

CANON INC  
Form 6-K  
March 16, 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 March, 2004**

**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  [X]

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  [X]

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.**

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(Registrant)

Date March 5, 2004

By /s/ Shunji Onda

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(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. NOTICE OF CONVOCATION OF THE ORDINARY GENERAL MEETING OF SHAREHOLDERS FOR THE 103RD BUSINESS TERM
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March 5, 2004

**TO OUR SHAREHOLDERS**

**Canon Inc.**  
30-2, Shimomaruko 3-chome,  
Ohta-ku, Tokyo

Fujio Mitarai  
President and C.E.O.

**NOTICE OF CONVOCATION  
OF  
THE ORDINARY GENERAL MEETING OF SHAREHOLDERS  
FOR THE 103RD BUSINESS TERM**

Notice is hereby given that the Ordinary General Meeting of Shareholders for the 103rd Business Term of the Company will be held as described below and that you are requested to attend the Meeting.

**If you do not expect to attend the Meeting, you may exercise your voting rights in writing. After reviewing the following Reference Materials, please indicate your consent/dissent and affix your seal on the enclosed CARD FOR EXERCISE OF VOTING RIGHTS, and return it to us.**

- 1. DATE AND HOUR:** March 30 (Tuesday), 2004 at 10:00 a.m.
- 2. PLACE:** Head Office of the Company  
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo  
(Please see the map on page 16.)
- 3. MATTERS CONSTITUTING THE PURPOSE OF THE MEETING**

**Matters to be Reported:**

Reports on the Business Report, Balance Sheets and Income Statements for the 103rd Business Term (from January 1, 2003 to December 31, 2003).

**Matters to be Resolved upon:**

**Propositions:**

**Item No. 1** Approval of the Proposal of Profit Appropriation for the 103rd Business Term

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- Item No. 2** - Partial Amendment of the Articles of Incorporation  
Gist of this item is set forth in the Reference Materials for  
Exercise of Voting Rights hereafter.
- Item No. 3** - Election of Twenty-Seven Directors
- Item No. 4** - Election of Three Corporate Auditors
- Item No. 5** - Election of Additional Accounting Auditor
- Item No. 6** - Grant of Retiring Allowance to Directors and Corporate Auditors to be Retired
- Item No. 7** - Revision of the Remuneration for Directors and Corporate Auditors

(The enclosed Report for the 103rd Business Term, from page 20 to page 51, is the accompanying document relating to Matters to be Reported and Item No. 1 of the Propositions.)

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**Upon attending the Meeting, please present the enclosed Card for Exercise of Voting Rights to the receptionist at the place of the Meeting.**

**REFERENCE MATERIALS FOR EXERCISE OF VOTING RIGHTS**

**1. Number of Voting Rights Held by All Shareholders:**

874,222 voting rights

**2. Propositions and Reference Matters**

**Item No.1: Approval of the Proposal of Profit Appropriation for the 103rd Business Term**

Considering further reinforcement of the company organization and expansion of business operations in the future, the Proposal of Profit Appropriation for the 103rd Business Term is intended to be as described in the enclosed Report for the 103rd Business Term (page 46).

Regarding our year-end dividend, since the Company was able to achieve record high results for this Business Term, both in terms of non-consolidated and consolidated base results, we propose a dividend of 35.00 yen per share, which is an increase by 17.50 yen compared to the dividend for the previous term, in order to respond to the continuing support from our shareholders.

Since we have already paid an interim dividend of 15.00 yen per share, together with the above dividend, the dividend for the entire Business Term will be 50.00 yen per share, an increase of 20.00 yen compared to the dividend for the previous Business Term.

As for the bonus for Directors, it is proposed to be 189,000,000 yen.

In addition, you are requested to approve that, based on the provisions of tax law, Reserve for Special Depreciation and Reserve for Deferral of Capital Gain on Property should be reversed and accumulated.

**Item No.2: Partial Amendment of the Articles of Incorporation**

**1. Reason of Amendment**

Based on The Law to Revise Part of the Commercial Code and the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations effective as of September 25, 2003 (Law No. 132, 2003), it has become possible to acquire the Company's own shares by a board resolution pursuant to a provision of the Articles of Incorporation, in addition to acquiring the Company's own shares by a resolution of the General Meeting of Shareholders; therefore, we propose to insert a new

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Article 10 following the current Article 9, and change the article number of all articles starting from the current Article 10, so that the Company may take management actions in prompt response to future management climates.

## 2. Substance of Amendment

The substance of the amendment is as follows:

(The amended parts are underlined.)

| <u>Current Articles of Incorporation</u>            | <u>Proposed Amendment</u>  |
|---|--|
| <b>Chapter II. Shares</b>                           | <b>Chapter II. Shares</b>  |
| Article 5 thru (Text Omitted)                       | Article 5 thru (Same as Present Text)  |
| Article 9 (New)                                     | Article 9 (Acquisition of the Company's Own Shares)  |
|   | Article 10. Pursuant to the provision of paragraph 1, item (2) of Article 211-3 of the Commercial Code, the Company may purchase the Company's own shares by a resolution of the Board of Directors. |
| <b>Chapter III. General Meeting of Shareholders</b> | <b>Chapter III. General Meeting of Shareholders</b>  |
| Article 10 thru (Text Omitted)                      | Article 11 thru (Same as Present Text)   |
| Article 33  | Article 34   |

### Item No.3: Election of Twenty-Seven Directors

The term of offices of all of the twenty-four Directors will expire at the end of this Meeting. We would like you to elect twenty-seven Directors.

The candidates for the Directors are as follows:

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| Candidate No. | Name<br>(Date of birth)           | Brief personal record and representation<br>in other companies   | Number of the<br>Company's<br>shares held |
|---------------|-----------------------------------|--|---|
| 1             | Fujio Mitarai<br>(Sep. 23, 1935)  | As of<br>Apr. 1961: Entered the Company<br>Mar. 1981: Director<br>Mar. 1985: Managing Director<br>Mar. 1989: Senior Managing & Representative<br>Director<br>Mar. 1993: Executive Vice President &<br>Representative Director<br>Sep. 1995: President & C.E.O. (present)                         | 57,828<br>shares                          |
| 2             | Yukio Yamashita<br>(May 15, 1939) | As of<br>Mar. 1962: Entered the Company<br>Mar. 1991: Director<br>Jan. 1996: Group Executive of Human Resources Management &<br>Organization Headquarters (present)<br>Mar. 1997: Managing Director<br>Jan. 1999: Senior Managing Director (present)   | 11,120<br>shares                          |
| 3             | Toshizo Tanaka<br>(Oct. 8, 1940)  | As of<br>Apr. 1964: Entered the Company<br>Mar. 1995: Director<br>Apr. 1995: Group Executive of Finance & Accounting Headquarters<br>(present)<br>Mar. 1997: Managing Director<br>Mar. 2001: Senior Managing Director (present)  | 11,668<br>shares                          |
| 4             | Kinya Uchida<br>(Nov. 21, 1938)   | As of<br>Apr. 1963: Entered the Company<br>Mar. 1995: Director<br>Mar. 1999: Managing Director<br>Apr. 1999: President of Canon U.S.A., Inc. (present)<br>Mar. 2003: Senior Managing Director of the Company (present)<br>(Representation in other companies)<br>President of Canon U.S.A., Inc. | 14,595<br>shares                          |



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| Candidate No. | Name<br>(Date of birth)             | Brief personal record and representation<br>in other companies  | Number of the<br>Company's<br>shares held |
|---------------|-------------------------------------|---|---|
| 5             | Tsuneji Uchida<br>(Oct. 30, 1941)   | As of<br>Apr. 1965: Entered the Company<br>Mar. 1997: Director<br>Jan. 2001: Chief Executive of Image Communication Products<br>Operations (present)<br>Mar. 2001: Managing Director<br>Mar. 2003: Senior Managing Director (present)                   | 4,200<br>shares                           |
| 6             | Yusuke Emura<br>(Nov. 30, 1944)     | As of<br>Apr. 1967: Entered the Company<br>Mar. 1993: Director<br>Mar. 1999: Managing Director (present)<br>Jan. 2002: Group Executive of Global Environment Promotion<br>Headquarters (present)  | 10,733<br>shares                          |
| 7             | Nobuyoshi Tanaka<br>(Dec. 23, 1945) | As of<br>Apr. 1970: Entered the Company<br>Mar. 1993: Director<br>Apr. 1999: Group Executive of Corporate Intellectual Property and<br>Legal Headquarters (present)<br>Mar. 2001: Managing Director (present)   | 10,555<br>shares                          |
| 8             | Junji Ichikawa<br>(Feb. 9, 1943)    | As of<br>Jan. 1970: Entered the Company<br>Mar. 1997: Director<br>Mar. 2001: Managing Director (present)<br>Apr. 2003: Group Executive of Production Management Headquarters<br>(present)   | 7,931<br>shares                           |
| 9             | Hajime Tsuruoka<br>(Jul. 9, 1943)   | As of<br>Nov. 1973: Entered the Company<br>Mar. 1997: Director<br>Mar. 1999: President of Canon Europa N.V. (present)<br>Mar. 2001: Managing Director of the Company (present)<br>(Representation in other companies)<br>President of Canon Europa N.V. | 5,495<br>shares                           |

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| Candidate No. | Name<br>(Date of birth)              | Brief personal record and representation<br>in other companies  | Number of the<br>Company's<br>shares held |
|---------------|--------------------------------------|---|---|
| 10            | Akiyoshi Moroe<br>(Sep. 28, 1944)    | As of<br>Apr. 1968: Entered the Company<br>Mar. 1999: Director<br>Apr. 1999: Group Executive of General Affairs Headquarters (present)<br>Oct. 2000: Group Executive of the Information & Communication Systems Headquarters (present)<br>Mar. 2003: Senior Managing Director (present)   | 9,855<br>shares                           |
| 11            | Kunio Watanabe<br>(Oct. 3, 1944)     | As of<br>Apr. 1969: Entered the Company<br>Apr. 1995: Group Executive of Corporate Strategy Development Headquarters (present)<br>Mar. 1999: Director<br>Mar. 2003: Managing Director (present)   | 6,435<br>shares                           |
| 12            | Ikuo Soma<br>(Aug. 4, 1946)          | As of<br>Apr. 1970: Entered the Company<br>Mar. 1999: Director<br>Apr. 1999: Chief Executive of Office Image Products Operations (present)<br>Mar. 2003: Managing Director (present)  | 3,300<br>shares                           |
| 13            | Hironori Yamamoto<br>(Dec. 23, 1943) | As of<br>Apr. 1969: Entered the Company<br>Mar. 1999: Director (present)<br>Jul. 1999: Group Executive of the Core Technology Development Headquarters (present)<br>Jul. 2003: Group Executive of SED Development Headquarters (present)<br>Oct. 2003: Group Executive of Leading- Edge Technology Development Headquarters (present) | 3,000<br>shares                           |

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| Candidate No. | Name<br>(Date of birth)              | Brief personal record and representation<br>in other companies   | Number of the<br>Company's<br>shares held |
|---------------|--------------------------------------|--|---|
| 14            | Yoroku Adachi<br>(Jan. 11, 1948)     | As of<br>Apr. 1970: Entered the Company<br>Nov. 1998: President of Canon Canada Inc.<br>Mar. 2001: Director of the Company (present)<br>Apr. 2001: President of Canon (China) Co., Ltd. (present)<br>(Representation in other companies)<br>President of Canon (China) Co., Ltd. | 3,495<br>shares                           |
| 15            | Yasuo Mitsuhashi<br>(Nov. 23, 1949)  | As of<br>Apr. 1974: Entered the Company<br>Feb. 2001: Chief Executive of Chemical Products Operations<br>Mar. 2001: Director (present)<br>Apr. 2003: Chief Executive of Peripheral Products Operations<br>(present)  | 3,485<br>shares                           |
| 16            | Katsuichi Shimizu<br>(Nov. 13, 1946) | As of<br>Apr. 1970: Entered the Company<br>Apr. 2001: Deputy Chief Executive of Office Imaging Products<br>Operations<br>Mar. 2003: Director (present)<br>Apr. 2003: Chief Executive of Inkjet Products Operations (present)   | 3,025<br>shares                           |
| 17            | Ryoichi Bamba<br>(Nov. 25, 1946)     | As of<br>Apr. 1972: Entered the Company<br>Apr. 1998: Senior Vice President of Canon U.S.A., Inc.<br>Feb. 2003: Executive Vice President of Canon U.S.A., Inc. (present)<br>Mar. 2003: Director of the Company (present)   | 2,000<br>shares                           |
| 18            | Tomonori Iwashita<br>(Jan. 28, 1949) | As of<br>Apr. 1972: Entered the Company<br>Jan. 2001: Senior General Manager of Photo Products Group<br>Mar. 2003: Director (present)<br>Apr. 2003: Deputy Chief Executive of Image Communications<br>Products Operations (present)  | 2,000<br>shares                           |

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| <b>Candidate No.</b> | <b>Name<br/>(Date of birth)</b>    | <b>Brief personal record and representation<br/>in other companies</b>      |   | <b>Number of the<br/>Company's<br/>shares held</b> |
|----------------------|------------------------------------|---|---|--|
| 19                   | Toshio Homma<br>(Mar. 10, 1949)    | As of<br>Apr. 1972:<br>Apr. 2001:<br>Mar. 2003:<br>Apr. 2003:               | Entered the Company<br>Deputy Chief Executive of i Printer Products Operations<br>Director (present)<br>Group Executive of L Printer Business Promotion<br>Headquarters   | 5,495<br>shares                                    |
| 20                   | Shigeru Imaiida<br>(Sep. 16, 1948) | As of<br>Apr. 1972:<br>Aug. 1999:<br>Mar. 2003:<br>Apr. 2003:               | Entered the Company<br>Senior General Manager of Production Engineering Center<br>Director (present)<br>Deputy Group Executive of Production Management<br>Headquarters (present)                                   | 1,535<br>shares                                    |
| 21                   | Masahiro Osawa<br>(May 26, 1947)   | As of<br>Apr. 1971:<br>Jan. 1995:<br>Feb. 2003:<br>Apr. 2003:<br>Jul. 2003: | Entered the Company<br>General Manager of Accounting Div.<br>Senior Vice President of Canon U.S.A., Inc.<br>Advisory Director (present)<br>Deputy Group Executive of Finance & Accounting<br>Headquarters (present) | 2,495<br>shares                                    |
| 22                   | Keiji Yamazaki<br>(Oct. 14, 1948)  | As of<br>Apr. 1971:<br>Apr. 1999:<br>Jan. 2000:<br>Apr. 2003:               | Entered the Company<br>General Manager of H.R.M. Div.<br>Deputy Group Executive of Human Resources<br>Management & Organization Headquarters (present)<br>Advisory Director (present)                               | 1,275<br>shares                                    |

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| <b>Candidate No.</b> | <b>Name<br/>(Date of birth)</b>      | <b>Brief personal record and representation<br/>in other companies</b>  | <b>Number of the<br/>Company's<br/>shares held</b> |
|----------------------|--------------------------------------|---|--|
| 23                   | Shunichi Uzawa<br>(Jan. 26, 1949)    | As of<br>Apr. 1978: Entered the Company<br>Jan. 1998: Senior General Manager of Nano Technology Research Center<br><br>Apr. 2001: Advisory Director (present)<br>Apr. 2001: Deputy Group Executive of Display Development Headquarters<br><br>Jul. 2003: Deputy Group Executive of SEC Development Headquarters (present)               | 1,435<br>shares                                    |
| 24                   | Masaki Nakaoka<br>(Jan. 3, 1950)     | As of<br>Apr. 1975: Entered the Company<br>Jan. 1997: Senior General Manager of Office Imaging Products Development Center 1<br><br>Apr. 1999: Group Executive of Office Imaging Products Group 1<br>Apr. 2001: Advisory Director (present)<br>Apr. 2001: Deputy Chief Executive of Office Imaging Products Operations (present)        | 1,000<br>shares                                    |
| 25                   | Toshiyuki Komatsu<br>(Jan. 19, 1950) | As of<br>Apr. 1972: Entered the Company<br>Jan. 1998: Senior General Manager of Canon Research Center<br>Apr. 1999: Advisory Director (present)<br>Jan. 2000: Deputy Group Executive of Core Technology Development Headquarters<br><br>Oct. 2003: Deputy Group Executive of Leading-Edge Technology Development Headquarters (present) | 1,100<br>shares                                    |

| Candidate No. | Name<br>(Date of birth)               | Brief personal record and representation<br>in other companies |  | Number of the<br>Company's<br>shares held |
|---------------|---------------------------------------|--|--|---|
| 26            | Shigeyuki Matsumoto<br>(Nov. 5, 1950) | As of  |  | 1,435<br>shares                           |
|               |                                       | Apr. 1977:   | Entered the Company  |   |
|               |                                       | Jan. 1999:   | Senior General Manager of Device Development Center                        |   |
|               |                                       | Apr. 2001:   | Deputy Group Executive of Device Technology<br>Development Headquarters    |   |
|               |                                       | Jan. 2002:   | Group Executive of Device Technology Development<br>Headquarters (present) |   |
|               |                                       | Apr. 2003:   | Advisory Director (present)  |   |
| 27            | Haruhisa Honda<br>(Oct. 14, 1948)     | As of  |  | 1,026<br>shares                           |
|               |                                       | Apr. 1974:   | Entered the Company  |   |
|               |                                       | Jan. 1989:   | General Manager of Peripherals Development Design<br>Div.8                 |   |
|               |                                       | Apr. 1995:   | Senior General Manager of Cartridge Development Center                     |   |
|               |                                       | Apr. 2003:   | Deputy Chief Executive of Chemical Products Operations<br>(present)        |   |

Note: None of the candidates for the Directors have any special interest in the Company.

#### Item No. 4: Election of Three Corporate Auditors

The term of office of Corporate Auditors Mr. Kohtaro Miyagi, Mr. Masaharu Aono and Mr. Tetsuo Yoshizawa will expire at the end of this Meeting. We would like you to elect three Corporate Auditors.

The candidates for the Corporate Auditors are as mentioned below.

Upon submitting this proposition, the Company obtained the prior approval of the Board of Corporate Auditors.

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| Candidate No. | Name<br>(Date of birth)              | Brief personal record and representation<br>in other companies  | Number of the<br>Company's<br>shares held |
|---------------|--------------------------------------|---|---|
| 1             | Teruomi Takahashi<br>(Jun. 10, 1943) | As of<br>Apr. 1971: Entered the Company<br>Mar. 1999: Director (present)<br>Apr. 1999: Chief Executive of Chemical Products Operations<br>Apr. 2001: Chief Executive of i Printer Products Operations<br>Apr. 2003: Chief Executive of Chemical Products Operations<br>(present)                                | 6,931<br>shares                           |
| 2             | Kunihiro Nagata<br>(Mar. 16, 1948)   | As of<br>Apr. 1970: Entered the Company<br>Jan. 1991: General Manager of Business Machines Accounting Div.<br>Apr. 1995: Senior General Manger of Business Machines Accounting<br>& Production Planning Center<br>Jan. 2003: Deputy Group Executive of Corporate Strategy<br>Development Headquarters (present) | 1,000<br>shares                           |
| 3             | Tetsuo Yoshizawa<br>(Sep. 5, 1945)   | As of<br>Apr. 1968: Entered The Dai-Ichi Mutual Life Insurance Co.<br>Apr. 1995: General Manager of Financial Institution Relations<br>Department of The Dai-Ichi Mutual Life Insurance Co.<br>Mar. 1998: Corporate Auditor of the Company (present)  | 2,000<br>shares                           |

Note 1: The candidates for the Corporate Auditors have no special interest in the Company.

Note 2: Mr. Tetsuo Yoshizawa is a candidate for the outside Corporate Auditor stipulated in Article 18, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations.

**Item No. 5: Election of Additional Accounting Auditor**

Pursuant to The Law to Revise Part of the Commercial Code, etc. effective as of April 1, 2003 (Law No. 44, 2002), the Company will be required, in accordance with the Commercial Code, to prepare consolidated financial statements and subject it to the audit of an accounting auditor from the Company's 104th Business Term. Since the Company lists its stock in the U.S., the Company has already been preparing consolidated financial statements according to U.S. Generally Accepted Accounting Principles, and has been receiving audits from Shin Nihon & Co. The division at Shin Nihon & Co., which has been mainly in charge of such audits has separated from the firm and formed an independent auditing firm named Azsa & Co. The Company believes that it is appropriate to continue seeking the auditing service of Azsa & Co., who is familiar with the circumstances of the Canon group. Therefore, we propose to elect Azsa & Co. as an additional accounting auditor.

The candidate for the Accounting Auditor is as mentioned below.

Upon submitting this proposition, the Company obtained the prior approval of the Board of Corporate Auditors.

(As of Jan. 1, 2004)

|                       |  |   |  |
|-----------------------|--|---|--|
| Name                  | Azsa & Co.   |   |  |
| Office                | Main Office:<br>1-2 Tsukudo-cho, Shinjuku-ku, Tokyo        |   |  |
| History               | February 26, 2003<br>January 1, 2004                       | Azsa & Co. established<br>Asahi & Co. (established July 3, 1969) and Azsa<br>& Co. merged |  |
| General Overview      | Capital: 3,185 million yen<br>Personnel:<br>Employee (CPA) |   | 408 persons<br>(including 229 representative partners) |
|                       | Staff (CPA)<br>(Assistant CPA)                             |   | 1,230 persons<br>657 persons                           |
|                       | (Others)   |   | 820 persons  |
|                       | Total  |   | <hr/> 3,115 persons                                    |
| International Service | A member of KPMG   |   |  |



**Item No.6: Grant of Retiring Allowances to Directors and Corporate Auditors to be Retired**

It is proposed that retiring allowances be granted to each of Messrs. Ichiro Endo, Akira Tajima, Takashi Saito and Teruomi Takahashi, the Directors to be retired at the end of this Meeting, and Messrs. Kohtaro Miyagi and Masaharu Aono, the Corporate Auditors to be retired at the end of this Meeting, in appreciation of their services during their terms in offices, within the due amount based upon certain standards stipulated by the Company, and that the determination of the actual amount and the time and method of granting, etc. be entrusted to the Board of Directors as to Directors to be retired, and to the consultation of the Corporate Auditors as to the Corporate Auditors to be retired, respectively.

Brief personal records of each of the Directors and Corporate Auditors to be retired are as follows:

| Name              | Brief Personal Record   |
|-------------------|---|
| Ichiro Endo       | As of<br>Mar. 1989: Director<br>Mar. 1995: Managing Director<br>Mar. 1999: Senior Managing Director (present) |
| Akira Tajima      | As of<br>Mar. 1995: Director<br>Mar. 1999: Managing Director<br>Mar. 2003: Senior Managing Director (present) |
| Takashi Saito     | As of<br>Mar. 1991: Director<br>Mar. 1996: Managing Director (present)  |
| Teruomi Takahashi | As of<br>Mar. 1999: Director (present)  |
| Kohtaro Miyagi    | As of<br>Mar. 1995: Director<br>Mar. 2001: Corporate Auditor (present)  |
| Masaharu Aono     | As of<br>Mar. 2001: Corporate Auditor (present)   |

**Item No. 7: Revision of the Remunerations for Directors and Corporate Auditors**

The remunerations for the Company's Directors and Corporate Auditors was approved to be within the limit of 1,000,000,000 yen per year and within the limit of 100,000,000 yen per year, respectively, by resolution at the Company's 96th General Meeting of Shareholders held on March 28, 1997. Due to changes in economic situations, expansion of business operations and diversification of business, etc. since then, the Company anticipates that the necessity of strengthening the structure of management operation and auditing will increase; therefore, we would like to revise the remuneration for Directors to within the limit of 1,200,000,000 per year and the remuneration for Corporate Auditors to within the limit of 200,000,000 yen per year.

As before, the remunerations for Directors shall not include the salaries for employees which would be paid to Directors serving concurrently as employees.

For your information, the present number of Directors is twenty-four and that of Corporate Auditors is four. After Item No. 3 is approved, the number of Directors will be increased to twenty-seven. Approval of Item No. 4 will not cause the number of Corporate Auditors to change.

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The map of the place of  
the General Meeting of Shareholders

Place: Head Office of the Company  
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo

Station: About 10 minutes walk from the Shimomaruko Station of the Tamagawa Line of Tokyo Electric Express Railway, Ltd.



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| *The products mentioned in this report may have different names in other areas.  |    |

## To Our Shareholders

It is a great pleasure to present our results for the 103rd business term, from January 1 to December 31, 2003.

Looking back on the global economy during this period, we note numerous unforeseen incidents such as the outbreak of Severe Acute Respiratory Syndrome (SARS) and the war in Iraq. Against the backdrop of these negative factors, we undertook structural reforms and implemented new business processes throughout our operations. Consequently, we were able to achieve record high sales of 2 trillion yen on a non-consolidated basis and 3 trillion yen on a consolidated basis. Furthermore, we were able to attain record high levels of profit on both a non-consolidated and consolidated basis, marking the fourth consecutive term of increases in both sales and profits.

At our 103rd Ordinary General Meeting of Shareholders, in consideration of our business results for this term, we will propose a dividend payment of 35 yen per share as of the end of the fiscal year to show our sincere appreciation for your loyal support. This is in addition to the interim dividend of 15 yen per share, which will bring the full-year dividend to a total of 50 yen per share, or 20 yen more than in the previous term. We would like to add that we will reduce the number of shares that constitute one voting unit, as defined by our Articles of Incorporation, from the current 1,000 shares to 100 shares, effective as of May 6, 2004.

During the current term, we expect the global economy to continue on a recovery trend. Yet this is no time to relax; we will continue our efforts to strengthen all our operations worldwide.

We look forward to your continued support and encouragement in the future.

March, 2004

FUJIO MITARAI  
*President & C.E.O.*

*(Materials attached to the Notice of Convocation of the Ordinary General Meeting of Shareholders for the 103rd Business Term)*

## BUSINESS REPORT

(From January 1, 2003 to December 31, 2003)

### 1. General Business Outline

#### (1) Business Progress and Results

##### **n General Business Conditions**

Looking at the global economic situation during fiscal year 2003, the U.S. economy began the year on a stagnant note but rapidly recovered from the middle of the year. This recovery was largely due to improved consumer spending and capital investment spurred by the Government's strategy of cutting taxes and holding down interest rates due to fears of continued economic weakness in the aftermath of the war in Iraq. Economies in Europe remained weak until the latter half of the year, when the recovery in the U.S. led to an improvement in exports and contributed to recoveries in European economies. Fortunately, the impact of SARS on the Asian economies was limited, and China and other countries in the region were able to maintain strong economic growth. In contrast, Japan's economy was weak, with the stock market dipping to a new post-bubble-economy low, but saw a mild recovery during the latter half of the term thanks to growing capital investments and exports. Compared with the previous year, the Japanese yen strengthened relative to the dollar, while it weakened relative to the euro.

With regard to conditions of markets relevant to Canon, demand for digital cameras and digital video cameras continued to expand, while the environment surrounding our computer peripheral products such as our network-compatible multifunctional machines and printers deteriorated due to increased price competition. In the optical products business, we saw signs of a recovery in the market for semiconductor equipment, as well as an expansion in the market for mirror-projection mask aligners for LCD panels spurred by increased demand for LCD televisions.

Under such a business environment, Canon entered the third year of Phase II (2001 to 2005) of its Excellent Global Corporation Plan. We considered this term a year of completing structural reforms toward the final year of 2005 by implementing a variety of measures across every operation of the Canon group.

Regarding our development efforts, we worked hard to improve the speed of our development activities by taking steps towards the realization of full digitization of production prototypes (which reduces the need to build real prototypes before production can start), and we will raise the quality and perfection of our designs through improved analytical and simulation technologies. With regard to our production activities, we were able to further lower production costs and reduce inventories through production reforms centered on the introduction of a cell production system. We also made

aggressive efforts to internalize the production of CMOS sensors used in digital SLR cameras and other key devices. As a result of these achievements, we were able to strengthen our products' competitive advantage and also attain a high level of profitability. With regard to our marketing efforts, we restructured and consolidated our domestic and overseas sales subsidiaries and bolstered our business solutions services.

All of these efforts allowed Canon to achieve record levels of both sales and profits, with sales of 2,023.7 billion yen (a 13.1% increase over the previous term), ordinary profit of 320.6 billion yen (a 33.0% increase over the previous term), and net income of 228.7 billion yen (a 58.6% increase over the previous term).

**Change in sales**

**100 MILLIONS OF YEN**

**Change in Ordinary Profit and Net Income**

**100 MILLIONS OF YEN**



**Business Conditions by Operations**

## Sales by Operations

| Operations                        | Sales                          | Increase/Decrease<br>against the Same<br>Period<br>of the Previous<br>Term |
|-----------------------------------|--------------------------------|--|
|                                   | <b>100 millions of<br/>yen</b> | <b>%</b>   |
| <b>Business Machines</b>          | 13,960                         | 4.3  |
| Office Imaging Products           | 4,759                          | 4.4  |
| Computer Peripherals              | 9,201                          | 4.2  |
| <b>Cameras</b>                    | 4,863                          | 40.4   |
| <b>Optical and Other Products</b> | 1,414                          | 36.2   |
| <b>Total</b>                      | 20,237                         | 13.1   |

Note: From this term, representation of segmentation by product categories within the Business Machines are changed from the previous three segments of Copying Machines, Computer Peripherals and Business Systems to the two segments of Office Imaging Products and Computer Peripherals. In this connection, sales figures for the previous terms have been re-classified in accordance with the new segmentation.

**Constitution of Sales****100 MILLIONS OF YEN**

Sales by Operations

Sales by Region

## Business Machines Operations

### Office Imaging Products

In the office imaging products market, all of our product areas suffered from intense competition worldwide. In the area of digital copying machines, more advanced functions have been added, and the transition from black-and-white to color machines has gradually progressed. Amidst these trends, the iR C3200/C3200N, our first color copying machine in the imageRUNNER series, sold strongly worldwide, contributing to an expansion in our share of the color copying machines market as well as to growth in our overall sales during the year. During the latter half of the fiscal year, we introduced new products like the iR C3100 medium-speed color copying machine, helping to round-out and expand our line-up. With regard to black-and-white digital copying machines, we took advantage of our full line-up of low to high-speed models to promote sales. Our iR5000 series machines targeting the office market and our high-speed iR105 sold strongly during the year.

We also showed steady gains in the solutions business thanks to products such as our MEAP platform, which allows for customization to match our customers' operating environments, and our imageWARE series software which displays synergies with our imageRUNNER machines. In terms of products targeted at individuals and small offices, we promoted sales of our PC and FC series copying machines as well as our L500 laser facsimile and other single-function products. And with the shift towards multiple-function machines, we achieved strong sales of Satera PC1280 and other compact digital multifunctional machines offering copying, printing, and facsimile functions.

Thanks to these contributions, sales in this segment grew by 4.4% over the previous term.

### Change in sales 100 MILLIONS OF YEN

### **Computer Peripherals**

The computer peripherals market continued to suffer from severe price competition both in Japan and overseas as competitors fought for market share. Amidst these trends, our laser beam printer business saw a strong rebound in sales of OEM products, which had been lagging due to inventory adjustments at OEM firms, particularly black-and-white printers, and we also recorded steady sales for our own-brand Satera LBP-2410 color printer. In the area of inkjet printers, our PIXUS series, introduced in the autumn of 2002, garnered considerable acclaim from both the market and the press, especially for its ability to provide photographic quality printing. We also introduced various new products beginning in August that offered both higher speed and higher resolution, as well as being increasingly user-friendly thanks to a direct camera-to-printer function based on compatibility with the new PictBridge industry standard.

In particular, PIXUS 990i, which has a print head with 5,376 nozzles (1.75 times the number of nozzles of conventional printers), and the PIXUS 560i, which offers high value for the price, have been favorably received by the market. With regard to Canon's multifunction printers, the PIXUS MP370, which can faithfully reproduce high-resolution pictures, was introduced in the latter half of the term and sales were strong. We also made efforts to expand sales of single-function machines like the CF-SL70, a newcomer to the fax-phone series. In the area of single-function scanners, the recently-introduced CanoScan LiDE80, which is the first scanner in the world to offer film scanning capabilities, incorporating a contact image sensor, was able to capture a high share in both the domestic and overseas markets.

As a result of these developments, computer peripheral equipment sales rose 4.2% over the previous term.

### **Change in sales 100 MILLIONS OF YEN**

## Cameras

Amid the continued strong growth in the digital camera market worldwide, Canon expanded its compact-type offerings by introducing six new models in the PowerShot series and three new models in the IXY DIGITAL series, and the IXY DIGITAL 400 and other products contributed to strong sales growth. In the area of SLR cameras, following upon the EOS 10D, the much-anticipated EOS Kiss Digital was introduced in September, bringing the number of cameras in the full EOS Digital series line-up to four.

Through the introduction of in-house developed technologies such as CMOS sensors, our Digital Imaging Processor DIGIC, EF-S digital lenses, and others, Canon has been able to strengthen its competitive position by providing ever higher levels of image resolution, and thus has won wide acclaim from the market. We also introduced the CP-200/300 card photo printer which uses the PictBridge standard to allow direct printing of photos. Demand for film cameras continued to languish, and despite the introduction of new products like the EOS Kiss Lite, sales declined. At the same time, the market for digital video cameras continued to strengthen, and Canon was able to boost both its sales and market share through the introduction of six new products including the IXY DV M2 KIT, which uses our DIGIC DV visual engine technology for high-resolution moving and still pictures.

Sales in this segment rose by 40.4% over the previous term as a result of these various achievements.

### **Change in sales 100 MILLIONS OF YEN**

## Optical and Other Products Operations

Together with the recovery in the semiconductor market, semiconductor manufacturing equipment demand also began to improve. Against this backdrop, we started shipments of the FPA-6000AS4 ArF (argon-fluoride) excimer laser scanning stepper. Expanding sales volumes in Japan and in other parts of Asia helped to boost overall sales figures. Meanwhile, the LCD panel market continued its strong growth from the year 2002, with particularly robust growth in demand for LCD televisions. Consequently, demand for mirror projection mask aligners, needed for mass production of large-format LCD panels, was also strong. Sales of our MPA-7800, which can produce giant panels of 1,200 by 1,300 mm, were impressive and contributed to strong sales overall. The broadcasting industry restrained new investments, which limited sales for broadcasting equipment; however, demand for our DIGISUPER 100xs digital broadcast lens with a 100x zoom capability, and other broadcast-use television lenses that are particularly popular for use in sporting events, remained robust. In the area of medical equipment products, we promoted sales of digital radiography systems, including the launch of a new product called the CXDI-50G, portable X-Ray digital camera featuring the world's largest useable-area sensor.

All of these efforts contributed to a 36.2% increase in sales of this division from the previous term's levels.

### **Change in sales 100 MILLIONS OF YEN**

**n Facilities Investment**

The investment in facilities during this term totaled 107.4 billion yen.

The main facilities are as follows.

**Main facilities completed during this term**

Ayase Plant: Semiconductor Devices Manufacturing Facility (Headquarters Operations)  
(Headquarters Operations)

Location: Ayase-shi, Kanagawa Pref.

Date of Completion: March 2003

**Main facilities under construction for establishment/expansion as of the end of this term**

Fukushima Canon Inc.: New Computer Peripherals Manufacturing Plant\*  
(Business Machines Operations)

Location: Fukushima-shi, Fukushima Pref.

\*To be leased to the above company

Optics R&D Center: New R&D Building  
(Optical Products Operations)

Location: Utsunomiya-shi, Tochigi Pref.

Hiratsuka Development Center: New R&D Building  
(Headquarters Operations)

Location: Hiratsuka-shi, Kanagawa Pref.

Yakou Project (tentative name): New R&D Building  
(Business Machines Operations)

Location: Kawasaki-shi, Kanagawa Pref.

(2) Management Perspectives

While the global economies appear to be headed towards recovery, uncertainties such as the post-war reconstruction of Iraq have created an unpredictable and challenging business environment for our Company that may continue for some time. Against this backdrop, Canon has entered the fourth year of Phase II (2001 to 2005) of its Excellent Global Corporation Plan. We will strive to undertake further reforms that will allow us to overcome adverse changes in the operating environment and build a highly profitable business structure.

Because of our high percentage of overseas sales, insulating our earnings from fluctuations in the foreign exchange markets is a crucial issue. In order to accomplish this, we need to attain further cost reductions by establishing rigid cost controls that can weather even severe foreign exchange conditions; we must use the shared knowledge bases of our development and production divisions to create low-cost factory automation, to pursue the goals of no-inspection and no-prototype manufacturing, and strive in everyway to lower costs.

In order to be able to create hit products, differentiation is critical. Going forward, we need to strategically promote both key devices that feature our unique technologies and the in-house production of key components, as well as to create a solid developmental structure that allows us to integrate advanced technologies so that we are able to bring high value-added products to market.

Canon needs to promote diversification. In addition to focusing efforts on starting up our highly promising SED business, we also need to make efficient use of our existing technologies and resources to expand our core business areas.

We need to build up an infrastructure that will strengthen both our research and development and our production technologies. Therefore, in addition to utilizing new facilities, we will upgrade existing facilities, manufacturing plants, and research and development facilities to strengthen our cutting-edge and mass production technologies.

In order to bring about fair working conditions, we need to firmly put in place a personnel system based on performance. Furthermore, we need to create a human resources infrastructure that will lead to strict enforcement of corporate ethics, and a corporate culture where misconduct can be prevented before it happens.

## (3) Business Results and Status of Assets

|  | <b>99th<br/>Business Term<br/>(Jan. 1, 1999-<br/>Dec. 31, 1999)</b> | <b>100th<br/>Business Term<br/>(Jan. 1, 2000-<br/>Dec. 31, 2000)</b> | <b>101st<br/>Business Term<br/>(Jan. 1, 2001-<br/>Dec. 31, 2001)</b> | <b>102nd<br/>Business Term<br/>(Jan. 1, 2002-<br/>Dec. 31, 2002)</b> | <b>103rd<br/>Business Term<br/>(Jan. 1, 2003-<br/>Dec. 31, 2003)</b> |
|--|---|--|--|--|--|
| Net Sales (100 millions of yen)                              | 14,823  | 16,842   | 17,074   | 17,890   | 20,237   |
| Ordinary Profit (100 millions of yen)                        | 1,135   | 1,559  | 2,111  | 2,409  | 3,206  |
| Net Income (100 millions of yen)                             | 591   | 884  | 391  | 1,441  | 2,287  |
| Net Income Per Share (yen)                                   | 67.92   | 101.32   | 44.71  | 164.46   | 260.03   |
| Total Assets (100 millions of yen)                           | 13,932  | 15,812   | 16,580   | 18,481   | 20,593   |
| Net Assets (Total Stockholders Equity) (100 millions of yen) | 9,891   | 10,956   | 11,184   | 12,353   | 14,442   |

Note: Net income per share is calculated based on the weighted average number of outstanding shares during the term. However from the 101st business term the treasury stock is excluded upon calculation.

In addition, from this term, upon calculation of net income per share, the amount of directors' bonuses shown in the Proposal of Profit Appropriation is deducted from the net income.

**99th Term**

During this term, the U.S. economy sustained favorable performance and the European economies shifted to a basic tone of expansion. Asian economies excluding Japan exhibited a basic tone of recovery, whereas Japan's economy demonstrated a trend toward gradual improvement. Within this business environment, based on the Global Excellent Corporation Plan which entered its fourth year, Canon promoted globalization and diversification and also focused efforts on implementing various policies such as the release of new products, enhancement of the corporate disposition by management reform activities, and the reinforcement of group management. As a result of these activities, although the number of units sold increased, due to the drop in product prices in addition to considerable appreciation of the yen in the foreign exchange market, our total sales fell 5.4%, ordinary profit fell 24.4%, and net income fell 27.8% versus the previous term.

**100th Term**

During this term, the U.S. economy posted high growth and the European economies shifted to an overall pace of steady growth. Asian economies



excluding Japan also sustained favorable growth, while Japan's economy shifted to a basic tone of gradual recovery. Within this business environment, Canon released various new products by advancing the digitalization and networking capability of its products. Moreover, Canon established consolidated management structures and finished implementing the major measures of Phase I of the Excellent Global Corporation Plan (1996-2000), which included further transforming member companies of the Canon group into excellent companies and conducting management reform activities. As a result of these activities, our total sales rose 13.6%, ordinary profit rose 37.4%, and net income rose 49.5% versus the previous term, reaching record-high levels for both total sales and profits.

#### **101st Term**

During this term, the U.S. economy slowed down abruptly from September onward, and European economies exhibited an overall stronger sense of economic decline. The economies of Asian countries, except for China, were sluggish and Japan's economy remained in a severe phase of economic recession. In this term that coincided with the first year of Phase II (2001 to 2005) of the Excellent Global Corporation Plan, Canon took up the challenge of diverse operational reforms and pushed forward with reducing costs and expanding sales. Furthermore, we strategically confronted a wide range of issues, such as establishing a digital photo business and reinforcing our development capacity for key components. As a result of such activities, the total sales for this term increased 1.4% versus the previous term and ordinary profit increased 35.4% versus the previous term, both reaching record-high levels. Due to a one-time amortization of unrecognized net pension obligations, net income dropped 55.7% versus the previous term.

#### **102nd Term**

During this term, while the United States, European and Asian economies all experienced mild recoveries overall, Japan's economy remained weak. As Canon entered the second year of Phase II (2001 to 2005) of its Excellent Global Corporation Plan, we saw progress in the structural and business reforms of our development, production, and marketing functions, with the full introduction of 3D-CAD as well as a shift to cell production. Furthermore, effective reforms in the areas of development and production contributed to large reductions in costs, and helped to raise our overall profitability. Consequently, sales rose by 4.8%, ordinary profit by 14.1%, and net income by 268.2% versus the previous term, to record high levels.

2. Company Profile

*(The following statements are the status as of December 31, 2003, if not specified otherwise.)*

(1) Main Activities

The Company is engaged in manufacture and sale of the following products.

| <b>Operations</b>          |                         | <b>Main Products</b>   |
|----------------------------|-------------------------|--|
|                            | Office Imaging Products | Digital Multifunctional Machines,<br>Copying Machines,<br>Laser Facsimiles   |
| Business Machines          | Computer Peripherals    | Laser Beam Printers,<br>Inkjet Printers,<br>Inkjet Multifunctional Machines/<br>Facsimile Machines,<br>Scanners  |
| Cameras                    |                         | Digital Cameras,<br>Silver Halide Cameras,<br>Digital Video Cameras,<br>Interchangeable Lenses   |
| Optical and Other Products |                         | Semiconductor Production Equipment,<br>Mirror Projection Mask Aligners for LCD Panels,<br>TV Lenses for Broadcasting Stations,<br>Ophthalmic Instruments,<br>X-Ray Equipment,<br>Medical Image Recording Equipment |

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(2) Principal Business Offices and Plants

| Name                                  | Location  | Operation in Charge  |
|---------------------------------------|---|--|
| Head Office                           | Ohta-ku,<br>Tokyo                               | Headquarters Operations<br>Business Machines Operations<br>Cameras Operations          |
| Atsugi Office                         | Atsugi-shi,<br>Kanagawa Pref.                   | Headquarters Operations  |
| Ayase Plant                           | Ayase-shi,<br>Kanagawa Pref.                    | Headquarters Operations  |
| Hiratsuka Development Center          | Hiratsuka-shi,<br>Kanagawa Pref.                | Headquarters Operations  |
| Ecology Research & Development Center | Kizu-cho,<br>Souraku-gun,<br>Kyoto              | Headquarters Operations  |
| Ami Plant                             | Ami-cho,<br>Inashiki-gun,<br>Ibaraki Pref       | Headquarters Operations<br>Business Machines Operations<br>Optical Products Operations |
| Optics R&D Center                     | Utsunomiya-shi,<br>Tochigi Pref                 | Headquarters Operations<br>Cameras Operations<br>Optical Products Operations           |
| Toride Plant                          | Toride-shi,<br>Ibaraki Pref.                    | Business Machines Operations   |
| Kosugi Office                         | Nakahara-ku,<br>Kawasaki-shi,<br>Kanagawa Pref. | Business Machines Operations   |
| Fuji-Susono Research Park             | Susono-shi,<br>Shizuoka Pref.                   | Business Machines Operations   |
| Tamagawa Plant                        | Takatsu-ku,<br>Kawasaki-shi,<br>Kanagawa Pref.  | Business Machines Operations   |
| Utsunomiya Plant                      | Utsunomiya-shi,<br>Tochigi Pref.                | Cameras Operations   |
| Utsunomiya Optical<br>Products Plant  | Utsunomiya-shi,<br>Tochigi Pref.                | Optical Products Operations  |

(3) Shares and Convertible Debentures

n **Shares**

Total Number of Shares Issuable 2,000,000,000 shares  
 Total Outstanding Shares, Capital Stock and Number of Shareholders

|                                    | <b>As of the end of<br/>the Previous Term</b> | <b>Increase/Decrease<br/>during This Term</b> | <b>As of the end of<br/>This Term</b> |
|------------------------------------|---|---|---------------------------------------|
| Total Outstanding Shares (share)   | 879,136,244                                   | 2,202,401                                     | 881,338,645                           |
| Capital Stock (yen)                | 167,242,433,582                               | 1,649,598,349                                 | 168,892,031,931                       |
| Number of Shareholders<br>(person) | 34,148  | 787   | 34,935                                |

Note: The increase of the total outstanding shares and capital stock reflect the conversion of convertible debentures into shares.

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Main Shareholders (Top ten shareholders)

| Name of Shareholders   | Investment by the Shareholders in the Company |                            | Investment by the Company in the Shareholders |                            |
|--|---|----------------------------|---|----------------------------|
|  | Number of Shares Held (thousands of shares)   | Ratio of Voting Rights (%) | Number of Shares Held (thousands of shares)   | Ratio of Voting Rights (%) |
| State Street Bank and Trust Company                                | 63,441  | 7.3                        |   |                            |
| Japan Trustee Services Bank, Ltd. (Trust Account)                  | 61,301  | 7.0                        |   |                            |
| The Dai-Ichi Mutual Life Insurance Co.                             | 59,090  | 6.8                        |   |                            |
| The Master Trust Bank of Japan, Ltd. (Trust Account)               | 43,277  | 5.0                        |   |                            |
| Mizuho Corporate Bank, Ltd.  | 32,784  | 3.8                        |   |                            |
| The Chase Manhattan Bank, N.A. London                              | 28,297  | 3.2                        |   |                            |
| Moxley & Co.   | 27,717  | 3.2                        |   |                            |
| The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account | 21,366  | 2.4                        |   |                            |
| Mellon Bank Treaty Clients Omnibus                                 | 18,076  | 2.1                        |   |                            |
| Sompo Japan Insurance Inc.   | 15,273  | 1.7                        |   |                            |

- Notes:
1. With respect to Mizuho Corporate Bank, Ltd., in addition to the above, there are 1,298 (thousands) shares of the Company's stock, in the form of trust property relating to retirement allowance trust.
  2. The Company owns 6,263 (thousands) shares (ratio of voting rights: 0.6%) of Sompo Japan Insurance Inc.'s stock, in the form of trust property relating to retirement allowance trust. Ratio of voting rights is calculated based on the number of voting rights as of March 31, 2003.

Ratio of Holdings by Shareholders

n **Convertible Debentures**

| Issues  | Total Amount       | Balance of Convertible<br>Debentures | Ratio of<br>Conversion |
|---|--------------------|--------------------------------------|------------------------|
| The third series of Unsecured Convertible<br>Debentures Due 2008              | 40,000 million yen | 9,157 million yen                    | 77.1%                  |
| The fourth series of Unsecured Convertible<br>Debentures Due 2005             | 30,000 million yen | 2,577 million yen                    | 91.4%                  |
| (4) Acquisition, Disposition, etc., and Ownership of the Company's Own Shares |                    |                                      |                        |

| Acquisition during this Term   |   | Disposition during this Term  |   | Number of Own<br>Shares as of the<br>end of this Term |
|--------------------------------|---|-------------------------------|---|---|
| Number of<br>Shares            | Total Amount<br>of Acquisition<br>Price | Number of<br>Shares           | Total Amount<br>of Disposition<br>Price |   |
| Common stock<br>245,771 shares | 1,291<br>million yen                    | Common stock<br>12,815 shares | 60 million yen                          | Common stock<br>1,606,513 shares                      |

- Notes:
1. The acquisitions and dispositions during this term reflect the purchase and sales of less-than-one-unit shares, respectively.
  2. There were no share annulment procedures with respect to the Company's own shares during this term.
  3. The number of the Company's own shares as of the end of the previous term was 1,373,557 shares of common stock.

(5) Employees

|  |                       |
|--|-----------------------|
| Number of Employees                      | 18,828 pers.          |
| Increase/Decrease from the Previous Term | decrease of 913 pers. |
| Average Age                              | 38.9 yrs.             |
| Average Years of Service                 | 16.0 yrs.             |

- Notes:
1. Number of employees represents the total number of employees (excluding those who do not work full-time).
  2. In addition to the employees listed above, 1,854 persons have been dispatched to affiliated companies, etc.

## (6) Consolidated Status

n **Principal Subsidiaries**

| Name of Subsidiary     | Capital Stock               | Ratio of<br>Voting Rights<br>of<br>the Company | Main Activities  |
|------------------------|-----------------------------|--|--|
| Canon Sales Co., Inc.  | 73,303 millions of yen      | 51.1%  | Domestic sale of business machines, cameras, etc.  |
| Canon Electronics Inc. | 4,969 millions of yen       | 61.7%  | Manufacture and sale of information related equipments and precision machinery units for cameras |
| Canon Finetech Inc.    | 3,451 millions of yen       | 60.4%  | Manufacture and sale of printers, peripheral devices for business machines and chemicals, etc.   |
| Canon Software Inc.    | 1,348 millions of yen       | 58.3%  | Development and sale of computer software  |
| NISCA Corporation      | 2,102 millions of yen       | 51.2%  | Manufacture and sale of office automation equipment and optical measurement equipment, etc.      |
| Canon U.S.A., Inc.     | 204,355 thousands of U.S.\$ | 100.0%   | Sale of business machines, cameras, etc. in the Americas   |
| Canon Europa N.V.      | 290,600 thousands of Euro   | 100.0%   | Sale of business machines, cameras, etc. in Europe   |

- Notes:
1. The ratio of the Company's voting rights in Canon Sales Co., Inc. is calculated together with the number of voting rights held by a subsidiary.
  2. The ratio of the Company's voting rights in Canon Software Inc. and in NISCA Corporation are based on the number of voting rights held by a subsidiary.

n **Consolidated Progress**

1. Canon Aptex Inc. and Copyer Co., Ltd. Merged as of January 1, 2003 in order to integrate the two companies' technical know-how and management resources in the business machines and printer operations, and to strengthen the corporate base. The merged company's trade name was changed to Canon Finetech Inc.
2. As of April 1, 2003, in order to further strengthen the ink jet printer operations, the Company has spun off Fukushima Plant through corporate separation into the Company's wholly-owned subsidiary Fukushima Canon Inc., a newly established company to become the core manufacturing company of ink jet printers.

**n Consolidated Financial Summary**

The number of consolidated subsidiaries of this term was 198, and the number of companies accounted for on equity basis was 19.

The consolidated financial summary of this term is as follows:

|  | <b>This Term</b><br><b>Jan.1, 2003-Dec.31,</b><br><b>2003</b> | <b>Previous Term</b><br><b>(Reference)</b><br><b>Jan.1, 2002-Dec.31, 2002</b> |
|--|---|---|
| Net sales<br>(100 millions of yen)                         | 31,981  | 29,401  |
| Income before income taxes<br>(100 millions of yen)        | 4,482   | 3,300   |
| Net income<br>(100 millions of yen)                        | 2,757   | 1,907   |
| Net income per share<br>(yen)                              | 313.81  | 217.56  |
| Total assets<br>(100 millions of yen)                      | 31,821  | 29,427  |
| Net assets (Stockholders' equity)<br>(100 millions of yen) | 18,655  | 15,919  |

- Notes:
1. The Company prepares consolidated financial statements which conform with the United States generally accepted accounting principles.
  2. Net income per share is calculated based on the weighted average number of outstanding shares during each term.

**(7) Principal Lenders**

| <b>Lender</b>        | <b>Outstanding<br/>Loan</b><br><b>(100 millions<br/>of yen)</b> | <b>Number of Shares of<br/>the<br/>Company Held by<br/>Lender</b><br><b>(thousands of shares)</b> | <b>Ratio of<br/>Voting<br/>Rights (%)</b> |
|----------------------|---|---|---|
| Canon Chemicals Inc. | 193   |   |   |
| Oita Canon Inc.      | 146   |   |   |

Note: The loans from the Company's subsidiaries Canon Chemicals Inc. and Oita Canon Inc. are due to the comprehensive management of surplus assets of such subsidiaries by the Company for the purpose of improving the efficiency of group assets management.



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(8) Directors and Corporate Auditors

| Position                 | Name               | Business in Charge or Main Occupation   |
|--------------------------|--------------------|---|
| President & C.E.O.       | Fujio Mitarai      |   |
| Senior Managing Director | Ichiro Endo        | Group Executive of Technology Management Headquarters   |
| Senior Managing Director | Yukio Yamashita    | Group Executive of Human Resources Management & Organization Headquarters   |
| Senior Managing Director | Toshizo Tanaka     | Group Executive of Finance & Accounting Headquarters  |
| Senior Managing Director | Kinya Uchida       | President of Canon U.S.A., Inc.   |
| Senior Managing Director | Akira Tajima       | Chief Executive of Optical Products Operations  |
| Senior Managing Director | Tsuneji Uchida     | Chief Executive of Image Communication Products Operations  |
| Managing Director        | Takashi Saito      | Deputy Managing Director of Canon Europe Ltd.   |
| Managing Director        | Yusuke Emura       | Group Executive of Global Environment Promotion Headquarters  |
| Managing Director        | Nobuyoshi Tanaka   | Group Executive of Corporate Intellectual Property and Legal Headquarters   |
| Managing Director        | Junji Ichikawa     | Group Executive of Production Management Headquarters   |
| Managing Director        | Hajime Tsuruoka    | President of Canon Europa N.V.  |
| Managing Director        | Akiyoshi Moroe     | Group Executive of General Affairs Headquarters; Group Executive of Information & Communication Systems Headquarters  |
| Managing Director        | Kunio Watanabe     | Group Executive of Corporate Planning Development Headquarters  |
| Managing Director        | Ikuo Soma          | Chief Executive of Office Imaging Products Operations   |
| Director                 | Teruomi Takahashi  | Chief Executive of Chemical Products Operations   |
| Director                 | Hironori Yamamoto  | Group Executive of the Core Technology Development Headquarters; Group Executive of Leading-Edge Technology Development Headquarters; Group Executive of SED Development Headquarters |
| Director                 | Yoroku Adachi      | President of Canon (China) Co., Ltd.  |
| Director                 | Yasuo Mitsushashi  | Chief Executive of Peripheral Products Operations   |
| Director                 | Katsuichi Shimizu* | Chief Executive of Inkjet Products Operations   |
| Director                 | Ryoichi Bamba*     | Executive Vice President of Canon U.S.A., Inc.  |
| Director                 | Tomonori Iwashita* | Deputy Chief Executive of Image Communication Products Operations   |
| Director                 | Toshio Homma*      | Group Executive of L Printer Business Promotion Headquarters  |
| Director                 | Shigeru Imaiida*   | Deputy Group Executive of Production Management Headquarters  |
| Corporate Auditor        | Kohtaro Miyagi     |   |
| Corporate Auditor        | Masaharu Aono      |   |
| Corporate Auditor        | Tadashi Ohe        | Attorney  |
| Corporate Auditor        | Tetsuo Yoshizawa   |   |

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- Notes:
1. Directors with \* were newly elected at the Ordinary General Meeting of Shareholders for the 102nd Business Term which was held on March 28, 2003, and assumed their positions accordingly.
  2. Directors Mr. Toru Takahashi and Mr. Muneo Adachi retired at the end of the Ordinary General Meeting of Shareholders for the 102nd Business Term which was held on March 28, 2003.
  3. Corporate Auditors Mr. Tadashi Ohe and Mr. Tetsuo Yoshizawa are the outside Corporate Auditors stipulated in Article 18, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations.

### (9) Accounting Auditors

Shin Nihon & Co.

Hibiya Kokusai Bldg., 2-3 Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo

3. Important Events Occurred after this Business Term in respect to the Company's Situation  
There is nothing to be mentioned specifically.
- 

Note: The figures for amount stated in this Business Report are those rounded off to the nearest unit, provided that in respect to the net income per share, the figures are those rounded off to the second decimal places. The figures for the number of stock are those omitting the figures less than the unit.

## Balance Sheets

| ASSETS  | Millions of yen        |                        |
|---|------------------------|------------------------|
|   | As of Dec. 31,<br>2003 | As of Dec. 31,<br>2002 |
| <b>Current Assets</b>                         | <b>1,151,428</b>       | <b>952,082</b>         |
| Cash and deposits                             | 197,700                | 64,262                 |
| Notes receivable                              | 196,415                | 213,014                |
| Accounts receivable                           | 454,520                | 364,357                |
| Marketable securities                         | 63                     | 474                    |
| Finished goods                                | 84,955                 | 73,620                 |
| Work in process                               | 90,773                 | 99,614                 |
| Raw materials and supplies                    | 2,959                  | 3,069                  |
| Deferred tax assets                           | 24,351                 | 22,722                 |
| Short-term loans receivable                   | 21,868                 | 30,294                 |
| Other current assets                          | 84,870                 | 91,636                 |
| Allowance for doubtful receivables            | (7,046)                | (10,986)               |
| <b>Fixed Assets</b>                           | <b>907,889</b>         | <b>896,054</b>         |
| <b>Property, Plant And Equipment</b>          | <b>461,971</b>         | <b>440,501</b>         |
| Buildings                                     | 213,147                | 223,245                |
| Machinery                                     | 88,573                 | 79,019                 |
| Vehicles                                      | 181                    | 218                    |
| Tools and equipment                           | 43,616                 | 43,297                 |
| Land  | 92,413                 | 80,326                 |
| Construction in progress                      | 24,041                 | 14,393                 |
| <b>Intangibles</b>                            | <b>19,422</b>          | <b>27,668</b>          |
| Industrial property rights                    | 190                    | 112                    |
| Facility utility rights                       | 467                    | 501                    |
| Software                                      | 18,765                 | 27,054                 |
| <b>Investments</b>                            | <b>426,496</b>         | <b>427,884</b>         |
| Marketable securities-noncurrent              | 55,396                 | 33,278                 |
| Investment in subsidiaries                    | 290,453                | 282,231                |
| Long-term loans receivable                    | 7,027                  | 4,587                  |
| Long-term pre-paid expenses                   | 8,438                  | 10,986                 |
| Deferred tax assets-noncurrent                | 59,758                 | 89,082                 |
| Guarantees                                    | 3,130                  | 3,350                  |
| Other noncurrent assets                       | 2,334                  | 4,420                  |
| Allowance for doubtful receivables-noncurrent | (40)                   | (52)                   |
| <b>TOTAL ASSETS</b>                           | <b>2,059,317</b>       | <b>1,848,136</b>       |

## Notes:

- |    |   |                     |
|----|---|---------------------|
| 1. | From this period, amount less than 1 million are rounded off. |                     |
| 2. | Current receivable from subsidiaries                          | 705,259 million yen |
|    | Noncurrent receivable from subsidiaries                       | 7,004 million yen   |
|    | Current payable to subsidiaries                               | 245,265 million yen |
| 3. | Accumulated depreciation of property, plant and equipment     | 597,270 million yen |

| LIABILITIES AND STOCKHOLDERS' EQUITY               | Millions of yen        |                        |
|--|------------------------|------------------------|
|  | As of Dec. 31,<br>2003 | As of Dec. 31,<br>2002 |
| <b>Current Liabilities</b>                         | <b>497,954</b>         | <b>441,106</b>         |
| Notes payable                                      | 15,360                 | 20,698                 |
| Accounts payable                                   | 265,848                | 259,202                |
| Short-term loans                                   | 49,603                 | 53,772                 |
| Other payable                                      | 37,278                 | 9,314                  |
| Accrued expenses                                   | 49,980                 | 19,011                 |
| Accrued income taxes                               | 62,713                 | 62,629                 |
| Deposits   | 7,641                  | 6,026                  |
| Accrued bonuses for employees                      | 4,541                  | 4,491                  |
| Other current liabilities                          | 4,990                  | 5,960                  |
| <b>Noncurrent Liabilities</b>                      | <b>117,203</b>         | <b>171,720</b>         |
| Convertible debenture                              | 11,734                 | 15,031                 |
| Long-term debts                                    | 1                      | 1                      |
| Accrued pension and severance cost                 | 104,230                | 156,687                |
| Accrued directors' retirement benefit              | 1,238                  |                        |
| <b>TOTAL LIABILITIES</b>                           | <b>615,157</b>         | <b>612,827</b>         |
| <b>Common Stock</b>                                | <b>168,892</b>         | <b>167,242</b>         |
| <b>Capital Surplus</b>                             | <b>300,428</b>         | <b>298,778</b>         |
| Additional paid-in capital                         | 300,426                | 298,778                |
| Other capital surplus                              | 2                      |                        |
| <b>Retained Earnings</b>                           | <b>974,276</b>         | <b>774,287</b>         |
| Legal reserve                                      | 22,114                 | 22,114                 |
| Reserve for special depreciation                   | 3,896                  | 3,753                  |
| Reserve for deferral of capital gain on property   | 9                      | 13                     |
| Special reserves                                   | 719,428                | 604,028                |
| Unappropriated retained earnings                   | 228,829                | 144,379                |
| <b>Net Unrealized Gains (Losses) on Securities</b> | <b>8,015</b>           | <b>1,162</b>           |
| <b>Treasury Stock</b>                              | <b>(7,451)</b>         | <b>(6,162)</b>         |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                  | <b>1,444,160</b>       | <b>1,235,309</b>       |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>2,059,317</b>       | <b>1,848,136</b>       |

- |    |   |                    |
|----|---|--------------------|
| 4. | Contingent liabilities  |                    |
|    | Guarantees  | 49,312 million yen |
|    | Letter of awareness and others  | 3,597 million yen  |
| 5. | The amount not allowed for dividend by the Commercial Code in the retained earnings and unrealized gain | 7,959 million yen  |

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Income Statements

|  | Millions of yen             |                             |
|--|-----------------------------|-----------------------------|
|  | Year ended<br>Dec. 31, 2003 | Year ended<br>Dec. 31, 2002 |
| <b>OPERATING PROFIT AND LOSS</b>   |                             |                             |
| <b>Operating Revenue</b>   | <b>2,023,722</b>            | <b>1,789,005</b>            |
| Net sales  | 2,023,722                   | 1,789,005                   |
| <b>Operating Expenses</b>  | <b>1,703,683</b>            | <b>1,551,811</b>            |
| Cost of sales  | 1,250,336                   | 1,149,326                   |
| Selling, general and administrative expenses                                     | 453,347                     | 402,485                     |
| <b>OPERATING PROFIT</b>  | <b>320,039</b>              | <b>237,193</b>              |
| <b>OTHER INCOME AND EXPENSE</b>  |                             |                             |
| <b>Other Income</b>  | <b>51,847</b>               | <b>47,315</b>               |
| Interest income  | 493                         | 639                         |
| Dividend income  | 9,457                       | 9,903                       |
| Rental income  | 10,672                      | 7,712                       |
| Patent royalties   | 21,691                      | 20,239                      |
| Miscellaneous income   | 9,534                       | 8,820                       |
| <b>Other Expense</b>   | <b>51,270</b>               | <b>43,525</b>               |
| Interest expense   | 252                         | 252                         |
| Selling charge for export bills  | 6                           | 30                          |
| Depreciation of rental assets  | 9,482                       | 6,800                       |
| Loss on disposal and write-off of inventories                                    | 19,827                      | 7,777                       |
| Foreign exchange loss  | 16,253                      | 18,707                      |
| Miscellaneous loss   | 5,450                       | 9,957                       |
| <b>ORDINARY PROFIT</b>   | <b>320,616</b>              | <b>240,982</b>              |
| <b>NON-ORDINARY INCOME AND LOSS</b>  |                             |                             |
| <b>Non-Ordinary Income</b>   | <b>46,425</b>               | <b>380</b>                  |
| Gain on sales of fixed assets  | 18                          | 380                         |
| Gain on sales of investments in subsidiaries                                     | 527                         |                             |
| Gain on exemption from the substitutional portion of the employee s pension fund | 45,880                      |                             |
| <b>Non-Ordinary Loss</b>   | <b>6,291</b>                | <b>9,073</b>                |
| Loss on sales and disposal of fixed assets                                       | 6,291                       | 7,370                       |
| Loss on write-off of investments in subsidiaries                                 |                             | 1,703                       |
| <b>INCOME BEFORE INCOME TAXES</b>  | <b>360,750</b>              | <b>232,289</b>              |
| Income taxes    Current  | 113,001                     | 97,520                      |
| Deferred   | 19,082                      | (9,415)                     |
| <b>NET INCOME</b>  | <b>228,667</b>              | <b>144,184</b>              |
| Unappropriated retained earnings brought forward from previous term              | 13,340                      | 11,154                      |
| Interim dividends  | 13,178                      | 10,959                      |
| <b>UNAPPROPRIATED RETAINED EARNINGS</b>  | <b>228,829</b>              | <b>144,379</b>              |

Notes:

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|    |   |                   |                       |
|----|---|-------------------|-----------------------|
| 1. | From this period, amount less than 1 million are rounded off. |                   |                       |
| 2. | Transactions with subsidiaries:                               | Seles             | 1,967,292 million yen |
|    |   | Purchase          | 1,129,952 million yen |
|    |   | Other transaction | 34,998 million yen    |
| 3. | Net income per share  |                   | 260.03 yen            |

Significant Accounting Policies

1. Valuation of Securities

- (1) Securities of affiliates stated at cost based on the moving average method.
- (2) Other securities

Securities with quotation stated at fair value (unrealized holdings gains and losses are reported in stockholders equity, when sold, the cost is based on the moving average method.)

Securities without quotation stated at cost based on the moving average method.

2. Valuation of Inventories

- (1) Finished goods, work in process valued at cost based on the periodic average method.
- (2) Raw materials and supplies valued at cost based on the moving average method.

3. Depreciation Method for Fixed Assets

- (1) Property, plant and equipment calculated by declining-balance method according to the Corporation Tax Law, except for buildings acquired after April 1, 1998, depreciation is calculated by straight-line method.
- (2) Intangibles calculated by straight-line method according to the Corporation Tax Law, except for software to be sold by straight-line method over the estimated economic life of the product and internal-use software by straight-line method over the estimated useful life.

4. Deferred Charges The items which can be deferred under the Commercial Code are charged to operations as incurred.

5. Standard for Allowances

- (1) Allowance for doubtful accounts provided as a general provision for uncollectible receivables.
- (2) Accrued bonuses for employees provided as a general provision for bonus payable to employees for the current term.
- (3) Accrued pension and severance cost provided as a general provision for employee retirement and severance benefit based on projected benefit obligation and expected plan asset. Prior service cost and unrecognized loss is to be amortized by straight-line method with average remaining service periods.
- (4) Accrued directors retirement benefit provision for directors retirement benefit are made in the amount which would be required in accordance with management policy. This provision is made as required by the Japanese Commercial Code. Section 43. Under the previous accounting

policy, directors' retirement benefit have been expensed as paid. The Company has changed its accounting policy for provisions for directors' retirement benefit from this period. As a result of adoption of this change, current year expenses of ¥213 million has been charged to selling, general and administrative expenses and expenses for the previous period of ¥1,025 million has been charged to other expense. This change resulted in decrease of Operating profit by ¥213 million and Ordinary profit by ¥1,238 million, compared with what would have been recorded under the previous accounting standard.

6. Hedge accounting

(1) Hedge accounting deferral hedge accounting has been applied.

(2) Hedging instrument and hedged assets / liabilities

Hedging instrument derivative transaction (foreign exchange contract)

Hedged assets / liabilities accounts receivables denominated in foreign currency for forecasted transaction.

(3) Hedge policy derivative financial instruments are comprised principally of foreign exchange contracts to manage currency risk. The Company does not hold derivative financial instrument for trading purpose.

(4) Assessment of hedge effectiveness foreign exchange contract due to the same quantity of the same underlying at same time, is fully effective.

7. Consumption Taxes excluded from the statements of income and are accumulated in other receivables or other payables.

8. Net income per share

The Company has adopted Accounting standards for Net Earnings Per Share and Guidelines for the Application of Accounting standards for Net Earnings Per Common Share that have become applicable to the Financial Statements under the Japanese Commercial Code from the financial period starting from April 1, 2002. The adoption did not have material effect.

(Exemption from the substitutional portion of the employee's pension fund)

On March 1, 2003, The Company received the approval of the Japanese government to eliminate future benefit obligations related to the governmental welfare component of the Company's contributory defined benefit pension plans, following the enactment of the Defined Benefit Corporate Pension Plan Act. The Company, upon the final approval from the Japanese government, has adopted the transition requirements of paragraph 47-2 of Practical Guideline on Accounting Standards for Retirement Benefits (Accounting System Committee Report No.13) and has accounted for the elimination of future benefits and relief of past obligation with the transfer of assets as a single settlement transaction.



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Based on current assumptions, the Company estimates that this transaction would result in the transfer of approximately ¥63,929 million in the plan assets.

(Tax effect accounting)

The Japanese government enacted a change of the Collective Decentralization Law on March 31, 2003 and, accordingly, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities (applicable only to those realizable from the fiscal year starting from January 1, 2005) was changed from 42% to 40%. As a result, deferred tax assets has decreased by ¥2,682 million and net unrealized gains (losses) on securities has increased by ¥106 million, income taxes deferred has increased by ¥2,788 million.

(Shares Defined under Article 222)

The Company has adopted Guidelines for Values of Shares Defined under Article 222 on Balance Sheets earlier than its effective date. As a result, deferred tax assets has decreased by ¥2,984 million and net unrealized gains (losses) on securities has increased by ¥4,120 million.

(Adoption of Revised Ministry of Justice Ordinance)

As from this period the Company has adopted the revised Ministry of Justice Ordinance (Ordinance No.68 of September 22, 2003).

## Proposal of Profit Appropriation

|  | <u>2003</u>             | <u>2002</u>             |
|--|-------------------------|-------------------------|
| Unappropriated retained earnings                             | ¥ 228,829,176,947       | ¥ 144,379,301,735       |
| Reversal of reserve for special depreciation                 | 893,810,204             | 747,647,926             |
| Reversal of reserve for deferral of capital gain on property | 2,677,184               | 3,718,310               |
| Total  | <u>229,725,664,335</u>  | <u>145,130,667,971</u>  |
| The above amount shall be appropriated as follows:           |                         |                         |
| Cash dividends   | 30,790,624,620          | 15,360,847,023          |
|  | (¥35 per share)         | (¥17.50 per share)      |
| Directors' bonuses   | 189,000,000             | 139,300,000             |
| Reserve for special depreciation                             | 6,068,636,774           | 890,234,015             |
| Reserve for deferral of capital gain on property             | 170,918                 |                         |
| Special reserves   | 170,400,000,000         | 115,400,000,000         |
| Total  | <u>207,448,432,312</u>  | <u>131,790,381,038</u>  |
| Unappropriated profit carried forward to the next term       | <u>¥ 22,277,232,023</u> | <u>¥ 13,340,286,933</u> |

## Notes to Proposal of Profit Appropriation

- Interim dividends of ¥13,177,734,645 (¥15 per share) was paid on August 28, 2003.
- The amount of reserve for special depreciation includes ¥78,007,707, which is caused by change of statutory tax rate due to adoption of pro forma standard taxation.
- The amount of reserve for deferral of capital gain on property is caused by change of statutory tax rate due to adoption of pro forma standard taxation.
- The total of other capital surplus is brought forward to the next term.

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Audit Report of Accounting Auditors  
(Certified Copy)

Audit Report of Independent Auditor

January 27, 2004

To the Board of Directors of  
Canon Inc.

Shin Nihon & Co.

Toshio Matsumura  
Certified Public Accountant  
Representative Partner  
Partner in Charge

Michio Shibuya  
Certified Public Accountant  
Representative Partner  
Partner in Charge

Eiichi Wada  
Certified Public Accountant  
Representative Partner  
Partner in Charge

We have examined the financial reports of Canon Inc. for the 103rd business term from January 1, 2003 to December 31, 2003, namely, the balance sheets, the income statements, the business report (limited to matters concerning accounting), the proposal of profit appropriation, and the accompanying detailed statements (limited to matters concerning accounting), for the purpose of reporting under the provisions of Article 2 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations. With respect to the aforementioned business report and the accompanying detailed statements, our examination was limited to those matters based on the accounting records of the Company. Responsibility as to the preparation of such financial reports and the accompanying detailed statements lies with the management of the Company, and the responsibility of our Audit Corporation is to express our opinion on the financial reports and the accompanying detailed statements from an independent position.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. The auditing standards require that our Audit Corporation

obtain reasonable assurance that there are no material false representations in the financial reports and the accompanying detailed statements. The audit is conducted on a test basis and includes the examination of representations in the financial reports and the accompanying detailed statements as a whole, including the examination of the accounting principles adopted by the management and the method of application thereof and the evaluation of the estimate by the management. Our Audit Corporation has determined that, as a result of the audit, we have obtained a reasonable basis for giving an opinion. Also, the audit includes the examination of the subsidiary corporations, which we considered to be necessary.

As a result of the audit, our opinion is as follows.

- (1) The balance sheets and the income statements present fairly the status of assets and earnings of the Company in conformity with laws, regulations and the Articles of Incorporation of the Company.
- (2) The business report, as far as the accounting data included in such report are concerned, presents fairly the status of the Company in conformity with laws, regulations and the Articles of Incorporation of the Company.
- (3) The proposal of profit appropriation has been prepared in conformity with laws, regulations and the Articles of Incorporation of the Company.
- (4) With respect to the accompanying detailed statements, as far as the accounting data included in such accompanying detailed statements are concerned, there are none to be pointed out under the provisions of the Commercial Code.

Our Audit Corporation or Partners in Charge have no financial or other interest in the Company required to be stated by the provisions of the Certified Public Accountant Law.

Audit Report of Board of Corporate Auditors  
(Certified Copy)

Audit Report

The Board of Corporate Auditors, has received reports from each Corporate Auditor on the auditing methods and the auditing results regarding the performance by the Directors of their duties during the 103rd business term from January 1, 2003 to December 31, 2003, and has prepared this Audit Report upon deliberation, and hereby report as follows:

1. Outline of Corporate Auditors Auditing Methods

In accordance with the auditing policies, share of assignment, etc. stipulated by the Board of Corporate Auditors, each Corporate Auditor attended meetings of the Board of Directors and other important meetings; received reports related to business operations from Directors, etc.; inspected important decision documents, etc.; investigated the activities and assets of the headquarters and of other principal places of business; and also demanded the subsidiaries, as the occasion demands, to render reports on their business operations. In addition, we also received reports and explanations from accounting auditors and examined the accounting documents and accompanying detailed statements.

Regarding competitive transactions by Directors, transactions between Directors and the Company bearing a conflict of interests, gratuitous offering of proprietary profit by the Company, any transaction not customary in nature between the Company and its subsidiaries or shareholders, and the acquisition, disposal, and other transactions involving the Company's own shares, we made detailed investigations of the pertinent transactions and demanded reports from the Directors, etc., as the occasion demands, in addition to methods of audit mentioned above.

2. Results of Audit

- (1) The methods and results of the audit made by the accounting auditors, Shin Nihon & Co., an incorporated auditing firm, are found to be proper.
- (2) The business report is found to accurately present the status of the Company in conformity with the laws, regulations and Articles of Incorporation.
- (3) The proposition of profit appropriation is found to have nothing to be pointed out in light of the status of corporate assets and other

circumstances.

- (4) The accompanying detailed statements are found to accurately present the matters to be stated therein and to have nothing to be pointed out.
- (5) In connection with the performance by the Directors of their duties, including the duties relating to the subsidiaries, no dishonest act or significant fact of a violation of laws, regulations, or the Articles of Incorporation is found to exist.

Regarding competitive transactions by Directors, transactions between Directors and the Company bearing a conflict of interests, gratuitous offering of proprietary profit by the Company, any transaction not customary in nature between the Company and its subsidiaries or shareholders, and the acquisition, disposal, and other transactions involving the Company's own shares, we find that there is no breach of duties on the part of the Directors.

January 29, 2004

Board of Corporate Auditors, Canon Inc.

Kohtaro Miyagi  
Masaharu Aono  
Tadashi Ohe  
Tetsuo Yoshizawa

Corporate Auditor  
Corporate Auditor  
Corporate Auditor  
Corporate Auditor

Note: Corporate Auditors Mr. Tadashi Ohe and Mr. Tetsuo Yoshizawa are the outside Corporate Auditors stipulated in Article 18, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations. (The above are the materials attached to the Notice of Convocation of the Ordinary General Meeting of Shareholders for the 103rd Business Term.)

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(For reference)

CONSOLIDATED RESULTS

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

Consolidated Balance Sheets

| ASSETS   | Millions of yen                |                                |
|--|--------------------------------|--------------------------------|
|  | As of Dec. 31,<br>2003         | As of Dec. 31,<br>2002         |
| <b>Current assets:</b>                         |                                |                                |
| Cash and cash equivalents                      | 690,298                        | 521,271                        |
| Marketable securities                          | 1,324                          | 7,255                          |
| Trade receivables, less allowance              | 539,006                        | 498,587                        |
| Inventories                                    | 444,244                        | 432,251                        |
| Prepaid expenses and other current assets      | 255,905                        | 245,610                        |
| <b>Total current assets</b>                    | <b>1,930,777</b>               | <b>1,704,974</b>               |
| Noncurrent receivables                         | 16,543                         | 20,568                         |
| Investments                                    | 78,912                         | 64,037                         |
| Property, plant and equipment, net             | 846,433                        | 830,304                        |
| Other assets                                   | 309,483                        | 322,823                        |
| <b>Total assets</b>                            | <b>3,182,148</b>               | <b>2,942,706</b>               |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>    | <b>As of Dec. 31,<br/>2003</b> | <b>As of Dec. 31,<br/>2002</b> |
| <b>Current liabilities:</b>                    |                                |                                |
| Short-term loans                               | 39,136                         | 66,754                         |
| Trade payables                                 | 391,181                        | 408,464                        |
| Income taxes                                   | 83,064                         | 80,169                         |
| Accrued expenses                               | 193,657                        | 154,621                        |
| Other current liabilities                      | 120,265                        | 91,832                         |
| <b>Total current liabilities</b>               | <b>827,303</b>                 | <b>801,840</b>                 |
| Long-term debt, excluding current installments | 59,260                         | 81,349                         |
| Accrued pension and severance cost             | 238,001                        | 285,129                        |
| Other noncurrent liabilities                   | 30,843                         | 26,193                         |
| <b>Total liabilities</b>                       | <b>1,155,407</b>               | <b>1,194,511</b>               |
| <b>Minority interests</b>                      | <b>161,196</b>                 | <b>156,245</b>                 |
| <b>Stockholders' equity:</b>                   |                                |                                |
| Common stock                                   | 168,892                        | 167,242                        |
| Additional paid-in capital                     | 396,939                        | 394,088                        |
| Retained earnings                              | 1,450,440                      | 1,203,248                      |
| Accumulated other comprehensive income (loss)  | (143,275)                      | (166,467)                      |
| Treasury stock                                 | (7,451)                        | (6,161)                        |
| <b>Total stockholders' equity</b>              | <b>1,865,545</b>               | <b>1,591,950</b>               |



|  |                                |                                |
|--|--------------------------------|--------------------------------|
| <b>Total liabilities and stockholders equity</b>         | <b>3,182,148</b>               | <b>2,942,706</b>               |
|  | <hr/>                          | <hr/>                          |
| <b>Notes:</b>  |                                | <b>Millions of yen</b>         |
|  | <b>As of Dec. 31,<br/>2003</b> | <b>As of Dec. 31,<br/>2002</b> |
|  | <hr/>                          | <hr/>                          |
| <b>1. Allowance for doubtful receivables</b>             | <b>14,423</b>                  | <b>12,031</b>                  |
| <b>2. Accumulated depreciation</b>                       | <b>1,118,183</b>               | <b>1,077,694</b>               |
| <b>3. Accumulated other comprehensive income (loss):</b> |                                |                                |
| Foreign currency translation adjustments                 | (83,801)                       | (68,524)                       |
| Net unrealized gains and losses on securities            | 6,784                          | (1,168)                        |
| Minimum pension liability adjustments                    | (65,961)                       | (96,441)                       |
| Net gains and losses on derivative financial instruments | (297)                          | (334)                          |

## Consolidated Statements of Income

|  | Millions of yen             |                             |
|--|-----------------------------|-----------------------------|
|  | Year ended<br>Dec. 31, 2003 | Year ended<br>Dec. 31, 2002 |
| <b>Net sales</b>   | <b>3,198,072</b>            | <b>2,940,128</b>            |
| Cost of sales  | 1,589,172                   | 1,540,097                   |
| <b>Gross profit</b>                                      | <b>1,608,900</b>            | <b>1,400,031</b>            |
| Selling, general and administrative expenses             | 1,154,476                   | 1,053,672                   |
| <b>Operating profit</b>                                  | <b>454,424</b>              | <b>346,359</b>              |
| <b>Other income (deductions):</b>                        | <b>(6,254)</b>              | <b>(16,342)</b>             |
| Interest and dividend income                             | 9,284                       | 9,198                       |
| Interest expense   | (4,627)                     | (6,788)                     |
| Other, net   | (10,911)                    | (18,752)                    |
| <b>Income before income taxes and minority interests</b> | <b>448,170</b>              | <b>330,017</b>              |
| Income taxes   | 162,653                     | 134,703                     |
| Minority interests                                       | 9,787                       | 4,577                       |
| <b>Net income</b>  | <b>275,730</b>              | <b>190,737</b>              |

## Notes:

1. Basic net income per share ¥313.81
2. 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 year ended December 31, 2003 and 2002 were ¥298,922 million and ¥159,438 million, respectively.

## Constitution of Sales

100 MILLIONS OF YEN

## Sales by Operations

## Sales by Region

## Note:

From this period, Canon has revised the product categories contained within the Business Machines segment and discloses Office Imaging Products, Computer Peripherals and Business Information Products.

- \* Information related to consolidated results is described on page 36 and page 37 also.

INFORMATION ON SHARES

**Closing of accounts:**

December 31 of each year

**Ordinary general meeting of shareholders:**

March of each year

**Record date for above:**

December 31 of each year

*Otherwise, if necessary, public notice will be given in advance in accordance with a resolution by the board of directors.*

**Certain date for interim dividends:**

June 30 of each year

**Transfer agent:**

Mizuho Trust & Banking Co., Ltd.  
2-1, Yaesu 1-chome, Chuo-ku, Tokyo

**Business handling place of the agent:**

Stock Transfer Agency Department, Head Office  
Mizuho Trust & Banking Co., Ltd.

**Mailing address and telephone number of the agent:**

Business Office of Stock Transfer Agency Department  
Mizuho Trust & Banking Co., Ltd.  
17-7, Saga 1-Chome, Koto-ku, Tokyo 135-8722  
Telephone: 03(5213)5213

**Intermediary office:**

Branches of Mizuho Trust & Banking Co., Ltd.  
Head Office and Branches of Mizuho Investors Securities Co., Ltd.

**Number of shares to constitute one unit of share:**

1,000 shares

**Newspaper in which public notice is inserted:**

The Nihon Keizai Shimbun published in Tokyo

**Listed stock exchange:**

Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, New York and Frankfurt am Main

**Fee for issuing share certificate:**

The amount equivalent to stamp duty for issue of each new share certificate

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\* *As of May 6, 2004, number of shares to constitute one unit of share will change from 1,000 shares to 100 shares.*

Registered Head Office

30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501

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