obsolete. Canon believes its future success in the steppers and aligners business depends on its ability to continue to enhance its existing products and develop new products using new and more advanced technologies. In particular, as semiconductor pattern sizes continue to decrease, the demand for more technologically advanced steppers is likely to increase. Although Canon will continue to offer cost effective products by managing manufacturing costs through its technology, Canon s existing stepper and mask aligner products could become obsolete sooner than anticipated because of faster than anticipated changes in one or more of the technologies related to Canon s products or in the market demand for products based on a particular technology. Any failure by Canon to develop the advanced technologies required by its customers at progressively lower costs and to supply sufficient quantities to a worldwide customer base could adversely affect Canon s net sales and profitability.

Growing diversification in recording media may adversely affect Canon s video camcorder business.

As part of the overall digitization of the consumer electronics market, the video camera market is successfully moving toward digitalization. At the same time, in the market that was once dominated by MiniDV standard, new digital standards, such as DVD (Digital Versatile Drive), HDD (Hard Disk Drive), SD (Secure Digital) memory card and high-resolution recording format such as HDV, have appeared. If these competing standards gain wide acceptance in the market, sales of Canon s products using mainly the MiniDV standard may decline.

In addition, Canon may be required to incur significant research and development expenditures to develop new products that are compatible with such new standards. Such trends may have an adverse affect on Canon s video camcorder business as well as its operating results.

Risks Related to Canon s Business

Canon derives a significant percentage of its revenues from Hewlett-Packard.

Canon depends on Hewlett-Packard for a significant part of its business. For fiscal 2005, approximately 21% of Canon s net sales were to Hewlett-Packard. As a result, its business and results of operations may be affected by the policies, business and results of operations of Hewlett-Packard. Any decision by Hewlett-Packard management to limit or reduce the scope of its relationship with Canon would adversely affect Canon s business and results of operations.

Canon depends on a limited number of suppliers for certain key components.

Canon relies on a limited number of outside vendors which meet Canon s strict criteria for quality, efficiency and environmental friendliness for certain critical components used in its products. In some cases, Canon may be forced to discontinue its production of some or all of its products if certain vendors that supply key parts across Canon s product lines experience unforeseen difficulties, or if such parts experience quality problems or are in short supply. Canon s reliance on a limited number of suppliers involves several risks, including a potential inability to obtain an adequate supply of required components, the risk of untimely delivery of these subassemblies and components and the risk for a substantial increase in price of these components to occur. If such risks arise, Canon s operating results will be adversely affected.

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Although competition is increasing in the market for sales of supplies and services following initial product placement, Canon maintains a s high market share in sales of such supplies. As a result, Canon may be subject to antitrust-related suits, investigations or proceedings which may adversely affect its operating results or reputation.

A portion of Canon s net sales consists of sales of supplies and the provision of services occurring after the initial equipment placement. As these supplies and services have become more commoditized, the number of competitors in these markets has increased. Canon s success in maintaining these post-placement sales will depend on its ability to compete successfully with these competitors, some of which may offer lower-priced products or services. Despite the increase in competitors as described above, Canon currently possesses a high market share in the market for supplies. Accordingly, Canon may be subject to suits, investigations or proceedings under relevant antitrust laws and regulations. Any such suits, investigations or proceedings may lead to substantial costs and have an adverse effect on Canon s operating results or reputation.

Recent increases in counterfeit Canon products may adversely affect Canon s brand image and its operating results.

In recent years, Canon has experienced a worldwide increase in the emergence of counterfeit Canon products. Such counterfeit products may diminish Canon s brand image, particularly if purchasers of such products are unaware of their counterfeit status and attribute the counterfeit products poor product quality to Canon. Canon has been taking measures to halt the spread of counterfeit products. However, there is no assurance that such measures will be successful, and the continued production and sale of such products could negatively affect Canon s brand image as well as its operating results.

Per unit production costs are highest when a new product is introduced, and if such new products are not successful or if Canon fails to achieve cost reductions over time, Canon s gross profits may be adversely affected.

The unit cost of Canon s products has historically been the highest when they are newly introduced into production and have at times had a negative impact on its gross profit, operating results and cash flow. Cost reductions and enhancements typically come over time through:

engineering improvements;
economies of scale;
improvements in manufacturing processes; and
improved serviceability of products.

Initial shipments of Canon s new products adversely affect its profit or cash flow, and if sales of such new products are not successful, Canon may be unable thereafter to improve its gross profit, operating results and cash flow.

Cyclical patterns in sales of Canon s products make planning and inventory management difficult and future financial results less predictable.

Canon generally experiences seasonal trends in the sale of its consumer- oriented products, which results in sales fluctuations. Accordingly, it is difficult to predict near-term demand which as a result places pressure on Canon s inventory management and logistics systems. If predicted demand is substantially greater than actual orders, there will be excess inventory, thereby putting downward pressure on selling prices and reducing Canon s revenue. Alternatively, if orders substantially exceed predicted demand, Canon s ability to fulfill orders may be limited, which could adversely affect net sales and increase the risk of unanticipated variations in its results of operation. Many of the factors that create and affect seasonal trends are beyond Canon s control.

Canon s business may be subject to changes in sales environment.

In certain geographic areas, particularly in Europe and the United States, a substantial portion of market share is concentrated in a relatively small number of large distributors. Canon s sales of products to these distributors constitute a significant percentage of Canon s overall sales. As a result, any disruptions in its relationships with these large distributors in a specific sales territory could adversely affect Canon s ability to meet its sales targets. Any increase in the level of market share concentrated in these large distributors could result in Canon losing its pricing power and adversely affect its profits. In addition, the rapid proliferation of Internet-based businesses may render conventional distribution channels obsolete. These and other changes in Canon s sales environment could adversely affect Canon s results of operations.

Canon is subject to financial and reputational risks due to product quality and liability issues.

Although Canon has been working to minimize risks that may arise from product quality and liability issues, there can be no assurance that Canon will be able to eliminate or mitigate occurrences of these issues and consequent damages. If such factors adversely affect Canon s operating activities, generate expenses such as those for product recalls, service and compensation, or hurt its brand image, its operating results or reputation for quality products may be adversely affected.

Canon s success depends on the value of its brand name, and if the value of the brand name were to diminish, operating results and prospects would be adversely affected.

Canon s success in its markets depends in part on Canon s brand name and its value. In addition, as a manufacturer and distributor of consumer products, Canon s operating results are susceptible to adverse publicity regarding the quality of its products. There can be no assurance that such adverse publicity will not occur or that such claims will not be made in the future. Furthermore, Canon cannot predict the impact of such adverse publicity on its business and results of operations.

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A substantial portion of Canon s business activity is conducted outside Japan, exposing Canon to the risks of international operations.

A substantial portion of Canon s business activity is conducted outside Japan, including in developing and emerging markets in Asia. There are a number of risks inherent in doing business in those markets, including the following:

- less developed technological infrastructure, which can affect production or other activities or result in lower customer acceptance of Canon s services;
- difficulties in recruiting and retaining personnel;
- potentially adverse tax consequences;
- longer payment cycles;
- unfavorable political or economic factors; and
- unexpected legal or regulatory changes.

Canon s inability to manage successfully the risks inherent in its international activities could adversely affect its business and operating results.

In order to produce Canon s products competitively and to reduce costs, Canon has established new production facilities in China. Canon has more than ten sales office which support its sales activity in China. However, with China s entry into the WTO, conditions within China are continuing to change. For example, unexpected events, including political or legal change, labor shortage or strikes, increased personnel costs or changes in economic conditions, may occur. In particular, a large revaluation of the yuan, or a sudden change in the tax system or other regulatory regimes of a significant magnitude could adversely affect Canon s overall performance.

In addition, the spread of an epidemic disease, such as severe acute respiratory syndrome (SARS) or the avian flu, in China or elsewhere in Asia could have a negative effect on Canon s business activity. Canon has previously imposed travel restrictions to and from, certain countries affected by SARS, and similar medical crises in the future may disrupt manufacturing processes and markets for Canon s products. Given the importance of Canon s Asian sales, production facilities and supply relationships, especially in China, Canon s business may be more exposed to this risk than the global economy generally.

Canon may unintentionally infringe international trade laws and regulations, and any such infringement may lead to an adverse effect on its business. The extent of the effect on Canon s business will depend upon the nature of the infringement and the severity of fines or other sanctions that might be imposed upon Canon. A major infringement could result in the temporary suspension of Canon s trading rights in one or more jurisdictions. In addition to any sanctions prescribed by law, adverse publicity regarding an alleged infringement of trade laws and regulations by Canon may also have a negative effect on the Canon brand and image.

All of the above factors regarding international operations could have an adverse impact on Canon s business results.

Canon depends on efficient logistics services to distribute its products worldwide.

Canon depends on efficient logistics services to distribute its products worldwide. If problems arise with Canon s computerized logistics system, or regional disputes or labor disputes, such as a dockworker s strike, occur, it could lead to a disruption of Canon s operations and result not only in increased logistical costs, but also in a loss of sales opportunities due to delays in delivery. Also, because demand for Canon s consumer products can fluctuate throughout the year, the failure to adjust bookings for vessels and the preparation of warehouse space to reflect such fluctuations could result in either the loss of sales opportunities or the increase of unnecessary costs.

In addition, the increasingly higher levels of precision required of semiconductor production equipment like steppers or mask aligners and the resulting increase in the value of this equipment in recent years have resulted in a concurrent increase in the need for sensitive handling and transportation of these products. Due to their precision nature, even a very trivial shock to these products during the handling and transportation process could result in loss on the entire product. If unforeseen accidents during the handling and transportation process render a significant portion of Canon s higher-end precision products unmarketable, Canon may not be able to fully recover its investment in the research, development and production of these precision products.

The rise in crude oil prices has become a recurring event, due primarily to the inflow of speculative funds into the global markets and the increasing consumption in China. As a result of this rise in oil prices, the cost of airfreight has

increased in the form of a fuel surcharge. Such changes in the sales environment in which Canon operates could adversely affect Canon s results of operations.

Canon is engaging in the reduction of carbon dioxide emissions by implementing such measures as a new transportation system, including an efficient new rail container system. A failure by Canon to meet its targets may have a negative effect on Canon s brand and image and its business.

Economic trends in Canon s major markets may adversely affect its results of operations net sales.

Economic downturns and declines in consumption in Canon s major markets, including Japan, the United States and Europe, may affect the levels of both corporate and consumer sales. Purchases of Canon s consumer products, such as cameras and printers, are to a very significant degree discretionary. A decline in the level of consumption caused by the weakening of general economic conditions could adversely affect Canon s results of operations.

Canon s operating results are also affected by the level of business activity of its customers, which in turn is affected by the level of economic activity in the industries and markets that they serve. A decline in the level of business activity of Canon s customers caused by the weakening of the global economy could adversely affect Canon s results of operations.

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Risks Related to Environmental Issues

Canon s business is subject to environmental laws and regulations.

Canon is subject to certain Japanese and foreign environmental requirements in areas such as energy resource conservation, reduction of hazardous substances, collection and recycling of products, clean air, water protection and waste disposal. Canon believes that it has taken adequate precautions to comply with these regulations in the course of its ordinary business operations. Furthermore, Canon does not believe that any environmental laws or regulations currently in effect will have a material adverse effect on its operating results. However, Canon cannot predict whether any pending or future legislation will be adopted or what effect such legislation would have on it.

In some cases, mainly in the European Union, such as with the Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment or the Directive establishing a framework for the setting of EcoDesign requirements for Energy-using Products, detailed implementation standards have not yet been determined. Canon intends to implement such standards as they are determined and adopted. If Canon s measures do not meet such standards when they are adopted, however, Canon may be required to take further action and incur additional costs to comply with these regulations.

Environmental clean-up and remediation costs relating to Canon s properties and associated litigation could decrease Canon s net cash flow, adversely affect its results of operations and impair its financial condition.

Canon is subject to liability for the investigation and clean-up of environmental contamination at each of the properties that it owns or operates, at certain properties Canon formerly owned or operated and at off-site locations where Canon arranged for the disposal of hazardous substances. If Canon were to be held responsible for damages in any future litigation or proceedings, such costs may not be covered by insurance and may be material.

In addition, Canon may face liability for alleged personal injury or property damage due to exposure to chemicals or other hazardous substances at or from its facilities. Canon may also face liability for personal injury, property damage, natural resource damage or for clean-up costs for the alleged migration of contamination or other hazardous substances from its facilities. A significant increase in the number or success of these claims and costs could adversely affect Canon s results of operations or financial condition.

Risks Related to Intellectual Property

Canon may be subject to intellectual property litigation and infringement claims, which could cause it to incur significant expenses or prevent it from selling its products.

Because of the emphasis on product innovation in the markets for Canon s products, many of which are subject to frequent technological innovations, patents and other intellectual property are an important competitive factor. Canon relies primarily on technology it has developed, and Canon seeks to protect such technology through a combination of patents, trademarks and other intellectual property rights.

Canon faces the risks that:

- competitors will be able to develop similar technology independently;
- Canon s pending patent applications may not be issued;
- the steps Canon takes to prevent misappropriation or infringement of its intellectual property may not be successful; and
- intellectual property laws may not adequately protect Canon s intellectual property, particularly in some emerging markets.

In case Canon is not aware of actual or potential infringement of, or adverse claim to, its rights in such technologies, any interference in Canon s rights to use such technologies could adversely affect its operating results.

In addition, Canon may need to litigate in order to enforce its patents, copyrights or other intellectual property rights, to protect its trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement, which can be expensive and time-consuming. In the event any government agency or third party were adjudicated to have a valid claim against Canon, Canon could be required to:

- refrain from selling the affected product in certain markets;
- make royalty payments or pay monetary damages;
- seek to develop non-infringing technologies, which may not be feasible; or

seek to acquire licenses to the infringed technology, which may not be available on commercially reasonable terms, if at all.

Canon also licenses its patents to third parties in exchange for payment or cross-licensing. The terms and conditions of such licensing or changes in the conditions for renewals of such licenses could affect Canon s business.

Canon s businesses, company image and result of operations could be adversely affected by any of these developments.

Disputes involving payment of remuneration for employee inventions may materially affect Canon s brand image as well as its business.

Canon may face disputes involving payment of remuneration given to employee inventions for which the rights have been succeeded by Canon. This risk is particularly relevant in countries such as Japan and Germany, where patent laws require companies to pay remuneration to employees for the succession of the employee s invention to the company. Canon maintains company rules on and an evaluation system for employee inventions. Canon believes it has been making adequate payments to employees for assignment of inventions based on these rules and a fair and objective succession of amounts to be paid. There can be no assurance, however, that disputes will not arise with respect to the amount of payments to employees.

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Other Risks

Canon depends on the attraction and retention of highly qualified professionals.

Canon s future operating results depend in significant part upon the continued contributions of its employees. In addition, Canon s future operating results depend in part on its ability to attract, train and retain other qualified personnel in development, production, sales and management for Canon s operations. The competition for these human resources in the high-tech industries in which Canon competes has been increasingly intense in recent years. Moreover, due to the accelerating pace of technological change, the importance of training new personnel in a timely manner to meet product research and development requirements will increase. A failure by Canon to recruit and train qualified personnel or the loss of key employees could adversely affect Canon s business, and results of operations.

Maintaining a high level of expertise in Canon s manufacturing technology is critical to Cannon s business. However, it is difficult to secure the expertise required for a special skills area, such as lens processing, in a short time period. While Canon is currently undertaking a series of planning in order to obtain the expertise needed for each skills area, Canon cannot guarantee that such expertise will be acquired in a timely manner and retained, which may adversely affect Canon s business and results of operations.

Canon s physical facilities, information systems and information security systems are subject to damage as a result of disasters, outages or similar events.

Canon s headquarters functions, its information systems and its research and development centers are located in or near Tokyo, Japan, where the possibility of disaster or damage from earthquakes is generally higher than in other parts of the world. In addition, Canon s facilities or offices, including those for research and development, material procurement, manufacturing, logistics, sales, and services are located throughout the world and subject to the possibility of disaster or outage or similar disruption as a result of any of a number of events, including natural disasters, computer viruses and terrorist attacks. Although Canon is working to establish appropriate backup structures for its facilities and information systems, there is no assurance that Canon will be able to completely prevent or mitigate the effect of events or developments such as the aforementioned disasters, leakage of harmful substances, shutdowns of information systems, and leakage, falsification, and disappearances of internal databases. Although Canon has implemented backup plans to permit the production of products at multiple production facilities, such plans do not cover all product models. In addition, such backup arrangements may not be adequate to maintain production quantity levels. Such factors may adversely affect Canon s operating activities, generate expenses relating to physical or personal damage, or hurt Canon s brand image, and its operating results may be adversely affected.

Canon s operating and financing activities expose Canon to foreign currency exchange and interest rate risks that may adversely affect its revenues and profitability.

Canon is exposed to the risks of foreign currency exchange rate fluctuations. Canon s consolidated financial statements, which are presented in Japanese yen, are affected by foreign exchange rate fluctuations. These fluctuations can affect the yen value of Canon s equity investments denominated in foreign currencies and monetary assets and liabilities arising from business transactions in foreign currencies. They can also affect the costs and sales proceeds of products that are denominated in foreign currencies. In addition, as a result of translating foreign currency financial statements of Canon s foreign subsidiaries into Japanese yen, its reporting currency, assets and liabilities, and revenues and expenses will fluctuate. Canon is also exposed to risk of interest rate fluctuations, which may affect the value of Canon s financial assets and liabilities, in particular, long-term debt.

The cooperation and alliances with, and strategic investments in, third parties undertaken by Canon may not produce successful results.

Canon carries out many activities with other companies in the form of alliances, joint ventures, and strategic investments. These activities are important for Canon s technological development process. However, weak business trends or disappointing performance by partners may adversely affect the success of these activities. In addition, the success of these activities may be adversely affected by the inability of Canon and its partners to successfully define and reach common objectives. An unexpected cancellation of a major business alliance may disrupt Canon s overall business plans and may also result in a delayed return-on-investment.

Canon can be adversely affected by fluctuations in the stock and bond markets.

Canon s assets include investments in publicly traded securities. As a result, Canon s operating results and general financial position may be affected by fluctuations in the stock and bond markets. In addition, if valuations of investment assets decrease due to conditions in, for example, stock or bond markets, additional funding and accruals with respect to Canon s pension and other obligations may be required, and such funding and accruals may adversely affect Canon s operating results and consolidated financial condition.

Confidential information may be inadvertently disclosed which could lead to damage claims or harm Canon s reputation, and may have an adverse effect upon Canon s business.

In connection with certain projects, Canon may receive confidential or sensitive information (such as personal information) from its customers relating to these customers or to other parties. In addition, Canon uses computer systems and electronic data in managing information relating to its employees. Although Canon makes every effort to keep this information confidential through company procedures designed to prevent accidental release of confidential or sensitive information, such information may be inadvertently disclosed without Canon s knowledge. If this occurs, Canon may be subject to claims for damages from the parties or the employees affected, suffer harm to its reputation or be subject to liabilities and/or penalties under applicable statutes.

Inadvertent disclosure of secret information regarding new technology, as well as market and customer information, would also have a material adverse effect upon Canon s business.

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Item 4. Information on the Company

A. History and development of the Company

Canon Inc. is a joint stock corporation (kabushiki kaisha) formed under the Japanese Commercial Code. Its principal place of business is at 30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan. The telephone number is +81-3-3758-2111.

The Company was incorporated under the laws of Japan on August 10, 1937 to produce and sell Japan s first focal plane shutter 35mm still camera, which was developed by its predecessor company, Precision Optical Research Laboratories, which was organized in 1933.

In the late 1950s, Canon entered the business machines field utilizing technology obtained through the development of photographic and optical products. With the successful introduction of electronic calculators in 1964, Canon continued to expand its operations to include plain paper copying machines, faxes, laser beam printers, bubble jet printers, computers, video camcorders and digital cameras.

The following are important events in the development of Canon s business in recent years.

In 2000, the Canon Inc. Optics R&D Center, a research and development, or R&D facility for optical technology, was established in Tochigi, Japan.

In 2000, Canon Inc. changed the listing of its American Depository Receipts (ADRs) to the New York Stock Exchange (NYSE) from the Nasdaq National Markets.

In 2001, Canon Vietnam Co., Ltd. was established in Hanoi, Vietnam as a production site for bubble jet printers.

In 2001, Canon Zhongshan Business Machines Co., Ltd. was established in Zhongshan, China as a production site for laser beam printers.

In 2001, Canon (Suzhou) Inc. was established in Suzhou, China as a production site for digital copying machines and digital multifunction devices.

In January 2003, Canon Aptex Inc. and Copyer Co., Ltd., two of Canon Inc. s manufacturing subsidiaries in Japan, merged to become Canon Finetech Inc. The merger was conducted with the aim of concentrating and further strengthening the core competencies of the two merged companies in office equipment-related technologies.

In April 2003, Fukushima Canon Inc. was established as a wholly-owned subsidiary through the spin-off of Fukushima Plant, with the aim of establishing a high value-added manufacturing company equipped with product-launching capability.

In April 2003, Canon N.T.C. s marketing operations were spun off and merged with Canon System & Support Inc., and its real estate operations were spun off into Canon Facility Management, Inc. Following the corporate spin-offs, Canon N.T.C. s operations focuses on development and manufacturing.

In January, 2004, Canon Precision Inc., or Canon Precision, a wholly-owned subsidiary of Canon Inc., merged with Hirosaki Precision, Inc., or Hirosaki Precision, a wholly-owned subsidiary of Canon Precision. Hirosaki Precision was merged into Canon Precision, the surviving company. Canon Precision targets the improved efficiency and specialization of business operations. Since both Canon Precision and Hirosaki Precision were consolidated subsidiaries of Canon Inc., the merger has no impact on Canon s current or future business results.

On October 15, 2004, the Company entered into an agreement with Canon Sales Co., Inc. and Canotec Co., Inc., or Canotec, joint equity shareholders of Niigata Canotec Co., Inc., or Niigata Canotec, to acquire all

outstanding shares of Niigata Canotec. Therefore, on January 1, 2005, Niigata Canotec became a wholly-owned subsidiary of the Company and changed its name to Canon Imaging System Technologies Inc. By making Canon Imaging System Technologies, Inc. a wholly-owned subsidiary of the Company, Canon aims to raise the level of its technical capacity and improve development efficiency by enabling closer coordination.

On January 1, 2005, Canotec and FastNet, Inc. merged, and the merged entity changed its name to Canon Network Communications, Inc. The purpose of the merger was to increase management efficiency by consolidating the Canon Group s network and Internet service operations. Canon Network Communications, Inc. aims to strengthen Information Technology Management Services, dealing with all stages from the establishment of comprehensive network systems to their operation and management.

On September 30, 2005, Canon acquired all of the issued and outstanding shares of ANELVA Corporation, which possesses advanced vacuum technology, and made it into a subsidiary. ANELVA Corporation s corporate name was changed to Canon ANELVA Corporation as of October 1, 2005. By making Canon ANELVA Corporation a subsidiary of the Company, Canon aims to promote the in-house production of manufacturing equipment which is indispensable to differentiate Canon products from the competitions in various fields, including Canon s new display business.

On October 19, 2005, Canon acquired the share of NEC Machinery Corporation (listed on the Second Section of the Osaka Securities Exchange Co.,Ltd.), which possesses advanced automation technologies, through tender offer and made it into a subsidiary. NEC Machinery Corporation s corporate name was changed to Canon Machinery Inc. as of December 17, 2005. By making Canon Machinery Inc. a subsidiary of the Company, Canon aims to make further advance in its production reform activities, including the automation of production processes for Canon products.

In fiscal 2005, 2004 and 2003, Canon s capital expenditures were Yen 383,784 million, Yen 318,730 million and Yen 210,038 million, respectively. In fiscal 2005, capital expenditures were mainly used to expand production capabilities in both domestic and overseas regions, and to bolster the Company s R&D-related infrastructure. In addition, Canon has been continually investing in tools and dies for business machines, in which the amount invested is generally the same each year.

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For fiscal 2006, Canon projects its capital expenditures will be approximately Yen 465,000 million. This amount is expected to be spent for investments in new production plants and new facilities of Canon. Canon anticipates that the funds needed for these capital expenditures will be generated internally through operations.

B. Business overview

Canon is one of the world s leading manufacturers of plain paper copying machines, digital multifunction devices, or MFDs, laser beam printers, bubble jet printers, cameras and steppers.

Canon sells its products principally under the Canon brand name and through sales subsidiaries. Each of these subsidiaries is responsible for marketing and distribution to retail dealers in an assigned territory. Approximately 74% of consolidated net sales in fiscal 2005 were generated outside Japan; approximately 30% in the Americas, 32% in Europe and 12% in other areas including Asia.

Canon s strategy is to develop innovative, high value-added products which incorporate advanced technologies.

Canon s research and development activities range from basic research to product-oriented research directed at keeping and increasing the technological leadership of Canon s products in the market.

Canon manufactures the majority of its products in Japan, but in an effort to reduce currency exchange risks and production cost, Canon has increased overseas production and the use of local parts. Canon has manufacturing subsidiaries in countries and regions such as the United States, Germany, France, Taiwan, China, Malaysia, Thailand and Vietnam.

As a concerned member of the world community, Canon emphasizes recycling, and has increased its use of clean energy sources and cleaner manufacturing processes. Canon has also adopted programs to collect and recycle used cartridges and to refurbish used copy machines. In addition, Canon has virtually removed all environmentally unfriendly chemicals from its manufacturing processes.

Products

Canon s products are divided into the following three product groups: business machines, cameras, and optical and other products.

-Business machines -

The business machines product group is divided into three sub-groups consisting of office imaging products, computer peripherals and business information products.

Office imaging products

Canon manufactures, markets and services a wide range of office network digital MFDs, color network digital MFD s, office copying machines, personal-use copying machines and full-color copying machines.

The office-use market is subject to rapid change, and customer preferences have been shifting from copying machines to digital MFDs, as well as from monochrome to color products. To respond to these trends, Canon has been strengthening its lineup of digital MFDs in the imageRUNNER (iR) series, which have versatile functions, such as copying, printing, scanning, faxing and data-sharing functions on the Internet and intranets. Canon is also marketing diverse expansion modules, software and business solutions to increase customer value. For the development of MFDs, Canon makes effective use of a wide range of technologies from the fields of optics, mechatronics, electrophotography, chemistry and image processing. Canon has developed the high-performance image processing chip the New color iR controller and the expandable, functional platform MEAP The controller provides easy integration with customers IT environments together with speedy, high-quality image processing. This boosts office productivity, thereby garnering acclaim from business customers.

In 2005, Sales of color office imaging products continued to grow rapidly as the office color market expanded and sales of monochrome digital devices were stable. Canon has expanded its color office imaging products lineups by introducing the iRC3170/2570 and iRC3220/2620 series worldwide to further increase color MFD sales. Canon has also introduced new monochrome MFD models to strengthen its industry leading monochrome MFD product lineup.

Canon has a powerful line of full-color copying machines and color digital MFDs for users ranging from professional graphic designers to business offices. The trend in printing industry is gradually moving away from large-lot printing using expensive machinery to small-lot printing on demand and personalized printing. Canon s high-end MFDs and color digital MFDs can be applied to the print on demand market. In addition, Canon aims to respond to the growing demand for color imaging for business needs with products using its renowned S Toner,

featuring spherical particles and a microscopic wax-based structure, and its oil-less fixing system.

Canon has a leading market share in monochrome MFDs and copying machines including machines for personal use. While the color shift is in progress, especially in Japan, the demand for monochrome machines is stable accompanying with the expansion of their multifunction capabilities and software development.

With the evolution of digital technology and communication, MFDs that enable seamless conversion between paper documents and electronic documents have also evolved from being input-output devices to a sophisticated information systems. To deliver solutions that meet the diversifying needs of customers in various industries and niche, Canon has brought to market a full offering of MEAP-enabled office MFP lines both in monochrome and color as well as software products.

The office imaging products category also includes the related sales of paper and chemicals, service charges and sales of replacement parts.

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Computer peripherals

Computer peripherals include laser beam printers (LBP), inkjet printers and scanners.

Developed and fostered by Canon, laser beam printers are standard output peripherals for offices. Canon s laser beam printers are relatively small in size and have high-quality printing capabilities attributable to Canon s expertise in laser beam printing and plain paper copying technologies. Canon s adoption of a user-replaceable toner cartridge system containing optical components makes its laser beam printers easy to maintain. Most of Canon s laser beam printer sales are on an OEM basis. Canon also distributes Canon brand laser beam printers in Japan, Europe and Oceania.

As for the monochrome laser beam printer, Canon has started to produce and sell sub-L products that belong to the lower segment of low-end products in Southern China. The unexpected expansion of production and selling has impelled Canon to the expansion of production in laser beam printers business.

As the inventor of bubble jet printing technology, Canon believes it continues to provide customers with the best performance the technology has to offer. Canon provides high-performance and high value added models both in single-function printers and multi function printers. In response to intense competition in the inkjet printer segment, Canon has established a line-up of multifunction printers from flagship to entry models and, in 2005, launched several new models of single-function printers. All new model feature a print head called Canon Full-photolithography Inkjet Nozzle Engineering (FINE), which boosts print speed and image quality up to 9600 x 2400 dpi with microscopic droplets as small as one picoliter. In addition to high-quality images, Canon PIXMA branded photo printers offer advanced paper handling, such as dual paper path and two-sided duplex printing, and the new ChromaLife100 system for long-lasting photo prints. With these advanced printer line-ups, Canon has expanded its sales volume of both single-function printers and multi-function printers. Canon also expects the consumables business will expand accordingly.

Canon markets a wide variety of scanners for a spectrum of user needs, including image scanners in the CanoScan LiDE series using Contact Image Sensor (CIS), and scanners with Charge-Coupled Devices (CCD) for high resolution in the CanoScan series. CIS is a close-contact method that allows a significant reduction in scanner weight and size. Canon has deployed its expertise to develop space-saving, energy-efficient scanners, as well as easy PC connection via universal serial bus interface. Although the scanner market has continued to shrink and shift to multi-function printers, Canon has successfully introduced new scanner models to attain a high market share.

Business information products

Business information products primarily consist of micrographic equipment, personal computers, calculators, document scanners and work stations.

With the movement toward digitalization, the need to scan documents into text data or image data is expanding. Canon s document scanners rapidly and efficiently digitize large volumes of information on paper. Canon offers a wide range of scanner models, including color capable compact sheet-fed types and a flatbed model suitable for book-type documents. Canon also offers a hybrid model that can create microfilm records while digitizing the information. Canon s diverse lineup seeks to meet increased demands for digitizing office documents to share across Internet or intranet platforms or to capture data from forms with optical character recognition.

Canon s calculator operations, from development to production and marketing, are centered in Hong Kong. Canon s tradition of technological innovation has been inherited by its personal information products, from calculators with printers to electronic dictionaries. Canon continues to develop distinct, appealing personal information products that reflect trends and demand.

The work stations and personal computers sold by Canon are manufactured by third parties under the manufacturers own brand names.

- Cameras-

Canon manufactures and markets digital cameras and film cameras. Canon also manufactures and markets digital video camcorders, lenses, and various camera accessories.

DIGIC II, an improved and upgraded new image processor, is the distinguishing feature of Canon s digital imaging equipment, including digital compact cameras, digital SLR cameras, and Compact Photo Printers. The DIGIC II has enhanced capabilities for high-quality image reproduction, high-speed data processing, and high quality movie image

processing.

In addition to aiming for the best possible image quality throughout its product lineup, Canon offers digital compact cameras that are easy to use with highly sophisticated product design. The compact digital camera market continued to grow in 2005 over 2004. Canon increased sales of compact digital cameras through the introduction of 13 new compact digital camera models in 2005. In 2005, new products, such as the Digital Elph SD400 (IXY 55 in Japan) and PowerShot A520/A510, were well-received in the market worldwide, and Canon increased its market shares and remained a leader in sales of compact digital cameras.

In the Compact Photo Printer segment Canon has shown significant leadership in this market. Although the majority of the compact photo printer purchasers are considered early adopters , as market growth doubled in 2005, and retailers are now realizing the importance of this new business segment. Canon introduced 4 new compact photo printers under the series name Selphy in 2005. Canon has been able to leverage the brand recognition of its cameras to attract new customers for its compact photo printers. In addition, Canon is starting to realize profits from sales of consumables, such as paper and ink cartridges related to compact photo printers.

The digital SLR market continues to expand. Canon introduced three new models of digital SLRs in 2005. Canon produces its own Complementary Metal Oxide Semiconductor (CMOS) imaging sensors, and each of the new models of digital SLRs were equipped with a different CMOS imaging sensor depending on the requirement of each camera, such as lens-compatibility, image quality, shooting speed, and affordability. Canon s digital SLRs have been widely accepted by professional photographers and entry-level users alike.

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In response to the strong increase in unit sales of digital cameras, Canon expanded its internet-based customer support service system in order to strengthen customer services.

Although the conventional film cameras continues to decline, Canon intends to maintain its firm commitment to lead the film camera business, while closely monitoring the market trends.

In the camera lens segment, technological developments, including diffractive optical elements, image stabilizers and ultrasonic motors, have helped Canon to maintain a technical lead over other makers. Canon offers over 50 lenses in the EF series. These high-quality, high-performance lenses provide outstanding performance with digital cameras as well as silver-halide cameras, greatly contributing to Canon s sales. The market for interchangeable lenses, which are used for SLR cameras, has grown and aggregate sales of the interchangeable lens have increased every year for the past three years. In 2005, Canon launched a total of five new interchangeable lens models to the market, three of these were launched in the first half of 2005 and designed especially for digital SLR cameras. Demand for digital SLR cameras has recently increased significantly. In response to this trend, Canon intends to expand its sales and market share by introducing interchangeable lenses especially designed for digital SLR cameras, the market of which Canon expects to expand.

Canon also provides full line-up of digital video camcorders from versatile, compact and stylish models to its flagship models for professionals. Canon s digital video camcorders incorporate the same optical technologies and digital signal processing technology as its world-renowned cameras, and come equipped with its one-chip digital imaging processor (DIGIC DV) to ensure high image quality for both video and still images. Canon s digital video camcorders are favored by many users for its optical performance, and red-green-blue primary color filters. The adoption of megapixel CCD, secure digital (SD) memory cards and universal serial bus (USB) connectivity offers a wealth of possibilities for the creation and management of still images, as well as video.

The digital camcorder market continues to diversify, and, in 2005, Canon offered products for two new segments of the digital camcorder market in order to maintain its market position in that diversifying market. Until 2004, Canon was able to expand its market position by offering a full line-up of MiniDV camcorders. In the autumn of 2005, Canon began offering camcorders using DVD and camcorders with HD picture quality in addition to a full line-up of conventional MiniDV products. Canon s first DVD camcorders, the DC20/DC10, were launched in September 2005, and Canon s first HDV camcorder, XL H1, was launched in November 2005.

Quality and performance such as high resolution, high brightness, and greater detail or sharpness are the key competitive factors in the market for projectors. At the end of fiscal 2004, Canon launched its independently developed, SXGA+ resolution projector SX50 that is equipped with reflective liquid crystals on silicon or LCOS technology. The SX50 features Canon s proprietary optical system called AISYS to achieve significant improvements in brightness, size, and a price, as is well accepted in the high resolution projector market. Canon intends to introduce differentiated products as new trends in the market emerge.

-Optical and other products-

Canon s optical and other products includes semiconductor production equipment, medical equipment and electronic components.

Semiconductor production equipment includes steppers and mask aligners. Steppers are used to expose circuits on silicon substrates. Canon has commercialized Krypton Fluoride excimer-laser steppers, Argon Fluoride excimer-laser steppers and i-line steppers. At the top of its class, the new Argon Fluoride excimer-laser scanning stepper the FPA-6000AS4 makes possible top-level throughput rates of over 92 wafers per hour (122 shots / wafer) for 300 mm wafers. In fiscal 2005, Canon introduced the FPA-6000ES6a, as its latest 300 mm-compatible lithography tool. The Canon FPA-6000ES6a is a Krypton Fluoride scanning stepper enabling top-level throughput rates of over 100 wafers per hour (122 shots / wafer). As a result of relatively weak investment by the semiconductor manufacturers in 2005, Canon s stepper sales shrinked but unit base market share increased slightly compared with prior year. Canon, together with nine other Japanese semiconductor-industry companies, formed the Extreme Ultraviolet Lithography System Development Association. The consortium aims to develop key technology for next-generation lithography.

Mask aligners are used to produce liquid crystal displays, or LCDs, and Canon s model for large-sized LCD substrates are sold particularly well in line with increased demand for large flat panels for PC display and LCD televisions.

Canon believes that, based on global units, it is the world leader in television broadcasting lenses, which are used to capture images from sports and news events, concerts and studio broadcasts. In fiscal 2005, the market for television broadcasting lenses continued to recover from the slump after 9/11, as a result of continued economic recovery and an ongoing global trend to introduce digital broadcasting equipment. In fiscal2005, Canon launched 7 new lens models primarily for television broadcasting digital cameras and maintained its position as the market leader for television broadcasting lenses.

Medical equipment sold by Canon includes X-ray cameras, retinal cameras, autofractmeters and image-processing equipments for computerized diagnostic systems. Canon s pioneering digital radiography system takes X-ray photography and medical diagnosis into the digital age.

Other products sold by Canon include electronic components, such as magnetic heads for audio and video tape recorders and micro-motors for printers and other components, which are sold primarily to equipment manufacturers. Canon has also been developing a cost efficient solar-power system that incorporates amorphous silicon technology which is used in Canon s high-end monochrome copying machines.

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Marketing and distribution

Canon sells its products primarily through subsidiaries with responsibility for specific geographic areas. Each subsidiary is responsible for its own market research and for determining its sales channels, advertising and promotional activities.

In Japan, Canon sells its products primarily through Canon Sales Co., Inc., mainly to dealers and retail outlets.

In the Americas, Canon sells its products primarily through Canon U.S.A., Inc., Canon Canada, Inc. and Canon Latin America, Inc., mainly to dealers and retail outlets.

In Europe, Canon sells its products primarily through Canon Europa N.V., which sells primarily through subsidiaries or independent distributors to dealers and retail outlets in each locality. In addition, copying machines are sold directly to end-users by Canon (U.K.) Ltd. in the United Kingdom, and by Canon France S.A.S. in France.

In Southeast Asia and Oceania, Canon sells its products through subsidiaries located in those areas. In addition, copying machines are sold directly to end-users by Canon Australia Pty. Ltd. in Australia.

Canon also sells laser beam printers on an OEM basis to Hewlett-Packard Company. Hewlett-Packard Company resells these printers under the HP LaserJet Printers name. During fiscal 2005, such sales constituted approximately 21% of Canon s consolidated net sales, as compared to 21% in the previous fiscal year.

Canon continues to enhance its distribution system by promoting continuing education of its sales personnel and improving inventory management and business planning through the weekly analysis of Canon s sales data.

Service

In Japan and overseas, product service is provided in part by independent retail outlets and designated service centers that receive technical training assistance from Canon. Canon also services its products directly.

Most of Canon s business machines carry warranties of varying terms depending upon the model and the country of sale. Cameras and camera accessories carry a one-year warranty based on normal use.

Canon services its copying machines and supplies replacement drums, parts, toner and paper. In Japan, most customers enter into a maintenance service contract under which Canon provides maintenance services, replacement drums and parts in return for a per-copy charge. Copying machines which are not covered by a service contract may be serviced from time to time by Canon or local dealers for a fee.

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NET SALES BY PRODUCT GROUP

	Years ended December 31				
	2005	change	2004	change	2003
	(Millions of yen except percentage data)				
Business machines:					
Office imaging products	¥ 1,153,240	2.9%	¥ 1,120,972	3.6%	¥ 1,081,995
Computer peripherals	1,244,906	8.3	1,149,914	5.6	1,089,312
Business information products	104,255	-10.9	117,067	-5.2	123,493
	2,502,401	4.8	2,387,953	4.1	2,294,800
Cameras	879,186	15.2	763,079	16.8	653,540
Optical and other products	372,604	17.6	316,821	26.9	249,732
Total	¥ 3,754,191	8.3	¥ 3,467,853	8.4	¥ 3,198,072

NET SALES BY GEOGRAPHIC AREA

	Years ended December 31				
	2005	change	2004	change	2003
	(Millions of yen except percentage data)				
Japan					
Unaffiliated customers	¥ 979,748	6.6%	¥ 919,153	7.3%	¥ 856,851
Intersegment	2,046,173	8.7	1,882,973	13.3	1,662,172
Total	3,025,921	8.0	2,802,126	11.2	2,519,023
Americas					
Unaffiliated customers	¥ 1,139,784	7.8%	¥ 1,057,066	1.2%	¥ 1,044,998
Intersegment	7,424	-16.2	8,863	9.4	8,101
Total	1,147,208	7.6	1,065,929	1.2	1,053,099
Europe					
Unaffiliated customers	¥ 1,178,672	8.1%	¥ 1,090,712	12.6%	¥ 968,938
Intersegment	2,206	-47.0	4,161	7.8	3,861
Total	1,180,878	7.9	1,094,873	12.5	972,799
Others					
Unaffiliated customers	¥ 455,987	13.7%	¥ 400,922	22.5%	¥ 327,285
Intersegment	646,530	9.3	591,677	17.6	503,119
Total	1,102,517	11.1	992,599	19.5	830,404
Eliminations					
Unaffiliated customers	¥	%	¥	%	¥
Intersegment	(2,702,333)		(2,487,674)		(2,177,253)
Total	(2,702,333)		(2,487,674)		(2,177,253)
Consolidated					
Unaffiliated customers	¥ 3,754,191	8.3%	¥ 3,467,853	8.4%	¥ 3,198,072
Intersegment					

Total	3,754,191	8.3	3,467,853	8.4	3,198,072

Note: The segments are defined under Japanese GAAP. In grouping of segment information by product, Japanese GAAP requires that consideration be given to similarities of product types and characteristics, manufacturing methods, sales markets, and other factors that are similar. In grouping of segment information by geographic area, Japanese GAAP requires that consideration be given to geographic proximity, as well as similarities of economic activities, interrelationships of business activities and similar factors. Segment information by geographic area is determined by the location of the Company or its relevant subsidiary making the sale.

Total operating profit by category is discussed in Item 5A Operating Results .

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Seasonality

Canon s sales for the 4th quarter are usually higher than those in the other three quarters, mainly owing to strong demand for consumer products, such as cameras and bubble jet printers, during the year-end holiday season. In Japan, corporate demand for office products peaks in the 1st quarter, as many Japanese companies close their books in March. Sales also tend to increase at the start of the new school year in each of the respective regions.

Sources of supply

Canon purchases materials such as glass, aluminums, plastics, steels, and chemicals for using it for various kinds of parts or manufacturing products. With the development of globalization in production, we procure raw material from all over the world, and we select suppliers based on a number of criteria, including environmental friendliness, quality, cost, supply stability, and financial condition.

Prices of some raw materials fluctuate according to the market. Due to the high price of crude oil and increase in demand toward China, the market place is tight since the beginning of the year. However, Canon believes it will be able to continue to obtain sufficient quantities of raw materials to meet its needs.

Canon places significant emphasis on in-house development of production tools. Canon also produces many of the tuning and measuring tools needed for the development, maintenance and repair of its production equipment. Key tools such as these are not marketed for sale; they are reserved for use within the Canon Group. Canon s ability to develop its own production tools helps establish quality control and allows for speed and flexibility when retooling is necessary a crucial advantage in its cell production processes. Cell production is the production system in which the entire production process is undertaken by small groups of employees. In-house tool development may also help cut costs over time and prevent the leakage of Canon s core proprietary technologies.

Competition

Canon encounters intense competition in all areas of its business activity throughout the world. Canon s competitors range from some of the world s major multinational corporations to smaller, highly specialized companies. Canon competes in a number of different business areas, whereas many of its competitors are relatively more focused on one or more individual industries. Consequently, Canon may face significant competition from entities that apply greater financial, technological, sales and marketing or other resources than Canon to their activities in a particular market segment.

The principal elements of competition which Canon faces in each of its markets are technology, quality, reliability, performance, price and customer service and support. Canon believes that much of its ability to compete effectively depends on conducting successful research and development activities that enable it to create new or improved products and release them on a timely basis and at commercially attractive prices.

The competitive environments in which each product group operates are described below:

Business machines

The markets for office imaging products, computer peripherals and business information products are highly competitive. Canon s primary competitors in these markets are Xerox Corporation/ Fuji Xerox Corporation, Hewlett-Packard Company, Lexmark International Group Inc., Ricoh Company, Ltd., Konica Minolta Holdings, Inc. and Epson Corporation. Canon believes that it is one of the leading global manufacturers of copying machines, digital MFDs, laser beam printers, bubble jet printers, image scanners and facsimile machines. In addition to the general elements of competition described above, Canon s ability to compete successfully in these markets also depends significantly on whether it can provide effective, broad-based business solutions to its customers that solve multiple interrelated client needs. In particular, the ability to provide equipment and software that connect effectively to networks (ranging in scope from local area networks to the Internet) is often a key to Canon s competitive strength in these markets. In China, whose markets are expected to expand since joining of the World Trade Organization, the current market leaders are Toshiba Tec Corporation, Sharp Corporation and Konica Minolta Holdings, Inc. Canon is joining this top group by the introduction of products suited to the market and by the reinforcement of sales and service channels. Also in regards to the office color market, in addition to Ricoh and Xerox, Konica Minolta has been very aggressive with its color strategy especially in Europe and the US, and competition in this market has become fierce.

Also, as a recent trend, convergence of the copier industry and the printer industry has become apparent. Competition at the low-end segment has turned especially fierce by the impact of printer-based MFDs on copier market. Canon sees this market convergence as a growth opportunity and has enhanced its printer and printer-based MFP lineups. Canon also ensures to differentiate itself from other competitors by offering comprehensive solutions to customers.

Cameras

Competition in the camera industry is intense, with many established market participants offering superior products with competitive pricing. Canon s primary competitors in digital cameras are Sony Corporation, Fuji Photo Film Co., Ltd., Olympus Corporation, Nikon Corporation, Casio Computer Co., Ltd., Matsushita Electric Industrial Co., Ltd., and Eastman Kodak Company.

In the digital SLR market, Canon took the early lead over Nikon have gained more than 50% of the market share, turning over complete lineup with healthy life cycle, while other manufacturers struggled to increase their market share. However, the competition is expected to become tougher in 2006, with more newcomers with aggressive approach into the lucrative-looking market. Canon is committed to keep leading the digital SLR market, with aggressive investment to develop new models.

Canon s primary competitor in the lens market is Nikon Corporation whose popular class digital single-lens reflex cameras are selling well. Another major competitor is Sigma Corporation, which sells products that are compatible with Canon s single-lens reflex camera lens.

In the declining market, competitions in the conventional film camera market is now seems to be limited, such as Nikon Corporation in the SLR, and Olympus Corporation for the compact cameras. Canon is committed to successfully retain a leading global market-share for SLR cameras, and maintain its position as one of the leading compact film camera manufacturers, while maintaining profitability.

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In Compact Digital Still Camera (DSC) segment industry s price drop trends will continue in 2006 and it will become tougher to maintain ongoing profit level. Also, the market in the economically developed countries have seem to be matured.

While we see the above-mentioned tough signs, we also see many positive signs as well. For instance, as China and Eastern Europe including Russia have shown significant growth, Canon has increased its business accordingly since Canon has already established fairly good position in those areas as well. Also, Canon s products cost down efforts have shown very positive progress utilizing the advantages of significant scale merit as a world No.1 manufacture. In these sense we believe Canon s compact DSC business will continue to be positive toward the following year.

Canon s primary competitors in digital video camcorders are Sony Corporation, Matsushita Electric Industrial Co., Ltd., Victor Company of Japan Ltd. and Samsung Electronics Co., Ltd. In fiscal 2005, Canon introduced DVD camcorders as well as HDV camcorders to compete with them for continuous expand of its sales in overall market in digital video camcorders.

Steppers and Aligners

The market for steppers and aligners, used in the manufacture of semiconductor devices and LCDs, is highly competitive. The market is characterized by a relatively small number of dominant suppliers, since the development of steppers and aligners requires extremely precise design and manufacturing techniques and, as a result, very high levels of capital investment.

Canon s primary competitors in the market for steppers and aligners are Nikon Corporation and ASML Holding N.V., or ASML. Nikon Corporation has a reputation for its excellent technology, especially optical lenses, and Intel Corporation, the world s leading semiconductor manufacturer, is one of their major customers. ASML has in recent years improved its competitive position by taking advantage of government subsidies and by focusing on the rapidly growing foundry manufacturer industry. In fiscal 2002, ASML further increased its competitive position by acquiring SVG Lithography Systems Inc. As a result of the acquisition, ASML is now one of the largest semiconductor manufacturing equipment companies in Europe.

Because of the substantial capital expenditures required to install and integrate equipment into a semiconductor production line, semiconductor manufacturers tend to purchase their stepper and aligner production equipment from the vendor that originally supplied the chip fabrication equipment. Canon competes principally on its ability to meet and exceed product specifications, including resolution and throughput, quality, reliability and system maintenance cost. Because of the very rapid pace of technological innovation in the semiconductor industry, Canon also believes that its ability to provide new products on a timely basis is also a key competitive consideration for customers seeking to integrate stepper and aligner production systems into the planning and design of their new facilities.

Patents and licenses

Canon holds a large number of patents (including utility model rights), design rights and trademarks in Japan and abroad to protect its technology products that arise from its research and development and utilizes these intellectual property rights as important strategic management tools. For instance, Canon has been utilizing its intellectual property rights such as patents to expand its products business operations and to form alliances and exchange technologies, with other companies.

According to the Statistical Report issued annually by the United States Patent and Trademark Office, Canon has been consistently ranked as second or third in recent years in terms of the number of patents issued in the United States, as Canon maintained reputation as a famous technology-oriented company.

Canon has granted licenses with respect to its patents to various Japanese and foreign companies, particularly in areas such as electrophotography, laser beam printers, multifunction printers, facsimiles and cameras.

Some examples include:

Oki Electric Industry Co., Ltd.	(LED printers, multifunction printers and facsimiles)
Matsushita Electric Industrial Co., Ltd.	(electrophotography)
Ricoh Company, Ltd.	(electrophotography)
Sanyo Electric Co., Ltd.	(electronic still camera)
Samsung Electronics Co., Ltd.	(laser beam printers, multifunction printers and facsimiles)

Brother Industries, Ltd.	(electrophotography and facsimiles)
Kyocera Mita Corporation	(electrophotography)
Konica Minolta Holding Co.,Ltd.	(business machines)
Toshiba Corporation	(business machines)

Canon has also been granted licenses with respect to patents held by other companies.

Some examples include:

Jerome H. Lemelson Patent Incentives, Inc.	(computer systems, image recording apparatus, and communication apparatus)
Energy Conversion Devices, Inc.	(solar battery)
Honeywell Inc.	(camera and video products)
Gilbert P. Hyatt U.S. Philips Corporation	(microcomputer)
Nano-Proprietary Inc.	(FED technology)

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Canon has also entered into cross-licensing agreements with other major industry participants. Some examples include:

International Business Machines Corporation	(information handling systems)
Hewlett-Packard Company	(bubble jet printers)
Xerox Corporation	(business machines)
Matsushita Electric Industrial Co., Ltd.	(video tape recorders and video cameras)
Eastman Kodak Co.	(electro-photography and image processing technology)
Ricoh Company, Ltd.	(electrophotography products, facsimiles and word processors)

Canon has placed high priority on the management of its intellectual property as part of its management strategies to enhance its global business operations. Some products which are material to Canon s operating results, incorporate patented technology which is critical to the continued success of these products. Typically, these products incorporate technology reflected in dozens of different patents. Canon does not believe that its business, as a whole, is dependent on, or that its profitability would be materially affected by the revocation, termination, expiration or infringement upon, any particular patent, copyright, license or intellectual property rights or group thereof.

Environmental regulations

Canon is subject to a wide variety of laws and regulations as well as industry standards relating to energy and resource conservation, recycling, global warming, pollution prevention, pollution remediation, and environmental health and safety. Some of the environmental laws which affect Canon s businesses are summarized below.

1. *European Union Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment or RoHS Directive, and Directive on Waste Electrical and Electronic Equipment or WEEE Directive.*

These directives were published in the European Union s Official Journal on February 13, 2003. Member states were required to bring into force the laws necessary to comply with these directives by August 13, 2004. Commencing July 1, 2006, companies must ensure that their electrical and electronic equipment sold in the European Union does not contain lead, cadmium, hexavalent chromium, mercury, polybrominated biphenyls or polybrominated diphenyl ethers if placed on the market after that date. Pursuant to the RoHS Directive, Canon will be required to adapt its products so that they do not contain the prohibited hazardous substances.

The WEEE Directive requires that after August 13, 2005, companies that sell electrical and electronic equipment bearing their trade names in the European Union must arrange and pay for the collection, treatment, recycling, recovery and disposal of their equipment and achieve designated recycling rates by December 31, 2006. Pursuant to the WEEE Directive, Canon is joining a collective compliance scheme for WEEE Directive in each member state, and will achieve the recycling ratio of waste electrical and electronic equipment through these schemes by the target date. The increased cost associated with the WEEE Directive may adversely affect Canon s results of operations.

2. *Soil Pollution Prevention Law of Japan*

The Soil Pollution Prevention Law of Japan, administered by the Japanese Ministry of the Environment, went into effect in February 2003. The law requires an owner of land to have the soil investigated by a designated organization for the purpose of measuring the level of soil pollution when the land is to be transferred or to be used for another purpose. The results of such investigation are reported to the prefectural governor. If the soil pollution is not within standards specified in the law, the governor will designate the land as a designated area , publicly announce such designation and make available upon request the investigation report. The substances designated in the law consist of 25 chemical groups, including substances such as lead, arsenic, and trichloro ethylene. If there is a possibility that the soil pollution of the designated area may affect human health, the governor will issue an order to the land owner to take remedial actions.

In response to the law, Canon had commenced a detailed survey and measurement of soil and groundwater to determine the existence of pollution at all of Canon Group s operational sites in Japan. Additional costs may arise as remedial measures become necessary. These factors may adversely affect Canon s results of operations and financial conditions.

See Risk Factors Risks Related to Environmental Issues Environmental clean-up and remediation costs relating to Canon s properties and associated litigation could decrease Canon s net cash flow, adversely affect its results of operations and impair its financial condition.

3. Law for Promotion of Effective Utilization of Resources of Japan

The Law for Promotion of Effective Utilization of Resources of Japan, administered by the Japanese Ministry of Economy, Trade and Industry, was enacted in April 2001. This Law requires manufacturers of specified reuse-promoted products , including copiers, to promote the use of recyclable resources and recovered products (designing and manufacturing products that can be easily reused or recycled). These requirements will increase Canon s costs and may have an adverse affect on its results of operations.

This law will be amended to require the producers of covered products to mark their products manufactured on and after July 1, 2006 with an orange content mark when they contain any of 6 substances restricted by EU RoHS Directive. If products do not contain these 6 substances, they can be marked with green mark voluntarily. This marking system is called Japan-Marking of Special Substances, or J-MOSS, and is provided by JIS C 0950:2005 standards. Although the copying machines do not have to be marked with these content marks at present, they will surely be covered by the requirement in the future. We expect that this new requirement will have influence on the green procurement of Japanese governmental agencies and might have some effect on Canon s business.

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4. Law on Promoting Green Purchasing of Japan

The Law on Promoting Green Purchasing of Japan, administered by the Japanese Ministry of the Environment, took effect in April 2001. The law encourages both national and local governments to procure products with low environmental burdens. Businesses are required to provide information that is necessary to determine the environmental impact of products that they manufacture.

In response to the law, Canon now promotes to:

manufacture products that consume less electricity to prevent global warming and to conserve energy,
use recycled parts and recycled materials,
reduce the types of raw materials used in order to conserve resources, and
accelerate the date by which the requirements of the law are implemented to promote the elimination of hazardous substances.

The law also requires Canon to collect its used products and recycle them, establish alternative technologies for hazardous substances used in products and standardize the substances used in its products. These measures will entail additional costs and may adversely affect its results of operations and financial conditions.

5. Draft European Union Directive on Batteries and Accumulators and Spent Batteries and Accumulators

On November 21, 2003, the European Commission proposed a draft Directive on Batteries and Accumulators and Spent Batteries and Accumulators to replace a similar existing directive. In November 2005, the European Parliament started its second reading of this matter. Whereas the existing directive applies only to batteries with a certain mercury, cadmium and lead content, the new directive applies to all batteries and accumulators placed on the European Community market. When enacted, the new directive will require specified labels on all batteries. In addition, the directive establishes specific targets for collection, treatment and recycling of batteries and accumulators. Canon expects that compliance with the directive will increase its financial costs such as recycling fees and guarantees of products placed on the market.

6. Clean Production Promotion Law of China

The Clean Production Promotion Law of China, administered by the standing committee of the National people s congress, effective as of January 1, 2003, provides, among other things, for environmentally conscious design, elimination of hazardous substances, ease of disassembly, material identification, collection and recycling. The Chinese government is expected to publish a list of products to be collected, but it is yet unclear what action Canon needs to take at the present time.

7. Administrative Measures on the Control of Pollution Caused by Electronic Information Products of China

Modeled on the European Union RoHS Directive described above, the Chinese Ministry of Information Industry published Administrative Measures on the Control of Pollution Caused by Electronic Information Products on February 28, 2006. These measures regulate the content of electronic information products, and will be implemented as of March 1, 2007. All the electronic information products would have to put a certain China specific mark on them and to show their contents of the EU RoHS substances. In addition, the content of 6 substances in specific electronic information products (those specified in the list for emphasized management) would be restricted by the similar limitation of the EU RoHS Directive, and China specific compulsory products certification system will be introduced for such products. However, the standards to implement these measures, and the emphatic management list have not been published. These requirements will increase Canon s costs and may have an adverse affect on its results of operations and financial conditions.

8. Executive Order of the United States

The Executive Order 13221 Energy Efficient Standby Power Devices, published on August 2, 2001 and amended on September 3, 2004 (Administered by U.S. Department of Energy), requires the Federal Government to purchase consumer products that use no more than one watt (two watt for a product with a facsimile function) in their standby power consuming mode. Canon s products such as laser beam printer, MFP and FAX need to have a hard switch or they need to incorporate energy conserving designs which reduce the energy consumption at the standby mode to meet the require watts.

9. The European Framework for the management of chemical substances, or REACH Regulations

The European Union is currently considering the REACH Regulations which would establish a framework for the management scheme for all the commercial chemical substances. This framework, if adopted, would apply to almost all the chemicals (that is, products in gaseous, liquid, paste or powdery form) and some of the articles (products in solid state) manufactured in or imported into the European Union. All the chemicals manufactured/imported over specific threshold would have to register in the European Union and provide information about their usage or their chemical characters, etc., and use of substances regarded as dangerous might be prohibited. The Regulations are still under discussion in the European Parliament and the Council and the final details are unclear yet, but if such requirements are enacted, they might increase Canon s costs.

10. The European Framework for the Setting of Requirements for Energy-Using Products (so-called EuP directive)

The European Union published the directive that would establish a framework for the setting of environmental requirements for energy-using products, or the EuP directive , in July 22, 2005. Member states are required to bring into force the laws necessary to comply with the directive concerning eco-design by August 11, 2007. This framework directive would apply to all products that use energy, and under this directive, implementing measures for specific product categories would be adopted by the European Commission and the member states. Until these implementing measures are clarified, it is difficult to estimate the concrete effects of the EuP directive. But one of the first implement measures is expected to require that covered products should not use more than 1 watt (2 watts for a product with a facsimile function) in their standby mode, like the U.S. Executive Order 13221 mentioned in paragraph 8 above.

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11. Kyoto Protocol to the United Nations Framework Convention on Climate Change

The Kyoto Protocol to the United Nations Framework Convention on Climate Change entered into force on February 16, 2005 as Russia ratified it in November 2004.

In order to achieve a goal set in the Kyoto Protocol, a Kyoto Protocol Target Achievement Plan was issued by the Japanese Government and decided at a Cabinet Meeting in April, 2005 and ensuing revision of Energy Conservation Law as well as Global Warming Prevention Promotion Law will come into force in April, 2006.

Canon will try to a