

CANON INC
Form 6-K
April 14, 2005

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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the month of **April, 2005**

CANON INC.

(Translation of registrant's name into English)

30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, Japan

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F

Form 40-F

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-_____

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANON INC.

(Registrant)

Date April 12, 2005

By /s/ Hiroshi Kawashimo
(Signature)*

Hiroshi Kawashimo
General Manager, Finance Division
Canon Inc.

* Print the name and title of the signing officer under his signature.
The following materials are included.

1. Annual Report filed with the Japanese government pursuant to the Securities and Exchange Law of Japan For the fiscal year ended December 31, 2004

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[English summary with full translation of consolidated financial information]

**Annual Report filed with the Japanese government
pursuant to the Securities and Exchange Law of Japan**

**For the fiscal year ended
December 31, 2004**

**CANON INC.
Tokyo, Japan**

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Disclaimer Regarding Forward-Looking Statements

This annual report includes forward looking statements (within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934) concerning Canon Inc. and its subsidiaries. To the extent that statements in this annual report do not relate to historical or current facts, they constitute forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of Canon in light of the information currently available to them, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause Canon's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. Canon undertakes no obligation to publicly update any forward-looking statements after the date of this annual report. Investors are advised to consult any further disclosures by Canon in its subsequent filings with the U.S. Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 and its other filings.

The risks, uncertainties and other factors referred to above include, but are not limited to, exchange rate fluctuations; the uncertainty of Canon's ability to implement its plans to localize production and other measures to reduce the impact of exchange rate fluctuations; uncertainty as to economic condition, in Canon's major markets; uncertainty of continued demand for Canon's high-value-added products; uncertainty as to the recovery of computer and related markets; uncertainty of recovery in demand for Canon's semiconductor production equipment; Canon's ability to continue to develop products and to market products that incorporate new technology on a timely basis, are competitively priced and achieve market acceptance; the possibility of losses resulting from foreign currency transactions designed to reduce financial risks from changes in foreign exchange rates; and inventory risk due to shifts in market demand.

Note: Certain information that has been previously filed with the SEC in other reports, including English summaries of non-consolidated (parent company alone) financial information, is not included in this English translation.

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I. Corporate Information**(1) Consolidated Financial Summary**

	Millions of Yen (except per share amounts)				
	Year ended December 31				
	2004	2003	2002	2001	2000
Net sales	3,467,853	3,198,072	2,940,128	2,907,573	2,696,420
Income before income taxes and minority interests	552,116	448,170	330,017	281,566	227,196
Net income	343,344	275,730	190,737	167,561	134,088
Stockholders' equity	2,209,896	1,865,545	1,591,950	1,458,476	1,298,914
Total assets	3,587,021	3,182,148	2,942,706	2,844,756	2,832,125
Net assets per share (Yen)	2,491.83	2,120.58	1,813.65	1,664.52	1,483.41
Net income per share: basic (Yen)	387.80	313.81	217.56	191.29	153.66
Net income per share: diluted (Yen)	386.78	310.75	214.80	188.70	151.51
Stockholders' equity / total assets (%)	61.6	58.6	54.1	51.3	45.9
Net income / Stockholders' equity (%)	16.8	15.9	12.5	12.2	10.7
Stock price earnings ratio (times)	14.3	15.9	20.5	23.6	26.0
Cash flows from operating activities	561,529	465,649	448,950	305,752	346,616
Cash flows from investing activities	(252,967)	(199,948)	(230,220)	(192,592)	(212,804)
Cash flows from financing activities	(102,268)	(102,039)	(183,714)	(121,228)	(100,597)
Cash and cash equivalents at end of year	887,774	690,298	521,271	506,234	493,962
Number of employees	108,257	102,567	97,802	93,620	86,673

Notes:

- 1 Canon's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States.
- 2 Consumption tax is excluded from the stated amount of net sales.
- 3 From the fiscal year ended December 31, 2001 (fiscal 2001), Canon has applied accounting standards for sales incentives, and applied retroactively to the consolidated financial statements for the prior year.

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(2) Principal Businesses

The Canon Group consists primarily of the parent company, Canon Inc., 184 consolidated subsidiaries and 17 affiliated companies. Canon is one of the world's leading manufacturers of copying machines, laser beam printers, inkjet printers and steppers and is also engaged in sales and marketing activities around the world. Although research and development is conducted primarily by Canon Inc., manufacturing is spread between Canon Inc. and its manufacturing subsidiaries in Japan and overseas with links to specific business segments. Marketing and distribution activities are conducted mainly through sales subsidiaries, which have responsibility for specific geographic areas. In Japan, Canon's products are mainly sold through Canon Sales Co., Inc. In overseas, Canon sells its products mainly through Canon U.S.A. Inc., Canon Europa N.V., Canon (UK) Ltd., Canon France S.A.S., Canon Deutschland GmbH, Canon (China) Co., Ltd. and Canon Singapore Pte. Ltd.

The main products and main manufacturing companies for each business segment are as follows:

Business machines product group

Office imaging products

Office imaging products include office network digital MFDs, color network digital MFDs, office copying machines, personal-use copying machines and full-color copying machines.

Computer peripherals

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

Business information products

Business information products include micrographic equipment, personal computers and calculators.

The main manufacturing companies for the business machine product group are as follows:

Canon Inc.
Canon Electronics Inc.
Canon Finetech Inc.
Nisca Corporation
Canon Chemicals Inc.
Canon Components, Inc.
Canon Precision Inc.
Nagahama Canon Inc.
Oita Canon Materials Inc.
Ueno Canon Materials Inc.
Fukushima Canon Inc.
Canon Virginia, Inc.
Canon Giessen GmbH
Canon Bretagne S.A.S.

Canon Dalian Business Machines, Inc.
Canon Zhuhai, Inc.
Canon Zhongshan Business Machines Co., Ltd.
Canon (Suzhou) Inc.
Canon Electronic Business Machines (H.K.) Co., Ltd.
Canon Hi-Tech (Thailand) Ltd.
Canon Vietnam Co., Ltd.
*Lotte Canon Co., Ltd.

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Cameras product group

Cameras

The cameras product group includes single lens reflex (SLR) cameras, compact cameras, digital cameras and digital video camcorders.

The main manufacturing companies for the camera product group are as follows:

- Canon Inc.
- Oita Canon Inc.
- Canon Inc., Taiwan
- Canon Zhuhai, Inc.
- Canon Opto (Malaysia) Sdn.Bhd.

Optical and other products product group

Optical and other products

The optical and other products product group includes steppers for semiconductor chip production, mirror projection mask aligners used in the production of LCDs, television broadcasting lenses and medical equipment.

The main manufacturing companies for the Optical and other products product group are as follows:

- Canon Inc.
- Canon Electronics Inc.
- Canon Semiconductor Equipment Inc.
- Canon Components, Inc.
- Canon Precision Inc.
- *TECH Semiconductor Singapore Pte. Ltd.

Notes:

- 1 Companies with asterisk(*) are affiliated companies that are accounted for on equity basis.
- 2 Canon Precision Inc. and its subsidiary, Hirosaki Precision Inc., have merged and became as Canon Precision Inc. on January 1, 2004. On the same date, Canon N.T.C. Inc. changed its name to Canon Semiconductor Equipment Inc. and also newly established a company through spin off and named it as Canon Ecology Industry Inc.

(3) Number of Employees

Canon's number of employees by product group are summarized as follows:

	As of Dec. 31, 2004
Business Machines	74,772

Cameras	16,534
Optical and other products	11,397
Corporate	5,554
Total	108,257

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II . The Business**(1) Operating Results**

Looking back at the global economy in 2004, although the U.S. economy experienced a temporary slowdown in the second half of the year due to the diminishing effectiveness of tax cuts, the high price of crude oil, and rising interest rates, economic growth was realized as consumer spending increased modestly, and an upturn in corporate earnings fueled continued growth in private-sector capital spending. Economic growth in Europe remained moderate through 2004, held back somewhat in the second half by a sluggish world economy combined with high oil prices and the negative impact of the appreciation in value of the euro. In Asia, China's economy continued to achieve steady growth, driven by strong consumer spending and increased capital investment, while other Asian economies were also in recovery mode. In Japan, while the economy slowed down somewhat in the second half due to the global downward economic trend, the economy continued to recover gradually, supported by stable consumer spending and an increase in capital investment.

As for the markets in which the Canon Group operates, although sales of digital cameras slowed in Japan due to a rising household penetration rate, demand overseas, especially in Europe, continued to grow significantly during the term. Demand for network digital multifunction devices (MFDs) remained strong, especially in the office market, fueled by the shift toward multifunctionality and color. Although the market for computer peripherals, including printers, grew overall, mainly among color models, the segment experienced severe price competition and a shift in demand for lower priced models offering improved functionality. In the field of optical equipment, capital spending for semiconductor-production equipment recovered strongly owing to such factors as the sustained high demand for memory devices resulting from replacement demand for personal computers, and a growing digital consumer electronics market, along with the high rate of capacity utilization by semiconductor manufacturers. Moreover, increased demand for liquid crystal display (LCD) televisions fueled growth in the market for projection aligners, which are used in the production of LCDs.

The average value of the yen for the year was ¥108.12 to the U.S. dollar and ¥134.57 to the euro, representing a year-on-year increase of 7% against the U.S. dollar, and a decrease of 3% against the euro.

Amid these conditions, Canon's consolidated net sales in 2004 increased by 8.4% from the year-ago period to ¥3,467.9 billion, boosted by a significant rise in sales of digital cameras and color network MFDs, along with a substantial increase in sales of semiconductor-production equipment. Net income in 2004 increased by 24.5% from the year-ago period to ¥343.3 billion, marking all-time highs for both net sales and net income, and the fifth consecutive year of sales and profit growth. Despite ongoing production-reform efforts during the term and the timely launch of competitive new products, the gross profit ratio decreased 0.9% from the year ago period to 49.4%, mainly due to severe price competition and the appreciation of the yen against the U.S. dollar. Although R&D expenditures grew by ¥16.2 billion to ¥275.3 billion along with increased advertising and sales-promotion spending, selling, general and administrative expenses for the year increased by just 1.3% year on year, mainly due to other selling, general and administrative expenses remaining at a lower level than the year-ago period, coupled with a ¥17.1 billion gain realized from the return to the Japanese Government of the substitutional portion of the Employees' Pension Funds (EPF) that the company and certain of its subsidiaries in Japan had operated. Consequently, operating profit in 2004 totaled ¥543.8 billion, a substantial year-on-year increase of 19.7%.

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Other income (deductions) improved by ¥14.6 billion, attributable to gains from sales of stock of subsidiary companies which totaled ¥9.1 billion, along with a decrease in currency exchange losses and improved equity gains (losses) of affiliated companies. As a result, income before income taxes and minority interests in 2004 totaled ¥552.1 billion, a year-on-year increase of 23.2%. With an effective tax rate during the year of 35.1%, which was 1.2% lower than the year before, net income in 2004 totaled ¥343.3 billion, surpassing the ¥300 billion mark for the first time.

Canon's annual results by business segment are summarized as follows:

In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, indicates a shift from monochrome to color models, as well as a trend toward higher-end features. Additionally, the Color imageRUNNER C3200/iR C3200N, Canon's first color offering in the powerful imageRUNNER-series lineup, continued to sell well in both the domestic Japanese and overseas markets. The iR C3100 and the high-end model iR C6800, introduced in Japan in the second half of 2003, were also launched in Europe and the United States in the first half of 2004 and have also been well received in these markets. The iR C3220/iR C3220N, which succeeds the iR C3200, and the iR C2620/iR C2620N were launched last September and have also been well received. Among monochrome network digital MFDs, such low-end models as the iR1600/2000 series recorded considerable sales increases, while mid-level models, such as the iR2200 series, and high-end models, such as the iR5000 series, also achieved strong sales. Overall, sales of office imaging products in 2004 realized a year-on-year increase of 3.6%. In the computer peripherals sub-segment, laser beam printers enjoyed a year-on-year increase in unit sales of nearly 20%, with color models registering a significant increase in sales along with monochrome systems, particularly personal-use models, also displaying growth. Despite the effects of the yen's appreciation against the U.S. dollar and a shift in demand toward lower priced models in the monochrome and color segment, laser beam printer sales substantially increased due to an increase in sales of color models. Inkjet printers recorded an approximately 20% increase in unit sales with the PIXMA iP3100 and iP4100 models selling briskly, especially in Japan and Europe, along with the PIXMA MP700 and MultiPASS MP370 high-speed multifunction systems, sales value increased, despite the effects of price competition. Consequently, even with the appreciation of the yen against the U.S. dollar, sales of computer peripherals overall for the year recorded an increase of 5.6%. Sales of business information products, including computers, micrographics and calculators, decreased by 5.2% due to the intentional curtailing of personal computer sales in the domestic market. Collectively, sales of business machines for the year totaled ¥2,388.0 billion, a year-on-year increase of 4.1%. Despite the effects of the stronger yen, the gross profit ratio remained at the year-ago level, supported by cost reduction efforts, and the sales-to-expense ratio declined, resulting in operating profit of ¥521.1 billion for the business machine segment, a year-on-year increase of 7.3%. In the first quarter of 2004, Canon reclassified information systems-related sales by subsidiaries to better reflect the product relationship. These sales, which had previously been grouped with optical and other products, are now included in the office imaging products sub-segment. Accordingly, previous-year sales for each category have been reclassified in line with the change.

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Within the camera segment, amid the continued strong demand for digital models worldwide, sales of compact digital cameras showed significant growth, boosted by the launch of sixteen new PowerShot-series models for the year, in particular the PowerShot Pro1 and the PowerShot SD300 Digital ELPH which have recorded strong sales. Canon's digital SLR cameras also continued to enjoy robust growth, bolstered by strong sales of the EOS Digital Rebel, launched in September 2003, and the successor to the EOS 10D, the EOS 20D, which was introduced in September of last year. As a result, unit sales of digital cameras grew by nearly 60% compared with the year-ago period. In the field of digital video camcorders, new models such as the Optura 500/400, Elura 70/65/60 and Optura 40/30 achieved favorable sales during the year. Consequently, camera sales overall grew 16.8%, achieving total sales of ¥763.1 billion. While the operating profit ratio decreased by 2.2%, as the gross profit ratio declined slightly due to the effects of the stronger yen and price competition, along with increased advertising and sales-promotion spending, the operating profit for the camera segment increased 3.5% to ¥130.8 billion, due to increase in unit sales of digital cameras.

In the optical and other products segment, sales of aligners for the production of LCDs realized notable growth as the PC monitor industry continued to shift from CRT to LCD computer displays, and the LCD television market continued to expand. Sales of steppers, used for the production of semiconductors, also increased as investment in semiconductor-production equipment showed a recovery owing to the improved conditions in the semiconductor-device market. As a result, sales for the segment increased by 26.9% to ¥316.8 billion. The operating profit ratio for the segment improved substantially due to the significant growth in unit sales, enabling the optical and other products segment to record an operating profit of ¥28.8 billion, compared with an operating loss of ¥9.9 billion for the same period of the previous year.

Annual results by domestic and overseas company location are summarized as follows:

Japan

Sales increased by 7.3% to ¥919.2 billion, mainly due to an increase in semiconductor-production equipment sales, as well as an increase in monochrome and colour network digital MFDs and inkjet multi-function printers. Geographical operating profit rose 20.7% to ¥596.0 billion.

Americas

Sales increased by 1.2% to ¥1,057.1 billion, mainly due to a significant increase in sales of digital cameras. Geographical operating profit decreased 26.2% to ¥40.3 billion. The results were mainly attributable to an increased costs caused by the appreciation of the yen.

Europe

Sales increased by 12.6% to ¥1,090.7 billion and geographical operating profit decreased 12.1% to ¥23.3 billion. The results were mainly attributable to steady increased sales of colour network digital MFDs and digital cameras, and an increase of advertising expense.

Asia and others

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Sales increased by 22.5% to ¥400.9 billion, mainly due to an increase in digital cameras and semiconductor-production equipment sales. Geographical operating profit also rose 14.1% to ¥27.5 billion.

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Cash Flows

Cash and cash equivalents increased by ¥197.5 billion from the end of the previous year, to ¥887.8 billion at the end of 2004.

Cash flows from operating activities

Cash flows from operating activities in 2004 increased by ¥95.9 billion from the previous year to ¥561.5 billion, mainly due to the substantial growth in sales and increased cash proceeds from sales, combined with a substantial increase in net income.

Cash flows from investing activities

Capital expenditure totaled ¥256.7 billion, which was used mainly to expand production capabilities in both domestic and overseas regions, as well as to bolster the company's R&D-related infrastructure. Cash flows from investing activities in 2004 increased by ¥53.0 billion from the previous year to ¥252.9 billion.

Cash flows from financing activities

Cash flows from financing activities recorded an outlay of ¥102.3 billion in 2004, an increase of ¥0.2 billion from the previous year. The outlay mainly resulted from active efforts to repay short-term and long-term loans towards the goal of improving the company's financial position and an increase in the dividend payout.

As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled ¥308.6 billion, passing the ¥300 billion mark for the first time.

(2) Production and Sales**Production**

The company's production by product group are summarized as follows:

	2004 Millions of yen	Change from the previous year (%)
Business Machines	1,783,004	97.8
Cameras	813,925	119.2
Optical and other products	277,817	145.3
Total	2,874,746	106.6

Notes:

1. Amount of production is calculated by sales price.
 2. Consumption tax is excluded from the stated amount of production.
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Sales

The company's sales by product group are summarized as follows:

	2004 Millions of yen	Change from the previous year (%)
Business Machines	2,387,953	104.1
Cameras	763,079	116.8
Optical and other products	316,821	126.9
Total	3,467,853	108.4

Notes:

1. Consumption tax is excluded from the stated amount of net sales.
2. Beginning first quarter of 2004, Canon has changed classification of product categories with regards to information system business, which had been classified in *Optical and other products*, to *Business machines (Office imaging products)* in order to better reflect current relation with those products. Accordingly, percentage change from the previous year is calculated on a reclassified basis.
3. The company's sales by main customer are summarized as follows:

	2004 Millions of yen	Proportion to net sales (%)	2003 Millions of yen	Proportion to net sales (%)
Hewlett-Packard Company	715,408	20.6	655,369	20.5

(3) Managerial Issues to be Addressed

The world economy is expected to expand gradually, but we must be prepared to deal with a number of factors surrounding the Canon Group that may create an unpredictable operating environment, such as signs of a slowdown in economic growth observed since the latter half of 2004, and the uncertain situation in the Middle East.

Against this backdrop, the Canon Group is entering the final year of PhaseII(2001 to 2005) of its *Excellent Global Corporation Plan*, and we will emphasize the implementation of the following measures

In order to for the Group to be able to maintain sustained growth despite rapid changes in the global situation, we need to be acutely conscious of manufacturing processes when developing products. We also need to exhaustively strengthen the manufacturing technologies used in our production facilities and raise the level of employees manufacturing skills. To this end, we will strengthen collaboration between development and manufacturing departments. In addition to implementing reforms that will enable us to create products without the need for prototypes throughout the various stages of the product development process, we need to expand the in-house

manufacture of key components of our products, and also the devices and molds used to manufacture them and to automate our assembly processes. In this way, we aim to further lower our manufacturing cost rate and accumulate our manufacturing technologies.

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We plan to create and strengthen new businesses for the next generation. Among these, we have selected the display business, commencing with SED(Surface-condition Electron-emitter Display), as the next main earnings driver. In order to achieve quick realization of mass production, we have to establish its manufacturing technologies and reduce costs as soon as possible. Furthermore, we plan to bolster our ability to develop key components to supply sophisticated products that depend on our unique technologies, which can be unrivalled. At the same time, we are fostering new business developments by subsidiaries, by supporting their technologies.

We also need to develop an infrastructure that will contribute to the creation of highly advanced and efficient research and development and manufacturing operations.

Finally, because our ability to achieve these goals will depend upon the capabilities of each and every one of our employees, we will place even greater emphasis on the cultivation of human resources and the development of individual skills. With regard to compliance issue, we will make our best efforts to ensure a full understanding of the issue by all employees of Canon Group companies.

(4) Risk Factors

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

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

Risks Related to Canon's Industries

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

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

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

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

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

Presently, the analog copying machines and conventional film camera segments of the market are mature, with anticipated declining industry revenues as the market transitions to digital technology. Some of Canon's new digital products replace or compete with its traditional analog products. Changes in the mix of products from analog to digital, and the pace of that change as well as competitive developments could cause actual results to vary from those expected. The recent trend of rapid digitalization has lowered entry barriers in the digital camera segment, resulting in the entry of new competitors such as electronics manufacturers, and an overall increase in the number of competitors to Canon's business. As a result, Canon may not be able to maintain its position as an industry leader in many of its business categories. Although Canon believes that it has successfully kept pace with this trend toward digitalization, it may not be able to compete successfully in the future if it does not continue to invest in research and development activities, implement cost-cutting measures and introduce attractive and high value-added products to the market on a continuous basis. In addition, the unexpected emergence of strong competitors through mergers and acquisitions or the formation of business alliances may change the competitive environment of the businesses in which Canon engages, thereby affecting Canon's future results of operations.

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

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

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

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

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

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

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

As part of the overall digitization of the consumer electronics market, the analog video camcorder is being rapidly replaced by the digital video camcorder. At the same time, new digital standards that compete with the MiniDV standard that Canon has adopted, such as DVD (Digital Versatile Drive), SD (Secure Digital) memory card, HDD (Hard Disk Drive), and new recording format such as HDV, have appeared. If these competing standards gain wide acceptance in the market, sales of Canon's products using the MiniDV standard may decline. In addition, Canon may be required to incur significant research and development expenditures to develop new products that are compatible with such new standards. Such trends may have an adverse affect on Canon's video camcorder business as well as its operating results.

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

Canon generally experiences seasonal trends in the sale of its consumer-oriented products such as cameras and printers, especially in the U.S. and European markets. Canon's sales in second half of the year tends to be higher than that of in first half of the year. Product sales may be impacted by such seasonal purchasing patterns, making planning and inventory management difficult and future financial results less predictable.

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Risks Related to Canon's Business***Canon derives a significant percentage of its revenues from Hewlett-Packard.***

Canon depends on Hewlett-Packard for a significant part of its business. For fiscal 2004, approximately 21% of Canon's net sales were to Hewlett-Packard. As a result, its business, results of operations and financial condition may be affected by the policies, business, results of operations and financial condition of Hewlett-Packard. Any decision by Hewlett-Packard management to limit or reduce the scope of its relationship with Canon would adversely affect Canon's business and results of operations.

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

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

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

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

Recent increases in counterfeit Canon products may adversely affect Canon's brand image and its revenues.

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

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

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

engineering improvements;

economies of scale;

improvements in manufacturing processes; and

improved serviceability of products.

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

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

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

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

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

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

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

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

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

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

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

less developed technological infrastructure, which can affect production or other activities or result in lower customer acceptance of Canon's services;

difficulties in recruiting and retaining personnel;

potentially adverse tax consequences;

longer payment cycles;

unfavorable political or economic factors; and

unexpected legal or regulatory changes.

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

In order to produce Canon's products competitively and to reduce costs, Canon has established new production facilities in China. Canon is also focusing on strengthening its sales activity in China. However, with China's entry into the WTO, conditions within China are in the process of changing. Under these conditions, unexpected events, including political or legal change, labor shortage or strikes or changes in economic conditions, may occur. In particular, a large revaluation of the yuan, or a sudden change in the tax system or other regulatory regimes of a significant magnitude could adversely affect Canon's overall performance.

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

Canon may unintentionally infringe international trade laws and regulations, and any such infringement may lead to an adverse effect on its business. The extent of the effect on Canon's business will depend upon the nature of the

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

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

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

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

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

Value(a)

INVESTMENTS IN ITALY – 3.1%

GAS UTILITIES – 1.2%

180,000

Snam

\$
995,512TEXTILES, APPAREL &
LUXURY GOODS – 1.9%

32,000

Luxottica Group

1,665,552

Total Investments in Italy
(cost \$2,842,557)

2,661,064

INVESTMENTS IN BELGIUM – 2.7%

BEVERAGES – 2.7%

21,000

Anheuser-Busch InBev NV

2,336,652

Total Investments in Belgium
(cost \$2,301,720)

2,336,652

INVESTMENTS IN FINLAND – 2.7%

INSURANCE – 2.7%

47,000

Sampo

2,278,921

Total Investments in Finland
(cost \$1,186,181)

2,278,921

INVESTMENTS IN NORWAY – 2.0%

DIVERSIFIED
TELECOMMUNICATION
SERVICES – 2.0%

78,000

Telenor

1,711,937

Total Investments in Norway
(cost \$1,836,639)

1,711,937

INVESTMENTS IN POLAND – 1.7%

COMMERCIAL BANKS – 1.7%

	120,000
Powszechna Kasa Oszczednosci Bank Polski	
	1,437,912
Total Investments in Poland (cost \$1,650,114)	
	1,437,912

THE EUROPEAN EQUITY FUND, INC.

SCHEDULE OF INVESTMENTS — SEPTEMBER 30, 2014 (unaudited) (continued)

Shares	Description	Value(a)
INVESTMENTS IN GREECE – 1.2%		
80,000	HOTELS, RESTAURANTS & LEISURE – 1.2%	
	OPAP	\$ 1,045,516
	Total Investments in Greece	
	(cost \$1,012,029)	1,045,516
INVESTMENTS IN LUXEMBOURG – 0.9%		
9,000	MEDIA – 0.9%	
	RTL Group	771,522
	Total Investments in Luxembourg	
	(cost \$889,715)	771,522
	Total Investments in Common Stocks – 96.3%	
	(cost \$78,909,127)	82,557,505
CASH EQUIVALENTS – 2.0%		
1,760,622	Central Cash Management Fund, 0.05%	
	(cost \$1,760,622)(b)	1,760,622
Number of contracts		
PUT OPTIONS PURCHASED – 0.1%		
650	EURO STOXX 50 Index, Expiration: 12/19/2014 Exercise Price 2,800	
	(cost \$150,450)	123,113
	Total Investments in Put Options Purchased – 0.1%	
	(cost \$150,450)	123,113
	Total Investments – 98.4%	
	(cost \$80,820,199)**	84,441,240
	Other Assets and Liabilities,	
	Net – 1.6%	1,347,833
	NET ASSETS – 100.0%	\$85,789,073

For information on the Fund's policies regarding the valuation of investments and other significant accounting policies, please refer to the Fund's most recent semi-annual or annual financial statements.

* Non-income producing security.

** The cost for federal income tax purposes was \$80,821,143. At September 30, 2014, net unrealized appreciation for all securities based on tax cost was \$3,620,097. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$9,355,831 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$5,735,734.

(a) Value stated in U.S. dollars.

(b) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

For purposes of its industry concentration policy, the Fund classifies issuers of portfolio securities at the industry sub-group level. Certain of the categories in the above Schedule of Investments consist of multiple industry sub-groups or industries.

THE EUROPEAN EQUITY FUND, INC.

SCHEDULE OF INVESTMENTS — SEPTEMBER 30, 2014 (unaudited) (continued)

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The level assigned to the securities valuations may not be an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of September 30, 2014 in valuing the Fund's investments.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks and/or Other Equity Investments(1)				
Germany	\$20,133,632	\$ —	\$ —	\$20,133,632
United Kingdom	14,208,555	—	—	14,208,555
France	9,215,197	—	—	9,215,197
Netherlands	8,977,415	—	—	8,977,415
Spain	5,423,145	—	—	5,423,145
Switzerland	5,016,637	—	—	5,016,637
Sweden	4,291,852	—	—	4,291,852
Denmark	3,047,548	—	—	3,047,548
Italy	2,661,064	—	—	2,661,064
Belgium	2,336,652	—	—	2,336,652
Finland 2,278,921 — — 2,278,921 Norway	1,711,937	—	—	1,711,937
Poland	1,437,912	—	—	1,437,912
Greece	1,045,516	—	—	1,045,516
Luxembourg	771,522	—	—	771,522
Short-Term Instruments	1,760,622	—	—	1,760,622
Derivatives(2)				
Purchased Options	123,113	—	—	123,113
Total	\$84,441,240	\$ —	\$ —	\$84,441,240

There have been no transfers between fair value measurement levels during the period ended September 30, 2014.

(1) See Schedule of Investments for additional detailed categorizations.

(2) Derivatives include value of options purchased.

Derivatives

The following table presents, by major type of derivative contract, the unrealized appreciation (depreciation) of the Fund's derivative instruments as of September 30, 2014 categorized by the primary underlying risk exposure.

Primary Underlying Risk Disclosure	Purchased Options
Equity Contracts	\$27,337

ITEM 2. CONTROLS AND PROCEDURES

(a) The Chief Executive and Financial Officers concluded that the Registrant's Disclosure Controls and Procedures are effective based on the evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

(b) There have been no changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting.

ITEM 3. EXHIBITS

Certification pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) is filed and attached hereto as Exhibit 99.CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: The European Equity Fund, Inc.

By: /s/Brian E. Binder
Brian E. Binder
President

Date: November 21, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/Brian E. Binder
Brian E. Binder
President

Date: November 21, 2014

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By: /s/Paul Schubert
Paul Schubert
Chief Financial Officer and Treasurer

Date: November 21, 2014