

CANON INC
Form 20-F
March 28, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

.. **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, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

OR

.. **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

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(Exact name of Registrant in Japanese as specified in its charter)

CANON INC.

(Exact 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)

Toshihide Aoki, +81-3-3758-2111, +81-3-5482-9680, 30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan

(Name, Telephone, Facsimile number and Address of Company Contact Person)

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, 2012, 1,152,791,291 shares of common stock, including 23,359,224 ADSs, were outstanding.

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

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 No

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 No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

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 No

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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, 2012 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 15, 2013, the noon buying rate for yen in New York City as reported by the Federal Reserve Bank of New York was ¥95.26 = U.S.\$1.

The Company's fiscal year end is December 31. In this Annual Report fiscal 2012 refers to the Company's fiscal year ended December 31, 2012, 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 should and similar expressions, as they relate to Canon or its management, are intended to identify forward-looking statements. Such statements, which include, but are not limited to, statements contained in Item 3. Key Information-Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures about Market Risk, 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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Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information**A. Selected financial data**

The following 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.

Selected financial data *1:	2012	2011	2010	2009	2008
	(Millions of yen, except average number of shares and per share data)				
Net sales	¥ 3,479,788	¥ 3,557,433	¥ 3,706,901	¥ 3,209,201	¥ 4,094,161
Operating profit	323,856	378,071	387,552	217,055	496,074
Net income attributable to Canon Inc.	224,564	248,630	246,603	131,647	309,148
Advertising expenses	83,134	81,232	94,794	78,009	112,810
Research and development expenses	296,464	307,800	315,817	304,600	374,025
Depreciation of property, plant and equipment	211,973	210,179	232,327	277,399	304,622
Increase in property, plant and equipment	270,457	226,869	158,976	216,128	361,988
Long-term debt, excluding current installments	2,117	3,368	4,131	4,912	8,423
Common stock	174,762	174,762	174,762	174,762	174,762
Canon Inc. stockholders' equity	2,598,026	2,551,132	2,645,782	2,688,109	2,659,792
Total assets	3,955,503	3,930,727	3,983,820	3,847,557	3,969,934
Average number of common shares in thousands	1,173,648	1,215,832	1,234,817	1,234,482	1,255,626
Per share data:					
Net income attributable to Canon Inc. stockholders per share:					
Basic	¥ 191.34	¥ 204.49	¥ 199.71	¥ 106.64	¥ 246.21
Diluted	191.34	204.48	199.70	106.64	246.20
Cash dividends declared	130.00	120.00	120.00	110.00	110.00
Cash dividends declared (U.S.\$) *2	\$ 1.498	\$ 1.503	\$ 1.447	\$ 1.196	\$ 1.073
Notes:					

1. The above financial data is prepared in accordance with U.S. generally accepted accounting principles.
2. Annual cash dividends declared (U.S.\$) are 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 or on the latest practicable date.

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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. On March 15, 2013, the noon buying rate for yen in New York City as reported by the Federal Reserve Bank of New York was ¥95.26 = U.S.\$1.

Yen exchange rates per U.S. dollar:	Average	Term end	High	Low
2008	102.85	90.79	110.48	87.84
2009	93.67	93.08	100.71	86.12
2010	87.16	81.67	94.68	80.48
2011	79.43	76.98	85.26	75.72
2012 - Year	80.10	86.64	86.64	76.11
- 1(st) half		79.81	83.78	76.11
- July		78.10	79.95	78.10
- August		78.30	79.50	78.17
- September		77.92	78.96	77.41
- October		79.94	80.04	78.00
- November		82.54	82.54	79.42
- December		86.64	86.64	81.86
2013 - January		91.28	91.28	86.92
- February		92.36	93.64	91.38

Note: The average exchange rates for the periods are the average of the exchange rates on the last day of each month during the period.

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 office multifunction devices (MFDs), plain paper copying machines, laser printers, inkjet printers, cameras and lithography equipment.

Primarily because of the nature of the business and geographic areas in which Canon operates and the highly competitive nature of the industries to which it belongs, Canon is subject to a variety of risks and uncertainties, including, but not limited to, the following:

Risks Related to Canon's Industries

Canon has invested and will continue to invest actively 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, there could be a material adverse effect on Canon's operating results.

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

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under development by Canon uncompetitive. For several years, Canon has continued its investments in development and manufacturing in order to keep pace with technological evolution. If Canon's business strategies diverge from market demands, Canon may not recover some or all of its investments, or may lose business opportunities, or both, which may have a material adverse effect on Canon's operating results.

In addition, Canon has sought to develop production technology and equipment to accelerate the automation of its manufacturing processes and in-house production of key devices. If Canon cannot effectively implement these techniques, it may fail to realize cost advantages or product differentiation, and consequently lose business opportunities, which may 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 commercial acceptance of new technologies and products that it develops. If Canon pursues technologies or develops products that are not well received by the market, its operating results could be adversely affected.

Entering new business areas through the development of next-generation technologies is a focal point of Canon's corporate strategy. To the extent that Canon enters into such new business areas, Canon may not be able to establish a successful business model or may face severe competition with new competitors. If such events occur, Canon's operating results may be adversely affected.

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

Many of the business areas in which Canon competes are characterized by rapid technological advances in hardware performance, software functionality and product features; frequent introduction of new products; short product life cycles; and continued qualitative improvements to current products at stable price levels. If Canon does not make effective transitions 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 marketability due to unsuitable product quality during the introductory period, variations in manufacturing costs, delays of customer purchasing decisions in anticipation of further introductions, uncertainty in predicting customer demand for new offerings and difficulty in effectively managing inventory levels in line with anticipated demand. Moreover, if Canon is unable to respond quickly to unexpected technological innovations with respect to information systems and networks, Canon's revenue may be significantly affected as a result of delays associated with the incorporation of such new information technologies into existing products and services as well as new offerings.

Canon's revenue and gross margin also may suffer adverse effects because of the timing of product or service introductions by its competitors. This risk is exacerbated when a product has a short life cycle or when a competitor introduces a new product immediately prior to 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 products and services, potentially offsetting the benefits derived from the introduction of a successful new product or service. Canon must also ensure that its new products are not wholly or partially duplicative of 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 could be reduced, and its operating results could decline.

Changes in the print environment may affect Canon's business

In the business machines market for such products as MFDs, copying machines and printers, customers are increasingly looking for ways to cut costs while protecting the environment. From this perspective, Managed Print Services (MPS), which aim to optimize printing efficiencies in the office, have become popular in recent years. This trend could lead to a decrease in business machine print volumes.

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In addition, the popularity of tablet PCs could also lead to a decrease in customer print opportunities. If Canon is unable to supply products and services that respond to these types of market trends, it could result in adverse effects on its operating results.

Canon's digital camera business operates in a highly competitive environment.

Mirrorless cameras are interchangeable lens cameras which, because they do not incorporate a mirror mechanism, are more compact and lightweight than digital single-lens-reflex (SLR) cameras. The growth of the mirrorless camera market has the potential to adversely affect the market for digital SLR cameras, in which Canon boasts top market share. If the mirrorless camera market continues to grow and Canon fails to gain a leading share of that market or the digital SLR camera market shrinks relative to that market, our revenues and our overall presence in the camera market may be adversely affected.

Meanwhile, the smartphone market has been growing dramatically on a global scale. Smartphones allow users not only to take photos, but also to retouch them and to upload them to SNSs (Social networking services). If Canon's compact digital cameras become less appealing compared to smartphones, Canon could suffer from an erosion of the compact digital camera market, with a resulting adverse effect on operating results.

Because the semiconductor lithography equipment and flat-panel-display (FPD) industry is highly cyclical, Canon may be adversely affected by any downturn in the industry.

The semiconductor lithography equipment and FPD industry is characterized by fluctuating business cycles, the timing, length and volatility of which are difficult to predict. Recurring periods of oversupply of semiconductor devices and FPD panels have at times led to significantly reduced demand for capital equipment, including the semiconductor lithography equipment and FPD lithography equipment that Canon produces. Despite this cyclicity, Canon must maintain significant levels of research and development expenditures to remain competitive. A future cyclical downturn in the lithography equipment industry and related fluctuations in the demand for capital equipment could cause cash flow from sales to fall below the level necessary to offset Canon's expenditures, including those arising from research and development, and could consequently have a material adverse effect on Canon's operating results and financial condition.

Risks Related to Canon's Business

Economic trends in Canon's major markets may adversely affect its operating results.

As a result of the economic downturn in recent periods, declines in consumption and restrained investment in Canon's major markets, including Japan, the United States, Europe and Asia, have affected both individual consumer and corporate sales, and if economic conditions do not improve, these trends may continue. Canon's operating results for products such as office and industrial equipment are affected by the financial results of its corporate customers, and deterioration of their financial results has caused and may continue to cause customers to limit capital investments. Demand for Canon's consumer products, such as cameras and inkjet printers, is discretionary. Fluctuating inventory levels, rapid price declines owing to intensifying competition and the recent decline in the level of consumer spending and corporate investment driven by the economic downturn could adversely affect Canon's operating results and financial position.

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

Canon depends on Hewlett-Packard for a significant part of its business. During fiscal 2012, 17.0% of Canon's net sales were to Hewlett-Packard. As a result, Canon's business and operating results may be affected by the policies, business and operating results 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 operating results.

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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 such markets, including the following:

- underdeveloped technological infrastructure, which can affect production or other activities or result in lower customer acceptance of Canon's services;
- political turmoil, territorial disputes or unfavorable economic factors;
- difficulties in recruiting and retaining qualified personnel;
- potentially adverse tax consequences, including transfer pricing issues and increases in corporate tax rates;
- longer payment cycles; and
- unexpected legal or regulatory changes.

Any inability to manage the risks inherent in Canon's international activities could adversely affect its business and operating results. In order to reduce costs and produce Canon's products competitively, Canon maintains several production facilities and more than ten sales bases in Asia, including China, Thailand and Vietnam, and is vigorously conducting significant production and sales activities in Asia. Under such circumstances, unexpected events may occur, including political or legal change, labor shortages or strikes, increased personnel costs or changes in economic conditions. In particular, a large revaluation of local currencies, or a sudden significant change in the tax system or other regulatory regimes could adversely affect Canon's overall performance. Given the importance of Canon's research and development, production and sales activities in Asia, Canon's business may be more acutely exposed to such risks than to the global economy in general.

The outbreak, prevalence or spread of an epidemic disease, such as a new strain of influenza, in any region around the globe could also have a negative effect on Canon's business operations, including its research and development, production and sales activities, along with the disruption of markets for Canon's products.

In addition, unexpected changes in import taxes imposed by foreign governments could adversely affect Canon's business and operating results.

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 potentially imposed upon Canon. A major infringement could result in a temporary or permanent 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.

Any of the above factors regarding international operations could have an adverse effect on Canon's operating results.

Canon depends on specific outside suppliers for certain key components.

Canon relies on specific outside suppliers that meet Canon's strict criteria for quality, efficiency and environmental friendliness for critical components and special materials used in its products. In some cases, Canon may be forced to discontinue production of some or all of its products if the specific outside suppliers that supply key components and special materials across Canon's product lines experience unforeseen difficulties, or if such parts and special materials suffer from quality problems or are in short supply. Further, the prices of components and special materials purchased from specific outside suppliers may surge, triggered by the imbalance of supply and demand along with other factors. If such risks occur as an outcome of the dependency on such specific outside vendors, Canon's operating results may be adversely affected.

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Although competition is increasing in the market for supplies and services following initial product placement, Canon maintains a high market share in such sales. As a result, Canon may be subject to antitrust-related lawsuits, 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 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, Canon currently maintains a high market share in the market for supplies. Accordingly, Canon may be subject to lawsuits, investigations or proceedings under relevant antitrust laws and regulations. Any such lawsuits, investigations or proceedings may lead to substantial costs and have an adverse effect on Canon's operating results or reputation.

Increases in counterfeit Canon products may adversely affect Canon's brand image and its operating results.

In recent years, counterfeiting of Canon products has increased worldwide. Counterfeit products may diminish Canon's brand image, particularly if purchasers of such products mistakenly attribute the counterfeit products' poor quality to Canon. Canon has been taking measures to halt the spread of counterfeit products. However, there can be no assurance that such measures will be successful, and the continued manufacture and sale of such products could adversely affect Canon's brand image as well as its operating results.

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

Although Canon works to minimize risks that may arise from product quality and liability issues, such as those triggered by the individual functionality and also from the combination of hardware and software that make up Canon's products, there can be no assurance that Canon will be able to eliminate or limit these issues and the resulting damages. If such factors adversely affect Canon's operating activities, generate additional expenses such as those related to product recalls, service and compensation, or otherwise hurt its brand image, Canon's operating results or reputation for quality may be adversely affected.

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 costs of Canon's products have historically been highest when products are newly introduced into production. The introduction of new products has at times had a negative impact on gross profit, operating results and cash flow. Cost reductions and enhancements are typically achieved over time through:

- engineering improvements;
- economies of scale;
- improvements in manufacturing processes;
- improved serviceability of products; and
- reduced inventories of parts and products.

Initial shipments of new products adversely affect Canon's profit and cash flow, and if new products do not achieve sufficient sales volumes, Canon's gross profit, operating results and cash flow may be adversely affected.

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 sales of its consumer-oriented products. Canon has little control over the various factors that produce these seasonal trends. Accordingly, it is difficult to predict short-term demand, placing pressure on Canon's inventory management and logistics systems. If product supply

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from Canon exceeds actual demand, excess inventory will put downward pressure on selling prices and raise inefficiency in cash management, potentially reducing Canon's revenue. Alternatively, if actual demand exceeds the supply of products, Canon's ability to fulfill orders may be limited, which could adversely affect market share, net sales and increase the risk of unanticipated variations in its operating results.

Canon's business is subject to changes in the sales environment.

A substantial portion of Canon's market share is concentrated in a relatively small number of large distributors, particularly in Europe and the United States. Canon's product sales to these distributors constitute a significant percentage of its overall sales. As a result, any disruptions in its relationships with these large distributors in specific sales territories could adversely affect Canon's ability to meet its sales targets. Any increase in the concentration of sales to these large distributors could result in a reduction of Canon's 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 operating results.

Canon's success depends in part on the value of its brand name, and if the value of the brand is diminished, Canon's operating results and prospects will be adversely affected.

Canon's success depends in part on the value of its brand name. Any negative publicity regarding the quality of Canon's products could have an adverse impact on operations, especially negative publicity involving consumer 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 operating results. If Canon fails to maintain its overall compliance regime, especially legal or regulatory compliance, this also could result in damage to Canon's credibility and brand value.

Canon's cooperation and alliances with, strategic investments in, and acquisitions of, third parties may not produce successful results. The unexpected emergence of strong competitors through mergers and acquisitions may affect Canon's business environment.

Canon is engaged in alliances, joint ventures, and strategic investments with other companies. Canon also makes strategic acquisitions of other companies. These activities can help to promote Canon's technological development process and expand its customer base. However, weak business trends or disappointing performance by partners or targets may adversely affect the success of such activities. In addition, the success of such activities may be adversely affected by the inability of Canon and its partners or targets to successfully define and reach common objectives. Even if Canon and its partners or targets succeed in designing a structure that allows for the definition and achievement of common objectives, synergies may not be created between the businesses of Canon and its partners or targets. Integration of operations may take more time than expected. An unexpected cancellation of a major business alliance may disrupt Canon's overall business plans and may also result in a delayed return on, or reduced recoverability of, the investment, adversely affecting Canon's operating results and financial position.

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

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

Canon derives a significant portion of its revenue from its international operations. As a result, Canon's operating results and financial position have been and may continue to be significantly affected by changes in the value of the yen versus foreign currencies. Sales of Canon's products denominated in foreign currencies, as well

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as its margins have been and may continue to be adversely affected by the strength of the yen against foreign currencies. Conversely, a strengthening of foreign currencies against the yen will generally be favorable to Canon's foreign currency sales. Canon's consolidated financial statements are presented in yen. As such, the yen value of Canon's assets and liabilities arising from foreign currency business transactions and the yen value of Canon's foreign currency-denominated equity investments have fluctuated and may continue to fluctuate. Unpredictable fluctuations may have certain effects on Canon's consolidated financial statements. Moreover, Canon's consolidated financial statements have been and may continue to be affected by currency translations from the financial statements of Canon's foreign subsidiaries and affiliates, which are denominated in various foreign currencies. Furthermore, if the values of certain foreign currencies, such as the U.S. dollar and the euro, weaken significantly against the yen, Canon's operating results and financial position would be negatively affected. Although Canon strives to mitigate the effects of foreign currency fluctuations arising from its international business activities, Canon's operating results and financial position could be adversely affected by a strong yen environment. Canon is also exposed to the risk of interest rate fluctuations, which may affect the value of Canon's financial assets and liabilities.

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

Canon depends on efficient logistics services to distribute its products worldwide. Problems with Canon's computerized logistics systems, an outbreak of war or strife within Canon's operating regions or regional labor disputes, such as a dockworkers' strike, could lead to a disruption of Canon's operations and result not only in increased logistical costs, but also in the loss of sales opportunities owing to delays in delivery. Moreover, because demand for Canon's consumer products may fluctuate throughout the year, transportation means, such as cargo vessels or air freight, and warehouse space must be appropriately managed to take such fluctuations into account. Failure to do so could result in either a loss of sales opportunities or the incurrence of unnecessary costs.

In addition, the increasing levels of precision required of semiconductor lithography equipment and FPD lithography equipment and the resulting increase in the value and size of such equipment in recent years have resulted in a concurrent increase in the need for sensitive handling and transportation of these products. Because of their precise nature, even a minor shock during the handling and transportation process can potentially cause irreparable damage to such products. If unforeseen accidents during the handling and transportation process render a significant portion of Canon's high-end precision products unmarketable, costs will increase, and Canon may lose sales opportunities and customer confidence.

Substantially higher crude oil prices and the supply-and-demand balance of transportation means could lead to increases in the cost of freight, which could adversely affect Canon's operating results.

Furthermore, earthquakes or volcanic eruptions may cause a breakdown of transportation facilities, such as ports or airports, or otherwise interrupt critical logistics services, which may have an adverse effect on production or sales activities.

Other Risks

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

Canon's headquarters functions, information systems and research and development centers are located in or near Tokyo, Japan, where the possibility of 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, materials procurement, manufacturing, logistics, sales and services are located throughout the world and subject to the possibility of outage or similar disruption as a result of a variety of events, including natural disasters such as earthquake, flood, computer viruses, cyber attacks and terrorist attacks. Although Canon continues to establish appropriate backup structures for its facilities and information systems, there can be no assurance that Canon will

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be able to prevent or mitigate the effect of such events or developments such as the leakage of harmful substances, shutdowns of information systems, and leakage, falsification and loss of internal databases. Although Canon has implemented backup plans to permit the manufacture of its 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 at sufficient 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 consequently be adversely affected.

Canon's business is subject to environmental laws and regulations.

Canon is subject to certain Japanese and foreign environmental laws and regulations in areas such as energy resource conservation, reduction of hazardous substances, product recycling, clean air, clean water and waste disposal.

In particular outlays required to address climate change could vary widely depending on circumstances of the Kyoto Protocol extension and corresponding measures.

In other cases, such as the Directive Establishing a Framework for the Setting of EcoDesign Requirements for Energy-related Products across the European Union, detailed implementation standards responsive to environmental requirements remain under review. Canon strives to comply with such standards to the extent possible in advance of official adoption. If, however, Canon's current measures are deemed insufficient to satisfy such standards when adopted, Canon may be required to take further action and incur additional compliance costs.

Furthermore, Canon may incur rework or repair expenses if non-qualifying products are shipped in violation of the European Union Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS Directive 2011/65/EU) or if other legal regulations are not fully followed by parts suppliers. Such extra costs may exceed compensation from parts suppliers or coverage from insurance contracts and could have an adverse effect on Canon's overall business and operating results.

Environmental cleanup and remediation costs relating to Canon's properties and associated litigation could decrease Canon's net cash flow, adversely affect its operating results and impair its financial condition.

Canon is subject to potential liability for the investigation and cleanup of environmental contamination at each of the properties that it owns or operates and at certain properties Canon formerly owned or operated. If Canon is held responsible for such costs 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 because of exposure to chemicals or other hazardous substances from its facilities. Canon may also face liability for personal injury, property damage or natural resource damage, and decontamination costs for alleged pollution from its facilities. A significant increase in the number, success and cost of these claims could adversely affect Canon's business and operating results.

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 internally developed technology, and seeks to protect such technology through a combination of patents, trademarks and other intellectual property rights.

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Canon faces 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 be unsuccessful; and
intellectual property laws may not adequately protect Canon's intellectual property, particularly in certain emerging markets.

To the extent that Canon is unaware of actual or potential infringements of, or adverse claims to, its rights in such technologies, any interference with 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. If any government agency or third party is adjudicated to have a valid claim against Canon, Canon could be required to:

refrain from selling the relevant product in certain markets;
pay monetary damages;
pursue development of non-infringing technologies, which may not be feasible; or
attempt to acquire licenses to the infringed technology and to make royalty payments, 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 renewal conditions of such licenses could affect Canon's business.

Canon's businesses, corporate image and operating results could be adversely affected by any of these developments.

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

Canon may face disputes involving payment of remuneration for employee inventions, the rights to which have been assigned to Canon. This risk is particularly relevant in countries such as Japan and Germany, where patent laws require companies to remunerate employees for the assignment of employee invention rights to the company. Canon maintains company rules and an evaluation system for employee inventions. Canon believes it has been making adequate payments to employees for the assignment of invention rights based on these rules. However, there can be no assurance that disputes will not arise with respect to the amount of these payments to employees. Such disputes may adversely affect Canon's brand image as well as its business.

Canon must attract and retain 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 qualified personnel in development, production, sales and management. The competition for human resources in the high-tech industries in which Canon operates has intensified in recent years. Moreover, owing 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. Failure by Canon to recruit and train qualified personnel or the loss of key employees could delay development or slow production and could increase the risks of outflow of technologies and know-how. These factors may adversely affect Canon's business and operating results.

Maintaining a high level of expertise in Canon's manufacturing technology is critical to Canon's business. However, it is difficult to secure the requisite expertise for specialized skill areas, such as lens processing, in a

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short time period. While Canon engages in advance planning to obtain the expertise needed for each skill area, Canon cannot guarantee that such expertise will be acquired in a timely manner and retained, and failure to do so may adversely affect Canon's business and operating results.

Canon may 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 price fluctuations in the stock and bond markets. The current volatility in financial markets and overall economic uncertainty increase the risk that the actual amounts realized in the future on Canon's investments could differ significantly from the fair values currently assigned to them. In addition, if valuations of investment assets decrease because of conditions in stock or bond markets, for example, 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 on 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 affected individuals or parties. In addition, Canon uses computer systems and electronic data in managing information relating to its employees. Although Canon makes its best efforts to maintain the confidentiality of such information through 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 affected individuals or parties, suffer harm to its reputation or be subject to liabilities or penalties under applicable statutes.

Inadvertent disclosure of confidential information regarding new technology could also have a material adverse effect on Canon's business.

Canon is subject to risks relating legal proceedings.

Canon is involved in various claims and legal actions arising in the ordinary course of its business. Results of actual and potential litigation are inherently uncertain. An unfavorable result in a legal proceeding could adversely affect Canon's reputation, financial condition and operating results.

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 Corporation Law of Japan. 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 printers, bubble jet printers, computers, video camcorders and digital cameras.

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

On February 19, 2010, Canon acquired shares of OPTOPOL Technology S.A. (OPTOPOL) through a tender offer and made it into a subsidiary. By making OPTOPOL into a subsidiary, Canon aims to achieve the world's No. 1 position within the overall ophthalmic diagnostic equipment segment.

On March 9, 2010, Canon acquired shares of Océ N.V. (Océ) through a public cash tender offer in addition to interest Canon held before the public cash tender offer and made it into a subsidiary. By making Océ into a subsidiary, Canon aims to further strengthen its business foundation in order to solidify its position as one of the global industry leaders. The combination capitalizes on an excellent complementary fit in product mix, channel mix, R&D, and business lines resulting in an outstanding customer offer spanning the entire industry.

In fiscal 2012, 2011, and 2010, Canon's increases in property, plant and equipment were ¥270,457 million, ¥226,869 million and ¥158,976 million, respectively. In fiscal 2012, the increases in property, plant and equipment were mainly used to expand production capabilities in both domestic and overseas regions, and to bolster Canon's production-technology-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.

For fiscal 2013, Canon projects an increase in property, plant and equipment of approximately ¥265,000 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 this increase will be generated internally through operations.

B. Business overview

Canon is one of the world's leading manufacturers of office multifunction devices (MFDs), plain paper copying machines, laser printers, inkjet printers, cameras and lithography equipment.

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. In fiscal 2012, 79.3% of consolidated net sales were generated outside Japan, with approximately 27.0%, 29.1% and 23.2% generated in the Americas, Europe and Asia and Oceania, respectively.

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

Canon's research and development activities range from basic research to product-oriented research directed at maintaining and increasing Canon's technological leadership in the marketplace.

Canon manufactures the majority of its products in Japan, but in an effort to reduce currency exchange risk and production costs, Canon has increased its overseas production and the use of local components. Canon has manufacturing subsidiaries in a variety of countries, including the United States, Germany, France, the Netherlands, 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 launched programs to collect and recycle used Canon cartridges and to refurbish used Canon copying machines. In addition, Canon has removed virtually all environmentally unfriendly chemicals from its manufacturing processes.

Products

Canon operates its business in three segments: the Office Business Unit, the Imaging System Business Unit and the Industry and Others Business Unit .

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- Office Business Unit -

Canon manufactures, markets and services a wide range of MFDs, office copying machines and personal-use copying machines. Canon also delivers value added to customers through software, services and solutions. In the office market, together with Océ, which Canon consolidated in 2010, Canon is now in a much improved position compared to fiscal 2011 to serve customers in terms of sales coverage, product portfolio and service capabilities and address customer needs in the imaging and document space.

In fiscal 2012, Canon was able to maintain its revenue from sales of MFDs, services and solutions despite the strong yen and the deceleration of the global economy. The consolidation of Océ has brought many strategic assets to Canon, including expertise, resources and innovation.

The office market is subject to rapid change, and customer preferences have been shifting from monochrome to color products and from hardware to services and solutions. In fiscal 2012, Canon enhanced its portfolio with the launch of digital MFDs, the imageRUNNER ADVANCE C 5200 series, a color device, and the monochrome imageRUNNER ADVANCE 6200 and 8200 series. These models are the next-generation imageRUNNER ADVANCE series, a platform of multifunction office systems designed to transform a workflow from a series of individual processes to a continuous, integrated flow of shared information.

Canon offers office MFDs for a wide range of environments from offices to professional graphic arts. The print industry is increasingly turning to short-run, print-on-demand and variable data printing in recent years. In fiscal 2012, Canon introduced the Océ VarioPrint 110/125/135, monochrome digital presses jointly developed with Océ. This system combines Canon's respective best-of-class strengths, redefining excellence in monochrome printing.

Canon is also marketing software, services and solutions, delivering added-value to its customers. Canon's application development platform, the Multifunctional Embedded Application Platform (MEAP), allows the creation of customized applications for Canon MFDs enabling tight integration into customer's IT infrastructure. The integration not only boosts productivity but also allows users to take advantage of the power of MFD cloud services. In fiscal 2012, Canon launched some new services as part of the Canon Business Imaging Online (CBIO) initiative. CBIO is a global cloud-based platform for implementing additional control solutions such as managing, configuring and monitoring devices remotely for Canon Managed Document Services engagements. It helps customers improve efficiency, reduce total cost of ownership, and enjoy more convenience through services such as form creation and print services. Canon has also introduced imageWare Desktop Version 3 to enhance the imageRUNNER ADVANCE ecosystem.

Canon's expanded alliance with Hewlett-Packard contributed to its being awarded several large enterprise deals. Canon believes Canon and Hewlett-Packard continue to offer unmatched office workflow solutions that are highly responsive to customer needs in this market.

Canon made Océ a consolidated subsidiary in 2010 to strengthen its printing business. In fiscal 2012, Canon introduced the Océ VarioPrint 110/125/135, monochrome digital presses jointly developed with Océ. The cross selling of Canon's mutual product portfolios continues to expand as Canon brings to its respective customer bases a richer set of combined offerings. The integration has brought broader channel coverage, complementary assets and capabilities, and incremental sales growth.

To enter the Poster print market, Canon launched a new wide format printer, the Océ ColorWave 650. During a major European fair, Canon introduced Océ InfiniStream, the industry's fastest liquid toner technology.

Developed and fostered by Canon, laser printers are standard output peripherals for offices. Canon's laser printers are relatively small and have high-quality capabilities attributable to Canon's expertise with the relevant technologies. Canon's adoption of a user-replaceable toner cartridge system containing optical components makes its printers easy to maintain. Most of Canon's laser printer sales are on an Original Equipment Manufacturer (OEM) basis.

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On a global basis, the production and sales of laser printers dropped drastically in 2009 after Lehman Brothers bankruptcy. In 2010 and 2011, the production and sales returned to positive growth in response to the global economic recovery driven by low-end product expansion. However, the trend returned to negative growth again in 2012 due to the serious recession in Europe and the stagnation of economic growth in many of Canon's markets, even in emerging countries like China. By such a change of general market trend, the production and sales of Canon's laser printers declined year-on-year in 2012. The Office Business Unit also includes the related sales of paper and chemicals, service and replacement parts.

- Imaging System Business Unit -

Canon manufactures and markets digital cameras and digital video camcorders, as well as lenses and various related accessories.

The worldwide compact digital camera market declined by 10% year-on-year in fiscal 2012, primarily due to prolonged European debt crisis, slowdown of economic growth in emerging area, anti-Japan demonstration in China, and the rapid penetration of smartphones. Canon maintained its formidable position in the industry by bringing twenty new models to market in 2012. Three new models in particular have contributed to Canon's sales: the PowerShot ELPH 110 HS, the PowerShot SX 40 HS, and the PowerShot A2300.

In 2012, Canon launched five new camera products (one mirrorless, one entry class, two advanced amateur and one professional). Canon particularly strengthened its product line up in the 35mm full-frame sensor category by introducing three new models: the EOS-1D X, EOS 5D Mark III and EOS 6D.

Canon's flagship and professional model, the EOS-1D X delivers superior image quality owing to an 18.1 megapixel 35mm full-frame CMOS sensor, adjustable from ISO 100 to 51,200 within its standard range and, permitting shooting of up to twelve frames per second (fps). The EOS-1D X is popular for shooting all manner of sporting and other events around the world.

The EOS 5D Mark III delivers superb image quality, thanks to a new 22.3-megapixel full-frame Canon CMOS sensor, adjustable from ISO 100 to 25,600 within its standard range, a 61-point High Density Reticular Autofocus (AF) System and six fps continuous shooting speed.

The EOS 6D is the world's lightest and smallest interchangeable lens digital camera equipped with a 35mm full-frame sensor as of November 30, 2012. The EOS 6D, designed for advanced amateurs, is also the first EOS equipped with wireless LAN and GPS capabilities.

Additionally, in the entry class products, the EOS Rebel T4i is equipped with features such as a Vari-angle Touch Screen LCD monitor, a function to facilitate video shooting and an improved fully automatic shooting function. Canon also offers the EOS Rebel T3i in this class.

The EOS M is Canon's first mirrorless EOS, featuring a small and light body, stylish design and availability in various colors. In addition, owing to Mount Adapter EF-EOS M, the EOS M can use all of Canon's EF lens.

The market for interchangeable lenses for digital cameras grew robustly as well. Canon has been introducing high-quality, high-performance lenses built on superior technology (e.g., a special Sub-Wavelength Coating, multilayer diffractive optical elements and image stabilizers), which Canon believes allowed it to maintain its advantage over the competition in this field, as well as in the digital SINGLE-LENS REFLEX (SLR) camera field. In October 2011, the cumulative production of EF lens series interchangeable lenses surpassed 70 million. Including three new products launched in March 2011, the interchangeable lens lineup currently exceeds 60 products. With high expectations for further growth in this market, Canon expects to continue boosting both revenue and market share.

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Canon maintains a leading position in the digital video camcorder market, having introduced a series of flash memory models in fiscal 2008 followed by high-end models in fiscal 2009, to successfully promote Canon's brand reputation for high image quality. In fiscal 2010, Canon added general-purpose models, allowing Canon to cover the full range with flash memory models. In the field of professional camcorders, Canon introduced flash memory models, our XF series, in 2010 and 2011 for use in broadcast news, documentary and independent filmmaking. Furthermore, in November 2011, Canon announced its full-fledged entry into digital high-resolution motion picture production by launching Cinema EOS System which consists of new interchangeable lens digital cinema cameras featuring a newly developed Super 35mm-equivalent, approximately 8.29 megapixel Complementary Metal Oxide Semiconductor (CMOS) sensor, EF Lenses and new EF Cinema Lenses lineup. In 2012, CINEMA EOS SYSTEM has strengthened its line up with launching new digital cinema cameras capable of recording 4K-resolution video and entry level HD. Despite a continuing slowdown in the overall digital video camcorder market, there is a steady, positive trend in HD and flash memory sales and volume. Canon has been expanding its flash memory model lineups in order to expand sales and to take advantage of this growth of the HD and flash memory markets.

Canon began aggressively expanding its lineup of network cameras used for business surveillance video and monitoring applications in the second half of 2008 and has achieved a reputation for high-quality images due to the strength of its optical performance and video processing technology. This market is expected to expand further through improvements in high-quality imaging and image analysis, both of which are trends that will enable Canon to apply its traditional strengths. In fact Canon launched four new HD products in the second half of 2011 that contribute to societal safety and security.

As the inventor of inkjet printing technology, Canon believes that it continues to provide customers with the best performing inkjet printer models. Canon offers high-performance and high value-added inkjet printers to home, business and professional users. In response to intense competition in the consumer segment, Canon launched a new lineup of printers in fiscal 2012. All of these models feature print heads based on Canon's Full-photolithography Inkjet Nozzle Engineering (FINE) technology, which boosts print speed and image quality up to 9600 x 2400 dpi, and the ChromaLife100+ system, which provides high-quality and long-lasting photographic images using a combination of genuine ink and paper. Canon PIXMA photo printers offer many advanced features, including low profile design, My Image Garden, the Intelligent Touch System, PIXMA Cloud Link and wireless printing, each of which makes printer operation more user friendly for diversified users. With an advanced printer lineup, Canon has increased its unit sales.

In February 2012, Canon started to ship the DreamLabo 5000, the first inkjet production photo printer which incorporates its new FINE high-density print head technology to significantly expand the potential of photo print quality. In the autumn of 2011, Canon also introduced professional photo inkjet printers: the PIXMA PRO-10 with a ten-color ink system of pigment-based inks, and the PIXMA PRO-100 with eight dye inks to produce colorful and vivid prints. With the addition of these products, Canon aims to further expand its business leveraging its strength in the photo printing market.

Regarding large-format inkjet printers, although the market slightly decreased in 2012 compared to the previous year, Canon significantly increased its unit sales, launching four new models for the graphic art market. Canon large-format inkjet printers are based on FINE head technology and employ its unique image processor, L-COA, developed for high-speed, high-resolution printing, and LUCIA/LUCIA EX pigment inks, developed for combining the glossiness of dye ink with vivid colors and weather resistance.

Canon markets a wide variety of scanners geared toward a broad spectrum of user needs, including image scanners in the CanoScan LiDE series using a Contact Image Sensor (CIS) and scanners with Charge-Coupled Devices (CCD) for high resolution. CIS is a close-contact method that allows for a significant reduction in scanner weight and size. Although the scanner market has continued to shrink and has shifted toward MFDs, Canon has maintained a high market share.

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Canon is the leader in the market for television lenses used by television stations for live sports, news broadcasts, concerts, dramatic productions and other applications. In 2011, Canon released the XJ95x8.6B high definition zoom lens for outdoor broadcasts. This lens achieves not only the world's widest angle, but also 95x optical zoom magnification, which has bolstered Canon's position as the broadcast television lens market leader.

Canon believes its television lenses are easily the most popular for broadcasting all manner of sporting and other events around the world, and continue to deliver thrilling true depictions of events to television viewers, while inspiring viewers and conveying to them a realistic picture of news stories around the world.

Canon's calculator operations from development to production to marketing are centered in Hong Kong. Canon's tradition of technological innovation began with its focus on personal information products, including calculators with built-in printers and electronic dictionaries. Canon continues to develop appealing personal information products that reflect demand trends.

- Industry and Others Business Unit -

In 2012, the market for semiconductor lithography equipment decreased approximately 30% from the previous year to about 240 units. Equipment investment by chip makers remained low especially in the memory segment primarily because supply continued to outweigh demand in the memory device market. However, image sensor, logic device and automotive device makers steadily increased their equipment investments, drawn by the growing market for smartphones, tablet PCs and hybrid cars. At the same time, some manufacturers started to invest in i-line steppers for small diameter wafers used in power devices and LEDs, as well as for new markets such as 3D mountings for through silicon Via (TSV).

Canon has been rationalizing production systems to more flexibly respond to and match market changes, creating new systems with overall responsibility for each stepper model, and integrating manufacturing and sales functions so that customer needs can be more quickly reflected in development. Through these activities, a design-in business style has been taking hold and steady progress is being made in developing and marketing products with high added value. For example, Canon released a new i-line stepper FPA-3030i5+, suitable for the production of green devices such as LEDs and power devices, which currently occupies a high share of the automotive device and LED markets. Canon also released a new KrF stepper FPA-6300ES6a with greatly improved productivity compared to conventional equipment.

In 2012, the market for FPD lithography equipment decreased 40% from the previous year to around 70 units. Such FPD lithography equipment investments generally slowed due to a deterioration in panel makers' earnings. Overall, the market for 8th generation large-sized panel production declined 60% from the previous year while the market for 5.5-6th generation small-to-mid sized panel production maintained high growth due to the brisk market for smartphones and tablet PCs. Although the market has been shrinking, the MPAsp-H700 series supporting 7th and 8th generation large-sized panels continue to offer high productivity and have contributed to customer production plans by allowing for quick equipment installation at existing production sites. This has helped Canon capture and maintain a commanding share of the FPD lithography equipment market for large-sized panel production. Furthermore, Canon's sales and service support systems have earned high accolades in China.

Canon expects FPD lithography equipment investments by panel makers to recover in 2013, mainly led by Chinese makers. Canon aims to turn around the market share by revamping its product lineup by including products for small-to-mid-sized panels.

Medical equipment sold by Canon includes X-ray image sensors, X-ray imaging systems, retinal cameras, autorefractometers and image-processing equipment for computerized systems. Canon's pioneering digital radiography system takes X-ray photography into the digital age.

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Other Canon products, such as electronic components, including magnetic heads and micro-motors, are sold primarily to equipment manufacturers. In addition, Canon provides industrial machines such as die bonder and magnetic disk film deposition equipment. Canon also offers business information products, which primarily consist of personal computers, servers and document scanners.

With the trend toward digitization, the demand for scanning documents into text or image data is expanding. Canon's document scanners rapidly and efficiently digitize large volumes of printed information. Canon offers a wide range of scanner models, including color-capable compact sheet-fed types and a flatbed model suitable for scanning book format documents. Canon also offers a hybrid model that can create microfilm records. Canon's diverse lineup seeks to meet increased demand by business customers for digitizing office documents, which enables such customers to share documents across Internet or intranet platforms or to capture forms with optical character recognition.

Marketing and distribution

Canon sells its products primarily through subsidiaries organized under regional marketing subsidiaries: Canon Marketing Japan Inc. in Japan; Canon U.S.A., Inc. in North and South America; Canon Europe Ltd. and Canon Europa N.V. in Europe, Russia, Africa and the Middle East; Canon (China) Co., Ltd. in Asia outside Japan; and Canon Australia Pty. Ltd. in Oceania. Each subsidiary is responsible for its own market research and for determining its sales channels, advertising and promotional activities. Each subsidiary provides tailor-made solutions to a diverse range of unique customers and aims to advance Canon's reputation as a highly trusted brand.

In Japan, Canon sells its products primarily through Canon Marketing Japan 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 mainly through subsidiaries or independent distributors to dealers and retail outlets in each locality. In addition, copying machines are sold directly to end-users by several subsidiaries such as Canon (UK) Ltd. in the United Kingdom and 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 in Australia by Canon Australia Pty. Ltd.

Canon also sells laser printers on an OEM basis to Hewlett-Packard Company. Hewlett-Packard resells these printers under the HP LaserJet Printers name. During fiscal 2012 and fiscal 2011, such sales constituted 17.0% and 19.3%, respectively, of Canon's consolidated net sales.

Canon continues to enhance its distribution system by promoting the continuing education of its sales personnel and by improving inventory management and business planning through weekly analysis of 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 country of sale. Cameras and camera accessories carry warranties that vary depending upon the model and country of sale.

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

Seasonality

Canon's sales for the fourth quarter are typically higher than for the other three quarters, mainly due to strong demand for consumer products, such as cameras and inkjet printers, during the year-end holiday season.

In Japan, corporate demand for office products peaks in the first quarter, as many Japanese companies end their fiscal years in March. Sales also tend to increase at the start of the new school year in each region.

Sources of supply

Canon purchases materials such as glass, aluminum, plastic, steel and chemicals for use in various product components and in the manufacturing process. Canon procures raw materials from all over the world and selects 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 market trends. Although Canon is currently focusing on globalizing supplies and improving raw material resource management strategies, and believes that it will be able to continue procuring sufficient quantities of raw materials to meet its needs, there can be no assurance that supply shortages will not occur or that raw materials, such as crude oil, will be available at competitive prices, or at all in the future.

NET SALES BY SEGMENT

The following table presents our net sales by segment for each of the periods shown.

	2012	change	Years ended December 31		2010
			2011	change	
	(Millions of yen, except percentage data)				
Office	¥ 1,757,575	-8.4%	¥ 1,917,943	-3.5%	¥ 1,987,269
Imaging System	1,405,971	7.2	1,312,044	-5.7	1,391,327
Industry and Others	407,840	-3.1	420,863	-2.8	432,958
Eliminations	(91,598)		(93,417)		(104,653)
Total	¥ 3,479,788	-2.2%	¥ 3,557,433	-4.0%	¥ 3,706,901

NET SALES BY GEOGRAPHIC AREA

The following table presents our net sales by geographic area for each of the periods shown.

	2012	change	Years ended December 31		2010
			2011	change	
	(Millions of yen, except percentage data)				
Japan	¥ 720,286	3.7%	¥ 694,450	-0.2%	¥ 695,749
Americas	939,873	-2.3	961,955	-6.0	1,023,299
Europe	1,014,038	-8.9	1,113,065	-5.1	1,172,474
Asia and Oceania	805,591	2.2	787,963	-3.4	815,379
Total	¥ 3,479,788	-2.2%	¥ 3,557,433	-4.0%	¥ 3,706,901

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Competition

Canon encounters intense global competition in all areas of its business. 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 focus on one or more individual areas. 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 that Canon faces in each of its markets are technology, quality, reliability, performance, price and customer service and support. Canon believes that its ability to compete effectively depends in large part 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:

- Office Business Unit -

The markets for this segment are highly competitive. Canon's primary competitors are Xerox Corporation/Fuji Xerox Co., Ltd.; Ricoh Company, Ltd.; Konica Minolta Holdings, Inc.; Hewlett-Packard Company; Samsung Electronics Co., Ltd.; and Lexmark International, Inc. Canon believes that it is one of the leading global manufacturers of office MFDs, copying machines and laser printers. 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 and respond to interrelated customer 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 the United States, Europe and Japan, Canon is one of the market leaders in all areas of the business machine market. In China, the current market leaders for business machines are Toshiba TEC Corporation, Sharp Corporation and Konica Minolta Holdings, Inc. Canon hopes to join this group by introducing products tailored to the Chinese market and by strengthening sales and service channels. In the color printing market, Ricoh, Xerox and Konica Minolta have been very aggressive, especially in Europe and the United States, and competition in this market has become fierce.

- Imaging System Business Unit -

In addition to the traditional camera manufacturers, other electrical manufacturers started aggressively launching interchangeable lens digital cameras and related products in fiscal 2011. Nevertheless, Canon has continued to invest aggressively in competitive new products and intends to maintain its leadership position in this market.

Canon's primary competitors in the interchangeable lens digital camera market are Nikon Corporation, Sony Corporation and Panasonic Corporation. Another major competitor is Sigma Corporation, which produces lenses for use with Canon's digital SLR products.

The compact digital camera market is extremely competitive, and a large number of Canon's competitors are relying on electronic manufacturing service (EMS) manufacturers to do their development and production work.

Except for Japan, where competition is so fierce that expansion of market size is generally possible only by greatly reducing sales prices, average prices in the industry did not decline much in fiscal 2012 from levels seen in the previous year. Nevertheless, prices have been rapidly declining as measured by the standard of specification price value, and the commoditization of products has been progressing. Market contraction and exchange rate fluctuation risks caused by the financial crisis which started in 2008 are having a major impact, resulting in severe conditions in the digital camera market. Despite these difficulties, Canon will seek to take advantage of its status as the number one brand in the industry, along with its economies of scale, in order to maintain profitability.

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Canon's primary competitors in the compact digital camera market are Sony Corporation; Nikon Corporation; Panasonic Corporation; Fujifilm Co., Ltd.; Samsung Electronics Co., Ltd.; and Casio Computer Co., Ltd. Canon's primary competitors in the digital video camcorder market are Sony Corporation; Panasonic Corporation; and JVC KENWOOD Corporation. Canon's primary competitors in the inkjet printer market are Hewlett-Packard Company and Seiko Epson Corporation.

- Industry and Others Business Unit -

There continues to be very stiff competition in the markets for lithography equipment used in the production of semiconductor devices and FPDs. In order to produce lithography equipment that can provide ultra-fine processing, there needs to be an integration of advanced optical, control and system technologies, along with continuous investment in technology development. The main competitors in these markets are Nikon Corporation, in the markets for semiconductor and FPD lithography equipment, and ASML Holding N.V., in the market for semiconductor lithography equipment only.

Canon has helped its customers to improve their productivity by continuously improving the cost performance of semiconductor lithography equipment using the i-line and KrF laser light sources. In particular, the equipment using i-line has captured a large share of the global market. Canon has also been meeting the needs of image sensor manufacturers by quickly adapting to various unique specifications.

Canon's FPD lithography equipment for FPD panels with a common platform offering excellent productivity and reliability have captured large shares of the industry-leading South Korean market and the promising Chinese market.

Patents and licenses

Canon holds a large number of patents, design rights and trademarks in Japan and abroad to protect proprietary technologies stemming from its research and development activities. Canon utilizes these intellectual property rights as important strategic management tools. For example, Canon leverages its intellectual property rights to expand its product lines and business operations and to form alliances and exchange technologies with other companies.

Canon has granted licenses with respect to its patents to various Japanese and foreign companies, most often with respect to electrophotography, laser printers, multifunction printers, facsimile machines and cameras.

Companies to which Canon has granted licenses include:

Oki Electric Industry Co., Ltd.	LED printers, multifunction printers and facsimile machines
Panasonic Corporation	Electrophotography
Ricoh Company, Ltd.	Electrophotography
Sanyo Electric Co., Ltd.	Electronic cameras
Samsung Electronics Co., Ltd.	Laser printers, multifunction printers and facsimile machines
Kyocera Document Solutions Inc.	Electrophotography
Sharp Corporation	Electrophotography
Brother Industries, Ltd.	Electrophotography and facsimile machines

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

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Companies that have granted licenses to Canon include:

Jerome H. Lemelson Patent Incentives, Inc.	Computer systems, image recording apparatus and communication apparatus
Energy Conversion Devices, Inc.	Solar battery
Honeywell International Inc.	Camera and video products
Gilbert P. Hyatt U.S. Philips Corporation	Microcomputer
Applied Nanotech Holdings, Inc.	Field Emission Display (FED) technology
St. Clair Intellectual Property Consultants, Inc.	Selection of digital camera image format

Canon has also entered into cross-licensing agreements with other major industry participants.

Companies with which Canon has entered into cross-licensing agreements include:

International Business Machines Corporation	Information handling systems
Hewlett-Packard Company	Bubble jet printers
Xerox Corporation	Business machines
Panasonic Corporation	Video tape recorders and video cameras
Eastman Kodak Company	Electrophotography and image processing technology
Ricoh Company, Ltd.	Electrophotography products, facsimile machines and word processors
Seiko Epson Corporation	Information-related instruments

Canon has placed a high priority on the management of its intellectual property. Some products that are material to Canon's operating results incorporate patented technology. Patented technology is critical to the continued success of Canon's products, which typically incorporate technology from dozens of different patents. However, 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, regulations and 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 that affect Canon's businesses are summarized below.

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

Fiscal 2012 was the final year of the first commitment period (2008-2012) under the Kyoto Protocol. The Japanese government has called upon the manufacturing, transport, services and household sectors to take further action for energy conservation.

The revised Energy Saving Law in Japan (Law Concerning the Rational Use of Energy) and the revised Act on Promotion of Global Warming Countermeasures came into full effect in April 2010. These laws require business operators to report their energy consumption and mid and long-term energy conservation plans in an effort to encourage energy efficiency. The Japanese government is also implementing multifaceted measures to reduce emissions, including the granting of a domestic credit to any large company that helps small and medium enterprises to conserve energy. This credit is expected to provide substantial incentives, as it will be deemed an emission reduction for participating companies. Trial implementation of an emissions trading scheme was launched in October 2008.

Despite the economic downturn, Canon has been working to achieve its voluntary action plan target (which is consistent with the plan of the Japan Electrics and Electronics Industrial Associations) and has been strengthening its group structure to comply with revised environmental laws. Eventually, Canon expects to

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achieve its target. Canon has been participating in the trial emissions trading scheme and managed through dedicated efforts to achieve the year 2010 target. However, due to the shutdown of nuclear power plants in Japan caused by the severe failure of the Fukushima Dai-ichi nuclear power plant, which was damaged by the great east Japan earthquake and subsequent tsunami disaster in 2011, Canon has still been asked to achieve further electricity savings and energy conservation. These activities including a response to this request could increase Canon's management costs and have adverse effects on its operating results and financial condition.

2. Post-Kyoto Initiatives

A framework of Post-Kyoto Protocol (beyond 2012) has been discussed at the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC). In December 2011, COP17 was held in Durban and member states have agreed to join a second commitment period for the Kyoto Protocol that will expire in 2020, and to fulfill national commitments for the implementation of individual or joint quantified emission reduction plans to achieve the 2020 targets under the Cancun Agreements in 2010. Member states have also launched a new negotiating process of Future Framework beyond 2020 to reach an agreement that all member states will have the same legal regime to address climate change by 2015. In December 2012, COP18 was held in Doha to discuss the agenda of COP17 in detail. However, negotiations were unsuccessful and most of the agenda was carried over to the forthcoming COP19.

The Japanese government has declared its intention not to participate in the second commitment period of the Kyoto Protocol. Instead, the Japanese government has announced its plan to submit a new emission reduction target for 2020 to COP after establishing a new domestic Climate Change remediation plan, in place of the current 25% greenhouse gas emission reduction target under the Cancun Agreement.

Canon continues to pursue CO2 emission reductions through energy-efficient product design, improvement of logistics and factory operations with due consideration for the above mentioned international developments and the domestic Climate Change remediation plan. However, these efforts could increase Canon's management costs and have adverse effects on its operating results and financial condition.

3. Tokyo Metropolitan Government Environmental Protection Ordinance

The Tokyo Metropolitan Government has mandated that the owners of certain large CO2 emitters, including office buildings, reduce CO2 emissions from April 2010. The target for the first compliance period (April 2010 to March 2015) has been set at 8% or 6% (according to the type of building) below base emissions, which can be determined based on the amount of emissions from the building in recent years. In order for the owners of large buildings to fulfill the requirement, they must reduce CO2 emissions from their respective buildings and, if such reduction is insufficient, obtain certain Tokyo Metropolitan Government-sanctioned credits. Canon expects to fulfill the requirement during the first compliance period.

Canon continues to pursue CO2 emission reductions through energy-efficient office operations. However, such efforts could increase Canon's management costs and have adverse effects on its operating results and financial condition.

4. Soil Pollution Prevention Law of Japan

A 2010 amendment to the Soil Pollution Prevention Law of Japan tightens certain requirements to survey soil to measure certain pollution levels. If soil pollution exceeds specified limits, a prefecture governor may designate the land as Measure required area when effects to human health due to soil pollution (and with exposure to pollutant) are foreseen, and the prefecture governor orders removal of pollutants. When exposures to pollutants are blocked and effects to human health are not foreseen, the area is declared a designated area for notification of changes of the land character. The prefecture governor may publicly announce such designation and make the investigation report available upon request. The substances designated as pollutants consist of twenty-five chemical groups, including lead, arsenic and trichloroethylene. If an investigation shows that there is

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a likelihood that soil contamination may affect human health, the prefecture governor may issue an order to the landowner to take designated remedial actions and may restrict the changes of the land character. Canon has commenced a detailed survey and measurement of soil and groundwater to check for pollution at all of Canon's operational sites in Japan. Additional costs may arise if these investigations reveal that remedial measures are necessary. These factors could adversely affect Canon's operating results and financial condition of the sites.

See Risk Factors Other Risks Environmental cleanup and remediation costs relating to Canon's properties and associated litigation could decrease Canon's net cash flow, adversely affect its operating results and impair its financial condition.

5. *Law for Promotion of Effective Utilization of Resources*

The Law for Promotion of Effective Utilization of Resources, administered by the Japanese Ministry of Economy, Trade and Industry, was enacted in 2001. This law requires manufacturers of specified reuse-promoted products, including copying machines, to promote the use of recyclable resources and recovered products (designing and manufacturing products that may be easily reused or recycled). Failure to comply with the law could adversely affect Canon's operating results.

6. *European Union Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the RoHS Directive) and Directive on Waste Electrical and Electronic Equipment (the WEEE Directive)*

These two directives were originally published in the Official Journal of the European Union in 2003, and member states were required to enact laws necessary to comply with these directives by 2004.

According to the RoHS Directive from July 1, 2006, companies have been required to ensure that 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 adapted its products so that they do not contain the prohibited hazardous substances. The RoHS recast Directive was published on July 1, 2011. As a result, manufacturers, like Canon, will be required to prepare new declarations of conformity and compliance documentation from January 2013, in addition to meeting current restrictions on substances. Furthermore, the scope of products covered will be expanded to medical and measurement equipment from July 2014.

The WEEE Directive requires that companies selling electrical and electronic equipment bearing their trade names in the European Union must arrange and pay for collection, treatment, recycling, recovery and disposal of their equipment. Canon has become a member company of collective compliance schemes in each member state of the European Union and has achieved the required recycling levels for electrical and electronic equipment waste. The WEEE recast Directive was published on July 24, 2012 and will be applied from February 2014. Due to a change in official interpretation, the scope of products covered may be expanded. Also, the scope of local regulations similar to WEEE tends to be more expansive in such jurisdictions.

If tighter restrictions are enforced in 2013 and beyond, Canon's compliance costs could increase, including with costs related to the actions for newly-covered products and the development and adoption of substitute materials or processes. Such increased costs may have an adverse effect on Canon's operating results.

7. *European Framework for the Management of Chemical Substances (REACH Regulation)*

The REACH Regulation was published in the Official Journal of the European Union, and was implemented in 2007. This regulation covers almost all chemicals (products in gaseous, liquid, paste or powder form) and articles (products in solid state) manufactured in or imported into the European Union.

All chemicals manufactured in or imported into the European Union that exceed specific content thresholds must be registered. Registration requires disclosure of information about usage and chemical characteristics. The

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registration of new chemicals commenced in June 2008. For chemical substances in use before existing chemicals, pre-registration was accepted from June to December 2008. Substances that were not pre-registered cannot be used until formally registered. Pre-registered substances are subject to compliance with formal registration procedures according to their quantity and hazardous properties. Canon uses some chemicals which are subject to pre-registration requirements and has completed the necessary pre-registrations.

If certain substances are contained in an article, the substances must be communicated to the recipient or consumer of the article. This requirement has been in place since October 2008. Moreover, starting in 2011, certain cases required notifying the European Chemical Agency of more specific information.

Furthermore, the addition of restrictions on the use of certain substances has been proposed, and if adopted, manufacturers such as Canon will need to take measures to address such new restrictions.

Canon has been implementing these requirements under the REACH Regulation, which could increase Canon's management costs and have adverse effects on its operating results and financial condition.

8. The European Framework for the Setting of Requirements for Energy-Related Products (ErP Directive)

The ErP Directive applies in Europe to all energy-using products, although implementing measures for specific product categories have yet to be adopted. Until these implementing measures are adopted, it is difficult to predict the potential effects of the ErP Directive. However, implementing measures with respect to off-mode and standby mode and external power supplies were adopted and applied since 2010. Currently, a horizontal implementing measure covering home and office electric and electronic equipment which can be connected to a network is also under consideration, and is expected to be published in the middle of 2013. For imaging equipment, the industry has made a public commitment to attain certain targets on environmentally conscious designs from 2012 by an industrial voluntary agreement and began implementation in 2011. Furthermore, implementing measures for AV equipment including projectors will be finalized after finalizing regulations for networked products described above (2013). Canon is continuing its preparations to comply with the ErP Directive. However, the requirements are expected to be challenging and achieving compliance will likely increase Canon's costs, especially by required design changes.

9. State Legislation in the United States Concerning Recycling of Waste Electric and Electronic Products

Electrical and electronic equipment recycling laws have been enacted or proposed in more than twenty American states. Although most of such laws cover only displays or television sets, printers and other products are covered by some states, such as Illinois, Michigan and Hawaii, among others. These laws require manufacturers to bear the costs of collecting and recycling electrical and electronic equipment based on sales volume or market share by brand of covered products. Canon expects that compliance with such state requirements might increase its costs, such as recycling fees and product guarantees.

10. Chinese Administrative Measures on the Control of Pollution Caused by Electronic Information Products

The Chinese Ministry of Information Industry published Administrative Measures on the Control of Pollution Caused by Electronic Information Products in February 2006. These measures are modeled on the European Union RoHS Directive described above and regulate six substances: lead, mercury, hexavalent chromium, cadmium, polybrominated biphenyls and polybrominated diphenyl ethers in electronic information products. The measures establish two stages of implementation. Stage 1 is in effect and covers nearly all Canon products.

To comply with Stage 1 requirements, a China-specific label must be placed on any covered product if any of the six regulated substances are contained therein, and use of the six regulated substances must be disclosed in each product manual. In addition, each product's environmental protection use period (EPUP) must be stated within its recycling mark and include the production date. Packaging material markings must be displayed on the boxes of the covered products.

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Stage 2 requires that the contents of six regulated substances in specific electronic information products (as specified by the Chinese Government in the list for emphasized management) be restricted by limitations similar to the European Union RoHS Directive. A China-specific compulsory product certification system will be introduced for such products. Standards to implement these measures and the emphasized management list are under discussion, including with regard to printers.

If these requirements are applied to Canon's products, this could increase Canon's costs and have an adverse effect on its operating results and financial condition.

11. Chinese Regulation for the Management of the Recycling and Disposal of Waste Electrical and Electronic Products

The Regulation for the Management of the Recycling and Disposal of Waste Electrical and Electronic Products was issued by the Chinese government in 2009 and implemented on January 1, 2011. This regulation concerns the management of recycling and disposal activities with regard to waste electrical and electronic products in the interest of promoting comprehensive utilization of resources and the development of a circular economy. Producers and importers will be required to pay a fee to a government fund. The first list of products falling under the waste electrical and electronic products catalogue has been issued and includes four types of household appliances as well as personal computers. The Regulation of those payment fees described above was enforced on July 1, 2012.

If these requirements are applied to Canon's products, this could increase Canon's costs and have an adverse effect on its operating results and financial condition.

12. Other Environmental Regulations

In addition to the laws described above, various environmental laws and regulations may have been promulgated or enacted by European Union member states, states of the United States, emerging countries such as China, India, Russia, Vietnam and others. Compliance with any such additional regulations may increase Canon's costs and may adversely affect Canon's operating results and financial condition.

Other regulations

Disclosure under Section 13(r) of the Securities Exchange Act of 1934

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA) added Section 13(r) to the Securities Exchange Act of 1934, as amended (the Exchange Act). Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

During the year ended December 31, 2012, the following Canon affiliates had the transactions with Iran-related organizations. These transactions were conducted in compliance with applicable law in the respective countries.

Canon Marketing Japan (CMJ), our 57% owned Japanese subsidiary as of December 31, 2012, has a maintenance contract for one copier machine with the Iranian embassy in Tokyo, Japan. This machine was sold by Canon System & Support (CSS), a wholly-owned Japanese subsidiary of CMJ, during the year 2005. Relating to this contract, CSS sold one staple cartridge and performed one spot repair during the year 2012. The current contract renews annually. Total gross sales for the contract and activities above during the year 2012 was approximately ¥338 thousand for CMJ and ¥16 thousand for CSS. The net profit was substantially less than that.

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Canon Marketing (Philippines) Inc., a wholly-owned Filipino subsidiary of Canon Singapore Pte. Ltd. (CSPL) which is wholly-owned by Canon Inc., performed a spot repair on one copier machine of the Iranian School operated by the Iranian embassy in Makati, Philippines during the year 2012. Total gross sales for this activity was in foreign currency of approximately ¥52 thousand. The net profit was substantially less than that.

Canon Marketing Malaysia Sdn bhd, a wholly-owned Malaysian subsidiary of CSPL, performed maintenance services on two copier machines of Iran Air in Kuala Lumpur, Malaysia. The current contract will expire in January 2017. Total gross sales for this activity during the year 2012 was in foreign currency of approximately ¥220 thousand. The net profit was substantially less than that.

Canon Marketing (Thailand) Co. Ltd, a wholly-owned Thai subsidiary of CSPL, has a service contract for three copier machines with the Iranian embassy in Bangkok, Thailand. The current contract will expire in October 2014. Total gross sales under this contract during the year 2012 was in foreign currency of approximately ¥70 thousand. The net profit was substantially less than that.

Canon India Pvt Ltd, a wholly-owned Indian subsidiary of CSPL, had sales of one copier machine and has service contracts for six copier machines with the consulate general of Iran in New Delhi and Mumbai, India. The current contract will expire in September 2017. Total gross sales under this contract during the year 2012 was in foreign currency of approximately ¥407 thousand. The net profit was substantially less than that.

Canon Australia Pty. Ltd., a wholly-owned Australian subsidiary, has a service and lease contract for two copier machines with Iranian embassy in Canberra, Australia. The current contract will expire in November 2016. Total gross sales under this contract during the year 2012 was in foreign currency of approximately ¥380 thousand. The net profit was substantially less than that.

Canon Europe N.V. (CENV), a wholly-owned Dutch subsidiary of Canon Finance Netherlands B.V., which is wholly-owned by Canon Inc., had indirect sales transactions through an independent distributor in Dubai, United Arab Emirates (U.A.E.) for broadcast products such as TV camera lenses and related products of Islamic Republic of Iran Broadcasting. Total gross sales under this contract during the year 2012 was in foreign currency of approximately ¥48,475 thousand. The net profit was substantially less than that.

Canon Deutschland GmbH, a wholly-owned German subsidiary of CENV, has a service contract for three copier machines with the consulate general of Iran in Munich, Germany. This contract started from August 2008 and will expire in July 2013. Total gross sales under this contract during the year 2012 was in foreign currency of approximately ¥96 thousand. The net profit was substantially less than that.

Canon (Austria) GmbH, a wholly-owned Austrian subsidiary of CENV, has a rental contract for one copier machine with Iranian embassy in Vienna, Austria. This machine was relocated to Hamburg, Germany based on the embassy's request. This contract started from June 2012 and will expire in June 2017. Total gross sales for this contract during the year 2012 was in foreign currency of approximately ¥373 thousand. The net profit was substantially less than that.

Canon (Schweiz) AG, a wholly-owned Swiss subsidiary of CENV, has rental and maintenance contract for one copier machine of Naftiran Intertrade Company (NICO) in Pully, Switzerland. This contract started from January 2010 and will expire in December 2013. Total gross sales under this contract during the year 2012 was in foreign currency of approximately ¥817 thousand. The net profit was substantially less than that.

Canon Oy AB, a wholly-owned Finnish subsidiary of CENV, has a service maintenance contract for one copier machine of the Iranian embassy in Helsinki, Finland. The current contract started from November 2009 and will expire in November 2013. Total gross sales

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under this contract during the year 2012 was approximately ¥35 thousand. The net profit was substantially less than that.

Canon Svenska AB, a wholly-owned Swedish subsidiary of CENV, performed a spot repair on two copier machines of Iran Air in Stockholm, Sweden. The gross sales for this activity was in foreign currency of approximately ¥52 thousand. The net profit was substantially less than that.

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Canon Danmark A/S, a wholly-owned Danish subsidiary of CENV, had sales of one copier machine and service maintenance contracts for five copier machines of the Iranian embassy in Copenhagen, Denmark. The oldest contracts of these started from July 2007 and some have non-cancellable clauses until February 2017. The gross sales under these contracts during the year 2012 was in foreign currency of approximately ¥385 thousand. The net profit was substantially less than that.

Canon Middle East FZ-LLC, a wholly-owned subsidiary of CENV in Dubai, U.A.E., has a service contract for a copier and two fax machines with Iranian Hospital in Dubai, U.A.E. in 2012, which we believe to be operated by Iranian Red Crescent. The current contract will expire in July 2014. Total gross sales was in foreign currency of approximately ¥441 thousand. The net profit was substantially less than that.

As of the date of this report, Canon is not aware of any other activity, transaction or dealing by us or any of our affiliates during the year ended December 31, 2012 that requires disclosure in this report under Section 13(r) of the Exchange Act. Canon does not intend to conduct any further business activities with Iranian counterparties required to be disclosed under the ITRA, except for sales of consumables, repair, and maintenance services for products Canon previously sold to such entities.

C. Organizational structure

Canon Inc. and its subsidiaries and affiliates form a group of which Canon Inc. is the parent company. As of December 31, 2012, Canon had 275 consolidated subsidiaries and 9 affiliated companies accounted for by the equity method.

The following table lists the significant subsidiaries owned by Canon Inc., all of which are consolidated as of December 31, 2012.

Name of company	Head office location	Proportion of ownership interest owned	Proportion of voting power held
Canon Marketing Japan Inc.	Tokyo, Japan	50.1%	57.0%
Canon U.S.A., Inc.	New York, U.S.A.	100.0%	100.0%
Canon Europa N.V.	Amstelveen, The Netherlands	100.0%	100.0%

D. Property, plants and equipment

Canon's manufacturing is conducted primarily at 28 plants in Japan and 17 plants in other countries. Canon owns all of the buildings and the land on which its plants are located, with the exception of certain immaterial leases of land and floor space of certain of its subsidiaries. The names and locations of Canon's plants and other facilities, their approximate floor space and the principal activities and products manufactured therein as of December 31, 2012 are as follows:

Name and location Domestic	Floor space (including leased space) (Thousands of square feet)	Principal activities and products manufactured
Headquarters, Tokyo	2,556	R&D, corporate administration and other functions
Canon Global Management Institute, Tokyo	164	Training and administration
Kawasaki Office, Kanagawa	1,238	R&D and manufacturing of production equipment and semiconductor devices; R&D of laser printers and toner cartridges

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Name and location Domestic	Floor space (including leased space) (Thousands of square feet)	Principal activities and products manufactured
Kosugi Office, Kanagawa	395	Development of software for office imaging products
Fuji-Susono Research Park, Shizuoka	1,037	R&D in electrophotographic technologies
Ayase Plant, Kanagawa	393	R&D and manufacturing of semiconductor devices
Hiratsuka Plant, Kanagawa	1,139	R&D of display products
Tamagawa Office, Kanagawa	155	Quality engineering
Oita Plant, Oita	205	Manufacturing of semiconductor devices
Yako Office, Kanagawa	904	Development of inkjet printers, inkjet chemical products
Utsunomiya Plant, Tochigi	2,752	Manufacturing of lenses for cameras and other applications, R&D in optical technologies, development and sales of broadcasting equipment, R&D, manufacturing, sales and servicing of semiconductor production equipment
Toride Plant, Ibaraki	3,203	R&D in electrophotographic technologies, mass-production trials and support; manufacturing of office imaging products, chemical products; training of manufacturing
Ami Plant, Ibaraki	1,131	Manufacturing of FPD production equipment
Canon Electronics Inc., Tokyo, Saitama and Gunma	1,311	Components, magnetic heads, document scanners and laser printers
Canon Finetech Inc., Saitama, Ibaraki and Fukui	915	Business-use printers, business machines peripherals and chemical products
Canon Precision Inc., Aomori	1,509	Toner cartridges, sensors and micromotors
Canon Optron Inc., Ibaraki	143	Optical crystals (for lithography equipments, cameras, telescopes) and vapor deposition materials
Canon Chemicals Inc., Ibaraki	2,098	Toner cartridges and rubber functional components
Canon Components, Inc., Saitama	612	Contact image sensors, inkjet cartridges and medical equipment
Oita Canon Inc., Oita	1,238	Digital cameras, lenses and digital video camcorders
Nagahama Canon Inc., Shiga	1,093	Laser printers, toner cartridges and A-Si drums

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Name and location Domestic	Floor space (including leased space) (Thousands of square feet)	Principal activities and products manufactured
Oita Canon Materials Inc., Oita	2,977	Chemical products for copying machines and printers, and inkjet cartridges
Ueno Canon Materials Inc., Mie	654	Chemical products for copying machines and printers
Fukushima Canon Inc., Fukushima	966	Inkjet printers and inkjet cartridges
Canon Semiconductor Equipment Inc., Ibaraki	420	Development and production of semiconductor production-related equipment
Canon Ecology Industry Inc., Ibaraki	679	Recycling of toner cartridges, repair and recycling of business machines
Nisca Corporation, Yamanashi	390	