

CANON INC  
Form 6-K  
January 31, 2005

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**FORM 6-K**  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the month of **Jan, 2005**

**CANON INC.**

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(Translation of registrant's name into English)  
30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, Japan

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(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

Yes

No

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

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SIGNATURES

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

**CANON INC.**  
(Registrant)

Date **January 31, 2005**

By: /s/ Hiroshi Kawashimo  
(Signature)\*  
Hiroshi Kawashimo  
General Manager, Finance Division  
Canon Inc.

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

The following material is included.

Results For The Fourth Quarter And The Fiscal Year Ended December 31, 2004

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January 28, 2005

**RESULTS FOR THE FOURTH QUARTER  
AND THE FISCAL YEAR ENDED DECEMBER 31, 2004****CONSOLIDATED RESULTS**

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

|                                                         | Actual                             |                                    |           | Projected                          |                                     |           |
|---------------------------------------------------------|------------------------------------|------------------------------------|-----------|------------------------------------|-------------------------------------|-----------|
|                                                         | Year ended<br>December<br>31, 2004 | Year ended<br>December 31,<br>2003 | Change(%) | Year ended<br>December 31,<br>2004 | Year ending<br>December<br>31, 2005 | Change(%) |
| Net sales                                               | ¥ 3,467,853                        | ¥ 3,198,072                        | + 8.4     | \$ 33,344,740                      | ¥ 3,630,000                         | + 4.7     |
| Operating profit                                        | 543,793                            | 454,424                            | + 19.7    | 5,228,779                          | 573,000                             | + 5.4     |
| Income before income<br>taxes and minority<br>interests | 552,116                            | 448,170                            | + 23.2    | 5,308,808                          | 580,000                             | + 5.1     |
| Net income                                              | ¥ 343,344                          | ¥ 275,730                          | + 24.5    | \$ 3,301,385                       | ¥ 359,000                           | + 4.6     |
| <b>Earnings per share:</b>                              |                                    |                                    |           |                                    |                                     |           |
| - Basic                                                 | ¥ 387.80                           | ¥ 313.81                           | + 23.6    | \$ 3.73                            | ¥ 404.80                            | + 4.4     |
| - Diluted                                               | 386.78                             | 310.75                             | + 24.5    | 3.72                               |                                     |           |

|                     | Actual                        |                               |           |
|---------------------|-------------------------------|-------------------------------|-----------|
|                     | As of<br>December<br>31, 2004 | As of<br>December 31,<br>2003 | Change(%) |
| Total assets        | ¥ 3,587,021                   | ¥ 3,182,148                   | + 12.7    |
| Stockholders equity | ¥ 2,209,896                   | ¥ 1,865,545                   | + 18.5    |

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

2. U.S. dollar amounts are translated from yen at the rate of JPY104= U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2004, solely for the convenience of the reader.

**NON-CONSOLIDATED RESULTS**

(Millions of yen, except per share amounts)

|           | Actual                             |                                    |           | Projected                           |           |
|-----------|------------------------------------|------------------------------------|-----------|-------------------------------------|-----------|
|           | Year ended<br>December<br>31, 2004 | Year ended<br>December 31,<br>2003 | Change(%) | Year ending<br>December<br>31, 2005 | Change(%) |
| Net sales | ¥ 2,278,374                        | ¥ 2,023,722                        | + 12.6    | ¥ 2,440,000                         | + 7.1     |

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|                            |                  |   |         |        |           |       |
|----------------------------|------------------|---|---------|--------|-----------|-------|
| <b>Operating profit</b>    | <b>383,284</b>   |   | 320,039 | + 19.8 | 403,000   | + 5.1 |
| <b>Ordinary profit</b>     | <b>396,250</b>   |   | 320,616 | + 23.6 | 417,000   | + 5.2 |
| <b>Net income</b>          | <b>¥ 249,251</b> | ¥ | 228,667 | + 9.0  | ¥ 263,000 | + 5.5 |
| <b>Earnings per share:</b> |                  |   |         |        |           |       |
| <b>- Basic</b>             | <b>¥ 281.30</b>  | ¥ | 260.03  | + 8.2  | ¥ 296.55  | + 5.4 |
| <b>- Diluted</b>           | <b>280.50</b>    |   | 257.50  | + 8.9  |           |       |
| <b>Dividend per share</b>  | <b>65.00</b>     |   | 50.00   |        | 65.00     |       |

|                            | <b>As of<br/>December<br/>31, 2004</b> |   | <b>Actual<br/>As of<br/>December 31,<br/>2003</b> | <b>Change(%)</b> |
|----------------------------|----------------------------------------|---|---------------------------------------------------|------------------|
| <b>Total assets</b>        | <b>¥ 2,384,803</b>                     | ¥ | 2,059,317                                         | + 15.8           |
| <b>Stockholders equity</b> | <b>¥ 1,651,407</b>                     | ¥ | 1,444,160                                         | + 14.4           |

Canon Inc.  
Headquarter office

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

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**Management Policy**

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

**Management objectives**

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

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

**Mid- to long-term management strategies**

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

- 1) Becoming No.1 in all core businesses

Among our core businesses, we continue to maintain the No. 1 worldwide market share in the areas of copying machines and laser beam printers, through introducing competitive products in the marketplace. Going forward we will continue efforts not only to maintain our current No. 1 position, but also further expand our current market shares. To do this, we will promote the shift to office color by introducing advanced-feature color models at lower price points, and will focus on cultivating the significant latent demand of emerging markets. In addition, we will strive to create new business opportunities while leading the way in developing the print-on-demand market with high-speed copiers, and expanding service businesses that offer document solutions.

With regard to digital cameras, through the consecutive launches of competitive products that exploit our expertise in optical and image-processing technologies, we aim to capture the top market-share position. And as the digital camera market matures, we seek to further expand sales of high-value-added digital SLR cameras, which are differentiated from the competition by such innovations as our independently developed CMOS sensor. We also aim to expand our profits and market share in the compact digital camera segment. Here, we are focusing on further improving product features and strengthening cost competitiveness through such means as reducing the number of parts required and in-house production.

In the field of inkjet printers, we aim to strengthen our lineup of photo printers by further improving image quality and print speeds. We will also strengthen our lineup of multifunction devices amid the continued growth in demand for these products. In addition to digital cameras and printers, we will also work to expand the home photo-printing market by further enhancing photo-print software and print media products.

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

In the area of semiconductor production equipment, we will strive to achieve the No. 1 position in the industry by launching industry-leading new products ahead of our competitors. Furthermore, in the aligner market for large LCD panels, where we maintain the No. 1 market share, we will further solidify our leadership position and also investigate the possibility of entering the aligner market for small and medium-size LCD panels

2) Strengthening R&D

To become No. 1 in all core businesses and create new areas of business, we will further concentrate our efforts on boosting the company's R&D strength. This endeavor will focus on thoroughly bolstering product- engine, platform, and common base technologies. Also, by strengthening our concurrent product development structure, which functions in unison with our production operations, we will work to improve product quality while also achieving cost reductions.



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In order to accelerate product development and curtail costs, we aim to realize prototype-less design through the effective utilization of 3D-CAD systems, eliminating, to the extent possible, physical prototypes from the design process. Moreover, we will work to bolster our infrastructure through the establishment of new facilities, such as our leading-edge technology and production technology centers, which will play an important role toward future development.

### 3) Achieving a strong financial position

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

In addition to the management strategies outlined above, we will continue working to establish the Three Regional Headquarters System by strengthening the headquarters functions of Canon's regional marketing headquarters in Europe and the Americas. We have also been actively reorganizing Canon Group manufacturing and sales companies in Japan to achieve an optimal organization structure and bolster the competitive strength of each company, and will review the overall structure to allow us to respond quickly to changing circumstances. Overseas, mainly through our sales companies, we have strengthened sales networks to support our solutions business, and adopted a new streamlined sales organization in the EU that better responds to market integration in the region. We are also keeping a close eye on the expanding Chinese market and plan to strengthen our sales structure there as well.

Other measures being undertaken to improve profitability for the Canon Group include: expanding and deepening production reform activities and spreading this to all production facilities; developing and introducing innovative tools for factory automation; strengthening supply-chain management in order to shorten production lead times and reduce inventories; and promoting the in-house production of key components. Also, in the area of procurement reform measures, we are actively working on the establishment of a highly effective parts-procurement system, based on the consolidation of the suppliers we use, as a means of improving Group profits.

Through these activities we will target growth for the Canon Group and seek to heighten Canon's corporate value as represented by such financial indicators as ROA (Return on Assets) and ROE (Return on Equity).

## **Business challenges and countermeasures**

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

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

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

Cultivating future growth business areas represents another important business challenge. Through the establishment in October 2004 of a joint venture with Toshiba Corporation for the development and production of SED panels, a first step toward full-scale operations, we are preparing for our entry into the display business, a sector in which growth is expected in the future.

**Corporate governance policies and implementation of related measures**

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

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1) Implementation of corporate governance measures

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

There are currently 27 directors on the company's board. In order to realize a more streamlined and efficient management decision-making process, Canon has not adopted the outside director system. Under the current system, as a general rule, all matters of importance are decided at board and management meetings attended by all directors. Moreover, various cross-company management strategy advisory committees have been established to address important management themes. Each committee serves to accelerate and rationalize the decision-making process while supplementing the business-division system and performing a checking function.

Canon's Board of Corporate Auditors consists of four members, two of whom are outside corporate auditors. In accordance with the Board of Corporate Auditors' auditing policies and their assigned duties, the auditors attend board, management, and various committee meetings, listen to business reports from the directors and others, carefully examine documents related to important decisions, and conduct strict audits of the company's business and assets.

With regard to external audits, we established regulations related to the prior approval of policies and procedures for both auditing and non-auditing services to reinforce the independence of our accounting firms. Based on the regulations, the board of corporate auditors must approve in advance the content and related amounts of contracts between the accounting firms and the company before they are entered into.

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

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

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

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

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

There are no special interests between the company and its two outside corporate auditors.

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

In January 2004 we established standing committees, namely the Corporate Ethics and Compliance Committee and Internal Control Committee, with the president appointed as chairman of both groups. Accordingly, the purpose of the Corporate Ethics and Compliance Committee is to examine, from various viewpoints, Canon's social responsibilities and to convey the findings to the company with the intention of raising compliance and ethical awareness. Moreover, in January 2005 the related administrative department, which had been part of the General Affairs Headquarters, was

made an independent unit the Corporate Ethics and Compliance Administration Office under the direct control of the company's president. A company director was appointed to head the office, which aims to improve the transparency and soundness of corporate activities while fostering a corporate culture characterized by an increased awareness of corporate ethics and compliance.

The Internal Control Committee not only serves to ensure the reliability of the company's financial reporting in accordance with the Sarbanes-Oxley Act, but also aims to ensure the effectiveness and efficiency of our business operations, as well as compliance with related laws, regulations and internal controls. The committee performs reviews on control systems for the entire Canon Group and has documented control activities related to the company's operations. Going forward, the committee will evaluate and bolster documented internal-control processes and, at the same time, intensify efforts targeting more efficient operation processes.

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**Basic policy regarding profit distribution**

With regard to profit distribution, Canon gives the highest priority to cash dividend distribution. In accordance with this policy, and based on our strong performance in fiscal year 2004, Canon decided to propose at the upcoming Ordinary General Meeting of Shareholders an increase in its full-year dividend per share from 50 yen in 2003, to 65 yen for the fiscal year ended on December 31, 2004.

As for future dividends, we intend to maintain a stable dividend payment policy which, whenever possible, reflects our performance on a consolidated basis and also comprehensively takes into account such factors as our financial situation and capital requirements to fund future business expansion and improve profitability.

As for internal cash reserves, such funds will be used to support investment in such areas as current business expansion, new business cultivation and strengthening our operating base.

**Basic policy regarding share trading unit**

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

In view of this policy, the company changed the number of shares that constitute one trading unit from 1,000 to 100, effective May 6, 2004.

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**Operating Results and Financial Conditions**

**2004 in Review**

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

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

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

Amid these conditions, Canon's consolidated net sales in 2004 increased by 8.4% from the year-ago period to ¥3,467.9 billion (U.S.\$33,345 million), boosted by a significant rise in sales of digital cameras and color network MFDs, along with a substantial increase in sales of semiconductor-production equipment. Net income in 2004 increased by 24.5% from the year-ago period to ¥343.3 billion (U.S.\$3,301 million), marking all-time highs for both net sales and net income, and the fifth consecutive year of sales and profit growth. Despite ongoing production-reform efforts during the term and the timely launch of competitive new products, the gross profit ratio decreased 0.9% from the year ago period to 49.4%, mainly due to severe price competition and the appreciation of the yen against the U.S. dollar. Although R&D expenditures grew by ¥16.2 billion (U.S.\$155 million) to ¥275.3 billion (U.S.\$2,647 million) along with increased advertising and sales-promotion spending, selling, general and administrative expenses for the year increased by just 1.3% year on year, mainly due to other selling, general and administrative expenses remaining at a lower level than the year-ago period, coupled with a ¥17.1 billion (U.S.\$165 million) gain realized from the return to the Japanese Government of the substitutional portion of the Employees' Pension Funds (EPF) that the company and certain of its subsidiaries in Japan had operated. Consequently, operating profit in 2004 totaled ¥543.8 billion (U.S.\$5,229 million), a substantial year-on-year increase of 19.7%. Other income (deductions) improved by ¥14.6 billion (U.S.\$140 million), attributable to gains from sales of stock of subsidiary companies which totaled ¥9.1 billion (U.S.\$87.5 million), along with a decrease in currency exchange losses and improved equity gains (losses) of affiliated companies. As a result, income before income taxes and minority interests in 2004 totaled ¥552.1 billion (U.S.\$5,309 million), a year-on-year increase of 23.2%. With an effective tax rate during the year of 35.1%, which was 1.2% lower than the year before, net income in 2004 totaled ¥343.3 billion (U.S.\$3,301 million), surpassing the

¥300 billion mark for the first time.

Basic earnings per share for the year were ¥387.80 (U.S.\$3.73), a year-on-year increase of ¥73.99 (U.S.\$0.71).

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In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, indicates a shift from monochrome to color models, as well as a trend toward higher-end features. Additionally, the Color imageRUNNER C3200/iR C3200N, Canon's first color offering in the powerful imageRUNNER-series lineup, continued to sell well in both the domestic Japanese and overseas markets. The iR C3100 and the high-end model iR C6800, introduced in Japan in the second half of 2003, were also launched in Europe and the United States in the first half of 2004 and have also been well received in these markets. The iR C3220/iR C3220N, which succeeds the iR C3200, and the iR C2620/iR C2620N were launched last September and have also been well received. Among monochrome network digital MFDs, such low-end models as the iR1600/2000 series recorded considerable sales increases, while mid-level models, such as the iR2200 series, and high-end models, such as the iR5000 series, also achieved strong sales. Overall, sales of office imaging products in 2004 realized a year-on-year increase of 3.6%. In the computer peripherals sub-segment, laser beam printers enjoyed a year-on-year increase in unit sales of nearly 20%, with color models registering a significant increase in sales along with monochrome systems, particularly personal-use models, also displaying growth. Despite the effects of the yen's appreciation against the U.S. dollar and a shift in demand toward lower priced models in the monochrome and color segment, laser beam printer sales substantially increased due to an increase in sales of color models. Inkjet printers recorded an approximately 20% increase in unit sales with the PIXMA iP3100 and iP4100 models selling briskly, especially in Japan and Europe, along with the PIXMA MP700 and MultiPASS MP370 high-speed multifunction systems, sales value increased, despite the effects of price competition. Consequently, even with the appreciation of the yen against the U.S. dollar, sales of computer peripherals overall for the year recorded an increase of 5.6%. Sales of business information products, including computers, micrographics and calculators, decreased by 5.2% due to the intentional curtailing of personal computer sales in the domestic market. Collectively, sales of business machines for the year totaled ¥2,388.0 billion (U.S.\$22,961 million), a year-on-year increase of 4.1%. Despite the effects of the stronger yen, the gross profit ratio remained at the year-ago level, supported by cost reduction efforts, and the sales-to-expense ratio declined, resulting in operating profit of ¥521.1 billion (U.S.\$5,010 million) for the business machine segment, a year-on-year increase of 7.3%. In the first quarter of 2004, Canon reclassified information systems-related sales by subsidiaries to better reflect the product relationship. These sales, which had previously been grouped with optical and other products, are now included in the office imaging products sub-segment. Accordingly, previous-year sales for each category have been reclassified in line with the change.

Within the camera segment, amid the continued strong demand for digital models worldwide, sales of compact digital cameras showed significant growth, boosted by the launch of sixteen new PowerShot-series models for the year, in particular the PowerShot Pro1 and the PowerShot SD300 Digital ELPH which have recorded strong sales. Canon's digital SLR cameras also continued to enjoy robust growth, bolstered by strong sales of the EOS Digital Rebel, launched in September 2003, and the successor to the EOS 10D, the EOS 20D, which was introduced in September of last year. As a result, unit sales of digital cameras grew by nearly 60% compared with the year-ago period. In the field of digital video camcorders, new models such as the Optura 500/400, Elura 70/65/60 and Optura 40/30 achieved favorable sales during the year. Consequently, camera sales overall grew 16.8%, achieving total sales of ¥763.1 billion (U.S.\$7,337 million). While the operating profit ratio decreased by 2.2%, as the gross profit ratio declined slightly due to the effects of the stronger yen and price competition, along with increased advertising and sales-promotion spending, the operating profit for the camera segment increased 3.5% to ¥130.8 billion (U.S.\$1,258 million), due to increase in unit sales of digital cameras.

In the optical and other products segment, sales of aligners for the production of LCDs realized notable growth as the PC monitor industry continued to shift from CRT to LCD computer displays, and the LCD television market continued to expand. Sales of steppers, used for the production of semiconductors, also increased as investment in semiconductor-production equipment showed a recovery owing to the improved conditions in the semiconductor-device market. As a result, sales for the segment increased by 26.9% to ¥316.8 billion



(U.S.\$3,046 million). The operating profit ratio for the segment improved substantially due to the significant growth in unit sales, enabling the optical and other products segment to record an operating profit of ¥28.8 billion (U.S.\$277 million), compared with an operating loss of ¥9.9 billion for the same period of the previous year.

**Cash Flow**

In the twelve months ended December 31, 2004, Canon maintained cash flow from operating activities of ¥561.5 billion (U.S.\$5,399 million), a year-on-year increase of ¥95.9 billion (U.S.\$922 million), reflecting the substantial growth in sales and increased cash proceeds from sales, combined with a substantial increase in net

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income. Capital expenditure totaled ¥318.7 billion (U.S.\$3,065 million), which was used mainly to expand production capabilities in both domestic and overseas regions, as well as to bolster the company's R&D-related infrastructure. Cash flow from investing activities totaled ¥252.9 billion (U.S.\$2,432 million). As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled positive ¥308.6 billion (U.S.\$2,967 million), passing the ¥300 billion mark for the first time.

Cash flow from financing activities recorded an outlay of ¥102.3 billion (U.S.\$983 million), mainly resulting from active efforts to repay loans toward the goal of improving the company's financial position and an increase in the dividend payout. Consequently, cash and cash equivalents, which totaled ¥887.8 billion (U.S.\$8,536 million), representing a ¥197.5 billion (U.S.\$1,899 million) increase from the end of the previous year, remained at a high level.

## **Non-consolidated Results and Dividend**

Canon Inc.'s non-consolidated net sales in 2004 grew by 12.6% to ¥2,278.4 billion (U.S.\$21,907 million) while ordinary profit increased by 23.6% to ¥396.3 billion (U.S.\$3,810 million). Non-consolidated net income also increased by 9.0% to ¥249.3 billion (U.S.\$2,397 million), owing to a gain realized through exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the Employees' Pension Fund.

In response to continued shareholder support, the Board of Directors intend to propose a ¥15 (U.S.\$0.14) increase in the company's year-end dividend to ¥40 (U.S.\$0.39) which, when combined with the interim dividend of ¥25 (U.S.\$0.24), would bring the company's annual dividend rate to ¥65 (U.S.\$0.63) per share.

## **Outlook**

Regarding the outlook for the global economy, although global economic prospects remain uncertain due to rising oil prices, which could adversely affect consumer spending, and exchange rate trends, the global economy is likely to continue its course toward recovery.

In the businesses in which Canon is involved, the digital camera market is expected to continue enjoying rapid growth, particularly in overseas markets. As for network digital MFDs and laser beam printers, while stable demand is projected for full-color models, severe price competition and shifting demand toward lower priced models is expected to adversely affect sales. Within the semiconductor-production equipment market, the pace of new orders will probably slow down somewhat, as semiconductor manufacturers grow more cautious in their capital investment spending. In the market for projection aligners used in the production of LCDs, demand is also expected to decline gradually as the trend toward increased capital investment tapers off.

In fiscal 2005 Canon anticipates consolidated net sales of ¥3,630.0 billion (U.S.\$34,904 million), consolidated income before income taxes of ¥580.0 billion (U.S.\$5,577 million), and consolidated net income of ¥359.0 billion (U.S.\$3,452 million). The company also forecasts non-consolidated net sales of ¥2,440.0 billion (U.S.\$23,462 million), non-consolidated ordinary profit of ¥417.0 billion (U.S.\$4,010 million), and non-consolidated net income of ¥263.0 billion (U.S.\$2,529 million), aiming for the sixth consecutive year of sales and profit growth in both consolidated and non-consolidated results. These forecasts assume currency exchange rates of ¥103 to the U.S. dollar and ¥135 to the euro. Although uncertainty surrounds several factors that could affect currency exchange rates, the yen is expected to be stronger against the U.S. dollar by approximately 5%, and the same against the euro compared with 2004.

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

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**GROUP POSITION**

**1. NUMBER OF GROUP COMPANIES**

**2. GROUP STRUCTURE AND MAJOR GROUP COMPANIES**

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

2. Following subsidiaries are listed on domestic stock exchange.

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

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

JASDAQ: Nisca Corporation.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**1. CONSOLIDATED STATEMENTS OF INCOME****Result for the fourth quarter**

|                                                      | Millions of yen                                             |                                               |           | Thousands of<br>U.S. dollars                            |
|------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------|-----------|---------------------------------------------------------|
|                                                      | <b>Three<br/>months<br/>ended<br/>December<br/>31, 2004</b> | Three months<br>ended<br>December 31,<br>2003 | Change(%) | <b>Three months<br/>ended<br/>December 31,<br/>2004</b> |
| Net sales                                            | ¥ <b>981,129</b>                                            | ¥ 894,885                                     | + 9.6     | \$ <b>9,433,933</b>                                     |
| Cost of sales                                        | <b>503,343</b>                                              | 450,674                                       |           | <b>4,839,837</b>                                        |
| Gross profit                                         | <b>477,786</b>                                              | 444,211                                       | + 7.6     | <b>4,594,096</b>                                        |
| Selling, general and administrative expenses         | <b>345,668</b>                                              | 331,323                                       |           | <b>3,323,731</b>                                        |
| Operating profit                                     | <b>132,118</b>                                              | 112,888                                       | + 17.0    | <b>1,270,365</b>                                        |
| Other income (deductions):                           |                                                             |                                               |           |                                                         |
| Interest and dividend income                         | <b>2,401</b>                                                | 2,577                                         |           | <b>23,087</b>                                           |
| Interest expense                                     | <b>(780)</b>                                                | (972)                                         |           | <b>(7,500)</b>                                          |
| Other, net                                           | <b>(4,226)</b>                                              | 835                                           |           | <b>(40,635)</b>                                         |
|                                                      | <b>(2,605)</b>                                              | 2,440                                         |           | <b>(25,048)</b>                                         |
| Income before income taxes and minority<br>interests | <b>129,513</b>                                              | 115,328                                       | + 12.3    | <b>1,245,317</b>                                        |
| Income taxes                                         | <b>45,362</b>                                               | 37,872                                        |           | <b>436,173</b>                                          |
| Income before minority interests                     | <b>84,151</b>                                               | 77,456                                        |           | <b>809,144</b>                                          |
| Minority interests                                   | <b>3,363</b>                                                | 2,498                                         |           | <b>32,336</b>                                           |
| Net income                                           | ¥ <b>80,788</b>                                             | ¥ 74,958                                      | + 7.8     | \$ <b>776,808</b>                                       |

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains (losses) on securities, change in net gains(losses) on derivative financial instruments and change in minimum pension liability adjustments. Comprehensive income for the three months ended December 31, 2004 and 2003 were JPY70,967 million (U.S.\$682,375 thousand) and JPY69,876 million, respectively.

**Result for the fiscal year**

|                                                   | Millions of yen                    |                                    |           | Thousands of  |
|---------------------------------------------------|------------------------------------|------------------------------------|-----------|---------------|
|                                                   | Year ended<br>December<br>31, 2004 | Year ended<br>December 31,<br>2003 | Change(%) | U.S. dollars  |
| Net sales                                         | ¥ 3,467,853                        | ¥ 3,198,072                        | + 8.4     | \$ 33,344,740 |
| Cost of sales                                     | 1,754,510                          | 1,589,172                          |           | 16,870,288    |
| Gross profit                                      | 1,713,343                          | 1,608,900                          | + 6.5     | 16,474,452    |
| Selling, general and administrative expenses      | 1,169,550                          | 1,154,476                          |           | 11,245,673    |
| Operating profit                                  | 543,793                            | 454,424                            | + 19.7    | 5,228,779     |
| Other income (deductions):                        |                                    |                                    |           |               |
| Interest and dividend income                      | 7,118                              | 9,284                              |           | 68,442        |
| Interest expense                                  | (2,756)                            | (4,627)                            |           | (26,500)      |
| Other, net                                        | 3,961                              | (10,911)                           |           | 38,087        |
|                                                   | 8,323                              | (6,254)                            |           | 80,029        |
| Income before income taxes and minority interests | 552,116                            | 448,170                            | + 23.2    | 5,308,808     |
| Income taxes                                      | 194,014                            | 162,653                            |           | 1,865,520     |
| Income before minority interests                  | 358,102                            | 285,517                            |           | 3,443,288     |
| Minority interests                                | 14,758                             | 9,787                              |           | 141,903       |
| Net income                                        | ¥ 343,344                          | ¥ 275,730                          | + 24.5    | \$ 3,301,385  |

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains (losses) on securities, change in net gains (losses) on derivative financial instruments and change in minimum pension liability adjustments. Comprehensive income for the years ended December 31, 2004 and 2003 were JPY385,307 million (U.S.\$3,704,875 thousand) and JPY298,922 million, respectively.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**2. DETAILS OF SALES****Result for the fourth quarter**

|                                      | Millions of yen                                             |                                               |           | Thousands of<br>U.S. dollars                            |
|--------------------------------------|-------------------------------------------------------------|-----------------------------------------------|-----------|---------------------------------------------------------|
| <b>Sales by product</b>              | <b>Three<br/>months<br/>ended<br/>December<br/>31, 2004</b> | Three months<br>ended<br>December 31,<br>2003 | Change(%) | <b>Three months<br/>ended<br/>December 31,<br/>2004</b> |
| Business machines:                   |                                                             |                                               |           |                                                         |
| <i>Office imaging products</i>       | ¥ 301,134                                                   | ¥ 283,766                                     | + 6.1     | \$ 2,895,519                                            |
| <i>Computer peripherals</i>          | 331,999                                                     | 296,220                                       | + 12.1    | 3,192,298                                               |
| <i>Business information products</i> | 32,547                                                      | 29,201                                        | + 11.5    | 312,952                                                 |
|                                      | 665,680                                                     | 609,187                                       | + 9.3     | 6,400,769                                               |
| Cameras                              | 250,755                                                     | 213,984                                       | + 17.2    | 2,411,106                                               |
| Optical and other products           | 64,694                                                      | 71,714                                        | 9.8       | 622,058                                                 |
| Total                                | ¥ 981,129                                                   | ¥ 894,885                                     | + 9.6     | \$ 9,433,933                                            |

|                        | Millions of yen                                             |                                               |           | Thousands of<br>U.S. dollars                            |
|------------------------|-------------------------------------------------------------|-----------------------------------------------|-----------|---------------------------------------------------------|
| <b>Sales by region</b> | <b>Three<br/>months<br/>ended<br/>December<br/>31, 2004</b> | Three months<br>ended<br>December 31,<br>2003 | Change(%) | <b>Three months<br/>ended<br/>December 31,<br/>2004</b> |
| Japan                  | ¥ 239,868                                                   | ¥ 227,953                                     | + 5.2     | \$ 2,306,423                                            |
| Overseas:              |                                                             |                                               |           |                                                         |
| <i>Americas</i>        | 310,423                                                     | 282,579                                       | + 9.9     | 2,984,837                                               |
| <i>Europe</i>          | 322,884                                                     | 278,323                                       | + 16.0    | 3,104,654                                               |
| <i>Other areas</i>     | 107,954                                                     | 106,030                                       | + 1.8     | 1,038,019                                               |
|                        | 741,261                                                     | 666,932                                       | + 11.1    | 7,127,510                                               |
| Total                  | ¥ 981,129                                                   | ¥ 894,885                                     | + 9.6     | \$ 9,433,933                                            |

**Result for the fiscal year**

| Sales by product                     | Millions of yen              |                              |           | Thousands of U.S. dollars    |            |
|--------------------------------------|------------------------------|------------------------------|-----------|------------------------------|------------|
|                                      | Year ended December 31, 2004 | Year ended December 31, 2003 | Change(%) | Year ended December 31, 2004 |            |
| Business machines:                   |                              |                              |           |                              |            |
| <i>Office imaging products</i>       | ¥ 1,120,972                  | ¥ 1,081,995                  | + 3.6     | \$                           | 10,778,577 |
| <i>Computer peripherals</i>          | 1,149,914                    | 1,089,312                    | + 5.6     |                              | 11,056,865 |
| <i>Business information products</i> | 117,067                      | 123,493                      | 5.2       |                              | 1,125,644  |
|                                      | 2,387,953                    | 2,294,800                    | + 4.1     |                              | 22,961,086 |
| Cameras                              | 763,079                      | 653,540                      | + 16.8    |                              | 7,337,298  |
| Optical and other products           | 316,821                      | 249,732                      | + 26.9    |                              | 3,046,356  |
| Total                                | ¥ 3,467,853                  | ¥ 3,198,072                  | + 8.4     | \$                           | 33,344,740 |

| Sales by region    | Millions of yen              |                              |           | Thousands of U.S. dollars    |            |
|--------------------|------------------------------|------------------------------|-----------|------------------------------|------------|
|                    | Year ended December 31, 2004 | Year ended December 31, 2003 | Change(%) | Year ended December 31, 2004 |            |
| Japan              | ¥ 849,734                    | ¥ 801,400                    | + 6.0     | \$                           | 8,170,519  |
| Overseas:          |                              |                              |           |                              |            |
| <i>Americas</i>    | 1,059,425                    | 1,045,166                    | + 1.4     |                              | 10,186,779 |
| <i>Europe</i>      | 1,093,295                    | 969,042                      | + 12.8    |                              | 10,512,452 |
| <i>Other areas</i> | 465,399                      | 382,464                      | + 21.7    |                              | 4,474,990  |
|                    | 2,618,119                    | 2,396,672                    | + 9.2     |                              | 25,174,221 |
| Total              | ¥ 3,467,853                  | ¥ 3,198,072                  | + 8.4     | \$                           | 33,344,740 |

Notes: Beginning first quarter of 2004, Canon has changed classification of product categories with regards to information system business, which had been classified in *Optical and other products*, to *Business machines (Office imaging products)* in order to better reflect current relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.

1. The primary products included in each of the product segments are as follows:

Business machines:

Office imaging products: Office network digital multifunction devices (MFDs) / Color network digital MFDs /

Office copying machines / Personal-use copying machines / Full-color copying machines / etc.

Computer peripherals: Laser beam printers / Single function inkjet printers / Inkjet multifunction peripherals / Image scanners / etc.

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

Cameras: SLR cameras / Compact cameras / Digital cameras / Digital video camcorders / etc.



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Optical and other products: Semiconductor production equipment / Mirror projection mask aligners for LCD panels /

Broadcasting equipment / Medical equipment / Components/ etc.

2. The principal countries and regions included in each regional category are as follows:

Americas: United States of America, Canada, Latin America / Europe: England, Germany, France, Netherlands /

Other Areas: Asian regions, China, Oceania

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**3. SEGMENT INFORMATION BY PRODUCT****Result for the fourth quarter**

|                                   | Millions of yen                                             |                                               |           | Thousands of<br>U.S. dollars                            |
|-----------------------------------|-------------------------------------------------------------|-----------------------------------------------|-----------|---------------------------------------------------------|
|                                   | <b>Three<br/>months<br/>ended<br/>December<br/>31, 2004</b> | Three months<br>ended<br>December 31,<br>2003 | Change(%) | <b>Three months<br/>ended<br/>December 31,<br/>2004</b> |
| <b>Business machines</b>          |                                                             |                                               |           |                                                         |
| Net sales:                        |                                                             |                                               |           |                                                         |
| Unaffiliated customers            | ¥ 665,680                                                   | ¥ 609,187                                     | + 9.3     | \$ 6,400,769                                            |
| Intersegment                      |                                                             |                                               |           |                                                         |
| Total                             | <b>665,680</b>                                              | 609,187                                       | + 9.3     | <b>6,400,769</b>                                        |
| Operating cost and expenses       | <b>532,958</b>                                              | 482,763                                       | + 10.4    | <b>5,124,596</b>                                        |
| Operating profit                  | <b>132,722</b>                                              | 126,424                                       | + 5.0     | <b>1,276,173</b>                                        |
| <b>Cameras</b>                    |                                                             |                                               |           |                                                         |
| Net sales:                        |                                                             |                                               |           |                                                         |
| Unaffiliated customers            | ¥ 250,755                                                   | ¥ 213,984                                     | + 17.2    | \$ 2,411,106                                            |
| Intersegment                      |                                                             |                                               |           |                                                         |
| Total                             | <b>250,755</b>                                              | 213,984                                       | + 17.2    | <b>2,411,106</b>                                        |
| Operating cost and expenses       | <b>211,158</b>                                              | 176,155                                       | + 19.9    | <b>2,030,366</b>                                        |
| Operating profit                  | <b>39,597</b>                                               | 37,829                                        | + 4.7     | <b>380,740</b>                                          |
| <b>Optical and other products</b> |                                                             |                                               |           |                                                         |
| Net sales:                        |                                                             |                                               |           |                                                         |
| Unaffiliated customers            | ¥ 64,694                                                    | ¥ 71,714                                      | 9.8       | \$ 622,058                                              |
| Intersegment                      | <b>36,006</b>                                               | 28,279                                        | + 27.3    | <b>346,211</b>                                          |
| Total                             | <b>100,700</b>                                              | 99,993                                        | + 0.7     | <b>968,269</b>                                          |
| Operating cost and expenses       | <b>97,256</b>                                               | 106,812                                       | 8.9       | <b>935,154</b>                                          |
| Operating profit                  | <b>3,444</b>                                                | (6,819)                                       |           | <b>33,115</b>                                           |

**Corporate and Eliminations**

Net sales:

|                             |          |   |          |      |           |
|-----------------------------|----------|---|----------|------|-----------|
| Unaffiliated customers      | ¥        | ¥ |          | \$   |           |
| Intersegment                | (36,006) |   | (28,279) |      | (346,211) |
| Total                       | (36,006) |   | (28,279) |      | (346,211) |
| Operating cost and expenses | 7,639    |   | 16,267   | 53.0 | 73,452    |
| Operating profit            | (43,645) |   | (44,546) |      | (419,663) |

**Consolidated**

Net sales:

|                             |          |   |         |   |      |    |           |
|-----------------------------|----------|---|---------|---|------|----|-----------|
| Unaffiliated customers      | ¥981,129 | ¥ | 894,885 | + | 9.6  | \$ | 9,433,933 |
| Intersegment                |          |   |         |   |      |    |           |
| Total                       | 981,129  |   | 894,885 | + | 9.6  |    | 9,433,933 |
| Operating cost and expenses | 849,011  |   | 781,997 | + | 8.6  |    | 8,163,568 |
| Operating profit            | 132,118  |   | 112,888 | + | 17.0 |    | 1,270,365 |

- Notes: 1. Beginning first quarter of 2004, Canon has changed classification of product categories with regards to information system business, which had been classified in Optical and other products, to Business machines (Office imaging products) in order to better reflect current relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.
2. General corporate expenses of JPY43,583 million (U.S.\$419,067 thousand) and JPY44,547 million in the three months ended December 31, 2004 and 2003, respectively, are included in Corporate and Eliminations. For the fiscal year ended December 31, 2004, a gain of JPY3,372 million (U.S.\$32,423 thousand) is also included, which relates to the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**Result for the fiscal year**

|                                   | Millions of yen                       |                                    |           | Thousands of<br>U.S. dollars       |
|-----------------------------------|---------------------------------------|------------------------------------|-----------|------------------------------------|
|                                   | Year<br>ended<br>December<br>31, 2004 | Year ended<br>December 31,<br>2003 | Change(%) | Year ended<br>December 31,<br>2004 |
| <b>Business Machines</b>          |                                       |                                    |           |                                    |
| Net sales:                        |                                       |                                    |           |                                    |
| Unaffiliated customers            | ¥ 2,387,953                           | ¥ 2,294,800                        | + 4.1     | \$ 22,961,086                      |
| Intersegment                      |                                       |                                    |           |                                    |
| Total                             | 2,387,953                             | 2,294,800                          | + 4.1     | 22,961,086                         |
| Operating cost and expenses       | 1,866,869                             | 1,809,235                          | + 3.2     | 17,950,663                         |
| Operating profit                  | 521,084                               | 485,565                            | + 7.3     | 5,010,423                          |
| Assets                            | 1,338,817                             | 1,266,881                          | + 5.7     | 12,873,240                         |
| Depreciations and amortization    | 115,830                               | 118,806                            | 2.5       | 1,113,750                          |
| Capital expenditure               | 134,128                               | 106,013                            | + 26.5    | 1,289,692                          |
| <b>Cameras</b>                    |                                       |                                    |           |                                    |
| Net sales:                        |                                       |                                    |           |                                    |
| Unaffiliated customers            | ¥ 763,079                             | ¥ 653,540                          | + 16.8    | \$ 7,337,298                       |
| Intersegment                      |                                       |                                    |           |                                    |
| Total                             | 763,079                               | 653,540                            | + 16.8    | 7,337,298                          |
| Operating cost and expenses       | 632,281                               | 527,222                            | + 19.9    | 6,079,625                          |
| Operating profit                  | 130,798                               | 126,318                            | + 3.5     | 1,257,673                          |
| Assets                            | 399,207                               | 317,672                            | + 25.7    | 3,838,529                          |
| Depreciations and amortization    | 21,880                                | 17,712                             | + 23.5    | 210,385                            |
| Capital expenditure               | 39,783                                | 25,894                             | + 53.6    | 382,529                            |
| <b>Optical and Other Products</b> |                                       |                                    |           |                                    |
| Net sales:                        |                                       |                                    |           |                                    |
| Unaffiliated customers            | ¥ 316,821                             | ¥ 249,732                          | + 26.9    | \$ 3,046,356                       |
| Intersegment                      | 138,419                               | 132,389                            | + 4.6     | 1,330,952                          |
| Total                             | 455,240                               | 382,121                            | + 19.1    | 4,377,308                          |

|                                   |                    |             |   |      |                      |
|-----------------------------------|--------------------|-------------|---|------|----------------------|
| Operating cost and expenses       | <b>426,408</b>     | 392,004     | + | 8.8  | <b>4,100,077</b>     |
| Operating profit                  | <b>28,832</b>      | (9,883)     |   |      | <b>277,231</b>       |
| Assets                            | <b>418,418</b>     | 412,117     | + | 1.5  | <b>4,023,250</b>     |
| Depreciations and amortization    | <b>24,895</b>      | 20,276      | + | 22.8 | <b>239,375</b>       |
| Capital expenditure               | <b>52,264</b>      | 31,170      | + | 67.7 | <b>502,539</b>       |
| <b>Corporate and Eliminations</b> |                    |             |   |      |                      |
| Net sales:                        |                    |             |   |      |                      |
| Unaffiliated customers            | ¥                  | ¥           |   |      | \$                   |
| Intersegment                      | <b>(138,419)</b>   | (132,389)   |   |      | <b>(1,330,952)</b>   |
| Total                             | <b>(138,419)</b>   | (132,389)   |   |      | <b>(1,330,952)</b>   |
| Operating cost and expenses       | <b>(1,498)</b>     | 15,187      |   |      | <b>(14,404)</b>      |
| Operating profit                  | <b>(136,921)</b>   | (147,576)   |   |      | <b>(1,316,548)</b>   |
| Assets                            | <b>1,430,579</b>   | 1,185,478   | + | 20.7 | <b>13,755,568</b>    |
| Depreciations and amortization    | <b>30,087</b>      | 26,810      | + | 12.2 | <b>289,298</b>       |
| Capital expenditure               | <b>92,555</b>      | 46,961      | + | 97.1 | <b>889,952</b>       |
| <b>Consolidated</b>               |                    |             |   |      |                      |
| Net sales:                        |                    |             |   |      |                      |
| Unaffiliated customers            | ¥ <b>3,467,853</b> | ¥ 3,198,072 | + | 8.4  | \$ <b>33,344,740</b> |
| Intersegment                      |                    |             |   |      |                      |
| Total                             | <b>3,467,853</b>   | 3,198,072   | + | 8.4  | <b>33,344,740</b>    |
| Operating cost and expenses       | <b>2,924,060</b>   | 2,743,648   | + | 6.6  | <b>28,115,961</b>    |
| Operating profit                  | <b>543,793</b>     | 454,424     | + | 19.7 | <b>5,228,779</b>     |
| Assets                            | <b>3,587,021</b>   | 3,182,148   | + | 12.7 | <b>34,490,587</b>    |
| Depreciations and amortization    | <b>192,692</b>     | 183,604     | + | 4.9  | <b>1,852,808</b>     |
| Capital expenditure               | <b>318,730</b>     | 210,038     | + | 51.7 | <b>3,064,712</b>     |

- Notes: 1. Beginning first quarter of 2004, Canon has changed classification of product categories with regards to information system business, which had been classified in Optical and other products, to Business machines (Office imaging products) in order to better reflect current relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.
2. General corporate expenses of JPY136,929 million (U.S.\$1,316,625 thousand) and JPY147,616 million in the years ended December 31, 2004 and 2003, respectively, are included in Corporate and Eliminations. For the fiscal year ended December 31, 2004, a gain of JPY17,141 million (U.S.\$164,817 thousand) is also included, which relates to the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.
3. Corporate assets of JPY1,430,599 million (U.S.\$13,755,760 thousand) and JPY1,185,506 million as of December 31, 2004 and 2003, respectively, which mainly consist of cash and cash equivalents, marketable

securities, investments and corporate properties, are included in Corporate and Eliminations.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**4. SEGMENT INFORMATION BY GEOGRAPHIC AREA****Result for the fiscal year**

|                             | Millions of yen                    |                                    |           | Thousands of<br>U.S. dollars       |
|-----------------------------|------------------------------------|------------------------------------|-----------|------------------------------------|
|                             | Year ended<br>December<br>31, 2004 | Year ended<br>December 31,<br>2003 | Change(%) | Year ended<br>December 31,<br>2004 |
| <b>Japan</b>                |                                    |                                    |           |                                    |
| Net sales:                  |                                    |                                    |           |                                    |
| Unaffiliated customers      | ¥ 919,153                          | ¥ 856,851                          | + 7.3     | \$ 8,838,010                       |
| Intersegment                | 1,882,973                          | 1,662,172                          | + 13.3    | 18,105,509                         |
| Total                       | 2,802,126                          | 2,519,023                          | + 11.2    | 26,943,519                         |
| Operating cost and expenses | 2,206,141                          | 2,025,442                          | + 8.9     | 21,212,894                         |
| Operating profit            | 595,985                            | 493,581                            | + 20.7    | 5,730,625                          |
| Assets                      | 1,793,679                          | 1,600,726                          | + 12.1    | 17,246,913                         |
| <b>Americas</b>             |                                    |                                    |           |                                    |
| Net sales:                  |                                    |                                    |           |                                    |
| Unaffiliated customers      | ¥ 1,057,066                        | ¥ 1,044,998                        | + 1.2     | \$ 10,164,096                      |
| Intersegment                | 8,863                              | 8,101                              | + 9.4     | 85,221                             |
| Total                       | 1,065,929                          | 1,053,099                          | + 1.2     | 10,249,317                         |
| Operating cost and expenses | 1,025,628                          | 998,492                            | + 2.7     | 9,861,807                          |
| Operating profit            | 40,301                             | 54,607                             | 26.2      | 387,510                            |
| Assets                      | 341,616                            | 306,140                            | + 11.6    | 3,284,769                          |
| <b>Europe</b>               |                                    |                                    |           |                                    |
| Net sales:                  |                                    |                                    |           |                                    |
| Unaffiliated customers      | ¥ 1,090,712                        | ¥ 968,938                          | + 12.6    | \$ 10,487,615                      |
| Intersegment                | 4,161                              | 3,861                              | + 7.8     | 40,010                             |
| Total                       | 1,094,873                          | 972,799                            | + 12.5    | 10,527,625                         |
| Operating cost and expenses | 1,071,552                          | 946,282                            | + 13.2    | 10,303,385                         |

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|                                   |                    |             |        |                      |
|-----------------------------------|--------------------|-------------|--------|----------------------|
| Operating profit                  | <b>23,321</b>      | 26,517      | 12.1   | <b>224,240</b>       |
| Assets                            | <b>533,865</b>     | 546,625     | 2.3    | <b>5,133,318</b>     |
| <b>Others</b>                     |                    |             |        |                      |
| Net sales:                        |                    |             |        |                      |
| Unaffiliated customers            | ¥ <b>400,922</b>   | ¥ 327,285   | + 22.5 | \$ <b>3,855,019</b>  |
| Intersegment                      | <b>591,677</b>     | 503,119     | + 17.6 | <b>5,689,202</b>     |
| Total                             | <b>992,599</b>     | 830,404     | + 19.5 | <b>9,544,221</b>     |
| Operating cost and expenses       | <b>965,080</b>     | 806,281     | + 19.7 | <b>9,279,615</b>     |
| Operating profit                  | <b>27,519</b>      | 24,123      | + 14.1 | <b>264,606</b>       |
| Assets                            | <b>271,566</b>     | 249,755     | + 8.7  | <b>2,611,212</b>     |
| <b>Corporate and Eliminations</b> |                    |             |        |                      |
| Net sales:                        |                    |             |        |                      |
| Unaffiliated customers            | ¥                  | ¥           |        | \$                   |
| Intersegment                      | <b>(2,487,674)</b> | (2,177,253) |        | <b>(23,919,942)</b>  |
| Total                             | <b>(2,487,674)</b> | (2,177,253) |        | <b>(23,919,942)</b>  |
| Operating cost and expenses       | <b>(2,344,341)</b> | (2,032,849) |        | <b>(22,541,740)</b>  |
| Operating profit                  | <b>(143,333)</b>   | (144,404)   |        | <b>(1,378,202)</b>   |
| Assets                            | <b>646,295</b>     | 478,902     | + 35.0 | <b>6,214,375</b>     |
| <b>Consolidated</b>               |                    |             |        |                      |
| Net sales:                        |                    |             |        |                      |
| Unaffiliated customers            | ¥ <b>3,467,853</b> | ¥ 3,198,072 | + 8.4  | \$ <b>33,344,740</b> |
| Intersegment                      |                    |             |        |                      |
| Total                             | <b>3,467,853</b>   | 3,198,072   | + 8.4  | <b>33,344,740</b>    |
| Operating cost and expenses       | <b>2,924,060</b>   | 2,743,648   | + 6.6  | <b>28,115,961</b>    |
| Operating profit                  | <b>543,793</b>     | 454,424     | + 19.7 | <b>5,228,779</b>     |
| Assets                            | <b>3,587,021</b>   | 3,182,148   | + 12.7 | <b>34,490,587</b>    |

Notes: 1. General corporate expenses of JPY136,929 million (U.S.\$1,316,625 thousand) and JPY147,616 million in the years ended December 31, 2004 and 2003, respectively, are included in Corporate and Eliminations. For the fiscal year ended December 31, 2004, a gain of JPY17,141 million (U.S.\$164,817 thousand) is also included, which relates to the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.

2. Corporate assets of JPY1,430,599 million (U.S.\$13,755,760 thousand) and JPY1,185,506 million as of December 31, 2004 and 2003, respectively, which mainly consist of cash and cash equivalents, marketable



securities, investments and corporate properties, are included in Corporate and Eliminations.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**5. CONSOLIDATED BALANCE SHEETS**

|                                                | As of<br>December<br>31,<br>2004 | Millions of yen<br>As of<br>December<br>31,<br>2003 | Change           | Thousands of<br>U.S. dollars<br>As of<br>December<br>31,<br>2004 |
|------------------------------------------------|----------------------------------|-----------------------------------------------------|------------------|------------------------------------------------------------------|
| <b>ASSETS</b>                                  |                                  |                                                     |                  |                                                                  |
| Current assets:                                |                                  |                                                     |                  |                                                                  |
| Cash and cash equivalents                      | ¥ 887,774                        | ¥ 690,298                                           | ¥ 197,476        | \$ 8,536,288                                                     |
| Marketable securities                          | 1,554                            | 1,324                                               | 230              | 14,942                                                           |
| Trade receivables                              | 602,790                          | 539,006                                             | 63,784           | 5,796,058                                                        |
| Inventories                                    | 489,128                          | 444,244                                             | 44,884           | 4,703,154                                                        |
| Prepaid expenses and other current assets      | 250,906                          | 255,905                                             | (4,999)          | 2,412,558                                                        |
| <b>Total current assets</b>                    | <b>2,232,152</b>                 | <b>1,930,777</b>                                    | <b>301,375</b>   | <b>21,463,000</b>                                                |
| Noncurrent receivables                         | 14,567                           | 16,543                                              | (1,976)          | 140,067                                                          |
| Investments                                    | 97,461                           | 78,912                                              | 18,549           | 937,125                                                          |
| Property, plant and equipment, net             | 961,714                          | 846,433                                             | 115,281          | 9,247,250                                                        |
| Other assets                                   | 281,127                          | 309,483                                             | (28,356)         | 2,703,145                                                        |
| <b>Total assets</b>                            | <b>¥ 3,587,021</b>               | <b>¥ 3,182,148</b>                                  | <b>¥ 404,873</b> | <b>\$ 34,490,587</b>                                             |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>     |                                  |                                                     |                  |                                                                  |
| Current liabilities:                           |                                  |                                                     |                  |                                                                  |
| Short-term loans                               | ¥ 9,879                          | ¥ 39,136                                            | ¥ (29,257)       | \$ 94,990                                                        |
| Trade payables                                 | 465,396                          | 391,181                                             | 74,215           | 4,474,962                                                        |
| Income taxes                                   | 105,565                          | 83,064                                              | 22,501           | 1,015,048                                                        |
| Accrued expenses                               | 205,296                          | 193,657                                             | 11,639           | 1,974,000                                                        |
| Other current liabilities                      | 197,029                          | 120,265                                             | 76,764           | 1,894,510                                                        |
| <b>Total current liabilities</b>               | <b>983,165</b>                   | <b>827,303</b>                                      | <b>155,862</b>   | <b>9,453,510</b>                                                 |
| Long-term debt, excluding current installments | 28,651                           | 59,260                                              | (30,609)         | 275,490                                                          |
| Accrued pension and severance cost             | 132,522                          | 238,001                                             | (105,479)        | 1,274,250                                                        |
| Other noncurrent liabilities                   | 45,993                           | 30,843                                              | 15,150           | 442,240                                                          |
| <b>Total liabilities</b>                       | <b>1,190,331</b>                 | <b>1,155,407</b>                                    | <b>34,924</b>    | <b>11,445,490</b>                                                |
| Minority interests                             | 186,794                          | 161,196                                             | 25,598           | 1,796,097                                                        |
| Stockholders equity:                           |                                  |                                                     |                  |                                                                  |

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|                                               |                    |             |           |                      |
|-----------------------------------------------|--------------------|-------------|-----------|----------------------|
| Common stock                                  | <b>173,864</b>     | 168,892     | 4,972     | <b>1,671,769</b>     |
| Additional paid-in capital                    | <b>401,773</b>     | 396,939     | 4,834     | <b>3,863,202</b>     |
| Retained earnings                             | <b>1,740,834</b>   | 1,450,440   | 290,394   | <b>16,738,788</b>    |
| Accumulated other comprehensive income (loss) | <b>(101,312)</b>   | (143,275)   | 41,963    | <b>(974,154)</b>     |
| Treasury stock                                | <b>(5,263)</b>     | (7,451)     | 2,188     | <b>(50,605)</b>      |
| Total stockholders' equity                    | <b>2,209,896</b>   | 1,865,545   | 344,351   | <b>21,249,000</b>    |
| Total liabilities and stockholders' equity    | <b>¥ 3,587,021</b> | ¥ 3,182,148 | ¥ 404,873 | <b>\$ 34,490,587</b> |

|                                                        | Millions of yen                           |                                  | Thousands of<br>U.S. dollars          |
|--------------------------------------------------------|-------------------------------------------|----------------------------------|---------------------------------------|
|                                                        | As of<br><b>December<br/>31,<br/>2004</b> | As of<br>December<br>31,<br>2003 | As of<br><b>December 31,<br/>2004</b> |
| Allowance for doubtful receivables                     | ¥ <b>11,657</b>                           | ¥ 14,423                         | <b>\$ 112,087</b>                     |
| Accumulated depreciation                               | <b>1,173,305</b>                          | 1,118,183                        | <b>11,281,779</b>                     |
| Accumulated other comprehensive income (loss):         |                                           |                                  |                                       |
| Foreign currency translation adjustments               | <b>(79,751)</b>                           | (83,801)                         | <b>(766,837)</b>                      |
| Net unrealized gains (losses) on securities            | <b>7,470</b>                              | 6,784                            | <b>71,827</b>                         |
| Net gains (losses) on derivative financial instruments | <b>(693)</b>                              | (297)                            | <b>(6,663)</b>                        |
| Minimum pension liability adjustments                  | <b>(28,338)</b>                           | (65,961)                         | <b>(272,481)</b>                      |

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**6. CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

|                              | Millions of yen                       |                                    | Thousands of<br>U.S. dollars       |
|------------------------------|---------------------------------------|------------------------------------|------------------------------------|
|                              | Year<br>ended<br>December<br>31, 2004 | Year ended<br>December 31,<br>2003 | Year ended<br>December 31,<br>2004 |
| Balance at beginning of year | ¥ 1,450,440                           | ¥ 1,203,248                        | \$ 13,946,538                      |
| Net income                   | 343,344                               | 275,730                            | 3,301,385                          |
| Cash dividends               | (52,950)                              | (28,538)                           | (509,135)                          |
| Balance at end of year       | ¥ 1,740,834                           | ¥ 1,450,440                        | \$ 16,738,788                      |

**7. CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                   | Millions of yen                       |                                    | Thousands of<br>U.S. dollars       |
|-----------------------------------------------------------------------------------|---------------------------------------|------------------------------------|------------------------------------|
|                                                                                   | Year<br>ended<br>December<br>31, 2004 | Year ended<br>December 31,<br>2003 | Year ended<br>December 31,<br>2004 |
| Cash flows from operating activities:                                             |                                       |                                    |                                    |
| Net income                                                                        | ¥ 343,344                             | ¥ 275,730                          | \$ 3,301,385                       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                       |                                    |                                    |
| Depreciation and amortization                                                     | 192,692                               | 183,604                            | 1,852,808                          |
| Loss on disposal of property, plant and equipment                                 | 24,597                                | 12,639                             | 236,510                            |
| Deferred income taxes                                                             | 9,060                                 | (3,035)                            | 87,115                             |
| Increase in trade receivables                                                     | (53,595)                              | (36,638)                           | (515,337)                          |
| Increase in inventories                                                           | (40,050)                              | (15,823)                           | (385,096)                          |
| Increase in trade payables                                                        | 65,873                                | 1,129                              | 633,394                            |
| Increase in income taxes                                                          | 21,689                                | 3,441                              | 208,548                            |
| Increase in accrued expenses                                                      | 8,196                                 | 37,131                             | 78,808                             |
| Increase(decrease) in accrued pension and severance cost                          | (16,924)                              | 29,445                             | (162,731)                          |
| Other, net                                                                        | 6,647                                 | (21,974)                           | 63,913                             |
| Net cash provided by operating activities                                         | 561,529                               | 465,649                            | 5,399,317                          |
| Cash flows from investing activities:                                             |                                       |                                    |                                    |
| Payment for purchase of property, plant and equipment                             | (256,714)                             | (199,720)                          | (2,468,404)                        |
| Proceeds from sale of property, plant and equipment                               | 7,431                                 | 9,354                              | 71,452                             |
| Payment for purchase of available-for-sale securities                             | (21,932)                              | (249)                              | (210,885)                          |

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|                                                              |                  |           |                     |
|--------------------------------------------------------------|------------------|-----------|---------------------|
| Proceeds from sale of available-for-sale securities          | <b>9,735</b>     | 6,544     | <b>93,606</b>       |
| Payment for purchase of other investments                    | <b>(8,628)</b>   | (24,341)  | <b>(82,962)</b>     |
| Other                                                        | <b>17,141</b>    | 8,464     | <b>164,818</b>      |
| Net cash used in investing activities                        | <b>(252,967)</b> | (199,948) | <b>(2,432,375)</b>  |
| Cash flows from financing activities:                        |                  |           |                     |
| Proceeds from long-term debt                                 | <b>2,115</b>     | 4,132     | <b>20,337</b>       |
| Repayment of long-term debt                                  | <b>(43,175)</b>  | (25,301)  | <b>(415,144)</b>    |
| Decrease in short-term loans                                 | <b>(3,046)</b>   | (49,224)  | <b>(29,288)</b>     |
| Dividends paid                                               | <b>(52,950)</b>  | (28,538)  | <b>(509,135)</b>    |
| Other                                                        | <b>(5,212)</b>   | (3,108)   | <b>(50,116)</b>     |
| Net cash used in financing activities                        | <b>(102,268)</b> | (102,039) | <b>(983,346)</b>    |
| Effect of exchange rate changes on cash and cash equivalents | <b>(8,818)</b>   | 5,365     | <b>(84,789)</b>     |
| Net change in cash and cash equivalents                      | <b>197,476</b>   | 169,027   | <b>1,898,807</b>    |
| Cash and cash equivalents at beginning of year               | <b>690,298</b>   | 521,271   | <b>6,637,481</b>    |
| Cash and cash equivalents at end of year                     | <b>¥ 887,774</b> | ¥ 690,298 | <b>\$ 8,536,288</b> |

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CANON INC. AND SUBSIDIARIES

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**8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

(1) CHANGES IN GROUP OF ENTITIES

Subsidiaries

Addition: 8 companies

Removal: 22 companies

Affiliates (Carried at Equity Basis)

Addition: 1 company

Removal: 3 companies

(2) SIGNIFICANT ACCOUNTING POLICIES

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

1. Marketable Securities and Investments

Canon's consolidated financial statements are based on Statement of Financial Accounting Standards No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities. Under SFAS 115, certain investments in debt and equity securities should be classified as trading, available-for-sale or held-to-maturity. Canon's marketable securities and investments consist of available-for-sale and held-to-maturity securities. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized.

2. Inventories

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

3. Depreciation

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

4. Accrued pension and severance cost

Canon has been adopting Statement of Financial Accounting Standards No. 87, Employer's Accounting for Pensions. The Company and certain of its domestic subsidiaries obtained approvals from government for the exemption for the return of past benefits obligation through July 2004, and transferred the substitutional portion of the benefits obligations related to past service and the related portion of the plan assets of Employees Pension Funds to the government. The Company and certain of its domestic subsidiaries recognized a gain of JPY17,141 million (U.S.\$164,817 thousand) in selling, general and administrative expenses for the year ended December 31, 2004.

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## CANON INC. AND SUBSIDIARIES

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**9. MARKETABLE SECURITIES AND DERIVATIVE CONTRACTS**

## (1) MARKET VALUE ON MARKETABLE SECURITIES

|                              | Millions of yen         |           |              |                         |           |              |
|------------------------------|-------------------------|-----------|--------------|-------------------------|-----------|--------------|
|                              | As of December 31, 2004 |           |              | As of December 31, 2003 |           |              |
|                              | Acquisition             | Estimated | Unrealized   | Acquisition             | Estimated | Unrealized   |
|                              | Cost                    | Fair      | Holding      | Cost                    | Fair      | Holding      |
|                              |                         | Value     | Gains/Losses |                         | Value     | Gains/Losses |
| Current:                     |                         |           |              |                         |           |              |
| Available-for-sale:          |                         |           |              |                         |           |              |
| Japanese and foreign         |                         |           |              |                         |           |              |
| governmental bond securities | ¥                       | ¥         | ¥            | ¥ 65                    | ¥ 61      | ¥ (4)        |
| Corporate debt securities    | 138                     | 138       |              | 7                       | 7         |              |
| Bank debt securities         | 71                      | 71        |              | 71                      | 71        |              |
| Fund trust                   | 92                      | 132       | 40           | 51                      | 63        | 12           |
| Equity securities            | 1,117                   | 1,213     | 96           | 1,044                   | 1,122     | 78           |
|                              | ¥ 1,418                 | ¥ 1,554   | ¥ 136        | ¥ 1,238                 | ¥ 1,324   | ¥ 86         |
| Noncurrent:                  |                         |           |              |                         |           |              |
| Available-for-sale:          |                         |           |              |                         |           |              |
| Japanese and foreign         |                         |           |              |                         |           |              |
| governmental bond securities | ¥ 536                   | ¥ 537     | ¥ 1          | ¥ 243                   | ¥ 238     | ¥ (5)        |
| Corporate debt securities    | 56                      | 75        | 19           | 5,141                   | 5,194     | 53           |
| Fund trust                   | 2,064                   | 2,626     | 562          | 2,047                   | 2,502     | 455          |
| Equity securities            | 9,185                   | 25,737    | 16,552       | 6,525                   | 21,855    | 15,330       |
| Held-to-maturity             |                         |           |              |                         |           |              |
| Corporate debt securities    | 21,544                  | 21,544    |              |                         |           |              |
|                              | ¥ 33,385                | ¥ 50,519  | ¥ 17,134     | ¥ 13,956                | ¥ 29,789  | ¥ 15,833     |

Thousands of U.S. dollars

As of December 31, 2004

|                                   | Acquisition | Estimated  | Unrealized   |
|-----------------------------------|-------------|------------|--------------|
|                                   | Cost        | Fair Value | Holding      |
|                                   |             |            | Gains/Losses |
| Current:                          |             |            |              |
| Available-for-sale:               |             |            |              |
| Japanese and foreign governmental |             |            |              |
| bond securities                   | \$          | \$         | \$           |
| Corporate debt securities         | 1,327       | 1,327      |              |

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|                      |                  |                  |                 |
|----------------------|------------------|------------------|-----------------|
| Bank debt securities | <b>683</b>       | <b>683</b>       |                 |
| Fund trust           | <b>885</b>       | <b>1,269</b>     | <b>384</b>      |
| Equity securities    | <b>10,740</b>    | <b>11,663</b>    | <b>923</b>      |
|                      | <b>\$ 13,635</b> | <b>\$ 14,942</b> | <b>\$ 1,307</b> |

Noncurrent:

Available-for-sale:

|                                                      |                   |                   |                   |
|------------------------------------------------------|-------------------|-------------------|-------------------|
| Japanese and foreign governmental<br>bond securities | <b>\$ 5,154</b>   | <b>\$ 5,163</b>   | <b>\$ 9</b>       |
| Corporate debt securities                            | <b>538</b>        | <b>722</b>        | <b>184</b>        |
| Fund trust                                           | <b>19,846</b>     | <b>25,250</b>     | <b>5,404</b>      |
| Equity securities                                    | <b>88,318</b>     | <b>247,471</b>    | <b>159,153</b>    |
| Held-to-maturity<br>Corporate debt securities        | <b>207,154</b>    | <b>207,154</b>    |                   |
|                                                      | <b>\$ 321,010</b> | <b>\$ 485,760</b> | <b>\$ 164,750</b> |



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## CANON INC. AND SUBSIDIARIES

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## (2) DERIVATIVE CONTRACTS

|                                                          | Millions of yen            |                            |                            |                            | Thousands of U.S. dollars |                            |
|----------------------------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|---------------------------|----------------------------|
|                                                          | As of December 31,<br>2004 |                            | As of December 31,<br>2003 |                            | As of December 31, 2004   |                            |
|                                                          | Contract<br>Amount         | Estimated<br>Fair<br>Value | Contract<br>Amount         | Estimated<br>Fair<br>Value | Contract<br>Amount        | Estimated<br>Fair<br>Value |
| Trade receivables and<br>anticipated sales transactions: |                            |                            |                            |                            |                           |                            |
| To sell foreign currencies                               | ¥ 584,208                  | ¥ (4,714)                  | ¥ 447,543                  | ¥ (2,796)                  | \$ 5,617,385              | \$ (45,327)                |
| To buy foreign currencies                                | 34,201                     | (1,431)                    | 22,384                     | (1,141)                    | 328,856                   | (13,760)                   |
| Long-term debt (including<br>current installments):      |                            |                            |                            |                            |                           |                            |
| Interest rate swaps:                                     |                            |                            |                            |                            |                           |                            |
| Receive-fixed                                            | ¥                          | ¥                          | ¥ 1,337                    | ¥ 0                        | \$                        | \$                         |
| Pay-fixed                                                |                            |                            | 21,227                     | (55)                       |                           |                            |

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CANON INC.

NON-CONSOLIDATED

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

|                                              | Millions of yen                       |                                       |   |           |
|----------------------------------------------|---------------------------------------|---------------------------------------|---|-----------|
|                                              | Year ended<br>December<br>31,<br>2004 | Year ended<br>December<br>31,<br>2003 |   | Change(%) |
| Net sales                                    | ¥ 2,278,374                           | ¥ 2,023,722                           | + | 12.6      |
| Cost of sales                                | 1,433,570                             | 1,250,336                             |   |           |
| Gross profit                                 | 844,804                               | 773,386                               | + | 9.2       |
| Selling, general and administrative expenses | 461,520                               | 453,347                               |   |           |
| Operating profit                             | 383,284                               | 320,039                               | + | 19.8      |
| Other income (deductions):                   |                                       |                                       |   |           |
| Interest and dividend income                 | 13,185                                | 9,950                                 |   |           |
| Interest expense                             | (106)                                 | (258)                                 |   |           |
| Other, net                                   | (113)                                 | (9,115)                               |   |           |
|                                              | 12,966                                | 577                                   |   |           |
| Ordinary profit                              | 396,250                               | 320,616                               | + | 23.6      |
| Non-ordinary gain (loss), net                | (10,427)                              | 40,134                                |   |           |
| Income before income taxes                   | 385,823                               | 360,750                               |   |           |
| Income taxes                                 | 136,572                               | 132,083                               |   |           |
| Net income                                   | ¥ 249,251                             | ¥ 228,667                             | + | 9.0       |
| Earnings per share:                          |                                       | Yen                                   |   |           |
| Basic                                        | ¥ 281.30                              | ¥ 260.03                              |   |           |

**2. DETAILS OF SALES****( Parent company only )****Sales by product**

|                                | Millions of yen                       |                                       | Change(%) |
|--------------------------------|---------------------------------------|---------------------------------------|-----------|
|                                | Year ended<br>December<br>31,<br>2004 | Year ended<br>December<br>31,<br>2003 |           |
| Business machines:             |                                       |                                       |           |
| <i>Office Imaging Products</i> | ¥ 500,940                             | ¥ 475,880                             | + 5.3     |
| <i>Computer peripherals</i>    | 978,247                               | 920,129                               | + 6.3     |
|                                | 1,479,187                             | 1,396,009                             | + 6.0     |
| Cameras                        | 604,474                               | 486,260                               | + 24.3    |
| Optical and other products     | 194,713                               | 141,453                               | + 37.7    |
| Total                          | ¥ 2,278,374                           | ¥ 2,023,722                           | + 12.6    |

**Sales by region**

|                    | Millions of yen                       |                                       | Change(%) |
|--------------------|---------------------------------------|---------------------------------------|-----------|
|                    | Year ended<br>December<br>31,<br>2004 | Year ended<br>December<br>31,<br>2003 |           |
| Japan              | ¥ 359,840                             | ¥ 338,965                             | + 6.2     |
| Overseas:          |                                       |                                       |           |
| <i>Americas</i>    | 784,028                               | 733,713                               | + 6.9     |
| <i>Europe</i>      | 775,218                               | 659,181                               | + 17.6    |
| <i>Other areas</i> | 359,288                               | 291,863                               | + 23.1    |
|                    | 1,918,534                             | 1,684,757                             | + 13.9    |
| Total              | ¥ 2,278,374                           | ¥ 2,023,722                           | + 12.6    |

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CANON INC.

NON-CONSOLIDATED

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

|                                            | Millions of yen                  |                               |          |
|--------------------------------------------|----------------------------------|-------------------------------|----------|
|                                            | As of<br>December<br>31,<br>2004 | As of<br>December 31,<br>2003 | Change   |
| <b>ASSETS</b>                              |                                  |                               |          |
| Current assets:                            |                                  |                               |          |
| Cash                                       | ¥ 294,479                        | ¥ 197,700                     | ¥ 96,779 |
| Trade receivables                          | 740,296                          | 650,935                       | 89,361   |
| Marketable securities                      | 132                              | 63                            | 69       |
| Inventories                                | 200,314                          | 178,687                       | 21,627   |
| Prepaid expenses and other current assets  | 133,995                          | 131,089                       | 2,906    |
| Allowance for doubtful accounts            | (2,873)                          | (7,046)                       | 4,173    |
| Total current assets                       | 1,366,343                        | 1,151,428                     | 214,915  |
| Fixed assets:                              |                                  |                               |          |
| Net property, plant and equipment          | 569,392                          | 461,971                       | 107,421  |
| Intangibles                                | 19,834                           | 19,422                        | 412      |
| Investments                                | 429,331                          | 426,536                       | 2,795    |
| Allowance for doubtful accounts            | (97)                             | (40)                          | (57)     |
| Total fixed assets                         | 1,018,460                        | 907,889                       | 110,571  |
| Total assets                               | ¥2,384,803                       | ¥2,059,317                    | ¥325,486 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                                  |                               |          |
| Current liabilities:                       |                                  |                               |          |
| Trade payables                             | ¥ 329,265                        | ¥ 281,208                     | ¥ 48,057 |
| Short-term loans                           | 37,732                           | 49,603                        | (11,871) |
| Income taxes                               | 81,387                           | 62,713                        | 18,674   |
| Other current liabilities                  | 189,469                          | 104,430                       | 85,039   |
| Total current liabilities                  | 637,853                          | 497,954                       | 139,899  |
| Convertible debenture and long-term debt   | 1,796                            | 11,735                        | (9,939)  |
| Accrued pension and severance cost         | 92,595                           | 104,230                       | (11,635) |
| Accrued directors' retirement benefits     | 1,152                            | 1,238                         | (86)     |
| Total noncurrent liabilities               | 95,543                           | 117,203                       | (21,660) |

|                                            |                    |             |           |
|--------------------------------------------|--------------------|-------------|-----------|
| Total liabilities                          | <b>733,396</b>     | 615,157     | 118,239   |
| Stockholders' equity:                      |                    |             |           |
| Common stock                               | <b>173,864</b>     | 168,892     | 4,972     |
| Capital surplus                            | <b>305,392</b>     | 300,428     | 4,964     |
| Retained earnings                          | <b>1,168,877</b>   | 974,276     | 194,601   |
| Net unrealized gains on securities         | <b>8,537</b>       | 8,015       | 522       |
| Treasury stock                             | <b>(5,263)</b>     | (7,451)     | 2,188     |
| Total stockholders' equity                 | <b>1,651,407</b>   | 1,444,160   | 207,247   |
| Total liabilities and stockholders' equity | <b>¥ 2,384,803</b> | ¥ 2,059,317 | ¥ 325,486 |

|                          |                  |              |
|--------------------------|------------------|--------------|
|                          | Millions of yen  |              |
|                          | As of            | As of        |
|                          | <b>December</b>  | December 31, |
|                          | <b>31,</b>       | 2003         |
|                          | <b>2004</b>      | 2003         |
| Accumulated depreciation | <b>¥ 632,183</b> | ¥ 597,270    |

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NON-CONSOLIDATED

**Directors**

(1) Directors to be retired

|                          |              |                                                  |
|--------------------------|--------------|--------------------------------------------------|
| Senior Managing Director | Kinya Uchida | (Adviser to be appointed)                        |
| Managing Director        | Ikuo Soma    | (President, Canon Finetech Inc. to be appointed) |

(2) Candidates for Directors to be promoted

|                   |                  |                                                                       |
|-------------------|------------------|-----------------------------------------------------------------------|
| Managing Director | Yoroku Adachi    | (Director; President, Canon (China) Co., Ltd. (present))              |
| Managing Director | Yasuo Mitsuhashi | (Director; Chief Executive, Peripheral Products Operations (present)) |

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CONSOLIDATED FINANCIAL RESULTS FOR THE FOURTH QUARTER  
AND THE FISCAL YEAR ENDED DECEMBER 31, 2004

SUPPLEMENTARY REPORT

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

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Canon Inc.

**1. SALES BY REGION AND PRODUCT (2004)**

(Millions of yen)

|                               | 2004        |           | 2003        |           | Change year over year |        |
|-------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
|                               | 4th quarter | Year      | 4th quarter | Year      | 4th quarter           | Year   |
| <b>Japan</b>                  |             |           |             |           |                       |        |
| Business machines             | 172,541     | 602,772   | 163,297     | 587,807   | +5.7%                 | +2.5%  |
| Office imaging products       | 86,863      | 336,214   | 83,232      | 316,156   | +4.4%                 | +6.3%  |
| Computer peripherals          | 61,894      | 178,783   | 59,083      | 175,680   | +4.8%                 | +1.8%  |
| Business information products | 23,784      | 87,775    | 20,982      | 95,971    | +13.4%                | -8.5%  |
| Cameras                       | 36,389      | 124,403   | 36,869      | 112,027   | -1.3%                 | +11.0% |
| Optical and other products    | 30,938      | 122,559   | 27,787      | 101,566   | +11.3%                | +20.7% |
| Total                         | 239,868     | 849,734   | 227,953     | 801,400   | +5.2%                 | +6.0%  |
| <b>Overseas</b>               |             |           |             |           |                       |        |
| Business machines             | 493,139     | 1,785,181 | 445,890     | 1,706,993 | +10.6%                | +4.6%  |
| Office imaging products       | 214,271     | 784,758   | 200,534     | 765,839   | +6.9%                 | +2.5%  |
| Computer peripherals          | 270,105     | 971,131   | 237,137     | 913,632   | +13.9%                | +6.3%  |
| Business information products | 8,763       | 29,292    | 8,219       | 27,522    | +6.6%                 | +6.4%  |
| Cameras                       | 214,366     | 638,676   | 177,115     | 541,513   | +21.0%                | +17.9% |
| Optical and other products    | 33,756      | 194,262   | 43,927      | 148,166   | -23.2%                | +31.1% |
| Total                         | 741,261     | 2,618,119 | 666,932     | 2,396,672 | +11.1%                | +9.2%  |
| <b>Americas</b>               |             |           |             |           |                       |        |
| Business machines             | 206,347     | 762,592   | 191,464     | 771,983   | +7.8%                 | -1.2%  |
| Office imaging products       | 94,355      | 355,375   | 93,509      | 369,795   | +0.9%                 | -3.9%  |
| Computer peripherals          | 107,754     | 392,800   | 94,085      | 388,022   | +14.5%                | +1.2%  |
| Business information products | 4,238       | 14,417    | 3,870       | 14,166    | +9.5%                 | +1.8%  |
| Cameras                       | 95,181      | 262,873   | 84,686      | 245,019   | +12.4%                | +7.3%  |
| Optical and other products    | 8,895       | 33,960    | 6,429       | 28,164    | +38.4%                | +20.6% |
| Total                         | 310,423     | 1,059,425 | 282,579     | 1,045,166 | +9.9%                 | +1.4%  |
| <b>Europe</b>                 |             |           |             |           |                       |        |
| Business machines             | 227,892     | 794,601   | 202,931     | 724,227   | +12.3%                | +9.7%  |
| Office imaging products       | 100,790     | 350,644   | 90,327      | 325,905   | +11.6%                | +7.6%  |
| Computer peripherals          | 123,205     | 431,742   | 108,882     | 387,662   | +13.2%                | +11.4% |
| Business information products | 3,897       | 12,215    | 3,722       | 10,660    | +4.7%                 | +14.6% |
| Cameras                       | 89,461      | 277,307   | 68,254      | 219,219   | +31.1%                | +26.5% |
| Optical and other products    | 5,531       | 21,387    | 7,138       | 25,596    | -22.5%                | -16.4% |
| Total                         | 322,884     | 1,093,295 | 278,323     | 969,042   | +16.0%                | +12.8% |
| <b>Other areas</b>            |             |           |             |           |                       |        |



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|                               |                |                  |                |                  |              |               |
|-------------------------------|----------------|------------------|----------------|------------------|--------------|---------------|
| Business machines             | 58,900         | 227,988          | 51,495         | 210,783          | +14.4%       | +8.2%         |
| Office imaging products       | 19,126         | 78,739           | 16,698         | 70,139           | +14.5%       | +12.3%        |
| Computer peripherals          | 39,146         | 146,589          | 34,170         | 137,948          | +14.6%       | +6.3%         |
| Business information products | 628            | 2,660            | 627            | 2,696            | +0.2%        | -1.3%         |
| Cameras                       | 29,724         | 98,496           | 24,175         | 77,275           | +23.0%       | +27.5%        |
| Optical and other products    | 19,330         | 138,915          | 30,360         | 94,406           | -36.3%       | +47.1%        |
| <b>Total</b>                  | <b>107,954</b> | <b>465,399</b>   | <b>106,030</b> | <b>382,464</b>   | <b>+1.8%</b> | <b>+21.7%</b> |
| <b>Total</b>                  |                |                  |                |                  |              |               |
| Business machines             | 665,680        | 2,387,953        | 609,187        | 2,294,800        | +9.3%        | +4.1%         |
| Office imaging products       | 301,134        | 1,120,972        | 283,766        | 1,081,995        | +6.1%        | +3.6%         |
| Computer peripherals          | 331,999        | 1,149,914        | 296,220        | 1,089,312        | +12.1%       | +5.6%         |
| Business information products | 32,547         | 117,067          | 29,201         | 123,493          | +11.5%       | -5.2%         |
| Cameras                       | 250,755        | 763,079          | 213,984        | 653,540          | +17.2%       | +16.8%        |
| Optical and other products    | 64,694         | 316,821          | 71,714         | 249,732          | -9.8%        | +26.9%        |
| <b>Total</b>                  | <b>981,129</b> | <b>3,467,853</b> | <b>894,885</b> | <b>3,198,072</b> | <b>+9.6%</b> | <b>+8.4%</b>  |

(Note)

From the 1st quarter of 2004, Canon changed the classification of product categories with regard to its information system business, which had been classified in Optical and other products , to Business machines(Office imaging products) in order to better reflect current relation with those products. Accordingly, information for the year 2003 has been reclassified to conform with the current classification.

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Canon Inc.

**2. SALES BY REGION AND PRODUCT  
(2005/Projection)**

(Millions of yen)

|  | 2005 (P)    |           |           | Year      | 2004        |           |           | Year      | Change year over year |          |          |
|--|-------------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|-----------------------|----------|----------|
|  | 1st quarter | 1st half  | 2nd half  |           | 1st quarter | 1st half  | 2nd half  |           | 1st quarter           | 1st half | 2nd half |
|  | 145,300     | 297,900   | 319,200   | 617,100   | 144,502     | 291,710   | 311,062   | 602,772   | +0.6%                 | +2.1%    | +2.6%    |
|  | 90,700      | 180,900   | 181,200   | 362,100   | 82,909      | 166,831   | 169,383   | 336,214   | +9.4%                 | +8.4%    | +7.0%    |
|  | 38,100      | 83,500    | 105,300   | 188,800   | 39,011      | 81,338    | 97,445    | 178,783   | -2.3%                 | +2.7%    | +8.1%    |
|  | 16,500      | 33,500    | 32,700    | 66,200    | 22,582      | 43,541    | 44,234    | 87,775    | -26.9%                | -23.1%   | -26.1%   |
|  | 28,000      | 62,700    | 76,800    | 139,500   | 26,914      | 58,846    | 65,557    | 124,403   | +4.0%                 | +6.5%    | +17.1%   |
|  | 30,300      | 56,900    | 49,400    | 106,300   | 29,696      | 63,206    | 59,353    | 122,559   | +2.0%                 | -10.0%   | -16.8%   |
|  | 203,600     | 417,500   | 445,400   | 862,900   | 201,112     | 413,762   | 435,972   | 849,734   | +1.2%                 | +0.9%    | +2.2%    |
|  | 435,200     | 891,600   | 979,700   | 1,871,300 | 414,812     | 850,551   | 934,630   | 1,785,181 | +4.9%                 | +4.8%    | +4.8%    |
|  | 188,300     | 389,600   | 410,800   | 800,400   | 186,401     | 387,417   | 397,341   | 784,758   | +1.0%                 | +0.6%    | +3.4%    |
|  | 239,700     | 486,800   | 552,100   | 1,038,900 | 221,771     | 449,334   | 521,797   | 971,131   | +8.1%                 | +8.3%    | +5.8%    |
|  | 7,200       | 15,200    | 16,800    | 32,000    | 6,640       | 13,800    | 15,492    | 29,292    | +8.4%                 | +10.1%   | +8.4%    |
|  | 129,900     | 299,700   | 363,900   | 663,600   | 130,311     | 288,487   | 350,189   | 638,676   | -0.3%                 | +3.9%    | +3.9%    |
|  | 56,300      | 116,200   | 116,000   | 232,200   | 51,817      | 95,620    | 98,642    | 194,262   | +8.7%                 | +21.5%   | +17.6%   |
|  | 621,400     | 1,307,500 | 1,459,600 | 2,767,100 | 596,940     | 1,234,658 | 1,383,461 | 2,618,119 | +4.1%                 | +5.9%    | +5.5%    |
|  | 180,200     | 363,200   | 390,300   | 753,500   | 178,655     | 365,696   | 396,896   | 762,592   | +0.9%                 | -0.7%    | -1.7%    |
|  | 80,900      | 166,300   | 174,400   | 340,700   | 85,281      | 175,969   | 179,406   | 355,375   | -5.1%                 | -5.5%    | -2.8%    |

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|         |         |         |           |         |         |         |           |        |        |        |
|---------|---------|---------|-----------|---------|---------|---------|-----------|--------|--------|--------|
| 96,200  | 190,400 | 208,100 | 398,500   | 90,190  | 183,038 | 209,762 | 392,800   | +6.7%  | +4.0%  | -0.8%  |
| 3,100   | 6,500   | 7,800   | 14,300    | 3,184   | 6,689   | 7,728   | 14,417    | -2.6%  | -2.8%  | +0.9%  |
| 49,200  | 113,900 | 145,500 | 259,400   | 51,541  | 114,177 | 148,696 | 262,873   | -4.5%  | -0.2%  | -2.1%  |
| 7,500   | 16,700  | 18,700  | 35,400    | 7,382   | 15,008  | 18,952  | 33,960    | +1.6%  | +11.3% | -1.3%  |
| 236,900 | 493,800 | 554,500 | 1,048,300 | 237,578 | 494,881 | 564,544 | 1,059,425 | -0.3%  | -0.2%  | -1.8%  |
| 196,300 | 408,200 | 460,600 | 868,800   | 184,783 | 375,566 | 419,035 | 794,601   | +6.2%  | +8.7%  | +9.9%  |
| 86,500  | 182,100 | 192,400 | 374,500   | 82,196  | 172,137 | 178,507 | 350,644   | +5.2%  | +5.8%  | +7.8%  |
| 106,300 | 218,800 | 260,600 | 479,400   | 99,795  | 197,692 | 234,050 | 431,742   | +6.5%  | +10.7% | +11.3% |
| 3,500   | 7,300   | 7,600   | 14,900    | 2,792   | 5,737   | 6,478   | 12,215    | +25.4% | +27.2% | +17.3% |
| 58,500  | 137,300 | 158,700 | 296,000   | 56,832  | 129,162 | 148,145 | 277,307   | +2.9%  | +6.3%  | +7.1%  |
| 6,000   | 10,400  | 11,700  | 22,100    | 5,760   | 10,839  | 10,548  | 21,387    | +4.2%  | -4.1%  | +10.9% |
| 260,800 | 555,900 | 631,000 | 1,186,900 | 247,375 | 515,567 | 577,728 | 1,093,295 | +5.4%  | +7.8%  | +9.2%  |
| 58,700  | 120,200 | 128,800 | 249,000   | 51,374  | 109,289 | 118,699 | 227,988   | +14.3% | +10.0% | +8.5%  |
| 20,900  | 41,200  | 44,000  | 85,200    | 18,924  | 39,311  | 39,428  | 78,739    | +10.4% | +4.8%  | +11.6% |
| 37,200  | 77,600  | 83,400  | 161,000   | 31,786  | 68,604  | 77,985  | 146,589   | +17.0% | +13.1% | +6.9%  |
| 600     | 1,400   | 1,400   | 2,800     | 664     | 1,374   | 1,286   | 2,660     | -9.6%  | +1.9%  | +8.9%  |
| 22,200  | 48,500  | 59,700  | 108,200   | 21,938  | 45,148  | 53,348  | 98,496    | +1.2%  | +7.4%  | +11.9% |
| 42,800  | 89,100  | 85,600  | 174,700   | 38,675  | 69,773  | 69,142  | 138,915   | +10.7% | +27.7% | +23.8% |
| 123,700 | 257,800 | 274,100 | 531,900   | 111,987 | 224,210 | 241,189 | 465,399   | +10.5% | +15.0% | +13.6% |

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|      |         |           |           |           |         |           |           |           |        |        |        |
|------|---------|-----------|-----------|-----------|---------|-----------|-----------|-----------|--------|--------|--------|
| S    | 580,500 | 1,189,500 | 1,298,900 | 2,488,400 | 559,314 | 1,142,261 | 1,245,692 | 2,387,953 | +3.8%  | +4.1%  | +4.3%  |
| es   |         |           |           |           |         |           |           |           |        |        |        |
|      | 279,000 | 570,500   | 592,000   | 1,162,500 | 269,310 | 554,248   | 566,724   | 1,120,972 | +3.6%  | +2.9%  | +4.5%  |
|      |         |           |           |           |         |           |           |           |        |        |        |
| er   | 277,800 | 570,300   | 657,400   | 1,227,700 | 260,782 | 530,672   | 619,242   | 1,149,914 | +6.5%  | +7.5%  | +6.2%  |
|      |         |           |           |           |         |           |           |           |        |        |        |
| als  |         |           |           |           |         |           |           |           |        |        |        |
|      | 23,700  | 48,700    | 49,500    | 98,200    | 29,222  | 57,341    | 59,726    | 117,067   | -18.9% | -15.1% | -17.1% |
|      | 157,900 | 362,400   | 440,700   | 803,100   | 157,225 | 347,333   | 415,746   | 763,079   | +0.4%  | +4.3%  | +6.0%  |
|      |         |           |           |           |         |           |           |           |        |        |        |
| s    | 86,600  | 173,100   | 165,400   | 338,500   | 81,513  | 158,826   | 157,995   | 316,821   | +6.2%  | +9.0%  | +4.7%  |
|      |         |           |           |           |         |           |           |           |        |        |        |
| tion | 825,000 | 1,725,000 | 1,905,000 | 3,630,000 | 798,052 | 1,648,420 | 1,819,433 | 3,467,853 | +3.4%  | +4.6%  | +4.7%  |
|      |         |           |           |           |         |           |           |           |        |        |        |
| s    |         |           |           |           |         |           |           |           |        |        |        |
|      |         |           |           |           |         |           |           |           |        |        |        |
| s    |         |           |           |           |         |           |           |           |        |        |        |
|      |         |           |           |           |         |           |           |           |        |        |        |
| and  |         |           |           |           |         |           |           |           |        |        |        |
|      |         |           |           |           |         |           |           |           |        |        |        |
|      |         |           |           |           |         |           |           |           |        |        |        |

(P)=Projection

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Canon Inc.

**3. SEGMENT INFORMATION BY PRODUCT  
(2004)**

(Millions of yen)

|                                   | 2004        |           | 2003        |           | Change year over year |        |
|-----------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
|                                   | 4th quarter | Year      | 4th quarter | Year      | 4th quarter           | Year   |
| <b>Business machines</b>          |             |           |             |           |                       |        |
| Unaffiliated customers            | 665,680     | 2,387,953 | 609,187     | 2,294,800 | +9.3%                 | +4.1%  |
| Intersegment                      |             |           |             |           |                       |        |
| Total sales                       | 665,680     | 2,387,953 | 609,187     | 2,294,800 | +9.3%                 | +4.1%  |
| Operating profit                  | 132,722     | 521,084   | 126,424     | 485,565   | +5.0%                 | +7.3%  |
| % of sales                        | 19.9%       | 21.8%     | 20.8%       | 21.2%     |                       |        |
| <b>Cameras</b>                    |             |           |             |           |                       |        |
| Unaffiliated customers            | 250,755     | 763,079   | 213,984     | 653,540   | +17.2%                | +16.8% |
| Intersegment                      |             |           |             |           |                       |        |
| Total sales                       | 250,755     | 763,079   | 213,984     | 653,540   | +17.2%                | +16.8% |
| Operating profit                  | 39,597      | 130,798   | 37,829      | 126,318   | +4.7%                 | +3.5%  |
| % of sales                        | 15.8%       | 17.1%     | 17.7%       | 19.3%     |                       |        |
| <b>Optical and other products</b> |             |           |             |           |                       |        |
| Unaffiliated customers            | 64,694      | 316,821   | 71,714      | 249,732   | -9.8%                 | +26.9% |
| Intersegment                      | 36,006      | 138,419   | 28,279      | 132,389   | +27.3%                | +4.6%  |
| Total sales                       | 100,700     | 455,240   | 99,993      | 382,121   | +0.7%                 | +19.1% |
| Operating profit                  | 3,444       | 28,832    | -6,819      | -9,883    |                       |        |
| % of sales                        | 3.4%        | 6.3%      | -6.8%       | -2.6%     |                       |        |
| <b>Corporate and Eliminations</b> |             |           |             |           |                       |        |
| Unaffiliated customers            |             |           |             |           |                       |        |
| Intersegment                      | -36,006     | -138,419  | -28,279     | -132,389  |                       |        |
| Total sales                       | -36,006     | -138,419  | -28,279     | -132,389  |                       |        |
| Operating profit                  | -43,645     | -136,921  | -44,546     | -147,576  |                       |        |
| <b>Consolidated</b>               |             |           |             |           |                       |        |
| Unaffiliated customers            | 981,129     | 3,467,853 | 894,885     | 3,198,072 | +9.6%                 | +8.4%  |
| Intersegment                      |             |           |             |           |                       |        |
| Total sales                       | 981,129     | 3,467,853 | 894,885     | 3,198,072 | +9.6%                 | +8.4%  |
| Operating profit                  | 132,118     | 543,793   | 112,888     | 454,424   | +17.0%                | +19.7% |
| % of sales                        | 13.5%       | 15.7%     | 12.6%       | 14.2%     |                       |        |

**4. OTHER INCOME / DEDUCTIONS (2004)**

(Millions of yen)

|                                                | 2004        |         | 2003        |         | Change year over year |         |
|------------------------------------------------|-------------|---------|-------------|---------|-----------------------|---------|
|                                                | 4th quarter | Year    | 4th quarter | Year    | 4th quarter           | Year    |
| Interest & dividend, net                       | 1,621       | 4,362   | 1,605       | 4,657   | +16                   | -295    |
| Forex gain / loss                              | -11,440     | -17,800 | -3,000      | -20,311 | -8,440                | +2,511  |
| Equity earnings / loss of affiliated companies | 1,107       | 1,921   | 545         | -1,124  | +562                  | +3,045  |
| Others, net                                    | 6,107       | 19,840  | 3,290       | 10,524  | +2,817                | +9,316  |
| Total                                          | -2,605      | 8,323   | 2,440       | -6,254  | -5,045                | +14,577 |

(Note)

From the 1st quarter of 2004, Canon changed the classification of product categories with regard to its information system business, which had been classified in Optical and other products, to Business machines (Office imaging products) in order to better reflect current relation with those products. Accordingly, information for the year 2003 has been reclassified to conform with the current classification.

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Canon Inc.

**5. SEGMENT INFORMATION BY PRODUCT (2005/Projection)**

(Millions of yen)

| 1st<br>quarter   | 2005 (P)         |                  |                  | 1st<br>quarter   | 2004             |                  |                  | Change year over |             |             |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------|-------------|
|                  | 1st half         | 2nd half         | Year             |                  | 1st half         | 2nd half         | Year             | 1st<br>quarter   | 1st<br>half | 2nd<br>half |
| 580,500          | 1,189,500        | 1,298,900        | 2,488,400        | 559,314          | 1,142,261        | 1,245,692        | 2,387,953        | +3.8%            | +4.1%       | +4.1%       |
| 580,500          | 1,189,500        | 1,298,900        | 2,488,400        | 559,314          | 1,142,261        | 1,245,692        | 2,387,953        | +3.8%            | +4.1%       | +4.1%       |
| 133,400<br>23.0% | 264,400<br>22.2% | 314,400<br>24.2% | 578,800<br>23.3% | 124,594<br>22.3% | 248,761<br>21.8% | 272,323<br>21.9% | 521,084<br>21.8% | +7.1%            | +6.3%       | +15.1%      |
| 157,900          | 362,400          | 440,700          | 803,100          | 157,225          | 347,333          | 415,746          | 763,079          | +0.4%            | +4.3%       | +6.0%       |
| 157,900          | 362,400          | 440,700          | 803,100          | 157,225          | 347,333          | 415,746          | 763,079          | +0.4%            | +4.3%       | +6.0%       |
| 25,100<br>15.9%  | 61,000<br>16.8%  | 73,800<br>16.7%  | 134,800<br>16.8% | 29,195<br>18.6%  | 61,431<br>17.7%  | 69,367<br>16.7%  | 130,798<br>17.1% | -14.0%           | -0.7%       | +6.0%       |
| 86,600           | 173,100          | 165,400          | 338,500          | 81,513           | 158,826          | 157,995          | 316,821          | +6.2%            | +9.0%       | +4.1%       |
| 34,500           | 74,000           | 79,000           | 153,000          | 30,698           | 65,556           | 72,863           | 138,419          | +12.4%           | +12.9%      | +8.1%       |
| 121,100          | 247,100          | 244,400          | 491,500          | 112,211          | 224,382          | 230,858          | 455,240          | +7.9%            | +10.1%      | +5.1%       |
| 11,400<br>9.4%   | 20,700<br>8.4%   | 10,000<br>4.1%   | 30,700<br>6.2%   | 11,747<br>10.5%  | 15,159<br>6.8%   | 13,673<br>5.9%   | 28,832<br>6.3%   | -3.0%            | +36.6%      | -20.1%      |
| -34,500          | -74,000          | -79,000          | -153,000         | -30,698          | -65,556          | -72,863          | -138,419         |                  |             |             |
| -34,500          | -74,000          | -79,000          | -153,000         | -30,698          | -65,556          | -72,863          | -138,419         |                  |             |             |

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|         |           |           |           |         |           |           |           |       |       |       |
|---------|-----------|-----------|-----------|---------|-----------|-----------|-----------|-------|-------|-------|
| -34,900 | -81,100   | -90,200   | -171,300  | -32,013 | -71,975   | -64,946   | -136,921  |       |       |       |
| 825,000 | 1,725,000 | 1,905,000 | 3,630,000 | 798,052 | 1,648,420 | 1,819,433 | 3,467,853 | +3.4% | +4.6% | +4.6% |
| 825,000 | 1,725,000 | 1,905,000 | 3,630,000 | 798,052 | 1,648,420 | 1,819,433 | 3,467,853 | +3.4% | +4.6% | +4.6% |
| 135,000 | 265,000   | 308,000   | 573,000   | 133,523 | 253,376   | 290,417   | 543,793   | +1.1% | +4.6% | +4.6% |
| 16.4%   | 15.4%     | 16.2%     | 15.8%     | 16.7%   | 15.4%     | 16.0%     | 15.7%     |       |       |       |

(P)=Projection

**6. OTHER INCOME / DEDUCTIONS  
(2005/Projection)**

(Millions of yen)

|                                                | 2005 (P)    |          |          |         | 2004        |          |          |         | Change year over year |          |          |        |
|------------------------------------------------|-------------|----------|----------|---------|-------------|----------|----------|---------|-----------------------|----------|----------|--------|
|                                                | 1st quarter | 1st half | 2nd half | Year    | 1st quarter | 1st half | 2nd half | Year    | 1st quarter           | 1st half | 2nd half | Year   |
| Interest & dividend, net                       | 1,300       | 3,100    | 3,300    | 6,400   | 537         | 1,589    | 2,773    | 4,362   | +763                  | +1,511   | +527     | +2,038 |
| Forex gain / loss                              | -1,500      | -5,200   | -7,400   | -12,600 | -4,415      | -5,160   | -12,640  | -17,800 | +2,915                | -40      | +5,240   | +5,200 |
| Equity earnings / loss of affiliated companies | 800         | 1,400    | 1,100    | 2,500   | 106         | 791      | 1,130    | 1,921   | +694                  | +609     | -30      | +579   |
| Others, net                                    | 1,400       | 5,700    | 5,000    | 10,700  | 6,111       | 9,378    | 10,462   | 19,840  | -4,711                | -3,678   | -5,462   | -9,140 |
| Total                                          | 2,000       | 5,000    | 2,000    | 7,000   | 2,339       | 6,598    | 1,725    | 8,323   | -339                  | -1,598   | +275     | -1,323 |

(P)=Projection

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**7. SALES COMPOSITION BY PRODUCT**

|                                           | 2005 (P)       |             |             |      | 2004           |             |             |      | 2003           |      |
|-------------------------------------------|----------------|-------------|-------------|------|----------------|-------------|-------------|------|----------------|------|
|                                           | 1st<br>quarter | 1st<br>half | 2nd<br>half | Year | 4th<br>quarter | 1st<br>half | 2nd<br>half | Year | 4th<br>quarter | Year |
| <b>Office imaging products</b>            |                |             |             |      |                |             |             |      |                |      |
| Monochrome copying machines               | 59%            | 58%         | 57%         | 57%  | 59%            | 63%         | 60%         | 62%  | 64%            | 67%  |
| Digital*                                  |                |             |             |      | 96%            | 93%         | 96%         | 95%  | 94%            | 93%  |
| Analog*                                   |                |             |             |      | 4%             | 7%          | 4%          | 5%   | 6%             | 7%   |
| Color copying machines                    | 26%            | 27%         | 27%         | 27%  | 26%            | 23%         | 26%         | 24%  | 22%            | 20%  |
| Others                                    | 15%            | 15%         | 16%         | 16%  | 15%            | 14%         | 14%         | 14%  | 14%            | 13%  |
| <b>Computer peripherals</b>               |                |             |             |      |                |             |             |      |                |      |
| Laser beam printers                       | 74%            | 72%         | 67%         | 69%  | 67%            | 70%         | 71%         | 71%  | 65%            | 70%  |
| Inkjet printers<br>(includes inkjet MFPs) | 25%            | 26%         | 31%         | 29%  | 31%            | 28%         | 27%         | 27%  | 32%            | 27%  |
| Others                                    | 1%             | 2%          | 2%          | 2%   | 2%             | 2%          | 2%          | 2%   | 3%             | 3%   |
| <b>Business information products</b>      |                |             |             |      |                |             |             |      |                |      |
| Personal computers                        | 69%            | 68%         | 66%         | 67%  | 71%            | 75%         | 72%         | 74%  | 73%            | 76%  |
| Others                                    | 31%            | 32%         | 34%         | 33%  | 29%            | 25%         | 28%         | 26%  | 27%            | 24%  |
| <b>Cameras</b>                            |                |             |             |      |                |             |             |      |                |      |
| Film cameras / Lenses                     | 15%            | 15%         | 14%         | 14%  | 14%            | 17%         | 15%         | 16%  | 18%            | 21%  |
| Digital cameras                           | 70%            | 70%         | 71%         | 71%  | 73%            | 67%         | 71%         | 69%  | 65%            | 61%  |
| Video camcorders                          | 15%            | 15%         | 15%         | 15%  | 13%            | 16%         | 14%         | 15%  | 17%            | 18%  |
| <b>Optical and other products</b>         |                |             |             |      |                |             |             |      |                |      |
| Semiconductor<br>production equipment     | 69%            | 69%         | 63%         | 66%  | 51%            | 65%         | 62%         | 63%  | 56%            | 54%  |
| Others                                    | 31%            | 31%         | 37%         | 34%  | 49%            | 35%         | 38%         | 37%  | 44%            | 46%  |

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

(P)=Projection

**8. SALES GROWTH IN LOCAL CURRENCY**

|                          | 2005 (P)       |             |             |       | 2004           |             |             |       |
|--------------------------|----------------|-------------|-------------|-------|----------------|-------------|-------------|-------|
|                          | 1st<br>quarter | 1st<br>half | 2nd<br>half | Year  | 4th<br>quarter | 1st<br>half | 2nd<br>half | Year  |
| <b>Business machines</b> |                |             |             |       |                |             |             |       |
| Japan                    | +0.6%          | +2.1%       | +2.6%       | +2.4% | +5.7%          | +0.4%       | +4.6%       | +2.5% |

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|                                   |        |        |        |        |        |        |        |        |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Overseas                          | +7.5%  | +7.8%  | +7.9%  | +7.8%  | +10.2% | +5.9%  | +10.0% | +8.0%  |
| Total                             | +5.7%  | +6.3%  | +6.6%  | +6.5%  | +9.0%  | +4.5%  | +8.7%  | +6.6%  |
| <b>Cameras</b>                    |        |        |        |        |        |        |        |        |
| Japan                             | +4.0%  | +6.5%  | +17.1% | +12.1% | -1.3%  | +25.8% | +0.5%  | +11.0% |
| Overseas                          | +1.6%  | +6.1%  | +6.6%  | +6.4%  | +20.0% | +26.8% | +15.6% | +20.5% |
| Total                             | +2.0%  | +6.2%  | +8.3%  | +7.3%  | +16.3% | +26.6% | +12.9% | +18.9% |
| <b>Optical and other products</b> |        |        |        |        |        |        |        |        |
| Japan                             | +2.0%  | -10.0% | -16.8% | -13.3% | +11.3% | +35.4% | +8.1%  | +20.7% |
| Overseas                          | +9.5%  | +22.8% | +18.9% | +20.9% | -23.2% | +40.6% | +29.8% | +35.0% |
| Total                             | +6.8%  | +9.8%  | +5.5%  | +7.7%  | -9.8%  | +38.5% | +20.9% | +29.2% |
| <b>Total</b>                      |        |        |        |        |        |        |        |        |
| Japan                             | +1.2%  | +0.9%  | +2.2%  | +1.5%  | +5.2%  | +7.8%  | +4.4%  | +6.0%  |
| Overseas                          | +6.4%  | +8.6%  | +8.4%  | +8.5%  | +10.6% | +12.3% | +12.6% | +12.5% |
| Americas                          | +4.0%  | +5.2%  | +2.6%  | +3.8%  | +13.0% | +5.8%  | +10.7% | +8.3%  |
| Europe                            | +5.6%  | +7.6%  | +10.7% | +9.2%  | +11.0% | +11.5% | +11.7% | +11.6% |
| Other areas                       | +13.3% | +18.3% | +16.4% | +17.3% | +3.0%  | +33.2% | +20.0% | +26.1% |
| Total                             | +5.1%  | +6.6%  | +6.9%  | +6.8%  | +9.2%  | +11.2% | +10.6% | +10.9% |

(P)=Projection

(Note)

From the 1st quarter of 2004, Canon changed the classification of product categories with regard to its information system business, which had been classified in **Optical and other products**, to **Business machines(Office imaging products)** in order to better reflect current relation with those products. Accordingly, information for the year 2003 has been reclassified to conform with the current classification.

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Canon Inc.

**9. P&L SUMMARY (1st Quarter 2005/Projection)**

(Millions of yen)

|                                                   | 2005 (P)    | 2004        | Change<br>year over<br>year |
|---------------------------------------------------|-------------|-------------|-----------------------------|
|                                                   | 1st quarter | 1st quarter |                             |
| Net sales                                         | 825,000     | 798,052     | +3.4%                       |
| Operating profit                                  | 135,000     | 133,523     | +1.1%                       |
| Income before income taxes and minority interests | 137,000     | 135,862     | +0.8%                       |
| Net income                                        | 85,000      | 84,280      | +0.9%                       |

(P)=Projection

**10. PROFITABILITY**

|     | 2005 (P) | 2004           | 2003           |
|-----|----------|----------------|----------------|
|     | Year     | 4th<br>quarter | 4th<br>quarter |
| ROE | 15.2%    | 14.9%          | 16.4%          |
| ROA | 9.6%     | 9.2%           | 10.1%          |

(P)=Projection

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

(Yen)

|          | 2005 (P)       |        | 2004           |        | 2003           |        |
|----------|----------------|--------|----------------|--------|----------------|--------|
|          | 1st<br>quarter | Year   | 4th<br>quarter | Year   | 4th<br>quarter | Year   |
| Yen/US\$ | 103.00         | 103.00 | 105.86         | 108.12 | 108.92         | 115.61 |
| Yen/Euro | 135.00         | 135.00 | 137.14         | 134.57 | 129.47         | 131.02 |

(P)=Projection

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

(Billions of yen)

|                  | 2005 (P)       |       | 2004           |       |
|------------------|----------------|-------|----------------|-------|
|                  | 1st<br>quarter | Year  | 4th<br>quarter | Year  |
| US\$             | -11.2          | -58.1 | -4.9           | -77.7 |
| Euro             | +1.4           | +2.7  | +11.7          | +20.3 |
| Other currencies | -2.4           | -9.1  | +0.7           | +0.4  |
| Total            | -12.2          | -64.5 | +7.5           | -57.0 |

(P)=Projection

**(3) Impact of foreign exchange rates per yen**

(Billions of yen)

|                     | 2005 (P)       |      |
|---------------------|----------------|------|
|                     | 1st<br>quarter | Year |
| On sales            |                |      |
| US\$                | 2.9            | 12.9 |
| Euro                | 1.5            | 6.9  |
| On operating profit |                |      |
| US\$                | 1.6            | 7.3  |
| Euro                | 1.0            | 5.0  |

(P)=Projection

**12. STATEMENTS OF CASH FLOWS**

(Millions of yen)

|                                                            | 2005 (P)  | 2004           |          | 2003           |          |
|------------------------------------------------------------|-----------|----------------|----------|----------------|----------|
|                                                            | Year      | 4th<br>quarter | Year     | 4th<br>quarter | Year     |
| Net cash provided by operating activities                  |           |                |          |                |          |
| Net income                                                 | 359,000   | 80,788         | 343,344  | 74,958         | 275,730  |
| Depreciation and amortization                              | 210,000   | 55,566         | 192,692  | 52,536         | 183,604  |
| Other, net                                                 | 56,000    | 37,883         | 25,493   | 11,713         | 6,315    |
| Total                                                      | 625,000   | 174,237        | 561,529  | 139,207        | 465,649  |
| Net cash used in investing activities                      | -420,000  | -77,862        | -252,967 | -40,031        | -199,948 |
| Free cash flow                                             | 205,000   | 96,375         | 308,562  | 99,176         | 265,701  |
| Net cash provided by (used in) financing activities        | -71,174   | -11,491        | -102,268 | -7,864         | -102,039 |
| Effect of exchange rate changes on cash & cash equivalents | 0         | -9,855         | -8,818   | 13,764         | 5,365    |
| Net change in cash and cash equivalents                    | 133,826   | 75,029         | 197,476  | 105,076        | 169,027  |
| Cash and cash equivalents at end of each period            | 1,021,600 | 887,774        | 887,774  | 690,298        | 690,298  |

(P)=Projection

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Canon Inc.

**13. R&D EXPENDITURE**

(Millions of yen)

|                            | 2005 (P)<br>Year | 2004<br>Year | 2003<br>Year |
|----------------------------|------------------|--------------|--------------|
| Business machines          |                  | 120,916      | 119,975      |
| Cameras                    |                  | 35,549       | 31,687       |
| Optical and other products |                  | 118,835      | 107,478      |
| Total                      | 305,000          | 275,300      | 259,140      |
| % of sales                 | 8.4%             | 7.9%         | 8.1%         |

(P)=Projection

**14. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION**

(Millions of yen)

|                                      | 2005 (P)<br>Year | 2004<br>Year | 2003<br>Year |
|--------------------------------------|------------------|--------------|--------------|
| <b>Capital expenditure</b>           |                  |              |              |
| Business machines                    |                  | 134,128      | 106,013      |
| Cameras                              |                  | 39,783       | 25,894       |
| Optical and other products           |                  | 52,264       | 31,170       |
| Corporate and eliminations           |                  | 92,555       | 46,961       |
| Total                                | 375,000          | 318,730      | 210,038      |
| <b>Depreciation and amortization</b> |                  |              |              |
| Business machines                    |                  | 115,830      | 118,806      |
| Cameras                              |                  | 21,880       | 17,712       |
| Optical and other products           |                  | 24,895       | 20,276       |
| Corporate and eliminations           |                  | 30,087       | 26,810       |
| Total                                | 210,000          | 192,692      | 183,604      |

(P)=Projection

**15. INVENTORIES****(1) Inventories**

(Millions of yen)

|                            | 2004<br>Dec.31 | 2003<br>Dec.31 | Difference |
|----------------------------|----------------|----------------|------------|
| Business machines          | 244,050        | 241,477        | +2,573     |
| Cameras                    | 90,620         | 64,043         | +26,577    |
| Optical and other products | 154,458        | 138,724        | +15,734    |
| Total                      | 489,128        | 444,244        | +44,884    |

| <b>(2) Inventories/Sales*</b> | (Days)         |                |            |
|-------------------------------|----------------|----------------|------------|
|                               | 2004<br>Dec.31 | 2003<br>Dec.31 | Difference |
| Business machines             | 36             | 38             | -2         |
| Cameras                       | 40             | 32             | +8         |
| Optical and other products    | 178            | 191            | -13        |
| Total                         | 49             | 49             | 0          |

\* Index based on the previous six months sales.

## 16. DEBT RATIO

|                           | 2004<br>Dec.31 | 2003<br>Dec.31 | Difference |
|---------------------------|----------------|----------------|------------|
| Total debt / Total assets | 1.1%           | 3.1%           | -2.0%      |

## 17. OVERSEAS PRODUCTION RATIO

|                           | 2004<br>Year | 2003<br>Year |
|---------------------------|--------------|--------------|
| Overseas production ratio | 42%          | 42%          |

## 18. NUMBER OF EMPLOYEES

|          | 2004<br>Dec.31 | 2003<br>Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan    | 46,103         | 45,380         | +723       |
| Overseas | 62,154         | 57,187         | +4,967     |
| Total    | 108,257        | 102,567        | +5,690     |

(Note)

From the 1st quarter of 2004, Canon changed the classification of product categories with regard to its information system business, which had been classified in *Optical and other products*, to *Business machines(Office imaging products)* in order to better reflect current relation with those products. Accordingly, information for the year 2003 has been reclassified to conform with the current classification.