

CANON INC
Form 6-K
February 02, 2004

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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 December 31, 2003

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 February 2, 2004 | By | /s/ Shunji Onda |
| | | _____ |
| | | (Signature)* |
| | | Shunji Onda General Manager, Finance Division Canon Inc. |

* Print the name and title of the signing officer under his signature.

The following materials are included.

1. RESULTS FOR THE FOURTH QUARTER AND THE FISCAL YEAR ENDED DECEMBER 31, 2003
 2. Notice of change in the number of shares that constitute one unit
-

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January 29, 2004

**RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 31, 2003**

CONSOLIDATED RESULTS

(Millions of yen, thousands of U.S. dollars, except per share amounts)

| | Actual | | | Projected | | |
|----------------------------|------------------------------------|------------------------------------|-----------|------------------------------------|-------------------------------------|-----------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Change(%) | Year ended December 31, 2003 | Year ending December 31, 2004 | Change(%) |
| Net sales | ¥3,198,072 | ¥ 2,940,128 | + 8.8 | \$ 29,888,523 | ¥3,330,000 | + 4.1 |
| Operating profit | 454,424 | 346,359 | + 31.2 | 4,246,953 | 465,000 | + 2.3 |
| Income before income taxes | 448,170 | 330,017 | + 35.8 | 4,188,505 | 470,000 | + 4.9 |
| Net income | 275,730 | 190,737 | + 44.6 | 2,576,916 | 286,000 | + 3.7 |
| Earnings per share: | | | | | | |
| Basic | ¥ 313.81 | ¥ 217.56 | + 44.2 | \$ 2.93 | ¥ 325.10 | + 3.6 |
| Diluted | 310.75 | 214.80 | + 44.7 | 2.90 | | |

Actual

| | As of December 31, 2003 | As of December 31, 2002 | Change(%) | As of December 31, 2003 |
|---------------------|-------------------------------|-------------------------------|-------------|-------------------------------|
| | Total assets | ¥3,182,148 | ¥ 2,942,706 | + 8.1 |
| Stockholders equity | ¥1,865,545 | ¥ 1,591,950 | + 17.2 | \$ 17,435,000 |

Notes: 1. Canon's consolidated financial statements conform with accounting principles generally accepted in the United States of America.

2. U.S. dollar amounts are translated from yen at the rate of U.S.\$1 = JPY107, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2003, solely for the convenience of the reader.

NON-CONSOLIDATED RESULTS

(Millions of yen, except per share amounts)

| | Actual | | | Projected | |
|------------------|------------------------------------|---------------------------------|-----------|-------------------------------------|-----------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Change(%) | Year ending December 31, 2004 | Change(%) |
| Net sales | ¥2,023,722 | ¥ 1,789,005 | + 13.1 | ¥2,170,000 | + 7.2 |
| Operating profit | 320,039 | 237,193 | + 34.9 | 320,000 | 0.0 |
| Ordinary profit | 320,616 | 240,983 | + 33.0 | 338,000 | + 5.4 |
| Net income | 228,667 | 144,185 | + 58.6 | 217,000 | 5.1 |

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| | | | | | |
|----------------------------|----------|----------|--------|----------|-----|
| Earnings per share: | | | | | |
| Basic | ¥ 260.03 | ¥ 164.46 | + 58.1 | ¥ 246.67 | 5.1 |
| Diluted | 257.50 | 162.38 | + 58.6 | | |
| Dividend per share | 50.00 | 30.00 | | 50.00 | |

Actual

| | As of December 31, 2003 | As of December 31, 2002 | Change(%) |
|----------------------------|-------------------------------|----------------------------|-----------|
| Total assets | ¥2,059,317 | ¥ 1,848,137 | + 11.4 |
| Stockholders equity | ¥1,444,160 | ¥ 1,235,310 | + 16.9 |

Canon Inc.
Headquarter office

30-2, Shimomaruko 3-chome, Ohta-ku,
Tokyo 146-8501, Japan
Phone: +81-3-3758-2111

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Management Policy

Under the corporate philosophy of *kyosei* – living and working together for the common good – Canon’s basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporate group targeting continued growth and development.

Management objectives

Aiming to increase corporate value, Canon Inc. launched Phase II of its Excellent Global Corporation Plan in 2001. This five-year management initiative, which will conclude in 2005, targets the fulfillment of the following four conditions with the aim of completing Canon’s transition to a truly excellent global corporation:

- 1) Securing the No. 1 position worldwide in all core business areas
- 2) Building up R&D strength capable of continually creating new businesses
- 3) Achieving a strong financial position
- 4) Fostering a corporate culture whereby all employees work ardently to achieve the company’s goals

Mid- to long-term management strategies

In order to achieve the objectives above, we have implemented the following mid- to long-term management strategies:

1) Becoming No. 1 in core businesses

Among our core businesses, we are already No. 1 worldwide in the areas of copying machines and laser beam printers. We intend, however, to create new business opportunities while also leading the way in expanding the color market through the active introduction of color copiers and color laser beam printers, developing the print-on-demand market with high-speed copiers, and promoting service businesses that offer document solutions.

With regard to digital cameras, we have leveraged our expertise in optical and image-processing technologies to continuously launch competitive products, which has allowed us to become a top market-share holder. Going forward, we aim to further expand our market share and profit.

In the field of inkjet printers, we will continue to promote high image quality and improved printing speeds while also enhancing the durability of color prints through the improvement of inks and papers. In the fast growing market for inkjet multifunctional devices, we will work to strengthen our lineup. Moreover, as we did in 2003, we will continue to actively introduce digital cameras and printers that support the PictBridge standard, which enables any compliant printer to print directly from any compliant digital camera. In addition, by enhancing such products as photo-print software and print media, we will work to expand the home photo-printing market.

Canon is uniquely positioned as one of the few companies to possess world-leading technology for both cameras and photo-quality color printers. Fully utilizing this technological advantage and Canon’s high brand recognition, we are focusing our efforts on becoming No. 1 in the home photo-printing market.

In the area of semiconductor production equipment, in 2003 we introduced new products based on a new platform and aim to pursue the No. 1 position in the industry by continuously launching new products ahead of our competitors. Furthermore, in the aligner market for large LCD panels, where we maintain the No. 1 spot, we will further strengthen our position by focusing on the development of next-generation equipment.

2) Strengthening R&D

To become No. 1 in our core businesses and create new areas of business, we will further concentrate our efforts on strengthening the company’s R&D capabilities. In addition to bolstering product engine and platform technologies, we will also thoroughly enhance our common base technologies.

In order to accelerate product development and curtail costs, we aim to realize prototype-less design through the effective utilization of 3D-CAD systems, eliminating, to the extent possible, physical prototypes from the design process. Moreover, in order to strengthen our R&D structure and production technology, we will work to build new facilities and improve our infrastructure.

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3) Achieving a strong financial position

We believe that the establishment of a healthy financial constitution is essential for the realization of continued corporate growth. While Canon Inc. has been actively strengthening its financial position, we will continue to promote cash-flow management to achieve financial strength befitting a truly excellent global company.

In addition to the management strategies outlined above, we will continue working to establish the Three Regional Headquarters System by enhancing the headquarters functions of Canon's regional marketing headquarters in Europe and the Americas. We have also been actively reorganizing the Canon Group in Japan to achieve an optimal organization structure and bolster the competitive strength of each company, and will continue these initiatives. Overseas, we have strengthened our direct sales network in order to support our solutions business and adopted a new streamlined sales organization in the EU that better accommodates market integration in the region. We are also keeping a close eye on the expanding Chinese market and plan to further strengthen our sales structure there as well.

Other measures being undertaken to improve profitability for the Group include: increasing the penetration and scale of worldwide production reform activities; developing innovative tools for factory automation; and strengthening supply-chain management in order to reduce inventories, shorten production lead times and accelerate the in-house production of key components. Through these activities we will target growth for the Canon Group and seek to heighten Canon's corporate value as represented by such financial indicators as ROA (Return on Assets) and ROE (Return on Equity).

Business challenges and countermeasures

One of the challenges that Canon faces is the establishment of stable business management that offers resilience against the influence of exchange rate fluctuations. With an overseas sales ratio of more than 70%, we are heavily exposed to this risk. For the short term, we will work to mitigate the impact of changes in exchange rates by increasing product development speed, which will facilitate the introduction of new products priced to reflect the latest foreign exchange levels, and further reducing costs through such reform activities as integrating development and production activities.

For the long term, we will establish product development operations in the United States and Europe, enabling each region—Japan, the Americas and Europe—to develop, produce and export its own products all over the world. Through the realization of international diversification across our production and marketing operations, we believe that the impact of exchange rate fluctuations can be minimized.

We also view environmental concerns as a management issue of extreme importance. From the product development stage through to production, sales, use, recovery and recycling, we focus our efforts on creating environmentally conscious products designed with energy savings, resource conservation, and the elimination of harmful substances in mind. In addition to the development of recycling systems and expansion of green procurement, we actively disclose environmental information and support local environmental activities.

Corporate governance policies and implementation of related measures

Canon, recognizing the extreme importance of bolstering management supervision functions aimed at increasing management transparency and achieving management objectives, has been implementing various measures to improve its corporate governance. In this manner, we are striving to continuously elevate Canon's corporate value.

1) Implementation of corporate governance measures

In addition to our board of directors and auditing system, Canon Inc. has also created an original internal auditing system for the further development of its corporate governance.

There are currently 24 directors on the company's board. In order to realize a more streamlined and efficient management decision-making process, Canon does not adopt the outside director system. Under the current system, as a general rule, all matters of importance are decided at board and management meetings attended by all directors. Moreover, various cross-company management advisory committees have been established to address important management themes. Each committee serves to accelerate and rationalize the decision-making process while supplementing the business-division system and performing a checking function.

Canon's board of corporate auditors consists of four members, two of whom are outside corporate auditors. In accordance with the board of corporate auditors' auditing policies and their assigned duties, the members attend board, management, and various committee meetings, listen to business reports from the

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directors and others, carefully examine documents related to important decisions, and conduct strict audits of the company's business and its assets.

Furthermore, the Corporate Audit Center, which serves as an internal auditing division, conducts inspections covering such areas as compliance, risk management and internal control systems, and then provides assessments and proposals. The various relevant administrative divisions also work very closely with the Corporate Audit Center to inspect such areas as quality, environment issues, information security and physical security.

The company has also established a code of conduct, which calls on all Canon Group employees to strictly observe all laws as well as company rules and regulations. This Canon Code of Conduct Handbook, which is available in nine different languages, has been distributed to all employees to further raise awareness of compliance throughout the entire Canon Group. A special administrative division has also been established to raise the effectiveness of these efforts.

Canon has made a practice of keeping shareholders and other investors abreast of management conditions through corporate policy briefings, quarterly announcements of operating results, and the company's Web site, and will continue to actively promote accurate and timely disclosure of information.

Through these measures, Canon will continue to strengthen corporate governance practices, based on management's strong sense of mission and ethics.

2) Overview of relationship between the company and outside corporate auditors in regard to personal, capital, business relationships and other stakeholders.

Currently, there are no special interests between the company and its two outside corporate auditors.

3) Measures implemented over the past year aimed at improving and enhancing corporate governance

To realize a management structure capable of responding rapidly to changes in the business climate, Canon reduced the term of office for company directors from two years to one.

In order to meet calls to reinforce the independence of the accounting firms, internal regulations related to prior approval policies and procedures for both auditing and non-auditing operations were established in May of 2003. Under the system introduced, the board of corporate auditors must approve the content and related amount of contracts between the accounting firms and the company before they are entered into.

Furthermore, we established in January 2004 a formal committee focused on business ethics with the president as chairman. The purpose of this committee is to examine, from various viewpoints, Canon's social responsibilities and to convey the findings to the company with the intention of raising compliance and ethical awareness.

Basic policy regarding profit distribution

With regard to profit distribution, Canon recognizes its dividend policy as one of the company's most important management issues. For fiscal 2003, Canon passed a resolution to raise its year-end dividend per share from 17.5 yen to 35 yen, to be approved during the upcoming shareholders meeting. If approved, the full-year dividend per share would be raised from 30 yen to 50 yen. This reflects the strong results we achieved for the year and appreciation for continued shareholder support. We intend to maintain stable dividend payments in the future, contingent upon the combination of consolidated financial performance, as well as capital requirements to fund future business expansion and improve profitability.

As for internal reserves, such funds will be used to support investment in current business's expansion and new business cultivation, and to repay debt in order to strengthen the company's financial structure.

Basic policy regarding share trading unit

Canon maintains a basic policy of periodically reviewing its share-trading unit from the standpoint of enhancing liquidity and stimulating broader investor participation.

Until now, Canon opted not to reduce the number of shares constituting a trading unit, as the company's stock enjoyed adequate levels of liquidity. Owing to an increase in the total investment amount required to realize one trading unit, however, the proportion of ownership by individual investors in recent years has decreased.

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As such, the company has decided to change the number of shares that constitute one trading unit from 1,000 to 100, effective May 6, 2004. This is an important measure aimed at offering a wider range of investors, including individuals, an opportunity to invest in the company.

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Operating Results and Financial Conditions

Looking back at the global economy in 2003, although economic conditions in the United States remained stagnant during the first half of the year, a recovery quickly took hold from the third quarter, led by healthy consumer spending resulting from tax cuts, and growth in capital investment in the private sector, which was supported by low-interest rate monetary policy. The economies of Europe remained flat through most of 2003, although an increase in exports accompanying the upturn in the U.S. economy pointed to signs of a recovery in the region in the latter half of the year. Asian economies grew substantially during 2003, particularly in China, as the adverse effects of the Severe Acute Respiratory Syndrome (SARS) epidemic were kept to a minimum. In Japan, while there were no signs of a turnaround in consumer spending or employment and income conditions, a gradual recovery was evident during the second half of the year as exports and capital investment showed steady improvement.

As for the markets in which the Canon Group operates, demand for digital cameras and digital video camcorders continued to expand in 2003. While shifting business demand toward multifunctionality and color stimulated strong sales of network digital multifunction devices (MFDs), computer peripherals, including printers, struggled amid severe price competition. In the field of optical equipment, the semiconductor-production equipment market began to show signs of a recovery while increased demand for liquid crystal display (LCD) televisions fueled growth in the market for projection aligners, used in the production of LCDs. The average value of the yen in 2003 was ¥115.61 to the U.S. dollar, and ¥131.02 to the euro, representing an appreciation of 8% against the dollar, and a depreciation of 10% against the euro.

Amid these conditions, Canon's consolidated net sales in 2003 totaled ¥3,198.1 billion (US\$29,889 million), marking the first time the company has surpassed the ¥3,000 billion level. The achievement represents a 8.8% increase from the previous year, owing to significant growth in sales of digital cameras and color network digital MFDs. Net income for the year also rose 44.6% to ¥275.7 billion (US\$2,577 million). The results mark new record highs for the company in both consolidated net sales and net income, and the fourth consecutive year of sales and profit growth. Canon's gross profit during the term increased by 14.9% compared to the previous year, boosted by an increase in sales volume as well as an improved gross profit ratio, made possible through R&D reforms supporting the timely launch of competitive new products, and cost savings realized through sustained production reforms. Selling, general and administrative expenses rose 9.6% year on year as R&D expenditures grew 10.9% to ¥259.1 billion (US\$2,421 million) and advertising and sales-promotion spending increased markedly, reflecting management's policy to strengthen the company's corporate and brand images. Consequently, operating profit in 2003 significantly increased by 31.2% to ¥454.4 billion (US\$4,247 million). Other income (deductions) improved by ¥10.1 billion (US\$94 million), owing to the increase in net interest income resulting from the company's strengthened financial condition, in addition to the decrease in currency exchange losses and improved equity affiliates earnings. As a result, income before income taxes in 2003 totaled ¥448.2 billion (US\$4,189 million), an increase of 35.8%. The effective tax rate during the term declined by 4.5% compared with the previous year due to an increased tax credit for R&D expenditures arising from an amendment to Japanese tax regulations. Consequently, net income in 2003 totaled ¥275.7 billion (US\$2,577 million), a year-on-year increase of 44.6%, which exceeds the growth rate of income before income taxes.

Basic earnings per share for 2003 was ¥313.81 (US\$2.93), a year-on-year increase of ¥96.25 (US\$0.90).

Results by Product Segment

In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, indicate a shift from monochrome machines to color models, as well as a trend toward higher-end features. Additionally, the iR C3200/iR C3200N, Canon's first color offerings in the powerful imageRUNNER (iR)-series lineup, was well received in Japan and overseas markets, contributing significantly to increased sales of office imaging products. Among monochrome network digital MFDs, the high-end iR5000 series and iR105 model continued to record strong sales during the term. Overall, year-on-year sales of office

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imaging products grew 3.7%. In the field of computer peripherals, sales of which were flat in the previous year due to inventory adjustment by Canon's OEM partner, a recovery in orders fueled robust growth in terms of unit sales during 2003, especially among personal models. Inkjet printers also performed well, with sales of the i560 and i860 remaining brisk, and a large rise in unit sales of such products as the MultiPASS MP700/MP730 high-speed multifunction inkjet systems. As a result, despite the adverse effect of severe price competition, sales of computer peripherals in 2003 increased by 3.2%. Conversely, sales of business information products, including computers, micrographics and calculators, decreased by 16.1% due to the intentional curtailing of sales of personal computer in the domestic market. Collectively, sales of business machines in 2003 totaled ¥2,273.9 billion (US\$21,251 million), a year-on-year increase of 2.1%. In addition to cost-cutting measures and the introduction of new price-competitive products, which contributed to an improvement in the gross profit ratio, a steady increase in sales volume boosted operating profit in 2003 by 18.5% to ¥487.1 billion (US\$4,552 million).

In the camera segment, amid the continued strong demand for digital cameras worldwide, Canon launched several new compact digital cameras in 2003, including six new PowerShot-series models and three new DIGITAL ELPH-series. These new products, led by the PowerShot S400 DIGITAL ELPH, contributed greatly to an increase in sales. Canon's digital SLR cameras also enjoyed robust sales growth, bolstered by the introduction of a new product lineup, including the EOS 10D, launched in the first half of 2003, and the EOS Digital Rebel, launched in September. Sales of conventional film cameras, however, continued to slip during the term amid the increasing popularity of digital models and price competition. In the field of digital video camcorders, the six new products Canon launched during the year, including the OPTURA300, achieved healthy sales for the term. The camera segment as a whole continued to achieve significant sales growth of 34.5%, totaling ¥653.5 billion (US\$6,108 million) in 2003. Operating profit for the camera segment appreciably advanced 79.7% to ¥126.3 billion (US\$1,181 million), attributable to the rapid growth in sales of digital cameras, along with a significant improvement in the gross profit ratio, made possible through effective cost-saving initiatives.

In the optical and other products segment, sales of aligners for the production of LCDs displayed notable growth as the PC monitor industry continued its shift from CRT to LCD computer displays, and the LCD television market continued to expand, while sales of steppers, used for the production of semiconductors, also increased as the semiconductor market began to show signs of a turnaround. Accordingly, sales of optical and other products totaled ¥270.6 billion (US\$2,529 million), a year-on-year increase of 18.6%. Despite increased sales for the segment, the gross profit ratio decreased in 2003 due to severe competition in the market and a one-time expense for the disposal of inventories, resulting in an operating loss of ¥11.4 billion (US\$107 million) for the term.

Cash Flows

Cash flow from operating activities in 2003 increased by ¥16.7 billion (US\$156 million) from the previous year to ¥465.6 billion (US\$4,352 million), mainly due to the substantial increase in net income and an increase in depreciation. Capital expenditures for the period totaled ¥210.0 billion (US\$1,963 million), which was mainly to expand production capabilities in Japan and overseas. Cash flows from investing activities totaled ¥199.9 billion (US\$1,869 million), including a ¥12.7 billion (US\$119 million) outlay for the acquisition of Sumitomo Metal System Solutions Co., Ltd., now Canon System Solutions Inc. As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled ¥265.7 billion (US\$2,483 million), marking the second consecutive year that the company has maintained a free cash flow over ¥200.0 billion (US\$1,869 million).

Cash flow from financing activities recorded an outlay of ¥102.0 billion (US\$954 million) in 2003, mainly resulting from active efforts to repay short-term and long-term loans towards the goal of improving the company's financial position, including the redemption of ¥10.0 billion (US\$93 million) in debentures. Consequently, cash and cash equivalents, which totaled ¥690.3 billion (US\$6,451 million), remained at a high level, representing a ¥169.0 billion (US\$1,579 million) increase from the end of the previous year.

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Non-consolidated Results and Dividend

Canon Inc.'s non-consolidated net sales in 2003 grew by 13.1% to ¥2,023.7 billion (US\$18,913 million) while ordinary profit increased by 33.0% to ¥320.6 billion (US\$2,996 million), both representing new record highs for the company. Non-consolidated net income, however, increased significantly by 58.6% to ¥228.7 billion (US\$2,137 million), owing to a temporary gain realized through exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the Employees' Pension Fund.

In response to continued shareholder support, the Board of Directors intend to propose a ¥20.0 (US\$0.19) increase in the company's year-end dividend to ¥35.00 (US\$0.33) which, when combined with the interim dividend of ¥15.00 (US\$0.14), would bring the company's annual dividend rate to ¥50.00 (US\$0.47) per share.

Outlook

Regarding the outlook for the global economy, the U.S. economy is likely to continue its course toward recovery. The Japanese and European economies are also expected to show a moderate recovery owing to the growth in the U.S., while the economies of China and Southeast Asia will probably sustain substantial growth. While the global economy in general appears to be headed toward recovery, uncertainties are likely to continue due to concern over such issues as the postwar handling of Iraq and the appreciation of the yen against U.S. dollar.

In the businesses in which Canon is involved, the digital camera market is expected to continue enjoying rapid growth and stable demand is projected for color-model network digital MFDs and laser beam printers. Additionally, in the semiconductor-production equipment market, a pickup in capital spending by chipmakers is anticipated while orders for aligners by LCD manufacturers are expected to rise steadily.

In fiscal 2004 Canon anticipates consolidated net sales of ¥3,330.0 billion (US\$31,121 million), consolidated income before income taxes of ¥470.0 billion (US\$4,393 million), and consolidated net income of ¥286.0 billion (US\$2,673 million). The company also forecasts non-consolidated net sales of ¥2,170.0 billion (US\$20,280 million), non-consolidated ordinary profit of ¥338.0 billion (US\$3,159 million), and non-consolidated net income of ¥217.0 billion (US\$2,028 million). These forecasts assume currency exchange rates of ¥105.00 to the U.S. dollar and ¥130.00 to the euro. Although uncertainty surrounds several factors that could affect currency exchange rates, the yen is expected to be stronger against U.S. dollar by approximately 11%, and weaker against euro by approximately 2% compared with 2003.

This document contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as anticipate, believe, estimate, expect, intend, may, plan, project or should and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this document. A detailed description of these and other risk factors is included in Canon's annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

GROUP POSITION

1. NUMBER OF GROUP COMPANIES

| | <u>December 31, 2003</u> | <u>December 31, 2002</u> | <u>Change</u> |
|----------------------|------------------------------|------------------------------|---------------|
| Subsidiaries | 198 | 195 | 3 |
| Affiliated Companies | 19 | 19 | |
| Total | 217 | 214 | 3 |

2. GROUP STRUCTURE AND MAJOR GROUP COMPANIES

Notes: 1. The companies with (*) are affiliated companies (equity method).

2. Following subsidiaries are listed on domestic stock exchange.

Tokyo Stock Exchange (1st section): Canon Sales Co., Inc., Canon Electronics Inc., Canon Finetech Inc.

Tokyo Stock Exchange (2nd section): Canon Software Inc.

JASDAQ: Nisca Corporation

3. 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.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

1. CONSOLIDATED STATEMENTS OF INCOME

Result for the fourth quarter

| | Millions of yen | | | Thousands of U.S. dollars |
|--|--|---|-----------|---|
| | Three months ended December 31, 2003 | Three months ended December 31, 2002 | Change(%) | Three months ended December 31, 2003 |
| Net sales | ¥894,885 | ¥ 861,663 | +3.9 | \$ 8,363,411 |
| Cost of sales | 450,674 | 444,236 | | 4,211,906 |
| Gross profit | 444,211 | 417,427 | +6.4 | 4,151,505 |
| Selling, general and administrative expenses | 331,323 | 303,826 | | 3,096,477 |
| Operating profit | 112,888 | 113,601 | -0.6 | 1,055,028 |
| Other income (deductions): | | | | |
| Interest and dividend income | 2,577 | 2,143 | | 24,084 |
| Interest expense | (972) | (1,774) | | (9,084) |
| Other, net | 835 | (9,524) | | 7,804 |
| | 2,440 | (9,155) | | 22,804 |
| Income before income taxes | 115,328 | 104,446 | +10.4 | 1,077,832 |
| Income taxes | 37,872 | 43,776 | | 353,944 |
| Income before minority interests | 77,456 | 60,670 | | 723,888 |
| Minority interests | 2,498 | 602 | | 23,346 |
| Net income | ¥ 74,958 | ¥ 60,068 | +24.8 | \$ 700,542 |

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains and losses on securities, change in minimum pension liability adjustments and change in net gains and losses on derivative financial instruments. Comprehensive income for the three months ended December 31, 2003 and 2002 were JPY69,876 million (U.S.\$653,047 thousand) and JPY42,520 million, respectively.

Result for the fiscal year

| | Millions of yen | | | Thousands of U.S. dollars |
|---------------|------------------------------------|------------------------------------|-----------|------------------------------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Change(%) | Year ended December 31, 2003 |
| Net sales | ¥3,198,072 | ¥ 2,940,128 | + 8.8 | \$ 29,888,523 |
| Cost of sales | 1,589,172 | 1,540,097 | | 14,852,075 |

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| | | | | |
|--|------------------|-----------|-------|---------------------|
| Gross profit | 1,608,900 | 1,400,031 | +14.9 | 15,036,448 |
| Selling, general and administrative expenses | 1,154,476 | 1,053,672 | | 10,789,495 |
| Operating profit | 454,424 | 346,359 | +31.2 | 4,246,953 |
| Other income (deductions): | | | | |
| Interest and dividend income | 9,284 | 9,198 | | 86,766 |
| Interest expense | (4,627) | (6,788) | | (43,243) |
| Other, net | (10,911) | (18,752) | | (101,971) |
| | (6,254) | (16,342) | | (58,448) |
| Income before income taxes | 448,170 | 330,017 | +35.8 | 4,188,505 |
| Income taxes | 162,653 | 134,703 | | 1,520,122 |
| Income before minority interests | 285,517 | 195,314 | | 2,668,383 |
| Minority interests | 9,787 | 4,577 | | 91,467 |
| Net income | ¥ 275,730 | ¥ 190,737 | +44.6 | \$ 2,576,916 |

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains and losses on securities, change in minimum pension liability adjustments and change in net gains and losses on derivative financial instruments. Comprehensive income for the years ended December 31, 2003 and 2002 were JPY298,922 million (U.S.\$2,793,664 thousand) and JPY159,438 million, respectively.

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CANON INC. AND SUBSIDIARIES

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2. DETAILS OF SALES

Result for the fourth quarter

| Sales by product | Millions of yen | | | Thousands of U.S. dollars |
|--------------------------------------|--|---|-----------|---|
| | Three months ended December 31, 2003 | Three months ended December 31, 2002 | Change(%) | Three months ended December 31, 2003 |
| Business machines: | | | | |
| <i>Office imaging products</i> | ¥276,475 | ¥ 271,247 | +1.9 | \$ 2,583,878 |
| <i>Computer peripherals</i> | 296,220 | 328,063 | -9.7 | 2,768,411 |
| <i>Business information products</i> | 29,201 | 34,119 | -14.4 | 272,907 |
| | 601,896 | 633,429 | -5.0 | 5,625,196 |
| Cameras | 213,984 | 158,504 | +35.0 | 1,999,850 |
| Optical and other products | 79,005 | 69,730 | +13.3 | 738,365 |
| Total | ¥894,885 | ¥ 861,663 | +3.9 | \$ 8,363,411 |

| Sales by region | Millions of yen | | | Thousands of U.S. dollars |
|--------------------|--|---|-----------|---|
| | Three months ended December 31, 2003 | Three months ended December 31, 2002 | Change(%) | Three months ended December 31, 2003 |
| Japan | ¥227,953 | ¥ 202,242 | +12.7 | \$ 2,130,402 |
| Overseas: | | | | |
| <i>Americas</i> | 282,579 | 302,072 | -6.5 | 2,640,925 |
| <i>Europe</i> | 278,323 | 258,288 | +7.8 | 2,601,150 |
| <i>Other areas</i> | 106,030 | 99,061 | +7.0 | 990,934 |
| | 666,932 | 659,421 | +1.1 | 6,233,009 |
| Total | ¥894,885 | ¥ 861,663 | +3.9 | \$ 8,363,411 |

Result for the fiscal year

| Sales by product | Millions of yen | | | Thousands of U.S. dollars |
|------------------|------------------------------------|------------------------------------|-----------|------------------------------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Change(%) | Year ended December 31, 2003 |

| | | | | |
|-------------------------------|-------------------|--------------------|-------------|----------------------|
| Business machines: | | | | |
| Office imaging products | ¥1,061,099 | ¥ 1,023,131 | +3.7 | \$ 9,916,813 |
| Computer peripherals | 1,089,312 | 1,055,956 | +3.2 | 10,180,486 |
| Business information products | 123,493 | 147,108 | -16.1 | 1,154,140 |
| | 2,273,904 | 2,226,195 | +2.1 | 21,251,439 |
| Cameras | 653,540 | 485,778 | +34.5 | 6,107,850 |
| Optical and other products | 270,628 | 228,155 | +18.6 | 2,529,234 |
| | ¥3,198,072 | ¥ 2,940,128 | +8.8 | \$ 29,888,523 |

| Sales by region | Millions of yen | | | Thousands of U.S. dollars |
|-----------------|------------------------------|------------------------------|-------------|------------------------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Change(%) | Year ended December 31, 2003 |
| Japan | ¥ 801,400 | ¥ 732,551 | +9.4 | \$ 7,489,719 |
| Overseas: | | | | |
| Americas | 1,045,166 | 1,010,166 | +3.5 | 9,767,907 |
| Europe | 969,042 | 857,167 | +13.1 | 9,056,467 |
| Other areas | 382,464 | 340,244 | +12.4 | 3,574,430 |
| | 2,396,672 | 2,207,577 | +8.6 | 22,398,804 |
| Total | ¥3,198,072 | ¥ 2,940,128 | +8.8 | \$ 29,888,523 |

Notes:

Effective 1st quarter of fiscal 2003, Canon has revised the product categories contained within the Business machines segment. The new categories are: Office imaging products, Computer peripherals, and Business information products. Accordingly, previous year's sales for each category have been restated in accordance with the changes.

- The primary products included in each of the product segments are as follows:
Business machines:
Office imaging products : Office network digital multifunction devices (MFDs) / Color network digital MFDs /
Office copying machines / Personal-use copying machines / Full-color copying machines / etc.
Computer peripherals : Laser beam printers / Inkjet printers / Inkjet multifunction

Office

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peripherals / Image
scanners / etc.
Business
information products
: Computer
information systems /
Micrographic
equipment / Personal
information products
/ etc.

Cameras : SLR cameras / Compact
cameras / Digital cameras / Digital video
camcorders / etc. Optical and other
products : Semiconductor production
equipment / Mirror projection mask
aligners for LCD panels /

Broadcasting
equipment / Medical equipment /
Components / etc. 2. The countries and
regions included in each regional category
are as follows: Americas: United States
of America, Canada, Latin America /
Europe: England, Germany, France,
Netherlands / Other Areas: Asian
regions, China, Oceania

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CANON INC. AND SUBSIDIARIES

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3. SEGMENT INFORMATION BY PRODUCT

Result for the fourth quarter

| | Millions of yen | | | Thousands of U.S. dollars |
|------------------------------------|--|---|-----------|---|
| | Three months ended December 31, 2003 | Three months ended December 31, 2002 | Change(%) | Three months ended December 31, 2003 |
| Business machines: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥601,896 | ¥ 633,429 | -5.0 | \$ 5,625,196 |
| Intersegment | | | | |
| Total | 601,896 | 633,429 | -5.0 | 5,625,196 |
| Operating cost and expenses | 475,621 | 503,717 | -5.6 | 4,445,056 |
| Operating profit | 126,275 | 129,712 | -2.6 | 1,180,140 |
| Cameras: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥213,984 | ¥ 158,504 | +35.0 | \$ 1,999,850 |
| Intersegment | | | | |
| Total | 213,984 | 158,504 | +35.0 | 1,999,850 |
| Operating cost and expenses | 176,155 | 136,437 | +29.1 | 1,646,308 |
| Operating profit | 37,829 | 22,067 | +71.4 | 353,542 |
| Optical and other products: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 79,005 | ¥ 69,730 | +13.3 | \$ 738,365 |
| Intersegment | 30,729 | 37,248 | -17.5 | 287,187 |
| Total | 109,734 | 106,978 | +2.6 | 1,025,552 |
| Operating cost and expenses | 116,404 | 107,215 | +8.6 | 1,087,888 |
| Operating profit | (6,670) | (237) | | (62,336) |
| Corporate and Eliminations: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ |
| Intersegment | (30,729) | (37,248) | | (287,187) |

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| | | | | |
|-----------------------------|-----------------|------------------|-----------------|---------------------|
| Total | <u>(30,729)</u> | <u>(37,248)</u> | | <u>(287,187)</u> |
| Operating cost and expenses | <u>13,817</u> | <u>693</u> | <u>+1,893.8</u> | <u>129,131</u> |
| Operating profit | <u>(44,546)</u> | <u>(37,941)</u> | | <u>(416,318)</u> |
| Consolidated: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | <u>¥894,885</u> | <u>¥ 861,663</u> | <u>+3.9</u> | <u>\$ 8,363,411</u> |
| Intersegment | | | | |
| Total | <u>894,885</u> | <u>861,663</u> | <u>+3.9</u> | <u>8,363,411</u> |
| Operating cost and expenses | <u>781,997</u> | <u>748,062</u> | <u>+4.5</u> | <u>7,308,383</u> |
| Operating profit | <u>112,888</u> | <u>113,601</u> | <u>-0.6</u> | <u>1,055,028</u> |

Note: General corporate expenses of JPY44,547 million (U.S.\$416,327 thousand) and JPY37,908 million in the three months ended December 31, 2003 and 2002, respectively, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

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Result for the fiscal year

| | Millions of yen | | | Thousands of U.S. dollars |
|------------------------------------|------------------------------------|------------------------------------|--------------|------------------------------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Change(%) | Year ended December 31, 2003 |
| Business Machines: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥2,273,904 | ¥ 2,226,195 | +2.1 | \$ 21,251,439 |
| Intersegment | | | | |
| Total | 2,273,904 | 2,226,195 | +2.1 | 21,251,439 |
| Operating cost and expenses | 1,786,808 | 1,815,179 | -1.6 | 16,699,140 |
| Operating profit | 487,096 | 411,016 | +18.5 | 4,552,299 |
| Assets | 1,260,790 | 1,296,829 | -2.8 | 11,783,084 |
| Depreciations and amortization | 118,556 | 106,865 | +10.9 | 1,108,000 |
| Capital expenditure | 105,700 | 104,877 | +0.8 | 987,850 |
| Cameras: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 653,540 | ¥ 485,778 | +34.5 | \$ 6,107,850 |
| Intersegment | | | | |
| Total | 653,540 | 485,778 | +34.5 | 6,107,850 |
| Operating cost and expenses | 527,222 | 415,488 | +26.9 | 4,927,308 |
| Operating profit | 126,318 | 70,290 | +79.7 | 1,180,542 |
| Assets | 317,672 | 263,532 | +20.5 | 2,968,897 |
| Depreciations and amortization | 17,712 | 14,118 | +25.5 | 165,533 |
| Capital expenditure | 25,894 | 15,627 | +65.7 | 242,000 |
| Optical and Other Products: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 270,628 | ¥ 228,155 | +18.6 | \$ 2,529,234 |
| Intersegment | 141,718 | 139,608 | +1.5 | 1,324,467 |
| Total | 412,346 | 367,763 | +12.1 | 3,853,701 |
| Operating cost and expenses | 423,760 | 379,415 | +11.7 | 3,960,374 |
| Operating profit | (11,414) | (11,652) | | (106,673) |

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| | | | | |
|------------------------------------|------------|-------------|-------|---------------|
| Assets | 418,208 | 338,377 | +23.6 | 3,908,486 |
| Depreciations and amortization | 20,526 | 19,817 | +3.6 | 191,832 |
| Capital expenditure | 31,483 | 23,767 | +32.5 | 294,234 |
| Corporate and Eliminations: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ |
| Intersegment | (141,718) | (139,608) | | (1,324,467) |
| Total | (141,718) | (139,608) | | (1,324,467) |
| Operating cost and expenses | 5,858 | (16,313) | | 54,748 |
| Operating profit | (147,576) | (123,295) | | (1,379,215) |
| Assets | 1,185,478 | 1,043,968 | +13.6 | 11,079,234 |
| Depreciations and amortization | 26,810 | 24,460 | +9.6 | 250,560 |
| Capital expenditure | 46,961 | 54,431 | -13.7 | 438,888 |
| Consolidated: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥3,198,072 | ¥ 2,940,128 | +8.8 | \$ 29,888,523 |
| Intersegment | | | | |
| Total | 3,198,072 | 2,940,128 | +8.8 | 29,888,523 |
| Operating cost and expenses | 2,743,648 | 2,593,769 | +5.8 | 25,641,570 |
| Operating profit | 454,424 | 346,359 | +31.2 | 4,246,953 |
| Assets | 3,182,148 | 2,942,706 | +8.1 | 29,739,701 |
| Depreciations and amortization | 183,604 | 165,260 | +11.1 | 1,715,925 |
| Capital expenditure | 210,038 | 198,702 | +5.7 | 1,962,972 |

Notes:

1. General corporate expenses of JPY147,616 million (U.S.\$1,379,589 thousand) and JPY123,193 million in the years ended December 31, 2003 and 2002, respectively, are included in Corporate and Eliminations.
2. Corporate assets of JPY1,185,506 million (U.S.\$11,079,495 thousand) and JPY1,044,036 million as of December 31, 2003 and 2002, respectively, which mainly consist of cash and cash equivalents, marketable securities and corporate properties, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. SEGMENT INFORMATION BY GEOGRAPHIC AREA

Result for the fiscal year

| | Millions of yen | | | Thousands of U.S. dollars |
|-----------------------------|------------------------------------|------------------------------------|--------------|---------------------------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Change(%) | Year ended December 31, 2003 |
| Japan: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 856,851 | ¥ 789,066 | +8.6 | \$ 8,007,953 |
| Intersegment | 1,662,172 | 1,475,091 | +12.7 | 15,534,318 |
| Total | 2,519,023 | 2,264,157 | +11.3 | 23,542,271 |
| Operating cost and expenses | 2,025,442 | 1,867,817 | +8.4 | 18,929,365 |
| Operating profit | 493,581 | 396,340 | +24.5 | 4,612,906 |
| Assets | 1,600,726 | 1,485,238 | +7.8 | 14,960,056 |
| Americas: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 1,044,998 | ¥ 1,007,572 | +3.7 | \$ 9,766,337 |
| Intersegment | 8,101 | 9,791 | -17.3 | 75,710 |
| Total | 1,053,099 | 1,017,363 | +3.5 | 9,842,047 |
| Operating cost and expenses | 998,492 | 969,542 | +3.0 | 9,331,701 |
| Operating profit | 54,607 | 47,821 | +14.2 | 510,346 |
| Assets | 306,140 | 346,021 | -11.5 | 2,861,121 |
| Europe: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 968,938 | ¥ 852,931 | +13.6 | \$ 9,055,495 |
| Intersegment | 3,861 | 4,639 | -16.8 | 36,084 |
| Total | 972,799 | 857,570 | +13.4 | 9,091,579 |
| Operating cost and expenses | 946,282 | 836,341 | +13.1 | 8,843,757 |
| Operating profit | 26,517 | 21,229 | +24.9 | 247,822 |
| Assets | 546,625 | 460,521 | +18.7 | 5,108,645 |
| Others: | | | | |
| Net sales: | | | | |

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| | | | | |
|------------------------------------|--------------------|--------------------|--------------|---------------------|
| Unaffiliated customers | ¥ 327,285 | ¥ 290,559 | +12.6 | \$ 3,058,738 |
| Intersegment | 503,119 | 426,914 | +17.9 | 4,702,047 |
| Total | 830,404 | 717,473 | +15.7 | 7,760,785 |
| Operating cost and expenses | 806,281 | 699,420 | +15.3 | 7,535,336 |
| Operating profit | 24,123 | 18,053 | +33.6 | 225,449 |
| Assets | 249,755 | 202,388 | +23.4 | 2,334,159 |
| Corporate and Eliminations: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ |
| Intersegment | (2,177,253) | (1,916,435) | | (20,348,159) |
| Total | (2,177,253) | (1,916,435) | | (20,348,159) |
| Operating cost and expenses | (2,032,849) | (1,779,351) | | (18,998,589) |
| Operating profit | (144,404) | (137,084) | | (1,349,570) |
| Assets | 478,902 | 448,538 | +6.8 | 4,475,720 |
| Consolidated: | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 3,198,072 | ¥ 2,940,128 | +8.8 | \$ 29,888,523 |
| Intersegment | | | | |
| Total | 3,198,072 | 2,940,128 | +8.8 | 29,888,523 |
| Operating cost and expenses | 2,743,648 | 2,593,769 | +5.8 | 25,641,570 |
| Operating profit | 454,424 | 346,359 | +31.2 | 4,246,953 |
| Assets | 3,182,148 | 2,942,706 | +8.1 | 29,739,701 |

Notes:

1. General corporate expenses of JPY147,616 million (U.S.\$1,379,589 thousand) and JPY123,193 million in the years ended December 31, 2003 and 2002, respectively, are included in Corporate and Eliminations.
2. Corporate assets of JPY1,185,506 million (U.S.\$11,079,495 thousand) and JPY1,044,036 million as of December 31, 2003 and 2002, respectively, which mainly consist of cash and cash equivalents, marketable securities and corporate properties, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

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5. CONSOLIDATED BALANCE SHEETS

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-------------------------------|-------------------------------|------------|------------------------------|
| | As of December 31, 2003 | As of December 31, 2002 | Change | As of December 31, 2003 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥ 690,298 | ¥ 521,271 | ¥ 169,027 | \$ 6,451,383 |
| Marketable securities | 1,324 | 7,255 | (5,931) | 12,374 |
| Trade receivables | 539,006 | 498,587 | 40,419 | 5,037,439 |
| Inventories | 444,244 | 432,251 | 11,993 | 4,151,813 |
| Prepaid expenses and other current assets | 255,905 | 245,610 | 10,295 | 2,391,636 |
| Total current assets | 1,930,777 | 1,704,974 | 225,803 | 18,044,645 |
| Noncurrent receivables | 16,543 | 20,568 | (4,025) | 154,607 |
| Investments | 78,912 | 64,037 | 14,875 | 737,495 |
| Net property, plant and equipment | 846,433 | 830,304 | 16,129 | 7,910,589 |
| Other assets | 309,483 | 322,823 | (13,340) | 2,892,365 |
| Total assets | ¥3,182,148 | ¥ 2,942,706 | ¥ 239,442 | \$ 29,739,701 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term loans | ¥ 39,136 | ¥ 66,754 | ¥ (27,618) | \$ 365,757 |
| Trade payables | 391,181 | 408,464 | (17,283) | 3,655,897 |
| Income taxes | 83,064 | 80,169 | 2,895 | 776,299 |
| Accrued expenses | 193,657 | 154,621 | 39,036 | 1,809,879 |
| Other current liabilities | 120,265 | 91,832 | 28,433 | 1,123,972 |
| Total current liabilities | 827,303 | 801,840 | 25,463 | 7,731,804 |
| Long-term debt, excluding current installments | 59,260 | 81,349 | (22,089) | 553,832 |
| Accrued pension and severance cost | 238,001 | 285,129 | (47,128) | 2,224,308 |
| Other noncurrent liabilities | 30,843 | 26,193 | 4,650 | 288,252 |
| Total liabilities | 1,155,407 | 1,194,511 | (39,104) | 10,798,196 |
| Minority interests | 161,196 | 156,245 | 4,951 | 1,506,505 |
| Stockholders' equity: | | | | |
| Common stock | 168,892 | 167,242 | 1,650 | 1,578,430 |
| Additional paid-in capital | 396,939 | 394,088 | 2,851 | 3,709,710 |
| Retained earnings | 1,450,440 | 1,203,248 | 247,192 | 13,555,514 |
| Accumulated other comprehensive income (loss) | (143,275) | (166,467) | 23,192 | (1,339,019) |
| Treasury stock | (7,451) | (6,161) | (1,290) | (69,635) |
| Total stockholders' equity | 1,865,545 | 1,591,950 | 273,595 | 17,435,000 |
| Total liabilities and stockholders' equity | ¥3,182,148 | ¥ 2,942,706 | ¥ 239,442 | \$ 29,739,701 |

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| | Millions of yen | | Thousands of U.S. dollars |
|--|-------------------------------|-------------------------------|-------------------------------|
| | As of December 31, 2003 | As of December 31, 2002 | As of December 31, 2003 |
| Allowance for doubtful receivables | ¥ 14,423 | ¥ 12,031 | \$ 134,794 |
| Accumulated depreciation | 1,118,183 | 1,077,694 | 10,450,308 |
| Accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (83,801) | (68,524) | (783,187) |
| Net unrealized gains and losses on securities | 6,784 | (1,168) | 63,402 |
| Minimum pension liability adjustments | (65,961) | (96,441) | (616,458) |
| Net gains and losses on derivative financial instruments | (297) | (334) | (2,776) |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

6. CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Year ended December 31, 2003 |
| Balance at beginning of period | ¥1,203,248 | ¥ 1,036,178 | \$ 11,245,308 |
| Net income | 275,730 | 190,737 | 2,576,916 |
| Cash dividends | (28,538) | (23,663) | (266,710) |
| Other | | (4) | |
| Balance at end of period | ¥1,450,440 | ¥ 1,203,248 | \$ 13,555,514 |

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars |
|---|------------------------------------|------------------------------------|------------------------------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Year ended December 31, 2003 |
| Net income | ¥ 275,730 | ¥ 190,737 | \$ 2,576,916 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 183,604 | 165,260 | 1,715,925 |
| Loss on disposal of property, plant and equipment | 12,639 | 13,137 | 118,122 |
| Deferred income taxes | (3,035) | (1,788) | (28,364) |
| Increase in trade receivables | (36,638) | (47,077) | (342,411) |
| Decrease (increase) in inventories | (15,823) | 14,029 | (147,879) |
| Increase in trade payables | 1,129 | 64,040 | 10,551 |
| Increase in income taxes | 3,441 | 14,935 | 32,159 |
| Increase in accrued expenses | 37,131 | 12,901 | 347,019 |
| Other, net | 7,471 | 22,776 | 69,822 |
| Net cash provided by operating activities | 465,649 | 448,950 | 4,351,860 |
| Cash flows from investing activities: | | | |
| Capital expenditure | (210,038) | (198,702) | (1,962,972) |
| Proceeds from sale of property, plant and equipment | 9,354 | 11,971 | 87,420 |
| Payment for purchase of available-for-sale securities | (249) | (2,751) | (2,327) |
| Proceeds from sale of available-for-sale securities | 6,544 | 1,099 | 61,159 |
| Payment for purchase of other investments | (24,341) | (30,331) | (227,486) |
| Other | 18,782 | (11,506) | 175,533 |
| Net cash used in investing activities | (199,948) | (230,220) | (1,868,673) |
| Cash flows from financing activities: | | | |
| Proceeds from long-term debt | 4,132 | 10,609 | 38,617 |
| Repayment of long-term debt | (25,301) | (60,690) | (236,458) |
| Decrease in short-term loans | (49,224) | (101,125) | (460,037) |
| Dividends paid | (28,538) | (23,663) | (266,710) |

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| | | | |
|--|-------------------|-------------------|---------------------|
| Other | (3,108) | (8,845) | (29,048) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in financing activities | (102,039) | (183,714) | (953,636) |
| Effect of exchange rate changes on cash and cash equivalents | 5,365 | (19,979) | 50,140 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net change in cash and cash equivalents | 169,027 | 15,037 | 1,579,691 |
| Cash and cash equivalents at beginning of year | 521,271 | 506,234 | 4,871,692 |
| | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of year | ¥ 690,298 | ¥ 521,271 | \$ 6,451,383 |
| | <u> </u> | <u> </u> | <u> </u> |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) CHANGES IN GROUP OF ENTITIES

Subsidiaries

Addition: Fukushima Canon Inc. and 13 other companies

Removal: Copyer Co., Ltd. and 10 other companies

- Notes:
1. Fukushima Canon Inc. was established as a wholly owned subsidiary in April 2003 through the spin-off of Fukushima Plant.
 2. Copyer Co., Ltd. have merged with Canon Aptex Inc. and became as Canon Finetech Inc. on January 1, 2003.

Affiliates (Carried at Equity Basis)

Addition: 2 companies

Removal: 2 companies

(2) SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial information reflect the adjustments which management believes are necessary to conform them with accounting principles generally accepted in the United States of America, except for the segment information, as required by Statement of Financial Accounting Standards No.131, Disclosures about Segments of an Enterprise and Related Information.

1. Marketable Securities and Marketable Investments

Canon's consolidated financial information are based on Statement of Financial Accounting Standards No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities. Under SFAS 115, certain investments in debt and equity securities should be classified as trading, available-for-sale or held-to-maturity. Canon's marketable securities and marketable investments consist of available-for-sale securities.

Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized.

2. Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average method for domestic inventories and the first-in, first-out method for overseas inventories.

3. Depreciation

Depreciation is calculated principally by the declining-balance method over the estimated useful lives of assets.

4. Employee Retirement and Severance Benefits

Canon has adopted Statement of Financial Accounting Standards No. 87 (SFAS 87), Employer's Accounting for Pensions.

5. New Accounting Standards

In March 2003, the Emerging Issue Task Force (EITF) reached a final consensus on EITF 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor. Canon adopted EITF 02-16 on January 1, 2003. The adoption of EITF 02-16 did not have a material effect on Canon's consolidated financial position and results of operations.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.146 (SFAS 146), Accounting for Costs Associated with Exit or Disposal Activities. Canon adopted the provisions of SFAS 146 on January 1, 2003. The

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adoption of SFAS 146 did not have a material effect on Canon's consolidated financial position and results of operations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

9. MARKETABLE SECURITIES AND DERIVATIVE CONTRACTS

(1) MARKET VALUE ON MARKETABLE SECURITIES

Millions of yen

| | As of December 31, 2003 | | | As of December 31, 2002 | | |
|---|-------------------------|----------------------|-------------------------|-------------------------|----------------------|-------------------------|
| | Acquisition Cost | Estimated Fair Value | Unrealized Gains/Losses | Acquisition Cost | Estimated Fair Value | Unrealized Gains/Losses |
| Current: | | | | | | |
| Available-for-sale: | | | | | | |
| Japanese and foreign governmental bond securities | ¥ 65 | ¥ 61 | ¥ (4) | ¥ 59 | ¥ 61 | ¥ 2 |
| Corporate debt securities | 7 | 7 | 0 | 5,698 | 5,728 | 30 |
| Bank debt securities | 71 | 71 | 0 | 91 | 91 | 0 |
| Fund trust | 51 | 63 | 12 | 220 | 310 | 90 |
| Equity securities | 1,044 | 1,122 | 78 | 1,194 | 1,065 | (129) |
| | <u>¥ 1,238</u> | <u>¥ 1,324</u> | <u>¥ 86</u> | <u>¥ 7,262</u> | <u>¥ 7,255</u> | <u>¥ (7)</u> |
| Noncurrent: | | | | | | |
| Available-for-sale: | | | | | | |
| Japanese and foreign governmental bond securities | ¥ 243 | ¥ 238 | ¥ (5) | ¥ 220 | ¥ 227 | ¥ 7 |
| Corporate debt securities | 5,141 | 5,194 | 53 | 5,149 | 5,173 | 24 |
| Bank debt securities | | | | 150 | 150 | 0 |
| Fund trust | 2,047 | 2,502 | 455 | 2,302 | 2,109 | (193) |
| Equity securities | 6,525 | 21,855 | 15,330 | 5,263 | 7,011 | 1,748 |
| | <u>¥ 13,956</u> | <u>¥ 29,789</u> | <u>¥ 15,833</u> | <u>¥ 13,084</u> | <u>¥ 14,670</u> | <u>¥ 1,586</u> |

Thousands of U.S. dollars

| | As of December 31, 2003 | | |
|---|-------------------------|----------------------|-------------------------|
| | Acquisition Cost | Estimated Fair Value | Unrealized Gains/Losses |
| Current: | | | |
| Available-for-sale: | | | |
| Japanese and foreign governmental bond securities | \$ 607 | \$ 570 | \$ (37) |
| Corporate debt securities | 65 | 65 | 0 |
| Bank debt securities | 664 | 664 | 0 |
| Fund trust | 477 | 589 | 112 |
| Equity securities | 9,757 | 10,486 | 729 |
| | <u>\$ 11,570</u> | <u>\$ 12,374</u> | <u>\$ 804</u> |

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Noncurrent:

Available-for-sale:

| | | | |
|---|-------------------|-------------------|-------------------|
| Japanese and foreign governmental bond securities | \$ 2,271 | \$ 2,224 | \$ (47) |
| Corporate debt securities | 48,047 | 48,542 | 495 |
| Bank debt securities | | | |
| Fund trust | 19,131 | 23,383 | 4,252 |
| Equity securities | 60,981 | 204,253 | 143,272 |
| | <u>\$ 130,430</u> | <u>\$ 278,402</u> | <u>\$ 147,972</u> |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

(2) DERIVATIVE CONTRACTS

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|-------------------------|----------------------|-------------------------|----------------------|---------------------------|----------------------|
| | As of December 31, 2003 | | As of December 31, 2002 | | As of December 31, 2003 | |
| | Contract Amount | Estimated Fair Value | Contract Amount | Estimated Fair Value | Contract Amount | Estimated Fair Value |
| Trade receivables and anticipated sales transactions: | | | | | | |
| To sell foreign currencies | ¥447,543 | ¥ (2,796) | ¥ 422,796 | ¥ 1,490 | \$ 4,182,645 | \$ (26,131) |
| To buy foreign currencies | 22,384 | (1,141) | 6,652 | (391) | 209,196 | (10,664) |
| Long-term debt (including due within a year): | | | | | | |
| Interest rate swaps: | | | | | | |
| Receive-fixed | ¥ 1,337 | ¥ 0 | ¥ 180 | ¥ 1 | \$ 12,495 | \$ 0 |
| Pay-fixed | 21,227 | (55) | 57,270 | (1,149) | 198,383 | (514) |

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CANON INC.

NON-CONSOLIDATED

1. NON-CONSOLIDATED STATEMENTS OF INCOME
(Parent company only)

| | Millions of yen | | Change (%) |
|--|------------------------------------|------------------------------------|------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | |
| Net sales | ¥ 2,023,722 | ¥ 1,789,005 | + 13.1 |
| Cost of sales | 1,250,336 | 1,149,326 | |
| Gross profit | 773,386 | 639,679 | + 20.9 |
| Selling, general and administrative expenses | 453,347 | 402,485 | |
| Operating profit | 320,039 | 237,193 | + 34.9 |
| Other income (deductions): | | | |
| Interest and dividend income | 9,950 | 10,543 | |
| Interest expense | (258) | (282) | |
| Other, net | (9,115) | (6,470) | |
| | 577 | 3,789 | |
| Ordinary profit | 320,616 | 240,982 | + 33.0 |
| Non-ordinary loss, net | (40,134) | 8,693 | |
| Income before income taxes | 360,750 | 232,289 | |
| Income taxes | 132,083 | 88,105 | |
| Net income | ¥ 228,667 | ¥ 144,184 | + 58.6 |
| Earnings per share: | Yen | | |
| Basic | ¥ 260.03 | ¥ 164.46 | |

2. DETAILS OF SALES
(Parent company only)

Sales by product

| | Millions of yen | | Change (%) |
|-------------------------|------------------------------------|------------------------------------|------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | |
| Business machines: | | | |
| Office Imaging Products | ¥ 475,880 | ¥ 455,888 | + 4.4 |
| Computer peripherals | 920,129 | 882,792 | + 4.2 |

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| | | | |
|----------------------------|--------------------|-------------------|-------------------|
| | 1,396,009 | 1,338,680 | + 4.3 |
| Cameras | 486,260 | 346,433 | + 40.4 |
| Optical and other products | 141,453 | 103,890 | + 36.2 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | ¥ 2,023,722 | ¥ 1,789,005 | + 13.1 |
| | <u> </u> | <u> </u> | <u> </u> |

Sales by region

| | Millions of yen | | |
|--------------------|------------------------------------|------------------------------------|-------------------|
| | Year ended December 31, 2003 | Year ended December 31, 2002 | Change (%) |
| | <u> </u> | <u> </u> | <u> </u> |
| Japan | ¥ 338,965 | ¥ 298,905 | + 13.4 |
| Overseas: | | | |
| <i>Americas</i> | 733,713 | 686,119 | + 6.9 |
| <i>Europe</i> | 659,181 | 562,156 | + 17.3 |
| <i>Other areas</i> | 291,863 | 241,822 | + 20.7 |
| | <u> </u> | <u> </u> | <u> </u> |
| | 1,684,757 | 1,490,099 | + 13.1 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | ¥ 2,023,722 | ¥ 1,789,005 | + 13.1 |
| | <u> </u> | <u> </u> | <u> </u> |

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CANON INC.

NON-CONSOLIDATED

3. NON-CONSOLIDATED BALANCE SHEETS
(Parent company only)

| | Millions of yen | | |
|--|-------------------------------|-------------------------------|------------------|
| | As of December 31, 2003 | As of December 31, 2002 | Change |
| ASSETS | | | |
| Current assets: | | | |
| Cash | ¥ 197,700 | ¥ 64,262 | ¥ 133,438 |
| Trade receivables | 650,935 | 577,372 | 73,563 |
| Marketable securities | 63 | 474 | (411) |
| Inventories | 178,687 | 176,305 | 2,382 |
| Prepaid expenses and other current assets | 131,089 | 144,653 | (13,564) |
| Allowance for doubtful accounts | (7,046) | (10,986) | 3,940 |
| Total current assets | 1,151,428 | 952,082 | 199,346 |
| Fixed assets: | | | |
| Net property, plant and equipment | 461,971 | 440,501 | 21,470 |
| Intangibles | 19,422 | 27,668 | (8,246) |
| Investments | 426,536 | 427,937 | (1,401) |
| Allowance for doubtful accounts | (40) | (52) | 12 |
| Total fixed assets | 907,889 | 896,054 | 11,835 |
| Total assets | ¥ 2,059,317 | ¥ 1,848,136 | ¥ 211,181 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Trade payables | ¥ 281,208 | ¥ 279,901 | ¥ 1,307 |
| Short-term loans | 49,603 | 53,772 | (4,169) |
| Income taxes | 62,713 | 62,629 | 84 |
| Other current liabilities | 104,430 | 44,803 | 59,627 |
| Total current liabilities | 497,954 | 441,106 | 56,848 |
| Convertible debenture and long-term debt | 11,735 | 15,032 | (3,297) |
| Accrued pension and severance cost | 104,230 | 156,687 | (52,457) |
| Accrued directors' retirement benefit | 1,238 | | 1,238 |
| Total noncurrent liabilities | 117,203 | 171,720 | (54,517) |
| Total liabilities | 615,157 | 612,827 | 2,330 |
| Stockholders' equity: | | | |
| Common stock | 168,892 | 167,242 | 1,650 |
| Capital surplus | 300,428 | 298,778 | 1,650 |
| Retained earnings | 974,276 | 774,287 | 199,989 |
| Net unrealized gains on securities | 8,015 | 1,162 | 6,853 |

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| | | | |
|--|--------------------|--------------------|------------------|
| Treasury stock | (7,451) | (6,162) | (1,289) |
| Total stockholders' equity | <u>1,444,160</u> | <u>1,235,309</u> | <u>208,851</u> |
| Total liabilities and stockholders' equity | <u>¥ 2,059,317</u> | <u>¥ 1,848,136</u> | <u>¥ 211,181</u> |

Millions of yen

| | <u>As of December 31, 2003</u> | <u>As of December 31, 2002</u> |
|--------------------------|--|--|
| Accumulated depreciation | ¥ <u>597,270</u> | ¥ <u>575,256</u> |

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NON-CONSOLIDATED

Directors

(1) Candidates for new Directors to be appointed

| | | |
|----------|---------------------|--|
| Director | Masahiro Osawa | (Deputy Group Executive, Finance & Accounting Headquarters (present)) |
| Director | Keijiro Yamazaki | (Deputy Group Executive, Human Resources Management & Organization Headquarters (present)) |
| Director | Shunichi Uzawa | (Deputy Group Executive, SED Development Headquarters (present)) |
| Director | Masaki Nakaoka | (Deputy Chief Executive, Office Imaging Products Operations (present)) |
| Director | Toshiyuki Komatsu | (Deputy Group Executive, Leading-Edge Technology Development Headquarters (present)) |
| Director | Shigeyuki Matsumoto | (Group Executive, Device Technology Development Headquarters (present)) |
| Director | Haruhisa Honda | (Deputy Chief Executive, Chemical Products Operations (present)) |

(2) Directors to be retired

| | | |
|----------------------------|-------------------|-------------------------------------|
| Senior Management Director | Ichiro Endo | (Adviser to be appointed) |
| Senior Management Director | Akira Tajima | (Adviser to be appointed) |
| Management Director | Takashi Saito | (Adviser to be appointed) |
| Director | Teruomi Takahashi | (Corporate Auditor to be appointed) |

(3) Candidates for new Corporate Auditor to be appointed

| | | |
|-------------------|-------------------|---|
| Corporate Auditor | Teruomi Takahashi | (Director (present)) |
| Corporate Auditor | Kunihiro Nagata | (Deputy Group Executive, Corporate Planning Development Headquarters (present)) |

(4) Corporate Auditor to be retired

| | | |
|-------------------|---------------|---------------------------|
| Corporate Auditor | Kotaro Miyagi | (Adviser to be appointed) |
| Corporate Auditor | Masaharu Aono | |

(5) Candidates for Directors to be promoted

| | | |
|-------------------|-------------------|---|
| Managing Director | Hironori Yamamoto | (Director; Group Executive, Core Technology Development Headquarters (present)) |
|-------------------|-------------------|---|

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CONSOLIDATED FINANCIAL RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 31, 2003

SUPPLEMENTARY REPORT

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This document contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as anticipate, believe, estimate, expect, intend, may, plan, project or should and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this document. A detailed description of these and other risk factors is included in Canon's annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

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Canon Inc.

1. SALES BY REGION AND PRODUCT (2003)

(Millions of yen)

| | 2003 | | 2002 | | Change year over year | |
|-------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Japan | | | | | | |
| Business machines | 156,006 | 566,920 | 153,789 | 550,229 | +1.4% | +3.0% |
| Office imaging products | 75,941 | 295,269 | 67,221 | 262,052 | +13.0% | +12.7% |
| Computer peripherals | 59,083 | 175,680 | 59,732 | 169,613 | -1.1% | +3.6% |
| Business information products | 20,982 | 95,971 | 26,836 | 118,564 | -21.8% | -19.1% |
| Cameras | 36,869 | 112,027 | 26,693 | 92,581 | +38.1% | +21.0% |
| Optical and other products | 35,078 | 122,453 | 21,760 | 89,741 | +61.2% | +36.5% |
| Total | 227,953 | 801,400 | 202,242 | 732,551 | +12.7% | +9.4% |
| Overseas | | | | | | |
| Business machines | 445,890 | 1,706,984 | 479,640 | 1,675,966 | -7.0% | +1.9% |
| Office imaging products | 200,534 | 765,830 | 204,026 | 761,079 | -1.7% | +0.6% |
| Computer peripherals | 237,137 | 913,632 | 268,331 | 886,343 | -11.6% | +3.1% |
| Business information products | 8,219 | 27,522 | 7,283 | 28,544 | +12.9% | -3.6% |
| Cameras | 177,115 | 541,513 | 131,811 | 393,197 | +34.4% | +37.7% |
| Optical and other products | 43,927 | 148,175 | 47,970 | 138,414 | -8.4% | +7.1% |
| Total | 666,932 | 2,396,672 | 659,421 | 2,207,577 | +1.1% | +8.6% |
| Americas | | | | | | |
| Business machines | 191,464 | 771,974 | 230,038 | 797,498 | -16.8% | -3.2% |
| Office imaging products | 93,509 | 369,786 | 96,742 | 378,804 | -3.3% | -2.4% |
| Computer peripherals | 94,085 | 388,022 | 129,469 | 403,591 | -27.3% | -3.9% |
| Business information products | 3,870 | 14,166 | 3,827 | 15,103 | +1.1% | -6.2% |
| Cameras | 84,686 | 245,019 | 62,557 | 180,454 | +35.4% | +35.8% |
| Optical and other products | 6,429 | 28,173 | 9,477 | 32,214 | -32.2% | -12.5% |
| Total | 282,579 | 1,045,166 | 302,072 | 1,010,166 | -6.5% | +3.5% |
| Europe | | | | | | |
| Business machines | 202,931 | 724,227 | 197,704 | 676,885 | +2.6% | +7.0% |
| Office imaging products | 90,327 | 325,905 | 90,325 | 315,344 | +0.0% | +3.3% |

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| | | | | | | |
|-------------------------------|---------|-----------|---------|-----------|--------|--------|
| Computer peripherals | 108,882 | 387,662 | 104,594 | 351,089 | +4.1% | +10.4% |
| Business information products | 3,722 | 10,660 | 2,785 | 10,452 | +33.6% | +2.0% |
| Cameras | 68,254 | 219,219 | 52,449 | 156,244 | +30.1% | +40.3% |
| Optical and other products | 7,138 | 25,596 | 8,135 | 24,038 | -12.3% | +6.5% |
| Total | 278,323 | 969,042 | 258,288 | 857,167 | +7.8% | +13.1% |
| Other areas | | | | | | |
| Business machines | 51,495 | 210,783 | 51,898 | 201,583 | -0.8% | +4.6% |
| Office imaging products | 16,698 | 70,139 | 16,959 | 66,931 | -1.5% | +4.8% |
| Computer peripherals | 34,170 | 137,948 | 34,268 | 131,663 | -0.3% | +4.8% |
| Business information products | 627 | 2,696 | 671 | 2,989 | -6.6% | -9.8% |
| Cameras | 24,175 | 77,275 | 16,805 | 56,499 | +43.9% | +36.8% |
| Optical and other products | 30,360 | 94,406 | 30,358 | 82,162 | +0.0% | +14.9% |
| Total | 106,030 | 382,464 | 99,061 | 340,244 | +7.0% | +12.4% |
| Total | | | | | | |
| Business machines | 601,896 | 2,273,904 | 633,429 | 2,226,195 | -5.0% | +2.1% |
| Office imaging products | 276,475 | 1,061,099 | 271,247 | 1,023,131 | +1.9% | +3.7% |
| Computer peripherals | 296,220 | 1,089,312 | 328,063 | 1,055,956 | -9.7% | +3.2% |
| Business information products | 29,201 | 123,493 | 34,119 | 147,108 | -14.4% | -16.1% |
| Cameras | 213,984 | 653,540 | 158,504 | 485,778 | +35.0% | +34.5% |
| Optical and other products | 79,005 | 270,628 | 69,730 | 228,155 | +13.3% | +18.6% |
| Total | 894,885 | 3,198,072 | 861,663 | 2,940,128 | +3.9% | +8.8% |

(Note)

From the 1st quarter of 2003, facsimiles which included personal digital MFDs etc. based on electrophotography technology were reclassified and are now included in Copying Machines, renamed Office Imaging Products. Those products based on inkjet technology were moved to Inkjet Printers in Computer Peripherals. In connection with this adjustment, Business Systems were renamed Business Information Products. Values for the previous year are restated to conform to the reclassification.

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Canon Inc.

2. SALES BY REGION AND PRODUCT (2004/Projection)

(Millions of yen)

| | 2004 (P) | | | | 2003 | | | |
|-------------------------------|-------------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|
| | 1st quarter | 1st half | 2nd half | Year | 1st quarter | 1st half | 2nd half | Year |
| Japan | | | | | | | | |
| Business machines | 131,700 | 273,700 | 287,900 | 561,600 | 138,581 | 283,912 | 283,008 | 566,920 |
| Office imaging products | 74,000 | 153,800 | 150,500 | 304,300 | 74,173 | 151,010 | 144,259 | 295,269 |
| Computer peripherals | 37,500 | 79,900 | 98,800 | 178,700 | 37,296 | 81,171 | 94,509 | 175,680 |
| Business information products | 20,200 | 40,000 | 38,600 | 78,600 | 27,112 | 51,731 | 44,240 | 95,971 |
| Cameras | 26,900 | 57,900 | 71,100 | 129,000 | 21,574 | 46,782 | 65,245 | 112,027 |
| Optical and other products | 32,600 | 65,300 | 69,000 | 134,300 | 25,823 | 53,225 | 69,228 | 122,453 |
| Total | 191,200 | 396,900 | 428,000 | 824,900 | 185,978 | 383,919 | 417,481 | 801,400 |
| Overseas | | | | | | | | |
| Business machines | 383,100 | 798,600 | 857,300 | 1,655,900 | 412,894 | 844,046 | 862,938 | 1,706,984 |
| Office imaging products | 172,200 | 372,300 | 382,100 | 754,400 | 180,148 | 381,613 | 384,217 | 765,830 |
| Computer peripherals | 204,400 | 413,100 | 460,500 | 873,600 | 226,303 | 450,091 | 463,541 | 913,632 |
| Business information products | 6,500 | 13,200 | 14,700 | 27,900 | 6,443 | 12,342 | 15,180 | 27,522 |
| Cameras | 123,300 | 292,500 | 360,700 | 653,200 | 95,970 | 237,019 | 304,494 | 541,513 |
| Optical and other products | 39,400 | 82,000 | 114,000 | 196,000 | 36,719 | 70,604 | 77,571 | 148,175 |
| Total | 545,800 | 1,173,100 | 1,332,000 | 2,505,100 | 545,583 | 1,151,669 | 1,245,003 | 2,396,672 |
| Americas | | | | | | | | |
| Business machines | 169,600 | 349,800 | 369,600 | 719,400 | 192,654 | 390,692 | 381,282 | 771,974 |
| Office imaging products | 79,100 | 168,200 | 174,900 | 343,100 | 88,144 | 183,685 | 186,101 | 369,786 |
| Computer peripherals | 87,100 | 175,100 | 187,300 | 362,400 | 100,857 | 200,163 | 187,859 | 388,022 |
| Business information products | 3,400 | 6,500 | 7,400 | 13,900 | 3,653 | 6,844 | 7,322 | 14,166 |
| Cameras | 44,200 | 111,200 | 143,900 | 255,100 | 41,585 | 105,130 | 139,889 | 245,019 |
| | 5,900 | 11,600 | 12,000 | 23,600 | 8,581 | 15,266 | 12,907 | 28,173 |

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| | | | | | | | | |
|-------------------------------|---------|-----------|-----------|-----------|---------|-----------|-----------|-----------|
| Optical and other products | | | | | | | | |
| Total | 219,700 | 472,600 | 525,500 | 998,100 | 242,820 | 511,088 | 534,078 | 1,045,166 |
| Europe | | | | | | | | |
| Business machines | 165,100 | 345,100 | 372,800 | 717,900 | 173,391 | 353,067 | 371,160 | 724,227 |
| Office imaging products | 75,800 | 165,800 | 167,600 | 333,400 | 76,845 | 164,195 | 161,710 | 325,905 |
| Computer peripherals | 86,800 | 174,000 | 199,500 | 373,500 | 94,382 | 184,734 | 202,928 | 387,662 |
| Business information products | 2,500 | 5,300 | 5,700 | 11,000 | 2,164 | 4,138 | 6,522 | 10,660 |
| Cameras | 57,800 | 134,700 | 159,600 | 294,300 | 38,742 | 99,084 | 120,135 | 219,219 |
| Optical and other products | 4,600 | 13,900 | 15,200 | 29,100 | 4,278 | 12,368 | 13,228 | 25,596 |
| Total | 227,500 | 493,700 | 547,600 | 1,041,300 | 216,411 | 464,519 | 504,523 | 969,042 |
| Other areas | | | | | | | | |
| Business machines | 48,400 | 103,700 | 114,900 | 218,600 | 46,849 | 100,287 | 110,496 | 210,783 |
| Office imaging products | 17,300 | 38,300 | 39,600 | 77,900 | 15,159 | 33,733 | 36,406 | 70,139 |
| Computer peripherals | 30,500 | 64,000 | 73,700 | 137,700 | 31,064 | 65,194 | 72,754 | 137,948 |
| Business information products | 600 | 1,400 | 1,600 | 3,000 | 626 | 1,360 | 1,336 | 2,696 |
| Cameras | 21,300 | 46,600 | 57,200 | 103,800 | 15,643 | 32,805 | 44,470 | 77,275 |
| Optical and other products | 28,900 | 56,500 | 86,800 | 143,300 | 23,860 | 42,970 | 51,436 | 94,406 |
| Total | 98,600 | 206,800 | 258,900 | 465,700 | 86,352 | 176,062 | 206,402 | 382,464 |
| Total | | | | | | | | |
| Business machines | 514,800 | 1,072,300 | 1,145,200 | 2,217,500 | 551,475 | 1,127,958 | 1,145,946 | 2,273,904 |
| Office imaging products | 246,200 | 526,100 | 532,600 | 1,058,700 | 254,321 | 532,623 | 528,476 | 1,061,099 |
| Computer peripherals | 241,900 | 493,000 | 559,300 | 1,052,300 | 263,599 | 531,262 | 558,050 | 1,089,312 |
| Business information products | 26,700 | 53,200 | 53,300 | 106,500 | 33,555 | 64,073 | 59,420 | 123,493 |
| Cameras | 150,200 | 350,400 | 431,800 | 782,200 | 117,544 | 283,801 | 369,739 | 653,540 |
| Optical and other products | 72,000 | 147,300 | 183,000 | 330,300 | 62,542 | 123,829 | 146,799 | 270,628 |
| Total | 737,000 | 1,570,000 | 1,760,000 | 3,330,000 | 731,561 | 1,535,588 | 1,662,484 | 3,198,072 |

(Table continued below)

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(Table continued, stub repeated)

| | Change year over year | | | |
|-------------------------------|-----------------------|----------|----------|--------|
| | 1st quarter | 1st half | 2nd half | Year |
| Japan | | | | |
| Business machines | -5.0% | -3.6% | +1.7% | -0.9% |
| Office imaging products | -0.2% | +1.8% | +4.3% | +3.1% |
| Computer peripherals | +0.5% | -1.6% | +4.5% | +1.7% |
| Business information products | -25.5% | -22.7% | -12.7% | -18.1% |
| Cameras | +24.7% | +23.8% | +9.0% | +15.2% |
| Optical and other products | +26.2% | +22.7% | -0.3% | +9.7% |
| Total | +2.8% | +3.4% | +2.5% | +2.9% |
| Overseas | | | | |
| Business machines | -7.2% | -5.4% | -0.7% | -3.0% |
| Office imaging products | -4.4% | -2.4% | -0.6% | -1.5% |
| Computer peripherals | -9.7% | -8.2% | -0.7% | -4.4% |
| Business information products | +0.9% | +7.0% | -3.2% | +1.4% |
| Cameras | +28.5% | +23.4% | +18.5% | +20.6% |
| Optical and other products | +7.3% | +16.1% | +47.0% | +32.3% |
| Total | +0.0% | +1.9% | +7.0% | +4.5% |
| Americas | | | | |
| Business machines | -12.0% | -10.5% | -3.1% | -6.8% |
| Office imaging products | -10.3% | -8.4% | -6.0% | -7.2% |
| Computer peripherals | -13.6% | -12.5% | -0.3% | -6.6% |
| Business information products | -6.9% | -5.0% | +1.1% | -1.9% |
| Cameras | +6.3% | +5.8% | +2.9% | +4.1% |
| Optical and other products | -31.2% | -24.0% | -7.0% | -16.2% |
| Total | -9.5% | -7.5% | -1.6% | -4.5% |
| Europe | | | | |
| Business machines | -4.8% | -2.3% | +0.4% | -0.9% |
| Office imaging products | -1.4% | +1.0% | +3.6% | +2.3% |
| Computer peripherals | -8.0% | -5.8% | -1.7% | -3.7% |
| Business information products | +15.5% | +28.1% | -12.6% | +3.2% |
| Cameras | +49.2% | +35.9% | +32.9% | +34.2% |
| Optical and other products | +7.5% | +12.4% | +14.9% | +13.7% |

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| | | | | |
|-------------------------------|--------|--------|--------|--------|
| Total | +5.1% | +6.3% | +8.5% | +7.5% |
| Other areas | | | | |
| Business machines | +3.3% | +3.4% | +4.0% | +3.7% |
| Office imaging products | +14.1% | +13.5% | +8.8% | +11.1% |
| Computer peripherals | -1.8% | -1.8% | +1.3% | -0.2% |
| Business information products | -4.2% | +2.9% | +19.8% | +11.3% |
| Cameras | +36.2% | +42.1% | +28.6% | +34.3% |
| Optical and other products | +21.1% | +31.5% | +68.8% | +51.8% |
| Total | +14.2% | +17.5% | +25.4% | +21.8% |
| Total | | | | |
| Business machines | -6.7% | -4.9% | -0.1% | -2.5% |
| Office imaging products | -3.2% | -1.2% | +0.8% | -0.2% |
| Computer peripherals | -8.2% | -7.2% | +0.2% | -3.4% |
| Business information products | -20.4% | -17.0% | -10.3% | -13.8% |
| Cameras | +27.8% | +23.5% | +16.8% | +19.7% |
| Optical and other products | +15.1% | +19.0% | +24.7% | +22.0% |
| Total | +0.7% | +2.2% | +5.9% | +4.1% |

(P)=Projection

(Note)

From the 1st quarter of 2003, facsimiles which included personal digital MFDs etc. based on electrophotography technology were reclassified and are now included in Copying Machines, renamed Office Imaging Products. Those products based on inkjet technology were moved to Inkjet Printers in Computer Peripherals. In connection with this adjustment, Business Systems were renamed Business Information Products. Values for the previous year are restated to conform to the reclassification.

Table of Contents**3. SEGMENT INFORMATION BY PRODUCT (2003)**

| | 2003 | | 2002 | | (Millions of yen) Change year over year | |
|-----------------------------------|-------------|-----------|-------------|-----------|--|--------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| | | | | | | |
| Business machines | | | | | | |
| Unaffiliated customers | 601,896 | 2,273,904 | 633,429 | 2,226,195 | -5.0% | +2.1% |
| Intersegment | | | | | | |
| Total sales | 601,896 | 2,273,904 | 633,429 | 2,226,195 | -5.0% | +2.1% |
| Operating profit | 126,275 | 487,096 | 129,712 | 411,016 | -2.6% | +18.5% |
| % of sales | 21.0% | 21.4% | 20.5% | 18.5% | | |
| Cameras | | | | | | |
| Unaffiliated customers | 213,984 | 653,540 | 158,504 | 485,778 | +35.0% | +34.5% |
| Intersegment | | | | | | |
| Total sales | 213,984 | 653,540 | 158,504 | 485,778 | +35.0% | +34.5% |
| Operating profit | 37,829 | 126,318 | 22,067 | 70,290 | +71.4% | +79.7% |
| % of sales | 17.7% | 19.3% | 13.9% | 14.5% | | |
| Optical and other products | | | | | | |
| Unaffiliated customers | 79,005 | 270,628 | 69,730 | 228,155 | +13.3% | +18.6% |
| Intersegment | 30,729 | 141,718 | 37,248 | 139,608 | -17.5% | +1.5% |
| Total sales | 109,734 | 412,346 | 106,978 | 367,763 | +2.6% | +12.1% |
| Operating profit | -6,670 | -11,414 | -237 | -11,652 | | |
| % of sales | -6.1% | -2.8% | -0.2% | -3.2% | | |
| Corporate and Eliminations | | | | | | |
| Unaffiliated customers | | | | | | |
| Intersegment | -30,729 | -141,718 | -37,248 | -139,608 | | |
| Total sales | -30,729 | -141,718 | -37,248 | -139,608 | | |
| Operating profit | -44,546 | -147,576 | -37,941 | -123,295 | | |
| Consolidated | | | | | | |
| Unaffiliated customers | 894,885 | 3,198,072 | 861,663 | 2,940,128 | +3.9% | +8.8% |
| Intersegment | | | | | | |
| Total sales | 894,885 | 3,198,072 | 861,663 | 2,940,128 | +3.9% | +8.8% |
| Operating profit | 112,888 | 454,424 | 113,601 | 346,359 | -0.6% | +31.2% |
| % of sales | 12.6% | 14.2% | 13.2% | 11.8% | | |

4. OTHER INCOME / DEDUCTIONS (2003)

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| | 2003 | | 2002 | | (Millions of yen) Change year over year | |
|--|--------------|---------------|---------------|----------------|--|----------------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| | | | | | | |
| Interest & dividend, net | 1,605 | 4,657 | 369 | 2,410 | +1,236 | +2,247 |
| Forex gain / loss | -3,000 | -20,311 | -8,339 | -23,468 | +5,339 | +3,157 |
| Equity earnings / loss of affiliated companies | 545 | -1,124 | -859 | -3,521 | +1,404 | +2,397 |
| Others, net | 3,290 | 10,524 | -326 | 8,237 | +3,616 | +2,287 |
| Total | 2,440 | -6,254 | -9,155 | -16,342 | +11,595 | +10,088 |

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Canon Inc.

5. SEGMENT INFORMATION BY PRODUCT (2004/Projection)

(Millions of yen)

| | 2004 (P) | | | | 2003 | | | |
|-----------------------------------|-------------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|
| | 1st quarter | 1st half | 2nd half | Year | 1st quarter | 1st half | 2nd half | Year |
| Business machines | | | | | | | | |
| Unaffiliated customers | 514,800 | 1,072,300 | 1,145,200 | 2,217,500 | 551,475 | 1,127,958 | 1,145,946 | 2,273,904 |
| Intersegment | | | | | | | | |
| Total sales | 514,800 | 1,072,300 | 1,145,200 | 2,217,500 | 551,475 | 1,127,958 | 1,145,946 | 2,273,904 |
| Operating profit | 117,100 | 234,900 | 246,800 | 481,700 | 123,370 | 237,421 | 249,675 | 487,096 |
| % of sales | 22.7% | 21.9% | 21.6% | 21.7% | 22.4% | 21.0% | 21.8% | 21.4% |
| Cameras | | | | | | | | |
| Unaffiliated customers | 150,200 | 350,400 | 431,800 | 782,200 | 117,544 | 283,801 | 369,739 | 653,540 |
| Intersegment | | | | | | | | |
| Total sales | 150,200 | 350,400 | 431,800 | 782,200 | 117,544 | 283,801 | 369,739 | 653,540 |
| Operating profit | 28,600 | 59,800 | 85,400 | 145,200 | 21,668 | 49,794 | 76,524 | 126,318 |
| % of sales | 19.0% | 17.1% | 19.8% | 18.6% | 18.4% | 17.5% | 20.7% | 19.3% |
| Optical and other products | | | | | | | | |
| Unaffiliated customers | 72,000 | 147,300 | 183,000 | 330,300 | 62,542 | 123,829 | 146,799 | 270,628 |
| Intersegment | 37,000 | 74,000 | 74,000 | 148,000 | 34,710 | 74,037 | 67,681 | 141,718 |
| Total sales | 109,000 | 221,300 | 257,000 | 478,300 | 97,252 | 197,866 | 214,480 | 412,346 |
| Operating profit | 4,200 | 5,200 | 2,100 | 7,300 | 1,814 | -1,153 | -10,261 | -11,414 |
| % of sales | 3.9% | 2.3% | 0.8% | 1.5% | 1.9% | -0.6% | -4.8% | -2.8% |
| Corporate and Eliminations | | | | | | | | |
| Unaffiliated customers | | | | | | | | |
| Intersegment | -37,000 | -74,000 | -74,000 | -148,000 | -34,710 | -74,037 | -67,681 | -141,718 |
| Total sales | -37,000 | -74,000 | -74,000 | -148,000 | -34,710 | -74,037 | -67,681 | -141,718 |
| Operating profit | -41,900 | -81,900 | -87,300 | -169,200 | -29,445 | -70,088 | -77,488 | -147,576 |
| Consolidated | | | | | | | | |
| Unaffiliated customers | 737,000 | 1,570,000 | 1,760,000 | 3,330,000 | 731,561 | 1,535,588 | 1,662,484 | 3,198,072 |
| Intersegment | | | | | | | | |

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| | | | | | | | | |
|------------------|---------|-----------|-----------|-----------|---------|-----------|-----------|-----------|
| Total sales | 737,000 | 1,570,000 | 1,760,000 | 3,330,000 | 731,561 | 1,535,588 | 1,662,484 | 3,198,072 |
| Operating profit | 108,000 | 218,000 | 247,000 | 465,000 | 117,407 | 215,974 | 238,450 | 454,424 |
| % of sales | 14.7% | 13.9% | 14.0% | 14.0% | 16.0% | 14.1% | 14.3% | 14.2% |

(Table continued below)

(Table continued from above, stub repeated)

| | Change year over year | | | |
|-----------------------------------|-----------------------|----------|----------|--------|
| | 1st quarter | 1st half | 2nd half | Year |
| Business machines | | | | |
| Unaffiliated customers | -6.7% | -4.9% | -0.1% | -2.5% |
| Intersegment | | | | |
| Total sales | -6.7% | -4.9% | -0.1% | -2.5% |
| Operating profit | -5.1% | -1.1% | -1.2% | -1.1% |
| % of sales | | | | |
| Cameras | | | | |
| Unaffiliated customers | +27.8% | +23.5% | +16.8% | +19.7% |
| Intersegment | | | | |
| Total sales | +27.8% | +23.5% | +16.8% | +19.7% |
| Operating profit | +32.0% | +20.1% | +11.6% | +14.9% |
| % of sales | | | | |
| Optical and other products | | | | |
| Unaffiliated customers | +15.1% | +19.0% | +24.7% | +22.0% |
| Intersegment | +6.6% | -0.0% | +9.3% | +4.4% |
| Total sales | +12.1% | +11.8% | +19.8% | +16.0% |
| Operating profit | +131.5% | | | |
| % of sales | | | | |
| Corporate and Eliminations | | | | |
| Unaffiliated customers | | | | |
| Intersegment | | | | |
| Total sales | | | | |
| Operating profit | | | | |
| Consolidated | | | | |
| Unaffiliated customers | +0.7% | +2.2% | +5.9% | +4.1% |
| Intersegment | | | | |
| Total sales | +0.7% | +2.2% | +5.9% | +4.1% |
| Operating profit | -8.0% | +0.9% | +3.6% | +2.3% |
| % of sales | | | | |

(P)=Projection

6. OTHER INCOME / DEDUCTIONS (2004/Projection)

(Millions of yen)

| | 2004 (P) | | | | 2003 | | | |
|--|--------------|--------------|---------------|--------------|-------------|-------------|---------------|---------------|
| | 1st quarter | 1st half | 2nd half | Year | 1st quarter | 1st half | 2nd half | Year |
| Interest & dividend, net | 1,100 | 2,600 | 2,500 | 5,100 | 950 | 1,980 | 2,677 | 4,657 |
| Forex gain / loss | -1,500 | -3,900 | -7,200 | -11,100 | -1,679 | -2,766 | -17,545 | -20,311 |
| Equity earnings / loss of affiliated companies | 600 | 1,200 | 1,100 | 2,300 | -1,332 | -2,044 | 920 | -1,124 |
| Others, net | 6,800 | 8,100 | 600 | 8,700 | 1,853 | 2,362 | 8,162 | 10,524 |
| Total | 7,000 | 8,000 | -3,000 | 5,000 | -208 | -468 | -5,786 | -6,254 |

(Table continued below)

(Table continued from above, stub repeated)

| | Change year over year | | | |
|--|-----------------------|---------------|---------------|----------------|
| | 1st quarter | 1st half | 2nd half | Year |
| Interest & dividend, net | +150 | +620 | -177 | +443 |
| Forex gain / loss | +179 | -1,134 | +10,345 | +9,211 |
| Equity earnings / loss of affiliated companies | +1,932 | +3,244 | +180 | +3,424 |
| Others, net | +4,947 | +5,738 | -7,562 | -1,824 |
| Total | +7,208 | +8,468 | +2,786 | +11,254 |

(P)=Projection

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Canon Inc.

7. SALES COMPOSITION BY PRODUCT

| | 2004 (P) | | | | 2003 | | | | 2002 | |
|---|-------------|----------|----------|------|-------------|----------|----------|------|-------------|------|
| | 1st quarter | 1st half | 2nd half | Year | 4th quarter | 1st half | 2nd half | Year | 4th quarter | Year |
| Office imaging products | | | | | | | | | | |
| Copying machines | 93% | 93% | 93% | 93% | 92% | 92% | 92% | 92% | 92% | 92% |
| Monochrome | 78% | 77% | 76% | 76% | 75% | 80% | 76% | 78% | 80% | 82% |
| Color | 22% | 23% | 24% | 24% | 25% | 20% | 24% | 22% | 20% | 18% |
| Digital* | | | | | 94% | 93% | 94% | 93% | 89% | 89% |
| Analog* | | | | | 6% | 7% | 6% | 7% | 11% | 11% |
| Electrophotography based facsimiles, etc. | 7% | 7% | 7% | 7% | 8% | 8% | 8% | 8% | 8% | 8% |
| Computer peripherals | | | | | | | | | | |
| Laser beam printers | 70% | 71% | 68% | 69% | 65% | 71% | 68% | 70% | 65% | 68% |
| Inkjet printers (includes inkjet MFPs) | 27% | 27% | 29% | 28% | 32% | 26% | 29% | 27% | 31% | 29% |
| Others | 3% | 2% | 3% | 3% | 3% | 3% | 3% | 3% | 4% | 3% |
| Business information products | | | | | | | | | | |
| Personal computers | 73% | 73% | 71% | 72% | 73% | 78% | 75% | 76% | 77% | 79% |
| Others | 27% | 27% | 29% | 28% | 27% | 22% | 25% | 24% | 23% | 21% |
| Cameras | | | | | | | | | | |
| Film cameras / Lenses | 14% | 13% | 13% | 13% | 18% | 22% | 19% | 21% | 28% | 31% |
| Digital cameras | 71% | 71% | 71% | 71% | 65% | 59% | 63% | 61% | 49% | 45% |
| Video camcorders | 15% | 16% | 16% | 16% | 17% | 19% | 18% | 18% | 23% | 24% |
| Optical and other products | | | | | | | | | | |
| Semiconductor production equipment | 58% | 56% | 59% | 58% | 51% | 50% | 50% | 50% | 56% | 48% |
| Others | 42% | 44% | 41% | 42% | 49% | 50% | 50% | 50% | 44% | 52% |

(P)=Projection

* Among office-use monochrome copying machines (hardware only)

8. SALES GROWTH IN LOCAL CURRENCY

| | 2004 (P) | | | | 2003 | | | |
|--------------------------|-------------|----------|----------|-------|-------------|----------|----------|-------|
| | 1st quarter | 1st half | 2nd half | Year | 4th quarter | 1st half | 2nd half | Year |
| Business machines | | | | | | | | |
| Japan | -5.0% | -3.6% | +1.7% | -0.9% | +1.4% | +3.9% | +2.2% | +3.0% |
| Overseas | -0.4% | +2.4% | +4.1% | +3.3% | -2.1% | +7.7% | -0.3% | +3.5% |

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| | | | | | | | | |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total | -1.5% | +0.9% | +3.5% | +2.2% | -1.2% | +6.8% | +0.3% | +3.4% |
| Cameras | | | | | | | | |
| Japan | +24.7% | +23.8% | +9.0% | +15.2% | +38.1% | +8.1% | +32.3% | +21.0% |
| Overseas | +35.4% | +31.9% | +23.2% | +27.0% | +40.8% | +40.5% | +36.7% | +38.3% |
| Total | +33.5% | +30.5% | +20.7% | +25.0% | +40.3% | +33.9% | +35.9% | +35.0% |
| Optical and other products | | | | | | | | |
| Japan | +26.2% | +22.7% | -0.3% | +9.7% | +61.2% | +19.1% | +53.6% | +36.5% |
| Overseas | +9.9% | +20.3% | +48.1% | +34.8% | -4.2% | +26.3% | -3.3% | +8.9% |
| Total | +16.6% | +21.3% | +25.3% | +23.5% | +16.2% | +23.2% | +16.9% | +19.7% |
| Total | | | | | | | | |
| Japan | +2.8% | +3.4% | +2.5% | +2.9% | +12.7% | +6.3% | +12.4% | +9.4% |
| Overseas | +6.6% | +9.6% | +11.5% | +10.6% | +6.3% | +14.2% | +6.5% | +10.1% |
| Americas | +2.4% | +4.5% | +5.6% | +5.1% | +5.2% | +20.4% | +4.7% | +11.9% |
| Europe | +5.9% | +9.5% | +10.4% | +10.0% | +4.9% | +4.9% | +5.8% | +5.4% |
| Other areas | +20.1% | +24.5% | +29.4% | +27.2% | +13.6% | +19.7% | +13.4% | +16.2% |
| Total | +5.6% | +8.0% | +9.2% | +8.7% | +7.8% | +12.1% | +7.9% | +9.9% |

(P)=Projection

(Note)

From the 1st quarter of 2003, facsimiles which included personal digital MFDs etc. based on electrophotography technology were reclassified and are now included in Copying Machines, renamed Office Imaging Products. Those products based on inkjet technology were moved to Inkjet Printers in Computer Peripherals. In connection with this adjustment, Business Systems were renamed Business Information Products. Values for the previous year are restated to conform to the reclassification.

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Canon Inc.

9. P&L SUMMARY (1st Quarter 2004/Projection)

| | (Millions of yen) | | |
|----------------------------|-------------------------|---------------------|--------------------------|
| | 2004 (P) 1st quarter | 2003 1st quarter | Change year over year |
| Net sales | 737,000 | 731,561 | +0.7% |
| Operating profit | 108,000 | 117,407 | -8.0% |
| Income before income taxes | 115,000 | 117,199 | -1.9% |
| Net income | 73,000 | 71,601 | +2.0% |

(P)=Projection

10. PROFITABILITY

| | 2004 (P) | 2003 | | 2002 | |
|-----|----------|-------------|-------|-------------|-------|
| | Year | 4th quarter | Year | 4th quarter | Year |
| ROE | 14.4% | 16.4% | 15.9% | 15.3% | 12.5% |
| ROA | 8.6% | 9.5% | 9.0% | 8.3% | 6.6% |

(P)=Projection

11. IMPACT OF FOREIGN EXCHANGE RATES**(1) Exchange rates**

| | (Yen) | | | | | |
|----------|-------------|--------|-------------|--------|-------------|--------|
| | 2004 (P) | | 2003 | | 2002 | |
| | 1st quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Yen/US\$ | 105.00 | 105.00 | 108.92 | 115.61 | 122.56 | 124.73 |
| Yen/EUR | 130.00 | 130.00 | 129.47 | 131.02 | 122.54 | 118.39 |

(P)=Projection

(2) Impact of foreign exchange rates on sales (Year over year)

| | (Billions of yen) | | | |
|------------------|-------------------|--------|-------------|--------|
| | 2004 (P) | | 2003 | |
| | 1st quarter | Year | 4th quarter | Year |
| US\$ | -36.8 | -126.4 | -47.2 | -105.8 |
| Euro | +3.3 | -7.8 | +12.7 | +76.4 |
| Other currencies | +1.6 | +3.7 | +0.9 | +4.3 |

| | | | | |
|-------|-------|--------|-------|-------|
| Total | -31.9 | -130.5 | -33.6 | -25.1 |
|-------|-------|--------|-------|-------|

(P)=Projection

(3) Impact of foreign exchange rates per yen

| | | (Billions of yen) | |
|---------------------|--|-------------------|------|
| | | 2004 (P) | |
| | | 1st quarter | Year |
| On sales | | | |
| US\$ | | 2.6 | 12.0 |
| Euro | | 1.4 | 6.5 |
| On operating profit | | | |
| US\$ | | 1.2 | 6.0 |
| Euro | | 0.9 | 4.5 |

(P)=Projection

12. CASH FLOWS

| | | (Millions of yen) | | | | |
|--|--|-------------------|----------------|----------------|----------------|----------------|
| | | 2004 (P) | 2003 | | 2002 | |
| | | Year | 4th quarter | Year | 4th quarter | Year |
| Net cash provided by operating activities | | | | | | |
| Net income | | 286,000 | 74,958 | 275,730 | 60,068 | 190,737 |
| Depreciation and amortization | | 190,000 | 52,536 | 183,604 | 48,977 | 165,260 |
| Other, net | | 32,000 | 11,713 | 6,315 | 25,532 | 92,953 |
| Total | | 508,000 | 139,207 | 465,649 | 134,577 | 448,950 |
| Net cash used in investing activities | | | | | | |
| | | -308,000 | -40,031 | -199,948 | -60,546 | -230,220 |
| Free cash flow | | 200,000 | 99,176 | 265,701 | 74,031 | 218,730 |
| Net cash provided by (used in) financing activities | | | | | | |
| | | -72,300 | -7,864 | -102,039 | -21,373 | -183,714 |
| Effect of exchange rate changes on cash & cash equivalents | | -5,998 | 13,764 | 5,365 | -15,360 | -19,979 |
| Net change in cash and cash equivalents | | 121,702 | 105,076 | 169,027 | 37,298 | 15,037 |
| Cash and cash equivalents at end of each period | | 812,000 | 690,298 | 690,298 | 521,271 | 521,271 |

(P)=Projection

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Canon Inc.

13. R&D EXPENDITURE

| | (Millions of yen) | | |
|----------------------------|-------------------|---------|---------|
| | 2004 (P) | 2003 | 2002 |
| | Year | Year | Year |
| Business machines | | 119,112 | 110,290 |
| Cameras | | 31,687 | 25,975 |
| Optical and other products | | 108,341 | 97,404 |
| Total | 290,000 | 259,140 | 233,669 |
| % of sales | 8.7% | 8.1% | 7.9% |

(P)=Projection

14. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION

| | (Millions of yen) | | |
|--------------------------------------|-------------------|---------|---------|
| | 2004 (P) | 2003 | 2002 |
| | Year | Year | Year |
| Capital expenditure | | | |
| Business machines | | 105,700 | 104,877 |
| Cameras | | 25,894 | 15,627 |
| Optical and other products | | 31,483 | 23,767 |
| Corporate and eliminations | | 46,961 | 54,431 |
| Total | 300,000 | 210,038 | 198,702 |
| Depreciation and amortization | | | |
| Business machines | | 118,556 | 106,865 |
| Cameras | | 17,712 | 14,118 |
| Optical and other products | | 20,526 | 19,817 |
| Corporate and eliminations | | 26,810 | 24,460 |
| Total | 190,000 | 183,604 | 165,260 |

(P)=Projection

15. INVENTORIES**(1) Inventories**

| | (Millions of yen) | | |
|--|-------------------|---------|------------|
| | 2003 | 2002 | |
| | Dec. 31 | Dec. 31 | Difference |
| | | | |

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| | | | |
|----------------------------|-------------------|-------------------|-------------------|
| Business machines | 240,243 | 247,804 | -7,561 |
| Cameras | 64,043 | 53,343 | +10,700 |
| Optical and other products | 139,958 | 131,104 | +8,854 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 444,244 | 432,251 | +11,993 |
| | <u> </u> | <u> </u> | <u> </u> |

(2) Inventories/Sales*

| | (Days) | | |
|----------------------------|-------------------|-------------------|-------------------|
| | 2003 | 2002 | |
| | Dec. 31 | Dec. 31 | Difference |
| | <u> </u> | <u> </u> | <u> </u> |
| Business machines | 38 | 39 | -1 |
| Cameras | 32 | 35 | -3 |
| Optical and other products | 174 | 189 | -15 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 49 | 51 | -2 |
| | <u> </u> | <u> </u> | <u> </u> |

* Index based on the previous six months sales.

16. DEBT RATIO

| | 2003 | 2002 | |
|---------------------------|-------------------|-------------------|-------------------|
| | Dec. 31 | Dec. 31 | Difference |
| | <u> </u> | <u> </u> | <u> </u> |
| Total debt / Total assets | 3.1% | 5.0% | -1.9% |

17. OVERSEAS PRODUCTION RATIO

| | 2003 | 2002 |
|---------------------------|-------------------|-------------------|
| | Year | Year |
| | <u> </u> | <u> </u> |
| Overseas production ratio | 42% | 38% |

18. NUMBER OF EMPLOYEES

| | 2003 | 2002 | |
|----------|-------------------|-------------------|-------------------|
| | Dec. 31 | Dec. 31 | Difference |
| | <u> </u> | <u> </u> | <u> </u> |
| Japan | 45,380 | 44,443 | +937 |
| Overseas | 57,187 | 53,359 | +3,828 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 102,567 | 97,802 | +4,765 |
| | <u> </u> | <u> </u> | <u> </u> |

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January 29, 2004

FOR IMMEDIATE RELEASE

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**Notice of change in the number of shares
that constitute one unit**

TOKYO, January 29, 2004 Canon Inc. (Canon) announced that, following a decision reached today by its Board of Directors, the company will change the number of shares that constitute one unit.

1. Reason for change

Until now, Canon opted not to reduce the unit of investment, as the company's stock enjoyed adequate levels of liquidity. Owing to an increase in the total investment amount required to realize one trading unit, however, the proportion of ownership by individual investors in recent years has decreased.

As such, the company has decided to change the number of shares that constitute one unit. By reducing the minimum investment amount, Canon hopes to offer a wider range of investors, including individuals, an opportunity to invest in the company. The company also views the measure as an important step to further broaden its base of investors who, as shareholders, provide support for Canon's management.

2. Contents of change

The number of shares constituting one unit will be reduced from 1,000 to 100.

3. Effective date (forecast)

Thursday, May 6, 2004

(Reference)

On May 6, 2004, the number of Canon shares constituting one trading unit will be reduced from 1,000 to 100 on the Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange, Fukuoka Stock Exchange and the Sapporo Stock Exchange.