CANON INC
Form 20-F/A
December 22, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
Amendment No. 1

( ) REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

OR

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

Commission file number 0-12131

CANON KABUSHIKI KAISHA
(Name of Registrant in Japanese as specified in its charter)

CANON INC.

(Name of Registrant in English as specified in its charter)

JAPAN
(Jurisdiction of incorporation or organization)

30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

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

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

(Title of Class)

* American Depositary Receipts for 50,000,000 American Depositary Shares, each American Depositary Share representing 1 share of common stock of Canon Inc., were registered under the Securities Act of 1933.

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, 2003, 881,338,645 shares of common stock, including 27,717,736 ADSs, were outstanding.

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 X No

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

Item 17 X Item 18

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EXPLANATORY NOTE

On June 10, 2004, Canon Inc. (the Company) filed an annual report for the fiscal year ended December 31, 2003 on Form 20-F with the United States Securities and Exchange Commission (the SEC). The Company is filing this Form 20-F/A in order to correct certain typographical errors that were included in such Form 20-F filing as noted below:

Item 4B. (Business Overview)

In Patent and licenses , the paragraph describing licenses that have been granted by Canon with respect to its patents is amended as follows: (page 15)

> The list of examples is amended by deleting Konica Corporation (electrophotography), because license granted to Konica Corporation (electrophotography) had expired as of the date of the balance sheet (December 31, 2003).

Item 6A. (Directors and senior management)

In the list of directors and corporate auditors of the Company as of March 31, 2004, the date of the commencement of business experience for two directors is amended as follows:

> The date of commencement for Mr. Tsuruoka s appointment as President of Canon Deutschland GmbH is amended from 10/1997 to 9/1997. (Page 39)
>
> The date of commencement for Mr. Adachi s appointment as President of Canon (China) Co., Ltd. is amended from 4/2003 to 4/2001. (Page 40)

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Item 4. Information on the Company

A. History and development of the Company

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

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

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

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

In 1999, Canon and Toshiba Corporation agreed to collaborate on developing and establishing mass-production technologies for SEDs (surface-conduction electron-emitter displays) with potential in large-screen wall-mounted displays.
In 1999, Oita Canon Materials Inc. was established in Oita, Japan as an integrated production site for chemical products for business machines.
In 1999, the Canon Inc. Ayase Office was established in Kanagawa, Japan with the goal of reinforcing the R&D structure for semiconductor-related devices.
In 2000, the Canon Inc. Optics R&D Center, an R&D facility for optical technology, was established in Tochigi, Japan.
In 2000, Canon Inc. changed the listing of its American Depository Receipts (ADRs) to the New York Stock Exchange (NYSE) from the Nasdaq National Markets.
In 2001, Canon Vietnam Co., Ltd. was established in Hanoi, Vietnam as a production site for bubble jet printers.
In 2001, Canon Zhongshan Business Machines Co., Ltd. was established in Zhongshan, China as a production site for laser beam printers. China.
In 2001, Canon (Suzhou) Inc. was established in Suzhou, China as a production site for digital copying machines and digital multifunction devices.
In January 2003, Canon Aptex Inc. and Copyer Co., Ltd., two of Canon Inc. s manufacturing subsidiaries in Japan, formally merged to become Canon Finetech Inc. The merger was conducted with the aim of concentrating and further strengthening the core competencies of the two merged companies in office equipment-related technologies.
In April 2003, Fukushima Canon Inc. was established as a wholly-owned subsidiary through the spin-off of Fukushima Plant, with the aim of high value-added manufacturing company equipped with product-launching capability.
In April 2003, Canon N.T.C. s marketing operations spun off and merged with Canon System & Support Inc., and its real estate operations spun off into Canon Facility Management, Inc. Following the corporate spin-offs, Canon N.T.C. s operations will focus on development and manufacturing.

On January 1, 2004, Canon Precision Inc. (Canon Precision), a wholly-owned subsidiary of Canon Inc., merged with Hirosaki Precision, Inc. (Hirosaki Precision), a wholly-owned subsidiary of Canon Precision. Hirosaki Precision was merged into Canon Precision, the surviving company. Canon Precision targets the improved efficiency and specialization of business operations. Since both Canon Precision and Hirosaki Precision were consolidated subsidiaries of Canon Inc., the merger has no impact on Canon s current or future business results.

On January 1, 2004, Canon N.T.C., Inc. (Canon N.T.C.), a wholly-owned subsidiary of Canon Inc., spun off its environmental business operations into a newly established company, named Canon Ecology Industry Inc. Following the separation, Canon N.T.C. focused its energies on its semiconductor equipment-related business and was renamed Canon Semiconductor Equipment Inc. The spin-off was intended to improve efficiency and the specialization of business operations while facilitating the pursuit of independent businesses, consistent with Canon s Excellent Global Corporation Plan.

In fiscal 2003, 2002 and 2001, Canon s capital expenditures were Yen 210,038 million, Yen 198,702 million and Yen 207,674 million, respectively. In 2003, major capital expenditure were for investments in tools and dies, but also included were investments for the relocation of the corporate headquarters office of Canon Sales Co. Inc. and the facilities for production of the semiconductor production equipment in Japan.

For the fiscal 2004, Canon projects that its capital expenditures will amount to approximately Yen 300,000 million. This amount is expected to be spent on such expenditures for the establishment of new production engineering base and new research and development base. Canon anticipates that funds needed to fulfill these capital expenditures will be generated internally through operations.

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B. Business overview

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

Canon sells its products principally under the Canon brand name and through sales subsidiaries. Each of these subsidiaries is responsible for marketing and distribution to retail dealers in an assigned territory. Approximately 73% of consolidated net sales in fiscal 2003 were generated outside Japan; approximately 33% in the Americas, 30% in Europe and 10% in other areas including Asia.

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

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

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

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

Products

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

-Business machines-

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

Office imaging products

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

The office-use market is subject to rapid change, and in fiscal 2003, customer preferences has shifted from copying machines to digital MFDs, as well as from monochrome to color products. To respond to these trends, Canon has been strengthening its lineup of digital MFDs in the imageRUNNER (iR) series, which have versatile functions, such as copying, printing, scanning, faxing and data-sharing functions on the Internet and intranets. Canon is also marketing diverse expansion modules, software and business solutions to increase customer value. For the development of MFDs, Canon makes effective use of wide range of technologies from the fields of optics, mechatronics, electronic photo processing, chemical materials and image processing. Canon s MFDs are differentiated chiefly by the use of leading-edge System On a Chip technology in the imageRUNNER controller, which acts as the brains of networked

MFDs. The controller provides easy integration with customers IT environments together with speedy, high-quality image processing. This boosts office productivity, thereby garnering acclaim from business customers. Canon also introduced new MFD models throughout fiscal 2003, including the Color imageRUNNER C3200 (iR C3200), the first color offerings in the imageRUNNER series, which achieved healthy sales.

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

Canon has dominant market share in monochrome copying machines for personal use. Demand for analog products is continuing in Asia, Russia and Eastern Europe. Canon also introduced digital products in the Americas and in Europe in response to the shift in demand toward digital products.

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

Computer peripherals

Computer peripherals include laser beam printers, inkjet printers and scanners.

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

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As the inventor of bubble jet printing technology, Canon believes it continues to provide customers with the best performance the technology has to offer. Canon provides high-performance and high value added models both in single-function printers and multi-function printers. In response to heated competition in the inkjet printer segment, Canon launched several new models in fiscal 2003. Particularly noteworthy were the bubble jet printers supporting the PictBridge digital camera-printer communications standard, which were released in the second half of the year. These new models incorporated New MicroFine Droplet Technology, which has boosted image quality and print speed over those offered on previous models. The keys to a successful printer are speed, image quality and paper handling capabilities. Although ranked high among the leaders in all three categories, Canon has targeted each category for improvements. Additionally, the PictBridge system has been marked for enhancement, and future printers will offer even stronger integration with digital cameras.

Canon markets a wide variety of products for a spectrum of user needs, including image scanners in CanoScan LiDE series using Contact Image Sensor, scanners with charge-coupled devices for high resolution that can also scan film in the CanoScan series, and film scanners that handle both 35 mm film and advanced photo system cartridge. Canon has deployed its expertise to develop space-saving, energy-efficient scanners, as well as easy PC connection via universal serial bus interface. However, since peaking in 2000, the scanner market has continued to shrink at a rate of 10% to 20% per year. Under the prevailing highly competitive conditions, it is necessary for Canon to attain a high market share. To achieve that goal, Canon has successfully introduced several new scanner models.

Business information systems

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

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

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

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

-Cameras-

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

Digital cameras have become common tools to input images into PCs. In addition to ensuring the best possible image quality throughout its product lineup, Canon offers digital compact cameras that are easy to use and to carry. In 2003, the compact digital camera market continued to show significant growth. Canon introduced six new PowerShot series and three Digital ELPH series cameras and has finally reached the top position in the industry, in unit sales basis.

Canon s digital single-lens reflex cameras are designed to meet needs from amateurs to professionals. These cameras incorporate innovative technologies such as 45-point area auto-focus, eye-controlled auto-focus, depth-of-field control, Base-stored Image Sensor (BASIS), Complementary Metal Oxide Semiconductor (CMOS) imaging sensors, Digital Imaging Processor (DIGIC), and a fully electronic mount system to transmit data between the lens and the camera chassis. Particularly in the digital single-lens reflex camera segment, popular new product offerings including the EOS 10D and EOS Digital Rebel (EOS 300D Digital) bolstered Canon s dominant position worldwide. Canon s digital single-lens reflex cameras feature the company s proprietary, CMOS imaging sensors to offer advantages like low image noise, and low power consumption. Both the sensor technology, and the cameras themselves, won numerous awards in the respective industries.

Canon also offers a comprehensive line-up of conventional film cameras to satisfy the needs of users everywhere, from models with high-performance zoom lenses to models with large enhanced viewfinders and full water resistance. Hindered by the surging popularity of digital cameras, the continued shrinking of the conventional film camera market has been a recent trend. Canon s introduction of new models in fiscal 2003, however, enabled it to retain its position firmly atop this market worldwide and to record a healthy level of profitability. With a cautious eye on market trends, Canon will continue to develop new products and maintain a firm commitment to the film camera market.

In the camera lens segment, technological developments, including diffractive optical elements, image stabilizer and ultrasonic motor, have helped Canon to maintain a technical lead over other makers. Canon offers over 50 lenses in the EF series. These high-quality, high-performance lenses provide outstanding performance with digital cameras as well as silver-halide cameras, greatly contributing to Canon s sales. Due to market expansion of digital single-lens reflex cameras, sales of middle to high-class lenses have been increasing. The introduction of new lenses offering optimum performance with Canon s digital single-lens reflex cameras is planned for 2004.

Canon also provides full line-up video camcorders from versatile, compact and stylish models to its flagship models for professionals. Canon s video camcorders incorporate the same optical technologies and digital signal processing technology as its world-renowned cameras, and come equipped with optical image stabilizers and its one-chip video integrated circuit signal-processing system large scale integration to ensure high image quality. Canon s video camcorders are favored by many users for its optical image stabilizer, and red-green-blue primary color filters. The adoption of megapixel charge coupled devices, secure digital memory cards and universal serial bus connectivity offers a wealth of possibilities for the creation and management of still images, as well as video. In addition, together with DV Messenger software, Canon video camcorders can be used to communicate via the Internet with real-time sound and images. the worldwide digital video camcorder market, Canon s eight new products have increased its share in the market. According to GfK Marketing Services Japan Ltd., a market research company, Canon s Optura 300 (MVX 10i) maintained the leading position in terms of units of sales in the Japanese market for the three months from October through December of fiscal 2003. The Optura was rated highly for its advanced DIGIC DV digital imaging processor, which improves both digital movie quality and digital still quality.

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Since Canon introduced the new PictBridge-equipped CP series compact photo printers in fiscal 2003, the market has shown very positive signs of accepting this distinctive new printer category. Canon s CP series of dye-sublimation photo printers allows users to print digital photos without having to use a PC, thereby creating a new photo-processing culture for digital camera users. In fiscal 2004, Canon aims to show strong leadership and presence in this new printer market.

-Optical and other products -

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

Semiconductor production equipment includes steppers and mask aligners. Steppers are used to expose circuits on silicon substrates. Canon has commercialized a Krypton Fluoride excimer-laser steppers and an Argon Fluoride excimer-laser scanning steppers. At the top of its class, the new Argon Fluoride excimer-laser scanning stepper makes possible top-level throughput rates of over 140 wph (wafers per hour) for 300 mm wafers. Canon announced in Japan in July, 2003 that it had begun accepting purchase orders for its latest 300 mm-compatible lithography tool the Canon FPA-6000ES6 a Krypton Fluoride scanning stepper enabling volume production at the 100 nm process node.

Mask aligners are used to produce liquid crystal displays, or LCDs, and Canon s model for large-sized LCD substrates are sold particularly well in line with increased demand for large flat panels for PC display and LCD televisions. Canon, together with nine other Japanese semiconductor-industry companies, have formed the Extreme Ultraviolet Lithography System Development Association. The consortium aims to develop key technology for next-generation lithography.

Canon is the world leader in television broadcasting lenses, which are used to capture images from sports and news events, concerts and studio broadcasts.

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

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

Marketing and distribution

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

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

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

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

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

Canon also sells laser beam printers on an OEM basis to Hewlett-Packard Company. Hewlett-Packard Company resells these printers under the HP LaserJet Printers name. During fiscal 2003, such sales constituted approximately 20% of Canon s consolidated net sales, as compared to 21% in the previous fiscal year.

Service

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

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

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

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NET SALES BY PRODUCT GROUP

	Years ended December 31				
	2003	change	2002	change	2001
	(Millions of yen except percentage data)				
Bussiness machines:					
Office imaging products	Yen 1,061,099	+3.7%	1,023,131	+4.4%	980,053
Computer peripherals	1,089,312	+3.2	1,055,956	+0.8	1,047,385
Bussiness information products	123,493	-16.1	147,108	-25.0	196,051
	2,273,904	+2.1	2,226,195	+0.1	2,223,489
Cameras	653,540	+34.5	485,778	+27.4	381,367
Optical and other products	270,628	+18.6	228,155	-24.6	302,717
Total	Yen 3,198,072	+8.8	2,940,128	+1.1	2,907,573

NET SALES BY GEOGRAPHIC AREA

	Years ended December 31				
	2003	change	2002	change	2001
	(Millions of yen except percentage data)				
Japan					
Unaffiliated customers	Yen 856,851	+8.6%	789,066	-8.1%	858,580
Intersegment	1,662,172	+12.7	1,475,091	+7.0	1,378,031
Total	2,519,023	+11.3	2,264,157	+1.2	2,236,611
Americas					
Unaffiliated customers	Yen 1,044,998	+3.7%	1,007,572	+2.4%	983,561
Intersegment	8,101	-17.3	9,791	-44.0	17,475
Total	1,053,099	+3.5	1,017,363	+1.6	1,001,036
Europe					
Unaffiliated customers	Yen 968,938	+13.6%	852,931	+5.9%	805,243
Intersegment	3,861	-16.8	4,639	+89.4	2,449
Total	972,799	+13.4	857,570	+6.2	807,692

Others						
Unaffiliated customers	Yen	327,285	+12.6%	290,559	+11.7%	260,189
Intersegment		503,119	+17.9	426,914	+42.6	299,410
Total		830,404	+15.7	717,473	+28.2	559,599
Eliminations						
Unaffiliated customers	Yen		%		%	
Intersegment		(2,177,253)		(1,916,435)		(1,697,365)
Total		(2,177,253)		(1,916,435)		(1,697,365)
Consolidated						
Unaffiliated customers	Yen	3,198,072	+8.8%	2,940,128	+1.1%	2,907,573
Intersegment						
Total		3,198,072	+8.8	2,940,128	+1.1	2,907,573

Note: Net sales geographic area is determined by the location of the Canon entity originating the sale.

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

Seasonality

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

Sources of supply

Canon purchases a variety of parts and raw materials, such as glass, aluminum, plastic, steel and chemicals for use in product manufacturing. All finished and semi-finished products purchased from outside sources are produced in accordance with Canon s designs and specifications. Canon purchases parts and raw materials worldwide for its global production activities. Canon assesses and selects suppliers based on a number of criteria, including environmental friendliness, quality, cost, stability of supply and financial condition. In addition, there has been a recent increase in prices of parts for optical products, due in part to the limited number of suppliers of glass materials and light source lasers. However, Canon has not experienced any difficulty obtaining parts or raw materials and believes that it will be able to continue to obtain the same in sufficient quantities to meet its needs.

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

Competition

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

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

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

Business machines

The markets for office imaging products, computer peripherals and business information products are highly competitive. Canon s primary competitors in these markets are Xerox Corporation, Hewlett-Packard Company, Lexmark International Group Inc., Ricoh Company, Ltd., and Epson Corporation. Canon believes that it is one of the leading global manufacturers of digital MFDs, laser beam printers, bubble jet printers, image scanners and facsimile machines. In addition to the general elements of competition described above, Canon s ability to compete successfully in these markets also depends significantly on whether it can provide effective, broad-based business solutions to its customers that solve multiple interrelated client needs. In particular, the ability to provide equipment and software that connect effectively to computer networks (ranging in scope from local area networks to the Internet) is often a key to Canon s competitive strength in these markets. In China, whose markets are expected to expand since its joining of the World Trade Organization, the current market leaders are Toshiba Tec Corporation, Sharp Corporation and Konica Minolta Holdings, Inc. However, Canon is striving to become one of the leading players in China. Canon believes that the introduction of new digital technologies and value-added solutions will help steer Canon s business successfully through fast-moving markets such as China.

Cameras

Competition in the camera industry is intense, with many established market participants offering similar products. Canon s primary competitors in digital cameras are Sony Corporation, Fuji Photo Film Co., Ltd., Olympus Optical Co., Ltd., Nikon Corporation, Casio Computer Co., Ltd. and Eastman Kodak Company. Currently, Canon shares the top position with Sony Corporation in unit sales of compact digital cameras, while Canon is the current leader in the digital single-lens reflex camera segment. Canon s primary competitors in conventional film cameras are Nikon

Corporation, Konica Minolta Holdings, Inc., Pentax Corporation, Olympus Optical Co., Ltd., and Fuji Photo Film Co., Ltd. Hindered by the surging popularity of digital cameras, the conventional film camera market continued to shrink in fiscal 2003. The introduction of new models, however, enabled Canon to retain its position firmly atop this market worldwide. Canon s primary competitors in digital video camcorders are Sony Corporation, Victor Company of Japan Ltd. and Matsushita Electric Industrial Co., Ltd. In fiscal 2003, Canon expanded greatly its overall market share in digital video camcorders, especially in the United States. Canon believes that developing cameras with increasingly high resolution and faster image processing are critical to its ability to remain competitive in the fast-growing digital camera market segment.

Steppers and Aligners

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

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

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

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Patents and licenses

Canon holds a large number of patents (including utility model rights), design rights and trademarks in Japan and abroad to protect its research and development and utilizes these intellectual property rights as important strategic management tools. For instance, Canon has obtained and maintains its intellectual property rights such as patents in its products business operations, and forms alliances and technological exchanges with other companies.

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

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

Some examples include:

Oki Electric Industry Co., Ltd.	(LED printers)
Matsushita Electric Industrial Co., Ltd.	(electrophotography)
Sharp Corporation	(facsimiles)
Toshiba Corporation	(business machines)
Ricoh Company, Ltd.	(electrophotography)
Sanyo Electric Co., Ltd.	(electronic still camera)
Samsung Electronics Co., Ltd.	(laser beam printers, multifunction printers and facsimiles)
Brother Industries, Ltd.	(electrophotography and facsimiles)
Kyocera Mita Corporation	(electrophotography)

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

Some examples include:

Jerome H. Lemelson Patent Incentives, Inc.	(computer systems, image recording, communication devices)
Energy Conversion Devices, Inc.	(solar battery)
Honeywell Inc.	(camera and video products)
Gilbert P. Hyatt U.S. Philips Corporation	(microcomputer)
SI Diamond Technology Inc.	(display technology)

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

Some examples include:

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

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

Environmental regulations

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

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

These directives were adopted by the European Parliament in December 2002. Member states are required to bring into force the laws necessary to comply with these directives by August 13, 2004. Commencing July 1, 2006, companies must ensure that their electrical and electronic equipment sold in the European Union does not contain lead, cadmium, hexavalent chromium, mercury, polybrominated biphenyls or polybrominated diphenyl ethers if placed on the market after that date. Pursuant to the RoHS Directive, Canon will be required to adapt its products so that they do not contain the prohibited hazardous substances.

The WEEE Directive requires that by August 13, 2005, companies that sell electrical and electronic equipment bearing their trade names in the European Union must arrange and pay for the collection, treatment, recycling, recovery and disposal of their equipment and achieve designated recycling rates by December 31, 2006. Pursuant to the WEEE Directive, Canon will be required to establish collection and recycling systems for waste electrical and electronic equipment and achieve the recycling ratio of waste electrical and electronic equipment by the designated dates. The increased cost associated with the WEEE directive may adversely affect Canon s results of operations.

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2. Superfund of the United States.

Under the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, and the Resource Conservation and Recovery Act (collectively known as Superfund) and related state laws, certain persons may be liable for the release or threatened release of hazardous substances, including petroleum and its derivatives, into the environment. These persons include the current owner or operator of property where the release or threatened release occurred, any persons who owned or operated the property when the release occurred, and any persons who arranged for the disposal of hazardous substances at the property. Liability under CERCLA is strict, retroactive, and in most cases involving the state government as plaintiff, is joint and several, so that any responsible party may be liable for the entire cost of investigating and remediating the release of hazardous substances. As a practical matter, however, liability at most CERCLA and similar sites is shared among all solvent, potentially responsible parties. The liability of a party is determined by the cost of investigation and remediation, the portion of the hazardous substance(s) the party contributed to the site, and the number of solvent, potentially responsible parties.

Canon has identified a potential remediation site in connection with one of its former manufacturing sites. See Risk Factors Risks Related to Canon s Business Environmental clean-up and remediation costs relating to Canon s properties and associated litigation could decrease Canon s net cash flow, adversely affect its results of operations and impair its financial condition.

3. Soil Pollution Prevention Law of Japan

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

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

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

The Law for Promotion of Effective Utilization of Resources of Japan, or the Resources Law , was enacted in April 2001. The Resources Law requires specified recycling industries, including the copying machine industry, to enact measures designed to promote waste reduction, reuse and recycling of raw materials. These requirements will increase Canon s costs and may have an adverse affect on its results of operations and financial conditions.

5. Law on Promoting Green Purchasing of Japan

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

In response to the law, Canon expects in the future to:

manufacture products that consume less electricity to prevent global warming and to conserve energy,

use recycled parts and recycled materials,

reduce the types of raw materials used in order to conserve resources,

accelerate the date by which the requirements of the law are implemented to promote the elimination of hazardous substances.

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

6. California Electronic Waste Recycling Act of 2003

Enacted in September 2003, the California Electronic Waste Recycling Act seeks to create a system for the collection and recycling of electronic products. The Act makes it unlawful to sell, on and after July 1, 2004, a covered electronic device in California to a consumer unless the California Integrated Waste Management Board or the California Environmental Protection Agency s Department of Toxic Substances Control determines that the manufacturer of that device is in compliance with the Act. Electronic devices covered include cathode ray tubes, cathode ray tube devices, flat panel screens, or any other similar video display device with a screen size greater than four inches measured diagonally, if the Department of Toxic Substances Control determines that they are hazardous when discarded or disposed. The Act prohibits the sale of a covered electronic device, after January 1, 2005, that is not labeled, as specified in the Act. Under the Act, retailers selling a covered electronic device in California must collect an electronic waste recycling fee from the consumer on and after July 1, 2004, and to transmit the fee to the California Integrated Waste Management Board. A manufacturer that sells covered electronic devices in California must, by July 1, 2005, and at least once annually thereafter, submit a report to the California Integrated Waste Management Board on the number of covered electronic devices it sold in California during the previous calendar year and other information regarding certain specified materials in those devices. This other information includes estimated amounts of use and reduction in the use from the previous year of six hazardous substances (lead, cadmium, hexavalent chromium, mercury, polybrominated biphenyls or polybrominated diphenyl ethers), as well as estimated amounts of recycled materials contained in covered devices. Manufacturers are also required to make information available to consumers describing where and how to return, recycle and dispose of a covered electronic device. The scope of the covered devices is yet unclear, and Canon will incur costs once the Department of Toxic Substances Control determines which of its products are covered by the Act.

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

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

8. Clean Production Promotion Law of China

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

9. Draft Management Methods for the Prevention and Control of Pollution from the Production of Electronic Information Products of China

Modeled on the European Union RoHS Directive described above, the Chinese Ministry of Information Industry and State Environmental Protection Administration are drafting a proposal Management Methods for the Prevention and Control of Pollution from the Production of Electronic Information Products that regulates the content of electronic information products. This draft law, the latest version of which was issued in August 2003, would prohibit certain substances from being included in electronic products that are manufactured or sold in China. In addition to the six substances prohibited by the EU RoHS Directive, the draft Chinese law would also prohibit other hazardous substances , although it is unclear what substances are covered by this phrase. The proposed law requires producers to label goods that contain harmful materials and designate them as fully-recyclable, partially-recyclable, or non-recyclable. Producers would also be required to assume costs of recovery of discarded equipment. The August 2003 draft does not indicate when the law might become effective, although a previous draft proposed an effective date of January 1, 2006.

New environmental legislation and regulations such as the RoHS Directive in Europe and similar legislation and regulation in other countries will have an impact on Canon s production methods. Lead-free solder, for example, which is to replace traditional toxic lead solder, demands different and more complex manufacturing processes due to its higher melting point. Although the details of the RoHS Directive are yet unclear, Canon has proceeded to develop a green , toxic-free procurement policy with other industry leaders.

In addition, Canon has long been an industry leader in the recycling of laser inkjet cartridges and other consumable items, as well as in the actual materials used for the production and packaging of its products. In 1990, Canon pioneered the collecting and recycling of used toner cartridges, and has to date recycled over 120,000 tons of those cartridges. Today, the toner cartridges Canon collects are 100% recycled in four facilities worldwide.

C. Organizational structure

Canon Inc. and its subsidiaries and affiliates form a group of which Canon Inc. is the parent company. As of December 31,2003, Canon had 198 consolidated subsidiaries and 19 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, 2003.

Name of company	Head office location	Proportion of ownership interest owned	Proportion of voting power held
Canon Sales Co., Inc.	Tokyo, Japan	50.3%	51.1%
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%

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D. Property, plants and equipment

Canon s manufacturing is conducted primarily at 18 plants in Japan and 14 plants in other countries. Canon owns all of the buildings and the land on which its plants are located, with the exception of certain 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 at December 31, 2003 are as follows:

Name and location	Floor space (including leased space)	Principal activities and products manufactured
Domestic	**(Thousands of square feet)**	
Shimomaruko Headquarters, Tokyo (Corporate Headquarters)	2,473	Develop business machines and cameras; prosecute patents; conduct purchasing, quality assurance, research, and planning for production engineering and technology
Kosugi Office, Kanagawa	398	Conduct R&D in software and systems
Fuji-Susono Research Park, Shizuoka	1,014	Conduct R&D in electro-photographic technologies
Canon Research Center, Kanagawa	137	Conduct R&D of basic and advanced technologies for future businesses
Hiratsuka Development Center,	460	Conduct R&D in electronic devices and display
Ayase Office, Kanagawa	315	Conduct R&D in semiconductor devices
Ecology Research & Development Center, Kyoto	92	Conduct R&D in environmental technologies
Optics R&D Center, Tochigi	187	Conduct R&D in optics technologies
Tamagawa Plant, Kanagawa	434	Development of inkjet printers and inkjet chemicals
Utsunomiya Plant, Tochigi	586	Produce camera lenses, video camcorder lenses, broadcasting lenses and other specialized optical lenses
Toride Plant, Ibaraki	2,406	Conduct R&D in electro-photographic technologies, mass-production trials and support, and produce copying machines and laser beam printer consumables
Ami Plant, Ibaraki	1,258	Produce business machines, tools, production equipment and optical products

Utsunomiya Optical Products Operations, Tochigi	1,005	R&D, manufacturing, sales, servicing of steppers; R&D, sales of optical broadcasting equipment; R&D, sales, servicing of medical equipment
Kamisato Office, Saitama	62	Produce medical equipment

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Name and location	Floor space (including leased space)	Principal activities and products manufactured
Domestic	**(Thousands of square feet)**	
Canon Electronics Inc. Plants, Saitama and Gunma	1,070	Produce laser beam printers, laser beam printer units, magnetic components and micrographics
Canon Finetech Inc, Plants, Ibaraki, Tokyo, Yamanashi, and Fukui	1,405	Produce copying machines, copying machine consumables, copying machine parts, copying machine accessories, inkjet color card and label printers
Canon Precision Inc. Plants, Tokyo and Aomori	654	Produce micro-motors, precision parts and laser beam printer consumables
Optron Inc. Plant, Ibaraki	136	Produce optical crystals and vapor deposition materials
Canon Chemicals Inc. Plants, Ibaraki	1,390	Produce copying machine and laser beam printer consumables
Canon Components Inc. Plant, Saitama	357	Produce contact image sensors and inkjet printer consumables
Oita Canon Inc. Plant, Oita	320	Produce 35mm and advanced photo system cameras, digital video camcorders and digital cameras
Nagahama Canon Inc. Plant, Shiga	1,021	Produce laser beam printers, laser beam printer consumables, inkjet printer consumables
Oita Canon Materials Inc. Plant, Oita	1,190	Produce copying machine and laser beam printer consumables
Ueno Canon Materials Inc. Plant, Mie	559	Produce copying machine and laser beam printer consumables
Fukushima Canon Inc. Plant, Fukushima	649	Produce inkjet chemicals
Canon N.T.C., Inc. Plants, Ibaraki and Saitama	1,322	Produce parts for business machines
Nisca Corporation Plant, Yamanashi	676	Produce copying machine parts and accessories

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Name and location	Floor space (including leased space)	Principal activities and products manufactured
Overseas	**(Thousands of square feet)**	
[Europe]		
Canon Giessen GmbH Plant, Giessen, Germany	359	Produce copying machines and copying machine consumables
Canon Bretagne S.A.S. Plant, Liffre, France	506	Produce copying machines, copying machine consumables and laser beam printers
[America]		
Canon Virginia, Inc. Plants, Virginia, U.S.	1,010	Produce laser beam printers and laser beam printer consumables; refurbish copying machines
[Asia]		
Canon Inc., Taiwan Plant, Taiwan	432	Development and manufacture 35mm single-lens reflex cameras and leaf shutter cameras; manufacture advanced photo system cameras
Canon Opto (Malaysia) Sdn. Bhd. Plant, Selangor, Malaysia	551	Produce leaf shutters, advanced photo system cameras, digital cameras, video camcorder and camera lenses
Canon Dalian Business Machines, Inc. Plant, Dalian China	1,213	Produce laser beam printers and laser beam printer consumables
Cannon Zhuhai, Inc. Plant, Zhuhai, China	669	Produce leaf shutter cameras, laser beam printers, facsimile machines and scanner
Tianjin Canon Co., Ltd. Plant, Tianjin, China	154	Produce copying machines
Guang-Dong United Optical Instrument Co., Ltd. Plant, Guang Dong, China	14	Produce leaf shutter cameras
Canon Hi-Tech (Thailand) Ltd. Plant, Ayutthaya, Thailand	1,043	Produce copying machines, inkjet printers and facsimile machines
Canon Engineering (Thailand) Ltd. Plant, Ayutthaya, Thailand	128	Produce business machines part molds and dies

Canon Zhougshan Business Machines Co., Ltd. Plant, Zhougshan, China	470	Produce laser beam printers
Canon Vietnam Co., Ltd. Plant, Hanoi, Vietnam	275	Produce inkjet printers
Canon Suzhou Inc. Plant, Suzhou, China	921	Produce copying machines

Canon considers its manufacturing and other facilities to be well maintained and believes that its plant capacity is adequate for its current requirements. At December 31, 2003, book value Yen 11,358 million of land, buildings and related equipment were subject to mortgages securing Yen 4,955 million of Canon s indebtedness.

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Item 6. Directors, Senior Management and Employees

A. Directors and senior management

Directors and corporate auditors of the Company as of March 31, 2004 and their respective business experience are listed below.

Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience (*current position/function)
Fujio Mitarai (Sept. 23, 1935)	President & C.E.O.	4/1961	Entered the Company
		1/1979	President of Canon U.S.A., Inc.
		3/1981	Director
		3/1985	Managing Director
		1/1989	In charge of HQ administration
		3/1989	Senior Managing Director
		3/1993	Executive Vice President
		9/1995	President & C.E.O.*
Yukio Yamashita (May 15, 1939)	Senior Managing Director (Group Executive of Human Resource Management & Organization HQ)	3/1962	Entered the Company
		8/1980	President of Canon (UK) Ltd.
		3/1991	Director
		1/1996	Group Executive of Human Resource Management & Organization HQ*
		3/1997	Managing Director
		3/1999	Senior Managing Director*
Toshizo Tanaka (Oct. 8, 1940)	Senior Managing Director (Group Executive of Finance & Accounting HQ)	4/1964	Entered the Company
		1/1992	Deputy Group Executive of Finance & Accounting HQ
		3/1995	Director
		4/1995	Group Executive of Finance & Accounting HQ*
		3/1997	Managing Director
		3/2001	Senior Managing Director*
Kinya Uchida (Nov. 21, 1938)	Senior Managing Director	4/1963	Entered the Company
		6/1987	President of Canon Singapore Pte. Ltd.
		3/1995	Director
		4/1995	President of Canon France S.A.
		3/1999	Managing Director
		4/1999	President of Canon U.S.A., Inc.*
		3/2003	Senior Managing Director*

Tsuneji Uchida	Senior Managing Director	4/1965	Entered the Company
(Oct. 30, 1941)	(Chief Executive of Image	4/1995	Group Executive of Lens Products Group
	Communication Products	3/1997	Director
	Operations HQ)	4/1997	Deputy Chief Executive of Camera Operations HQ/Group Executive of Photo Products Group
		4/1999	Chief Executive of Camera Operations HQ
		7/1999	In charge of promotion of digital photo business
		1/2000	In charge of promotion of digital photo home business
		1/2001	Chief Executive of Image Communications Products HQ*
		3/2001	Managing Director
		3/2003	Senior Managing Director*
Yusuke Emura	Managing Director	4/1967	Entered the Company
(Nov. 30, 1944)	(Group Executive of Global	1/1989	Toride plant manager
	Environment Promotion HQ)	3/1993	Director
		4/1994	Ami plant manager
		4/1995	Deputy Chief Executive of Office Imaging Products HQ
		4/1996	Chief Executive of Office Imaging Products HQ
		3/1999	Managing Director*
		4/1999	Group Executive of Production Management HQ
		1/2002	Group Executive of Global Environment Promotion HQ*

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience (*current position/function)
Nobuyoshi Tanaka (Dec. 23, 1945)	Managing Director (Group Executive of Corporate Intellectual Property & Legal HQ)	4/1970	Entered the Company
		1/1991	Senior General Manager of Semiconductor Production Equipment Development Center
		3/1993	Director
		4/1993	Chief Executive of Optical Products HQ
		4/1999	Group Executive of Corporate Intellectual Property & Legal HQ*
		3/2001	Managing Director*
Junji Ichikawa (Feb. 9, 1943)	Managing Director (Group Executive of Production Management HQ)	4/1965	Entered Shiba Electronics Co., Ltd.
		1/1970	Entered the Company
		4/1994	Group Executive of Peripheral Group 1
		3/1997	Director
		4/1997	Deputy Chief Executive of Peripheral Products HQ
		4/2000	Chief Executive of Peripheral Products HQ
		3/2001	Managing Director*
		4/2003	Group Executive of Production Management HQ*
Hajime Tsuruoka (July 9, 1943)	Managing Director	3/1970	Entered Meiji Seika Kaisha Ltd.
		11/1973	Entered the Company
		4/1995	President of Canon Italia S.p.A.
		3/1997	Director
		9/1997	President of Canon Deutschland GmbH
		3/1999	President of Canon Europa N.V.*
		3/2001	Managing Director*
Akiyoshi Moroe (Sept. 28, 1944)	Managing Director (Group Executive of General Affairs HQ)	4/1968	Entered the Company
		7/1996	Deputy Group of Executive of Human Resource Management & Organization HQ
	(Group Executive of Information & Communications Systems HQ)	3/1999	Director
		4/1999	Group Executive of General Affairs HQ*
		10/2000	

			Group Executive of Information & Communications Systems HQ*
		3/2003	Managing Director*
Kunio Watanabe (Oct. 3, 1944)	Managing Director (Group Executive of Corporate Strategy & Development HQ)	4/1969	Entered the Company
		4/1995	Group Executive of Corporate Strategy & Development HQ*
		3/1999	Director
		3/2003	Managing Director*
Ikuo Soma (Aug. 4, 1946)	Managing Director (Chief Executive of Office Imaging Products HQ)	4/1970	Entered the Company
		1/1997	Group Executive of Office Imaging Products Group 1
		3/1999	Director
		4/1999	Chief Executive of Office Imaging Products HQ*/Group Executive of Office Imaging Products Group 2
		3/2003	Managing Director*
Hironori Yamamoto (Dec. 23, 1943)	Managing Director (Group Executive of Core Technology Development HQ) (Group Executive of Surface-conduction Electron-emitter Display Development HQ) (Group Executive of Leading-Edge Technology Development HQ)	4/1969	Entered the Company
		1/1998	Deputy Group Executive of Production Management HQ
		3/1999	Director*
		7/1999	Group Executive of Core Technology Development HQ*/Deputy Group Executive of Display Development HQ
		4/2001	Group Executive of Display Development HQ
		7/2003	Group Executive of Surface-conduction Electron-emitter Display Development HQ*
		10/2003	Group Executive of Leading-Edge Technology Development HQ*
		3/2004	Managing Director*

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience (*current position/function)
Yoroku Adachi (Jan. 11, 1948)	Director	4/1970	Entered the Company
		3/2001	Chairman of Canon Singapore Pte. Ltd. *
			Chairman of Canon HongKong Co., Ltd. *
			Director*
		4/2001	President of Canon (China) Co., Ltd. *
Yasuo Mitsuhashi (Nov. 23, 1949)	Director (Chief Executive of Peripheral Products HQ)	4/1974	Entered the Company
		2/2001	Chief Executive of Chemical Products HQ
		3/2001	Director*
		4/2003	Chief Executive of Peripheral Products HQ*
Katsuichi Shimizu (Nov. 13, 1946)	Director (Chief Executive of Inkjet Products HQ)	4/1970	Entered the Company
		4/2001	Deputy Chief Executive of Office Imaging Products HQ
		3/2003	Director*
		4/2003	Chief Executive of Inkjet Products HQ*
Ryoichi Bamba (Nov. 25, 1946)	Director	4/1972	Entered the Company
		4/1998	Senior Vice President of Canon U.S.A., Inc.
		2/2003	Executive Vice President of Canon U.S.A., Inc.*
		3/2003	Director*
Tomonori Iwashita (Jan. 28, 1949)	Director (Deputy Chief Executive of Image Communication Products HQ)	4/1972	Entered the Company
		4/1999	Senior General Manager of Camera Development Center
		1/2001	Group Executive of Photo Products Group
		3/2003	Director*
		4/2003	Deputy Chief Executive of Image Communication Products HQ*
Toshio Honma (Mar. 10, 1949)	Director (Group Executive of L Printer	4/1972	Entered the Company
		4/2001	Deputy Chief Executive of i Printer Products HQ

	Business Promotion HQ*)	3/2003 7/2003	Director* Group Executive of L Printer Business Promotion HQ*
Shigeru Imaiida (Sep. 16, 1948)	Director (Deputy Grope Executive of Production Management HQ)	4/1972 8/1999 3/2003 4/2003	Entered the Company Senior General Manager of Production Engineering Center Director* Deputy Grope Executive of Production Management HQ*
Masahiro Ohsawa (May 26, 1947)	Director (Deputy Group Executive of Finance & Accounting HQ)	4/1971 7/1997 2/2003 7/2003 3/2004	Entered the Company Vice President of Canon U.S.A., Inc. Senior Vice President of Canon U.S.A., Inc. Deputy Group Executive of Finance & Accounting HQ* Director*
Keijiro Yamazaki (Oct. 14, 1948)	Director (Deputy Group Executive of Human Resource Management & Organization HQ)	4/1971 4/1999 1/2000 3/2004	Entered the Company General Manager of Human Resource Management & Organization Div. Deputy Group Executive of Human Resource Management & Organization HQ* Director*
Syunichi Uzawa (Jan. 26, 1949)	Director (Deputy Group Executive of Surface-conduction Electron-emitter Display Development HQ)	8/1978 1/1998 4/2001 7/2003 3/2004	Entered the Company Senior General Manager of Nano-technology Research Center Deputy Group Executive of Display Development HQ Deputy Group Executive of Surface-conduction Electron- emitter Display Development HQ* Director*
Masaki Nakaoka (Jan. 3, 1950)	Director (Deputy Group Executive Office Imaging Products HQ)	4/1975 1/1997 4/1999	Entered the Company Senior General Manager of Office Imaging Products Development Center 1 Group Executive of Office Imaging

			Products Group 1
		4/2001	Deputy Chief Executive of Office Imaging Products HQ*
		3/2004	Director*

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Name (Date of birth)	Position (Group executive/function)	Date of commencement	Business experience (*current position/function)
Toshiyuki Komatsu (Jan. 19, 1950)	Director (Deputy Group Executive of Leading-Edge Technology Development HQ)	4/1972	Entered the Company
		1/1998	Senior General Manager of Canon Research Center
		1/2000	Deputy Group Executive of Core Technology Development HQ
		10/2003	Deputy Group Executive of Leading-Edge Technology Development HQ*
		3/2004	Director*
Shigeyuki Matsumoto (Nov. 15, 1950)	Director (Group Executive of Device Technology Development Headquarters)	4/1974	Entered the Company
		1/1999	Senior General Manager of Device Development Center
		1/2002	Group Executive of Device Technology Development Headquarters
		3/2004	Director*
Haruhisa Honda (Oct. 14, 1948)	Director (Deputy Chief Executive of Chemical Products Operations)	4/1974	Entered the Company
		4/1995	Senior General Manager of Cartridge Development Center
		4/2003	Deputy Chief Executive of Chemical Products Operations
		3/2004	Director*
Teruomi Takahashi (June 10, 1943)	Corporate Auditor	9/1971	Entered the Company
		3/1999	Director*
		4/1999	Chief Executive of Chemical Products HQ
		4/2001	Chief Executive of i Printer Products HQ
		4/2003	Chief Executive of Chemical Products HQ
		3/2004	Corporate Auditor*
Kunihiro Nagata	Corporate Auditor	4/1970	Entered the Company

(Mar. 16, 1948)		1/1991	General Manager of Business Machines Accounting Dept.
		4/1995	Senior General Manager of Business Machines Accounting & Production Planning Center
		1/2003	Deputy Group Executive of Corporate Strategy Development HQ
		3/2004	Corporate Auditor*
Tadashi Ohe	Corporate Auditor	4/1969	Registration as a lawyer*
(May 20, 1944)		4/1989	Instructor of Judicial Training Institution
		3/1994	Corporate Auditor, the Company*
Tetsuo Yoshizawa	Corporate Auditor	4/1968	Entered The Dai-Ichi Mutual Life Insurance Co.
(Sept. 5, 1945)		4/1991	General Manager of Investment Planning Division
		4/1992	General Manager Osaka of General Corporate Group III
		4/1995	General Manager of Financing Corporate Division
		3/1998	Corporate Auditor, the Company*

Term

All directors and corporate auditors are elected by the general meeting of shareholders.

The term of office of Directors is one year. The current term of all Directors expires in March 2005. The term of office of Corporate Auditors is four years. The current term for Mr. Ohe expires in March 2007, while current terms for Mr. Takahashi, Mr. Nagata and Mr. Yoshizawa, who were newly elected in the general meeting of shareholders in March 2004, expire in March 2008.

Board members and corporate auditors may serve any number of consecutive terms.

There is no arrangement or understanding between any Director or Corporate Auditor and any major shareholder, customer, supplier or other material stakeholders in connection with the selection of such Director or corporate auditor.

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Board of Directors and Corporate Auditors

The Company s articles of incorporation provide for a board of directors of not more than 30 members and for not more than four corporate auditors. Currently the number of board members is 27, and the number of corporate auditors is four. There is no maximum age limit for members of the board. Board members and corporate auditors may be removed from office at any time by a resolution of a general meeting of shareholders.

The board of directors has ultimate responsibility for the administration of the Company s affairs. By resolution, the board of directors designates, from among its members, representative directors, who have authority individually to represent the Company generally in the conduct of its affairs.

Under the Commercial Code of Japan, board members must refrain from engaging in any business competing with the Company unless approved by a board resolution, and no board member may vote on a proposal, arrangement or contract in which that board member is deemed to be materially interested.

The Commercial Code requires a resolution of the board of directors for a company to acquire or dispose of material assets, to borrow substantial amounts of money, to employ or discharge important employees such as corporate officers, and to establish, change or abolish material corporate organizations such as a branch office.

The corporate auditors are not required to be and are not certified public accountants. At least one of the corporate auditors must be a person who has not been a board member or employee of the Company or any of its subsidiaries during the five-year period prior to election as a corporate auditor. After the conclusion of the ordinary general meeting of shareholders to be held with respect to the first fiscal year ending on or after May 1, 2005, at least half of corporate auditors must be persons who have not been either board members or employees of the Company or any of its subsidiaries. A corporate auditor may not at the same time be a board member or an employee of the Company or any of its subsidiaries. The corporate auditors have the statutory duty of examining the Company s financial statements and the Company s business reports to be submitted annually by the board of directors at the general meetings of shareholders and of reporting their opinions to the shareholders. They also have the statutory duty of supervising the administration by the board members of the Company s affairs. They shall participate in the meetings of the board of directors but are not entitled to vote.

The corporate auditors constitute the board of corporate auditors. Under The Law to Revise Part of the Commercial Code and the Law Regarding Exceptional Rules of the Commercial Code Concerning Auditing, etc. of Stock Corporation , the board of corporate auditors has a statutory duty to prepare and submit its audit report to the board of directors each year. A corporate auditor may note an opinion in the auditor report if a corporate auditor s opinion is different from the opinion expressed in the audit report. The board of corporate auditors is empowered to establish audit principles, the method of examination by corporate auditors of the Company s affairs and financial position and other matters concerning the performance of the corporate auditors duties. The Company does not have an audit committee.

The amount of remuneration payable to the Company s board members as a group and that of the Company s corporate auditors as a group in respect of a fiscal year is subject to approval by a general meeting of shareholders. Within those authorized amounts, the compensation for each board member and corporate auditor is determined by the board of directors and a consultation of the corporate auditors, respectively. The Company does not have a remuneration committee.

B. Compensation

In the fiscal year ended December 31, 2003, the Company paid approximately Yen 1,390 million, in total to Directors and Corporate Auditors. This amount includes bonuses but excludes retirement allowances.

Directors and Corporate Auditors are not covered by the Company s retirement program. However, in accordance with customary Japanese business practices, Directors and Corporate Auditors receive lump-sum retirement benefits, subject to shareholder approval. The Company paid retirement benefits aggregating Yen 95 million to two Directors during the fiscal year ended December 31, 2003.

The Company does not have a stock option plan for Directors, Corporate Auditors or any other employees.

C. Board practices

See Item 6A Directors and senior management and Item 6B Compensation .

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D. Employees

Following table lists the number of Canon s full-time employees as of December 31, 2003, 2002 and 2001.

	Total	Japan	Americas	Europe	Others
December 31, 2003					
Business machines	68,291	27,841	7,801	9,509	23,140
Cameras	15,856	4,698	1,318	1,006	8,834
Optical and other products	13,231	8,473	927	630	3,201
Corporate	5,189	4,368	134	162	525
Total	102,567	45,380	10,180	11,307	35,700
December 31, 2002					
Business machines	67,782	28,814	7,856	10,186	20,926
Cameras	13,746	4,360	1,140	1,103	7,143
Optical and other products	11,552	7,038	1,021	441	3,052
Corporate	4,722	4,231	134	159	198
Total	97,802	44,443	10,151	11,889	31,319
December 31, 2001					
Business machines	65,244	28,944	10,012	11,288	15,000
Cameras	12,562	4,314	412	1,154	6,682
Optical and other products	10,653	6,893	351	305	3,104
Corporate	5,161	4,658	133	128	242
Total	93,620	44,809	10,908	12,875	25,028

There was an increase of approximately 4,800 employees as of the end of fiscal 2003 as compared to the end of fiscal 2002. This increase is mainly due to employment increases in the Asian region to accommodate production increases.

Canon had approximately 25,200 temporary employees on average during fiscal 2003. This number includes seasonal workers as well as temp-staff employees such as security staff, meal service staff and janitorial staff.

The Company and its subsidiaries has its own independent labor union. Canon has not experienced a labor strike since its establishment. The Company believes that the relationship between Canon and its labor union is good.

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E. Share ownership

The following table lists the number of shares owned by the directors and corporate auditors of the Company as of March 31, 2004. The total is 208,547 shares constituting 0.02% of all outstanding shares.

Name	Position	Number of shares
Fujio Mitarai	President & C.E.O.	57,828
Yukio Yamashita	Senior Managing Director	10,120
Toshizo Tanaka	Senior Managing Director	11,668
Kinya Uchida	Senior Managing Director	14,595
Tsuneji Uchida	Senior Managing Director	4,200
Yusuke Emura	Managing Director	10,733
Nobuyoshi Tanaka	Managing Director	10,555
Junji Ichikawa	Managing Director	7,931
Hajime Tsuruoka	Managing Director	5,495
Akiyoshi Moroe	Managing Director	9,855
Kunio Watanabe	Managing Director	6,435
Ikuo Soma	Managing Director	3,300
Hironori Yamamoto	Managing Director	3,000
Yoroku Adachi	Director	3,495
Yasuo Mitsuhashi	Director	2,485
Katsuichi Shimizu	Director	3,025
Ryouichi Bamba	Director	2,000
Tomonori Iwashita	Director	2,000
Toshio Honma	Director	5,495
Shigeru Imaiida	Director	1,535
Masahiro Osawa	Director	2,495
Keijiro Yamazaki	Director	1,275
Shunichi Uzawa	Director	1,435
Masaki Nakaoka	Director	1,000
Toshiyuki Komatsu	Director	1,100
Shigeyuki Matsumoto	Director	1,435
Haruhisa Honda	Director	1,026
Teruomi Takahashi	Corporate Auditor	6,931
Kunihiro Nagata	Corporate Auditor	1,000
Tadashi Ohe	Corporate Auditor	13,100
Tetsuo Yoshizawa	Corporate Auditor	2,000
	Total	208,547

The Company and certain of its subsidiaries encourage its employees to purchase shares of their Common Stock in the market through an employees stock purchase association.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, as amended, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANON INC.
(Registrant)

By: /s/ Toshizo Tanaka
(Senior Managing Director,
Group Executive of Finance and
Accounting Headquarters)

Canon INC.
30-2, Shimomaruko 3-chome,
Ohta-ku, Tokyo 146-8501, Japan

Date: December 22, 2004

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EXHIBIT INDEX

Exhibit number	Title
Exhibit 1.1	Articles of Incorporation of Canon Inc. (Translation)*
Exhibit 1.2	Regulations Of The Board Directors of Canon Inc. (Translation)*
Exhibit 2.	Regulations for Handling of Shares of Canon Inc. (Translation)*
Exhibit 11.1	Canon Group Code of Conduct (Translation)*
Exhibit 11.2	Code of Ethics (Supplement to The Canon Group Code of Conduct)(Translation)*
Exhibit 12.	302 Certification
Exhibit 13.	906 Certification

* Incorporated by reference to the corresponding exhibits to Canon Inc s annual report on Form20-F for the fiscal year ended December 31, 2003 filed on June 10, 2004.