

CANON INC  
Form 6-K  
April 28, 2004

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**FORM 6-K**

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the month of April , 2004

**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.

|                     |    |                                   |
|---------------------|----|-----------------------------------|
|                     |    | <b>CANON INC.</b>                 |
|                     |    | _____                             |
|                     |    | (Registrant)                      |
| Date April 28, 2004 | By | /s/ Hiroshi Kawashimo             |
|                     |    | _____                             |
|                     |    | (Signature)*                      |
|                     |    | Hiroshi Kawashimo                 |
|                     |    | General Manager, Finance Division |
|                     |    | Canon Inc.                        |

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

The following materials are included.

Consolidated Results For The First Quarter Ended March 31, 2004

Information on Replacement of Share Certificates As a Result of Change in Number of Shares Constituting One Unit

Notice Regarding Change (dismissal) of Accounting Auditors

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April 27, 2004

**CONSOLIDATED RESULTS FOR  
THE FIRST QUARTER ENDED MARCH 31, 2004**

**CONSOLIDATED RESULTS**

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

|   | Actual                            |                                   |           | Projected                         |                               |           |
|---|-----------------------------------|-----------------------------------|-----------|-----------------------------------|-------------------------------|-----------|
|   | Three months ended March 31, 2004 | Three months ended March 31, 2003 | Change(%) | Three months ended March 31, 2004 | Year ending December 31, 2004 | Change(%) |
|   | (Unaudited)                       | (Unaudited)                       |           | (Unaudited)                       |                               |           |
| Net sales   | ¥798,052                          | ¥ 731,561                         | + 9.1     | \$ 7,528,792                      | ¥3,400,000                    | + 6.3     |
| Operating profit                                  | 133,523                           | 117,407                           | + 13.7    | 1,259,651                         | 499,000                       | + 9.8     |
| Income before income taxes and minority interests | 135,862                           | 117,199                           | + 15.9    | 1,281,717                         | 500,000                       | + 11.6    |
| Net income  | 84,280                            | 71,601                            | + 17.7    | 795,094                           | 309,000                       | + 12.1    |
| <b>Earnings per share:</b>                        |                                   |                                   |           |                                   |                               |           |
| Basic   | ¥ 95.50                           | ¥ 81.57                           | + 17.1    | \$ 0.90                           | ¥ 348.67                      | + 11.1    |
| Diluted   | 95.02                             | 80.69                             | + 17.8    | 0.90                              |                               |           |

## Actual

|                     | As of March 31, 2004 | As of December 31, 2003 | Change(%) | As of March 31, 2004 |
|---------------------|----------------------|-------------------------|-----------|----------------------|
|                     | (Unaudited)          | (Audited)               |           | (Unaudited)          |
| Total assets        | ¥3,193,630           | ¥ 3,182,148             | + 0.4     | \$ 30,128,585        |
| Stockholders equity | ¥1,920,080           | ¥ 1,865,545             | + 2.9     | \$ 18,113,962        |

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- Notes: 1. Canon's consolidated financial statements conform with accounting principles generally accepted in the United States of America.
2. U.S. dollar amounts are translated from yen at the rate of JPY106 = U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2004, solely for the convenience of the reader.

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Headquarter office

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Tokyo 146-8501, Japan  
Phone: +81-3-3758-2111

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**Operating Results and Financial Conditions**

**2004 First Quarter in Review**

Looking back at the global economy in the first quarter of 2004, in the United States, while employment conditions remained stagnant after a modest improvement, the economy recovered strongly supported by continued growth in tax-cut driven consumer spending, and boosted private-sector capital investment following the increased rate of capacity utilization due to stepped up production. The economies in Europe also experienced a moderate recovery sustained by increased export sales and capital investments accompanying the upturn in the U.S. economy. In Asia, while China continued to record high economic growth, driven by active investment in infrastructure and increased capital investment in line with an expansion in export sales, other Asian economies were also in recovery mode, enabling the region to maintain substantial growth. In Japan, a gradual recovery was evident, with consumer spending and employment conditions picking up and the expansion of the U.S. and Asian economies underpinning an increase in export sales and healthy capital investment.

As for the markets in which the Canon Group operates, demand for digital cameras overseas continued to grow significantly during the term, while the rate of growth slowed in the domestic Japanese market. Although shifting business demand toward multifunctionality and color stimulated strong sales of network digital multifunction devices (MFDs), computer peripherals, including printers, struggled amid severe price competition and the shift in demand toward lower priced models, which has accompanied the increase in high cost-performance models. In the field of optical equipment, capital spending for semiconductor- production equipment recovered owing to such factors as the high rate of capacity utilization by semiconductor manufacturers, and the sustained high price of memory devices resulting from replacement demand for personal computers and the significant growth in demand for digital electrical appliances. 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 quarter was ¥107.43 to the U.S. dollar and ¥134.02 to the euro, representing a year-on-year increase of 11% against the U.S. dollar, and a decrease of 5% against the euro.

Amid these conditions, Canon's consolidated net sales for the first quarter increased by 9.1% from the year-ago period to ¥798.1 billion (U.S.\$7,529 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 and projection aligners used in the production of LCDs. Net income for the quarter recorded an all-time high of ¥84.3 billion (U.S.\$795 million), a year-on-year increase of 17.7%. The results mark the seventh consecutive quarter of sales and profit growth, beginning with the third quarter of 2002. Canon's gross profit ratio for the quarter was 49.6%, representing a decline of 1.1% from the 50.7% recorded for the first quarter of 2003. Although production-reform efforts continued during the term, the decline in the gross profit ratio was mainly caused by a combination of factors: the appreciation of the yen against the U.S. dollar, a slowdown in cost-cutting performance due to the large number of new products launched during the first quarter, and severe price competition. Owing to a substantial increase in unit sales, however, gross profit increased by 6.6% to ¥395.5 billion (U.S.\$3,731 million). Selling, general and administrative expenses for the first quarter rose 3.3% year on year, which is less than the growth rate of net sales for the quarter, with R&D expenditures increasing by ¥3.7 billion (U.S.\$35 million) to ¥57.5 billion (U.S.\$543 million), while other selling, general and administrative expenses maintained the same level as the year-ago period. Consequently, operating profit in the first quarter totaled ¥133.5 billion (U.S.\$1,260 million), a substantial increase of 13.7%. Other income (deductions) improved by ¥2.5 billion (U.S.\$24 million), with reduced equity losses of affiliated companies and gains on the disposal of marketable securities offsetting an increase in currency exchange losses on foreign-currency-denominated trade receivables, which resulted from the rapid appreciation of the yen against the U.S. dollar in late March. As a result, income before income taxes in the first quarter totaled ¥135.9 billion (U.S.\$1,282 million), a year-on-year increase of 15.9%. The effective tax rate during the quarter was 2.8% lower compared with the previous year. As a result, net income for the first quarter of 2004 totaled ¥84.3 billion (U.S.\$795

million).

Basic earnings per share for the quarter was ¥95.50 (U.S.\$0.90), a year-on-year increase of ¥13.93.

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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 machines to color models, as well as a trend toward higher-end features. Additionally, the Color imageRUNNER C3200/iRC3200N, Canon's first color offering in the powerful imageRUNNER-series lineup, continued to sell well in both domestic and overseas markets. The iRC3100, which was introduced in the domestic Japanese market in the second half of 2003, has also been launched in Europe and has been received well in both markets. Among monochrome network digital MFDs, such low-end models as the iR1600/2000 series recorded considerable sales increases, while mid-class and high-end models such as the iR2200 series and iR5000 series, respectively, also achieved strong sales. Overall, sales of office imaging products for the quarter realized a year-on-year increase of 5.4%. In the field of computer peripherals, laser beam printers enjoyed a year-on-year increase in unit sales of nearly 20%, with color models showing a gradual improvement and monochrome systems, particularly personal-use models, also demonstrating growth. Although laser beam printer sales increased on a unit basis, the sales amount decreased slightly as a result of the appreciation of the yen against the U.S. dollar and a shift in demand toward lower priced models. Inkjet printers recorded a unit sales increase of approximately 30% as well as increased sales in terms of value, with the i560 and i860 selling briskly, especially in Japan and Europe, and the MultiPASS MP700/MP730 high-speed multifunctional systems dramatically increasing unit sales. As a result, while sales of computer peripherals in the first quarter increased on a local currency basis, the appreciation of the yen resulted in a slight overall decrease of 1.1%. Sales of business information products, including computers, micrographics and calculators, decreased by 12.9% due to the intentional curtailing of personal computer sales in the domestic market. Collectively, sales of business machines in the quarter totaled ¥559.3 billion (U.S.\$5,277 million), a year-on-year increase of 1.2%. While the gross profit ratio declined slightly for the quarter due to the appreciation of the yen, the operating profit ratio for the business machine segment remained at the year-ago level, supported by such factor as a decrease in sales to expense ratio. As a result, operating profit for the quarter was ¥124.6 billion (U.S.\$1,175 million), a year-on-year increase of 0.9%. From this quarter, Canon has reclassified information-systems-related sales by subsidiaries to better reflect the product relationship. These sales, which had been grouped with optical and other products, are now included in the office imaging products segment. Accordingly, previous-year sales for each category have been restated in line with the change.

Within the camera segment, amid the continued strong demand for digital models worldwide, sales of compact digital cameras showed a significant growth, mainly led by PowerShot A70 and PowerShot S400 DIGITAL ELPH. Seven new PowerShot-series models which were released in March also have been well received in the market. Canon's digital SLR cameras continued to enjoy robust growth, bolstered by the EOS Digital Rebel, launched last September. As a result, unit sales of digital cameras grew nearly 90% compared with the year-ago period. In the field of digital video camcorders, the ZR90/85/80 and ELURA70/65/60 models achieved favorable sales during the quarter, reflecting improved market conditions. As a result, overall camera sales continued to achieve double-digit growth of 33.8%, achieving total sales of ¥157.2 billion (U.S.\$1,483 million). Operating profit for the camera segment appreciably advanced 34.7% to ¥29.2 billion (U.S.\$275 million), attributable to the decrease in the sales to expense ratio, which resulted in a slight year-on-year increase in the operating profit ratio for the period, while the gross profit ratio decreased slightly owing to the appreciation of the yen and price competition.

In the optical and other products segment, sales of aligners for the production of LCDs realized notable growth as the PC monitor industry continued its 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 32.6% to ¥81.5 billion (U.S.\$769 million). The operating profit ratio for the segment improved substantially due to the significant growth in sales, enabling optical and other products to record an operating profit of ¥11.7 billion (U.S.\$111 million), compared with ¥1.7 billion for the same period of the previous year.

**Cash Flow**

In the first quarter of 2004, Canon maintained cash flow from operating activities of ¥105.1 billion (U.S.\$991 million), a year-on-year increase of ¥8.0 billion (U.S.\$75 million), reflecting the substantial growth in sales and increased cash proceeds from sales, combined with an increase in net income. Capital expenditure totaled ¥54.7 billion (U.S.\$517 million), which was used mainly to expand production capabilities in both domestic and overseas regions. Cash flow from investing activities totaled ¥49.9 billion (U.S.\$471 million). As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled positive ¥55.2 billion (U.S.\$521 million).

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Cash flow from financing activities recorded an outlay of ¥56.2 billion (U.S.\$530 million), mainly resulting from active efforts to repay short-term 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 ¥683.5 billion (U.S.\$6,448 million), although representing a ¥6.8 billion (U.S.\$64 million) decrease from the end of the previous year, remained at a high level.

**Outlook**

Regarding the outlook for the global economy in the second quarter and thereafter, although global economic prospects remain uncertain due to concern over prolonged confusion in Iraq and the threat of future terrorist attacks, 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. A shortage of key parts from suppliers, however, could have a restraining effect on market growth. As for network digital MFDs and laser beam printers, while stable demand is projected for both monochrome and 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, while a recovery in capital investment by semiconductor manufacturers is likely to continue, the pace will probably slow down in the latter half of the year. In the market for projection aligners used in the production of LCDs, although demand for LCD production equipment is expected to show continued growth, improved process yields could negatively affect demand, resulting in the sale of fewer additional units than initially projected.

Although uncertainty surrounds several factors that could affect currency exchange rates, significant changes in rates are not anticipated. The yen is expected to be slightly stronger against the U.S. dollar and euro compared with the previous year.

Upon considering the current market and currency exchange environments, the company has revised upward its forecasts for the 2004 fiscal year and now anticipates consolidated net sales of ¥3,400.0 billion (U.S.\$32,075 million), consolidated income before income taxes of ¥500.0 billion (U.S.\$4,717 million), and consolidated net income of ¥309.0 billion (U.S.\$2,915 million). The company also projects non-consolidated net sales of ¥2,230.0 billion (U.S.\$21,038 million), non-consolidated ordinary profit of ¥355.0 billion (U.S.\$3,349 million), and non-consolidated net income of ¥232.0 billion (U.S.\$2,189 million). These forecasts assume currency exchange rates of ¥105.00 to the U.S. dollar and ¥125.00 to the euro for the remainder of 2004.

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| Millions of yen                    |                        |                       |                                      |                              |
|------------------------------------|------------------------|-----------------------|--------------------------------------|------------------------------|
| <b>1st Half</b>                    |                        |                       |                                      |                              |
| Six months ending<br>June 30, 2004 |                        | Change<br><br>(B - A) | Six months<br>ended<br>June 30, 2003 | Change<br>(%)<br><br>(B / C) |
| Previous<br>Outlook<br>(A)         | Revised Outlook<br>(B) |                       |                                      |                              |
| Net sales                          | ¥1,570,000             | ¥ 1,638,000           | ¥68,000                              | ¥ 1,535,588<br>+ 6.7%        |
| Income before income taxes         | 226,000                | 249,000               | 23,000                               | 215,506<br>+ 15.5%           |
| Net income                         | 137,000                | 154,000               | 17,000                               | 127,767<br>+ 20.5%           |

| Millions of yen                  |                        |                       |                                    |                              |
|----------------------------------|------------------------|-----------------------|------------------------------------|------------------------------|
| <b>Fiscal year</b>               |                        |                       |                                    |                              |
| Year ending<br>December 31, 2004 |                        | Change<br><br>(B - A) | Year ended<br>December 31,<br>2003 | Change<br>(%)<br><br>(B / C) |
| Previous<br>Outlook<br>(A)       | Revised Outlook<br>(B) |                       |                                    |                              |
| Net sales                        | ¥3,330,000             | ¥ 3,400,000           | ¥70,000                            | ¥ 3,198,072<br>+ 6.3%        |
| Income before income taxes       | 470,000                | 500,000               | 30,000                             | 448,170<br>+ 11.6%           |
| Net income                       | 286,000                | 309,000               | 23,000                             | 275,730<br>+ 12.1%           |

**Non-consolidated Outlook**

| Millions of yen                    |                        |                       |                                      |                              |
|------------------------------------|------------------------|-----------------------|--------------------------------------|------------------------------|
| <b>1st Half</b>                    |                        |                       |                                      |                              |
| Six months ending<br>June 30, 2004 |                        | Change<br><br>(B - A) | Six months<br>ended<br>June 30, 2003 | Change<br>(%)<br><br>(B / C) |
| Previous<br>Outlook<br>(A)         | Revised Outlook<br>(B) |                       |                                      |                              |
| Net sales                          | ¥1,020,000             | ¥ 1,056,000           | ¥36,000                              | ¥ 946,551<br>+ 11.6%         |
| Ordinary profit                    | 165,000                | 177,000               | 12,000                               | 164,293<br>+ 7.7%            |
| Net income                         | 107,000                | 118,000               | 11,000                               | 128,775<br>8.4%              |

| Fiscal year     | Millions of yen                  |                        |         |                                    |               |
|-----------------|----------------------------------|------------------------|---------|------------------------------------|---------------|
|                 | Year ending<br>December 31, 2004 |                        | Change  | Year ended<br>December 31,<br>2003 | Change<br>(%) |
|                 | Previous<br>Outlook<br>(A)       | Revised Outlook<br>(B) |         |                                    |               |
|                 |                                  |                        |         |                                    |               |
| Net sales       | ¥2,170,000                       | ¥ 2,230,000            | ¥60,000 | ¥ 2,023,722                        | + 10.2%       |
| Ordinary profit | 338,000                          | 355,000                | 17,000  | 320,616                            | + 10.7%       |
| Net income      | 217,000                          | 232,000                | 15,000  | 228,667                            | + 1.5%        |

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

## 1. CONSOLIDATED STATEMENTS OF INCOME

**Three months ended March 31, 2004 and 2003**

|   | Millions of yen |             | Change(%) | Thousands<br>of<br>U.S. dollars |
|---|-----------------|-------------|-----------|---------------------------------|
|   | 2004            | 2003        |           | 2004                            |
|   | (Unaudited)     | (Unaudited) |           | (Unaudited)                     |
| Net sales   | ¥798,052        | ¥ 731,561   | + 9.1     | \$ 7,528,792                    |
| Cost of sales                                     | 402,595         | 360,605     |           | 3,798,066                       |
| Gross profit                                      | 395,457         | 370,956     | + 6.6     | 3,730,726                       |
| Selling, general and administrative expenses      | 261,934         | 253,549     |           | 2,471,075                       |
| Operating profit                                  | 133,523         | 117,407     | + 13.7    | 1,259,651                       |
| Other income (deductions):                        |                 |             |           |                                 |
| Interest and dividend income                      | 1,308           | 2,196       |           | 12,340                          |
| Interest expense                                  | (771)           | (1,246)     |           | (7,274)                         |
| Other, net  | 1,802           | (1,158)     |           | 17,000                          |
|   | 2,339           | (208)       |           | 22,066                          |
| Income before income taxes and minority interests | 135,862         | 117,199     | + 15.9    | 1,281,717                       |
| Income taxes                                      | 48,591          | 45,216      |           | 458,406                         |
| Income before minority interests                  | 87,271          | 71,983      |           | 823,311                         |
| Minority interests                                | 2,991           | 382         |           | 28,217                          |
| Net income  | ¥ 84,280        | ¥ 71,601    | + 17.7    | \$ 795,094                      |

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 minimum pension liability adjustments and change in net gains (losses) on derivative financial instruments. Comprehensive income for three months ended

March 31, 2004 and 2003 were JPY73,839 million (U.S.\$696,594 thousand) and JPY91,621 million, respectively.

## 2. DETAILS OF SALES

### Three months ended March 31, 2004 and 2003

| Sales by product                     | Millions of yen     |                     |           | Thousands of U.S. dollars |
|--------------------------------------|---------------------|---------------------|-----------|---------------------------|
|                                      | 2004<br>(Unaudited) | 2003<br>(Unaudited) | Change(%) | 2004<br>(Unaudited)       |
| Business machines:                   |                     |                     |           |                           |
| <i>Office imaging products</i>       | ¥269,310            | ¥ 255,403           | + 5.4     | \$ 2,540,660              |
| <i>Computer peripherals</i>          | 260,782             | 263,599             | - 1.1     | 2,460,208                 |
| <i>Business information products</i> | 29,222              | 33,555              | - 12.9    | 275,679                   |
|                                      | <u>559,314</u>      | <u>552,557</u>      | + 1.2     | <u>5,276,547</u>          |
| Cameras                              | 157,225             | 117,544             | + 33.8    | 1,483,255                 |
| Optical and other products           | 81,513              | 61,460              | + 32.6    | 768,990                   |
|                                      | <u>596,940</u>      | <u>545,583</u>      | + 9.4     | <u>5,631,509</u>          |
| Total                                | <u>¥798,052</u>     | <u>¥ 731,561</u>    | + 9.1     | <u>\$ 7,528,792</u>       |

| Sales by region    | Millions of yen     |                     |           | Thousands of U.S. dollars |
|--------------------|---------------------|---------------------|-----------|---------------------------|
|                    | 2004<br>(Unaudited) | 2003<br>(Unaudited) | Change(%) | 2004<br>(Unaudited)       |
| Japan              | ¥201,112            | ¥ 185,978           | + 8.1     | \$ 1,897,283              |
| Overseas:          |                     |                     |           |                           |
| <i>Americas</i>    | 237,578             | 242,820             | - 2.2     | 2,241,302                 |
| <i>Europe</i>      | 247,375             | 216,411             | + 14.3    | 2,333,726                 |
| <i>Other areas</i> | 111,987             | 86,352              | + 29.7    | 1,056,481                 |
|                    | <u>596,940</u>      | <u>545,583</u>      | + 9.4     | <u>5,631,509</u>          |
| Total              | <u>¥798,052</u>     | <u>¥ 731,561</u>    | + 9.1     | <u>\$ 7,528,792</u>       |

Notes: Beginning this quarter, 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) to better reflect present 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 / 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.

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

Broadcasting equipment / Medical equipment / Components / etc.

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

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

Other Areas: Asian regions, China, Oceania



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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 3. SEGMENT INFORMATION BY PRODUCT

**Three months ended March 31, 2004 and 2003**

|                                   | Millions of yen |                | Change(%)    | Thousands of<br>U.S. dollars |
|-----------------------------------|-----------------|----------------|--------------|------------------------------|
|                                   | 2004            | 2003           |              | 2004                         |
|                                   | (Unaudited)     | (Unaudited)    |              | (Unaudited)                  |
| <b>Business Machines</b>          |                 |                |              |                              |
| Net sales:                        |                 |                |              |                              |
| Unaffiliated customers            | ¥559,314        | ¥ 552,557      | + 1.2        | \$ 5,276,547                 |
| Intersegment                      | _____           | _____          | _____        | _____                        |
| Total                             | <u>559,314</u>  | <u>552,557</u> | <u>+ 1.2</u> | <u>5,276,547</u>             |
| Operating cost and expenses       | <u>434,720</u>  | <u>429,081</u> | <u>+ 1.3</u> | <u>4,101,132</u>             |
| Operating profit                  | <u>124,594</u>  | <u>123,476</u> | <u>+ 0.9</u> | <u>1,175,415</u>             |
| <b>Cameras</b>                    |                 |                |              |                              |
| Net sales:                        |                 |                |              |                              |
| Unaffiliated customers            | ¥157,225        | ¥ 117,544      | +33.8        | \$ 1,483,255                 |
| Intersegment                      | _____           | _____          | _____        | _____                        |
| Total                             | <u>157,225</u>  | <u>117,544</u> | <u>+33.8</u> | <u>1,483,255</u>             |
| Operating cost and expenses       | <u>128,030</u>  | <u>95,876</u>  | <u>+33.5</u> | <u>1,207,830</u>             |
| Operating profit                  | <u>29,195</u>   | <u>21,668</u>  | <u>+34.7</u> | <u>275,425</u>               |
| <b>Optical and other products</b> |                 |                |              |                              |
| Net sales:                        |                 |                |              |                              |
| Unaffiliated customers            | ¥ 81,513        | ¥ 61,460       | +32.6        | \$ 768,990                   |
| Intersegment                      | 30,698          | 32,196         | - 4.7        | 289,604                      |

|                                   |                 |                 |                |                  |
|-----------------------------------|-----------------|-----------------|----------------|------------------|
| Total                             | <u>112,211</u>  | <u>93,656</u>   | <u>+19.8</u>   | <u>1,058,594</u> |
| Operating cost and expenses       | <u>100,464</u>  | <u>91,948</u>   | <u>+ 9.3</u>   | <u>947,773</u>   |
| Operating profit                  | <u>11,747</u>   | <u>1,708</u>    | <u>+ 587.8</u> | <u>110,821</u>   |
| <b>Corporate and Eliminations</b> |                 |                 |                |                  |
| Net sales:                        |                 |                 |                |                  |
| Unaffiliated customers            | ¥               | ¥               |                | \$               |
| Intersegment                      | <u>(30,698)</u> | <u>(32,196)</u> |                | <u>(289,604)</u> |
| Total                             | <u>(30,698)</u> | <u>(32,196)</u> |                | <u>(289,604)</u> |
| Operating cost and expenses       | <u>1,315</u>    | <u>(2,751)</u>  |                | <u>12,406</u>    |
| Operating profit                  | <u>(32,013)</u> | <u>(29,445)</u> |                | <u>(302,010)</u> |
| <b>Consolidated</b>               |                 |                 |                |                  |
| Net sales:                        |                 |                 |                |                  |
| Unaffiliated customers            | ¥798,052        | ¥ 731,561       | + 9.1          | \$ 7,528,792     |
| Intersegment                      |                 |                 |                |                  |
| Total                             | <u>798,052</u>  | <u>731,561</u>  | <u>+ 9.1</u>   | <u>7,528,792</u> |
| Operating cost and expenses       | <u>664,529</u>  | <u>614,154</u>  | <u>+ 8.2</u>   | <u>6,269,141</u> |
| Operating profit                  | <u>133,523</u>  | <u>117,407</u>  | <u>+ 13.7</u>  | <u>1,259,651</u> |

Notes: 1. Beginning this quarter, 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) to better reflect present relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.

2. General corporate expenses of JPY32,083 million (U.S.\$302,670 thousand) and JPY29,456 million in the first quarter of 2004 and 2003, respectively, are included in Corporate and Eliminations.



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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 4. CONSOLIDATED BALANCE SHEETS

As of March 31, 2004 and December 31, 2003

|  | Millions of yen                               |  |           | Thousands of<br>U.S. dollars                  |
|--|---|--|-----------|---|
|  | As of<br>March 31,<br>2004<br><br>(Unaudited) | As of<br>December 31,<br>2003<br><br>(Audited) | Change    | As of<br>March 31,<br>2004<br><br>(Unaudited) |
| <b>ASSETS</b>                                  |   |  |           |   |
| Current assets:                                |   |  |           |   |
| Cash and cash equivalents                      | ¥ 683,466                                     | ¥ 690,298                                      | ¥ (6,832) | \$ 6,447,792                                  |
| Marketable securities                          | 1,403   | 1,324  | 79        | 13,236  |
| Trade receivables                              | 516,799                                       | 539,006  | (22,207)  | 4,875,462                                     |
| Inventories                                    | 470,099                                       | 444,244  | 25,855    | 4,434,897                                     |
| Prepaid expenses and other current assets      | 260,932                                       | 255,905  | 5,027     | 2,461,623                                     |
| Total current assets                           | <b>1,932,699</b>                              | 1,930,777                                      | 1,922     | <b>18,233,010</b>                             |
| Noncurrent receivables                         | 15,353  | 16,543   | (1,190)   | 144,840                                       |
| Investments                                    | 72,864  | 78,912   | (6,048)   | 687,396                                       |
| Property, plant and equipment, net             | 853,865                                       | 846,433  | 7,432     | 8,055,330                                     |
| Other assets                                   | 318,849                                       | 309,483  | 9,366     | 3,008,009                                     |
| Total assets                                   | <b>¥3,193,630</b>                             | ¥ 3,182,148                                    | ¥ 11,482  | <b>\$ 30,128,585</b>                          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>     |   |  |           |   |
| Current liabilities:                           |   |  |           |   |
| Short-term loans                               | ¥ 29,551                                      | ¥ 39,136                                       | ¥ (9,585) | \$ 278,783                                    |
| Trade payables                                 | 428,580                                       | 391,181  | 37,399    | 4,043,208                                     |
| Income taxes                                   | 54,827  | 83,064   | (28,237)  | 517,236                                       |
| Accrued expenses                               | 188,586                                       | 193,657  | (5,071)   | 1,779,113                                     |
| Other current liabilities                      | 96,929  | 120,265  | (23,336)  | 914,425                                       |
| Total current liabilities                      | <b>798,473</b>                                | 827,303  | (28,830)  | <b>7,532,765</b>                              |
| Long-term debt, excluding current installments | 37,756  | 59,260   | (21,504)  | 356,189                                       |
| Accrued pension and severance cost             | 236,579                                       | 238,001  | (1,422)   | 2,231,877                                     |
| Other noncurrent liabilities                   | 37,635  | 30,843   | 6,792     | 355,047                                       |

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|   |                   |             |          |                      |
|---|-------------------|-------------|----------|----------------------|
| Total liabilities                             | <b>1,110,443</b>  | 1,155,407   | (44,964) | <b>10,475,878</b>    |
| Minority interests                            | <b>163,107</b>    | 161,196     | 1,911    | <b>1,538,745</b>     |
| Stockholders' equity:                         |                   |             |          |                      |
| Common stock                                  | <b>173,349</b>    | 168,892     | 4,457    | <b>1,635,368</b>     |
| Additional paid-in capital                    | <b>401,518</b>    | 396,939     | 4,579    | <b>3,787,906</b>     |
| Retained earnings                             | <b>1,503,929</b>  | 1,450,440   | 53,489   | <b>14,188,009</b>    |
| Accumulated other comprehensive income (loss) | <b>(153,716)</b>  | (143,275)   | (10,441) | <b>(1,450,151)</b>   |
| Treasury stock                                | <b>(5,000)</b>    | (7,451)     | 2,451    | <b>(47,170)</b>      |
| Total stockholders' equity                    | <b>1,920,080</b>  | 1,865,545   | 54,535   | <b>18,113,962</b>    |
| Total liabilities and stockholders' equity    | <b>¥3,193,630</b> | ¥ 3,182,148 | ¥ 11,482 | <b>\$ 30,128,585</b> |

|  | Millions of yen                |                               | Thousands of U.S. dollars        |
|--|--------------------------------|-------------------------------|----------------------------------|
|  | As of<br>March 31,<br>2004     | As of<br>December 31,<br>2003 | As of<br>March 31,<br>2004       |
| Allowance for doubtful receivables                     | <b>(Unaudited)</b><br>¥ 13,639 | <b>(Audited)</b><br>¥ 14,423  | <b>(Unaudited)</b><br>\$ 128,670 |
| Accumulated depreciation                               | <b>1,132,254</b>               | 1,118,183                     | <b>10,681,642</b>                |
| Accumulated other comprehensive income (loss):         |                                |                               |                                  |
| Foreign currency translation adjustments               | <b>(95,484)</b>                | (83,801)                      | <b>(900,793)</b>                 |
| Net unrealized gains (losses) on securities            | <b>6,412</b>                   | 6,784                         | <b>60,491</b>                    |
| Minimum pension liability adjustments                  | <b>(65,790)</b>                | (65,961)                      | <b>(620,660)</b>                 |
| Net gains (losses) on derivative financial instruments | <b>1,146</b>                   | (297)                         | <b>10,811</b>                    |

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## CANON INC. AND SUBSIDIARIES

**CONSOLIDATED**

## 5. CONSOLIDATED STATEMENTS OF CASH FLOWS

**Three months ended March 31, 2004 and 2003**

|   | Millions of yen                               | Thousands of<br>U.S. dollars               |  |
|---|---|--|--|
|   | Three<br>months<br>ended<br>March 31,<br>2004 | Three months<br>ended March<br>31,<br>2003 | Three months<br>ended March<br>31,<br>2004 |
|   | (Unaudited)                                   | (Unaudited)                                | (Unaudited)                                |
| Net income  | ¥ 84,280                                      | ¥ 71,601                                   | \$ 795,094                                 |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |  |  |
| Depreciation and amortization   | 44,486  | 40,498                                     | 419,679                                    |
| Loss on disposal of property, plant and equipment                                 | 2,751   | 1,665                                      | 25,953                                     |
| Deferred income taxes   | 1,586   | (82)                                       | 14,962                                     |
| Decrease in trade receivables   | 15,863  | 36,516                                     | 149,651                                    |
| Increase in inventories   | (29,854)                                      | (23,182)                                   | (281,641)                                  |
| Increase in trade payables  | 34,651  | 7,807                                      | 326,896                                    |
| Decrease in income taxes  | (28,214)                                      | (28,827)                                   | (266,170)                                  |
| Increase in accrued expenses  | 114   | 4,153                                      | 1,076                                      |
| Other, net  | (20,600)                                      | (13,049)                                   | (194,340)                                  |
| Net cash provided by operating activities   | 105,063                                       | 97,100                                     | 991,160                                    |
| Cash flows from investing activities:   |   |  |  |
| Capital expenditure   | (54,749)                                      | (40,657)                                   | (516,500)                                  |
| Proceeds from sale of property, plant and equipment                               | 1,390   | 1,265                                      | 13,113                                     |
| Payment for purchase of available-for-sale securities                             | (411)   | (52)                                       | (3,877)                                    |
| Proceeds from sale of available-for-sale securities                               | 6,083   | 6,150                                      | 57,387                                     |
| Payment for purchase of other investments   | (513)   | (19,831)                                   | (4,840)                                    |
| Other   | (1,688)                                       | (1,629)                                    | (15,924)                                   |
| Net cash used in investing activities   | (49,888)                                      | (54,754)                                   | (470,641)                                  |
| Cash flows from financing activities:   |   |  |  |
| Proceeds from long-term debt  | 106   | 1,519                                      | 1,000                                      |
| Repayment of long-term debt   | (22,381)                                      | (2,645)                                    | (211,142)                                  |
| Decrease in short-term loans  | (1,304)                                       | (19,990)                                   | (12,302)                                   |
| Dividends paid  | (30,791)                                      | (15,360)                                   | (290,481)                                  |
| Other   | (1,805)                                       | (1,032)                                    | (17,028)                                   |

|  |                             |                             |                             |
|--|-----------------------------|-----------------------------|-----------------------------|
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Net cash used in financing activities                        | <b>(56,175)</b>             | (37,508)                    | <b>(529,953)</b>            |
| Effect of exchange rate changes on cash and cash equivalents | <b>(5,832)</b>              | 4,662                       | <b>(55,019)</b>             |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Net change in cash and cash equivalents                      | <b>(6,832)</b>              | 9,500                       | <b>(64,453)</b>             |
| Cash and cash equivalents at beginning of period             | <b>690,298</b>              | 521,271                     | <b>6,512,245</b>            |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Cash and cash equivalents at end of period                   | <b>¥683,466</b>             | ¥ 530,771                   | <b>\$ 6,447,792</b>         |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> |

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## CANON INC. AND SUBSIDIARIES

**CONSOLIDATED**

## 6. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

## (1) NUMBER OF GROUP COMPANIES

|              | <u>March 31,<br/>2004</u> | <u>December 31,<br/>2004</u> | <u>Change</u>     |
|--------------|---------------------------|------------------------------|-------------------|
| Subsidiaries | 201                       | 198                          | 3                 |
| Affiliates   | 19                        | 19                           | —                 |
|              | <u>          </u>         | <u>          </u>            | <u>          </u> |
| Total        | 220                       | 217                          | 3                 |
|              | <u>          </u>         | <u>          </u>            | <u>          </u> |

## CHANGES IN GROUP OF ENTITIES

## Subsidiaries

Addition: 6 companies

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.

We have engaged KPMG to complete a review of the consolidated financial statements as of and for three months ended March 31, 2004, in accordance with Statement of Auditing Standards No.100, Interim Financial Information, established by the



American Institute of Certified  
Public Accountants.

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CONSOLIDATED RESULTS FOR  
THE FIRST QUARTER ENDED MARCH 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**

|                               | (Millions of yen) |                |                |                |                |                |                       |                |               |
|-------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|-----------------------|----------------|---------------|
|                               | 2004              |                |                | 2003           |                |                | Change year over year |                |               |
|                               | 1st<br>quarter    | 2nd<br>quarter | Year           | 1st<br>quarter | 2nd<br>quarter | Year           | 1st<br>quarter        | 2nd<br>quarter | Year          |
|                               |                   | (P)            | (P)            |                |                |                |                       |                |               |
| <b>Japan</b>                  |                   |                |                |                |                |                |                       |                |               |
| Business machines             | 144,502           | 149,598        | 599,200        | 139,654        | 150,802        | 587,807        | + 3.5%                | 0.8%           | + 1.9%        |
| Office imaging products       | 82,909            | 89,491         | 342,000        | 75,246         | 82,308         | 316,156        | + 10.2%               | + 8.7%         | + 8.2%        |
| Computer peripherals          | 39,011            | 41,289         | 179,200        | 37,296         | 43,875         | 175,680        | + 4.6%                | 5.9%           | + 2.0%        |
| Business information products | 22,582            | 18,818         | 78,000         | 27,112         | 24,619         | 95,971         | 16.7%                 | 23.6%          | 18.7%         |
| Cameras                       | 26,914            | 34,286         | 134,300        | 21,574         | 25,208         | 112,027        | + 24.8%               | + 36.0%        | + 19.9%       |
| Optical and other products    | 29,696            | 31,204         | 118,100        | 24,750         | 21,931         | 101,566        | + 20.0%               | + 42.3%        | + 16.3%       |
| <b>Total</b>                  | <b>201,112</b>    | <b>215,088</b> | <b>851,600</b> | <b>185,978</b> | <b>197,941</b> | <b>801,400</b> | <b>+ 8.1%</b>         | <b>+ 8.7%</b>  | <b>+ 6.3%</b> |
| <b>Overseas</b>               |                   |                |                |                |                |                |                       |                |               |
| Business machines             | 414,812           | 418,288        | 1,679,700      | 412,903        | 431,152        | 1,706,993      | + 0.5%                | 3.0%           | 1.6%          |
| Office imaging products       | 186,401           | 204,799        | 766,400        | 180,157        | 201,465        | 765,839        | + 3.5%                | + 1.7%         | + 0.1%        |
| Computer peripherals          | 221,771           | 207,229        | 885,900        | 226,303        | 223,788        | 913,632        | 2.0%                  | 7.4%           | 3.0%          |
|                               | 6,640             | 6,260          | 27,400         | 6,443          | 5,899          | 27,522         | + 3.1%                | + 6.1%         | 0.4%          |

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|                               |         |         |           |         |         |           |         |         |         |
|-------------------------------|---------|---------|-----------|---------|---------|-----------|---------|---------|---------|
| Business information products |         |         |           |         |         |           |         |         |         |
| Cameras                       | 130,311 | 167,489 | 664,400   | 95,970  | 141,049 | 541,513   | + 35.8% | + 18.7% | + 22.7% |
| Optical and other products    | 51,817  | 39,083  | 204,300   | 36,710  | 33,885  | 148,166   | + 41.2% | + 15.3% | + 37.9% |
| Total                         | 596,940 | 624,860 | 2,548,400 | 545,583 | 606,086 | 2,396,672 | + 9.4%  | + 3.1%  | + 6.3%  |
| <b>Americas</b>               |         |         |           |         |         |           |         |         |         |
| Business machines             | 178,655 | 183,745 | 732,000   | 192,663 | 198,038 | 771,983   | 7.3%    | 7.2%    | 5.2%    |
| Office imaging products       | 85,281  | 93,019  | 353,200   | 88,153  | 95,541  | 369,795   | 3.3%    | 2.6%    | 4.5%    |
| Computer peripherals          | 90,190  | 87,610  | 365,100   | 100,857 | 99,306  | 388,022   | 10.6%   | 11.8%   | 5.9%    |
| Business information products | 3,184   | 3,116   | 13,700    | 3,653   | 3,191   | 14,166    | 12.8%   | 2.4%    | 3.3%    |
| Cameras                       | 51,541  | 67,159  | 267,500   | 41,585  | 63,545  | 245,019   | + 23.9% | + 5.7%  | + 9.2%  |
| Optical and other products    | 7,382   | 5,618   | 25,100    | 8,572   | 6,685   | 28,164    | 13.9%   | 16.0%   | 10.9%   |
| Total                         | 237,578 | 256,522 | 1,024,600 | 242,820 | 268,268 | 1,045,166 | 2.2%    | 4.4%    | 2.0%    |
| <b>Europe</b>                 |         |         |           |         |         |           |         |         |         |
| Business machines             | 184,783 | 176,917 | 724,400   | 173,391 | 179,676 | 724,227   | + 6.6%  | 1.5%    | + 0.0%  |
| Office imaging products       | 82,196  | 89,304  | 332,600   | 76,845  | 87,350  | 325,905   | + 7.0%  | + 2.2%  | + 2.1%  |

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|                                |                       |                       |                         |                       |                       |                       |                       |                       |                       |
|--------------------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Computer peripherals           | 99,795                | 85,205                | 381,100                 | 94,382                | 90,352                | 387,662               | + 5.7%                | 5.7%                  | 1.7%                  |
| Business information products  | <u>2,792</u>          | <u>2,408</u>          | <u>10,700</u>           | <u>2,164</u>          | <u>1,974</u>          | <u>10,660</u>         | <u>+ 29.0%</u>        | <u>+ 22.0%</u>        | <u>+ 0.4%</u>         |
| Cameras                        | <u>56,832</u>         | <u>74,868</u>         | <u>290,700</u>          | <u>38,742</u>         | <u>60,342</u>         | <u>219,219</u>        | <u>+ 46.7%</u>        | <u>+ 24.1%</u>        | <u>+ 32.6%</u>        |
| Optical and other products     | <u>5,760</u>          | <u>6,340</u>          | <u>26,800</u>           | <u>4,278</u>          | <u>8,090</u>          | <u>25,596</u>         | <u>+ 34.6%</u>        | <u>21.6%</u>          | <u>+ 4.7%</u>         |
| <b>Total</b>                   | <b><u>247,375</u></b> | <b><u>258,125</u></b> | <b><u>1,041,900</u></b> | <b><u>216,411</u></b> | <b><u>248,108</u></b> | <b><u>969,042</u></b> | <b><u>+ 14.3%</u></b> | <b><u>+ 4.0%</u></b>  | <b><u>+ 7.5%</u></b>  |
| <b>Other areas</b>             |                       |                       |                         |                       |                       |                       |                       |                       |                       |
| Business machines              | <u>51,374</u>         | <u>57,626</u>         | <u>223,300</u>          | <u>46,849</u>         | <u>53,438</u>         | <u>210,783</u>        | <u>+ 9.7%</u>         | <u>+ 7.8%</u>         | <u>+ 5.9%</u>         |
| Office imaging products        | 18,924                | 22,476                | 80,600                  | 15,159                | 18,574                | 70,139                | + 24.8%               | + 21.0%               | + 14.9%               |
| Computer peripherals           | 31,786                | 34,414                | 139,700                 | 31,064                | 34,130                | 137,948               | + 2.3%                | + 0.8%                | + 1.3%                |
| Business information products  | <u>664</u>            | <u>736</u>            | <u>3,000</u>            | <u>626</u>            | <u>734</u>            | <u>2,696</u>          | <u>+ 6.1%</u>         | <u>+ 0.3%</u>         | <u>+ 11.3%</u>        |
| Cameras                        | <u>21,938</u>         | <u>25,462</u>         | <u>106,200</u>          | <u>15,643</u>         | <u>17,162</u>         | <u>77,275</u>         | <u>+ 40.2%</u>        | <u>+ 48.4%</u>        | <u>+ 37.4%</u>        |
| Optical and other products     | <u>38,675</u>         | <u>27,125</u>         | <u>152,400</u>          | <u>23,860</u>         | <u>19,110</u>         | <u>94,406</u>         | <u>+ 62.1%</u>        | <u>+ 41.9%</u>        | <u>+ 61.4%</u>        |
| <b>Total</b>                   | <b><u>111,987</u></b> | <b><u>110,213</u></b> | <b><u>481,900</u></b>   | <b><u>86,352</u></b>  | <b><u>89,710</u></b>  | <b><u>382,464</u></b> | <b><u>+ 29.7%</u></b> | <b><u>+ 22.9%</u></b> | <b><u>+ 26.0%</u></b> |
| <b>Total Business machines</b> | <u>559,314</u>        | <u>567,886</u>        | <u>2,278,900</u>        | <u>552,557</u>        | <u>581,954</u>        | <u>2,294,800</u>      | <u>+ 1.2%</u>         | <u>2.4%</u>           | <u>0.7%</u>           |
|                                | 269,310               | 294,290               | 1,108,400               | 255,403               | 283,773               | 1,081,995             | + 5.4%                | + 3.7%                | + 2.4%                |

|                               |                |                |                  |                |                |                  |                |                |                |
|-------------------------------|----------------|----------------|------------------|----------------|----------------|------------------|----------------|----------------|----------------|
| Office imaging products       |                |                |                  |                |                |                  |                |                |                |
| Computer peripherals          | 260,782        | 248,518        | 1,065,100        | 263,599        | 267,663        | 1,089,312        | 1.1%           | 7.2%           | 2.2%           |
| Business information products | <u>29,222</u>  | <u>25,078</u>  | <u>105,400</u>   | <u>33,555</u>  | <u>30,518</u>  | <u>123,493</u>   | <u>12.9%</u>   | <u>17.8%</u>   | <u>14.7%</u>   |
| Cameras                       | <u>157,225</u> | <u>201,775</u> | <u>798,700</u>   | <u>117,544</u> | <u>166,257</u> | <u>653,540</u>   | <u>+ 33.8%</u> | <u>+ 21.4%</u> | <u>+ 22.2%</u> |
| Optical and other products    | <u>81,513</u>  | <u>70,287</u>  | <u>322,400</u>   | <u>61,460</u>  | <u>55,816</u>  | <u>249,732</u>   | <u>+ 32.6%</u> | <u>+ 25.9%</u> | <u>+ 29.1%</u> |
| Total                         | <u>798,052</u> | <u>839,948</u> | <u>3,400,000</u> | <u>731,561</u> | <u>804,027</u> | <u>3,198,072</u> | <u>+ 9.1%</u>  | <u>+ 4.5%</u>  | <u>+ 6.3%</u>  |

(P)=Projection

## (Note)

Beginning this quarter, 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) to better reflect present relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.

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**2. SALES BY REGION AND PRODUCT (2003)**

(Millions of yen)

|                               | 2003             |                |                |                  |                  |
|-------------------------------|------------------|----------------|----------------|------------------|------------------|
|                               | 1st half         | 3rd quarter    | 4th quarter    | 2nd half         | Year             |
| <b>Japan</b>                  |                  |                |                |                  |                  |
| Business machines             | 290,456          | 134,054        | 163,297        | 297,351          | 587,807          |
| Office imaging products       | 157,554          | 75,370         | 83,232         | 158,602          | 316,156          |
| Computer peripherals          | 81,171           | 35,426         | 59,083         | 94,509           | 175,680          |
| Business information products | 51,731           | 23,258         | 20,982         | 44,240           | 95,971           |
| Cameras                       | 46,782           | 28,376         | 36,869         | 65,245           | 112,027          |
| Optical and other products    | 46,681           | 27,098         | 27,787         | 54,885           | 101,566          |
| <b>Total</b>                  | <b>383,919</b>   | <b>189,528</b> | <b>227,953</b> | <b>417,481</b>   | <b>801,400</b>   |
| <b>Overseas</b>               |                  |                |                |                  |                  |
| Business machines             | 844,055          | 417,048        | 445,890        | 862,938          | 1,706,993        |
| Office imaging products       | 381,622          | 183,683        | 200,534        | 384,217          | 765,839          |
| Computer peripherals          | 450,091          | 226,404        | 237,137        | 463,541          | 913,632          |
| Business information products | 12,342           | 6,961          | 8,219          | 15,180           | 27,522           |
| Cameras                       | 237,019          | 127,379        | 177,115        | 304,494          | 541,513          |
| Optical and other products    | 70,595           | 33,644         | 43,927         | 77,571           | 148,166          |
| <b>Total</b>                  | <b>1,151,669</b> | <b>578,071</b> | <b>666,932</b> | <b>1,245,003</b> | <b>2,396,672</b> |
| <b>Americas</b>               |                  |                |                |                  |                  |
| Business machines             | 390,701          | 189,818        | 191,464        | 381,282          | 771,983          |

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|                               |         |         |         |         |           |
|-------------------------------|---------|---------|---------|---------|-----------|
| Office imaging products       | 183,694 | 92,592  | 93,509  | 186,101 | 369,795   |
| Computer peripherals          | 200,163 | 93,774  | 94,085  | 187,859 | 388,022   |
| Business information products | 6,844   | 3,452   | 3,870   | 7,322   | 14,166    |
| Cameras                       | 105,130 | 55,203  | 84,686  | 139,889 | 245,019   |
| Optical and other products    | 15,257  | 6,478   | 6,429   | 12,907  | 28,164    |
| Total                         | 511,088 | 251,499 | 282,579 | 534,078 | 1,045,166 |
| <b>Europe</b>                 |         |         |         |         |           |
| Business machines             | 353,067 | 168,229 | 202,931 | 371,160 | 724,227   |
| Office imaging products       | 164,195 | 71,383  | 90,327  | 161,710 | 325,905   |
| Computer peripherals          | 184,734 | 94,046  | 108,882 | 202,928 | 387,662   |
| Business information products | 4,138   | 2,800   | 3,722   | 6,522   | 10,660    |
| Cameras                       | 99,084  | 51,881  | 68,254  | 120,135 | 219,219   |
| Optical and other products    | 12,368  | 6,090   | 7,138   | 13,228  | 25,596    |
| Total                         | 464,519 | 226,200 | 278,323 | 504,523 | 969,042   |
| <b>Other areas</b>            |         |         |         |         |           |
| Business machines             | 100,287 | 59,001  | 51,495  | 110,496 | 210,783   |
| Office imaging products       | 33,733  | 19,708  | 16,698  | 36,406  | 70,139    |
| Computer peripherals          | 65,194  | 38,584  | 34,170  | 72,754  | 137,948   |
| Business information products | 1,360   | 709     | 627     | 1,336   | 2,696     |
| Cameras                       | 32,805  | 20,295  | 24,175  | 44,470  | 77,275    |
| Optical and other products    | 42,970  | 21,076  | 30,360  | 51,436  | 94,406    |
| Total                         | 176,062 | 100,372 | 106,030 | 206,402 | 382,464   |



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|                               |                   |                   |                   |                   |                   |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                               | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Total</b>                  |                   |                   |                   |                   |                   |
| Business machines             | 1,134,511         | 551,102           | 609,187           | 1,160,289         | 2,294,800         |
|                               | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Office imaging products       | 539,176           | 259,053           | 283,766           | 542,819           | 1,081,995         |
| Computer peripherals          | 531,262           | 261,830           | 296,220           | 558,050           | 1,089,312         |
| Business information products | 64,073            | 30,219            | 29,201            | 59,420            | 123,493           |
|                               | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Cameras                       | 283,801           | 155,755           | 213,984           | 369,739           | 653,540           |
|                               | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Optical and other products    | 117,276           | 60,742            | 71,714            | 132,456           | 249,732           |
|                               | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total                         | 1,535,588         | 767,599           | 894,885           | 1,662,484         | 3,198,072         |
|                               | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

(Note)

Beginning this quarter, 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) to better reflect present relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.

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Canon Inc.

**3. SEGMENT INFORMATION BY PRODUCT**

|                                   | 2004        |                 | 2003      |             |             | (Millions of yen)<br>Change year over year |             |             |        |
|-----------------------------------|-------------|-----------------|-----------|-------------|-------------|--|-------------|-------------|--------|
|                                   | 1st quarter | 2nd quarter (P) | Year (P)  | 1st quarter | 2nd quarter | Year                                       | 1st quarter | 2nd quarter | Year   |
|                                   |             |                 |           |             |             |  |             |             |        |
| <b>Business machines</b>          |             |                 |           |             |             |  |             |             |        |
| Unaffiliated customers            | 559,314     | 567,886         | 2,278,900 | 552,557     | 581,954     | 2,294,800                                  | +1.2%       | -2.4%       | -0.7%  |
| Intersegment                      | —           | —               | —         | —           | —           | —  | —           | —           | —      |
| Total sales                       | 559,314     | 567,886         | 2,278,900 | 552,557     | 581,954     | 2,294,800                                  | +1.2%       | -2.4%       | -0.7%  |
| Operating profit                  | 124,594     | 115,806         | 487,000   | 123,476     | 112,968     | 485,565                                    | +0.9%       | +2.5%       | +0.3%  |
| % of sales                        | 22.3%       | 20.4%           | 21.4%     | 22.3%       | 19.4%       | 21.2%                                      |             |             |        |
| <b>Cameras</b>                    |             |                 |           |             |             |  |             |             |        |
| Unaffiliated customers            | 157,225     | 201,775         | 798,700   | 117,544     | 166,257     | 653,540                                    | +33.8%      | +21.4%      | +22.2% |
| Intersegment                      | —           | —               | —         | —           | —           | —  | —           | —           | —      |
| Total sales                       | 157,225     | 201,775         | 798,700   | 117,544     | 166,257     | 653,540                                    | +33.8%      | +21.4%      | +22.2% |
| Operating profit                  | 29,195      | 38,005          | 156,300   | 21,668      | 28,126      | 126,318                                    | +34.7%      | +35.1%      | +23.7% |
| % of sales                        | 18.6%       | 18.8%           | 19.6%     | 18.4%       | 16.9%       | 19.3%                                      |             |             |        |
| <b>Optical and other products</b> |             |                 |           |             |             |  |             |             |        |
| Unaffiliated customers            | 81,513      | 70,287          | 322,400   | 61,460      | 55,816      | 249,732                                    | +32.6%      | +25.9%      | +29.1% |
| Intersegment                      | 30,698      | 31,002          | 123,700   | 32,196      | 36,858      | 132,389                                    | -4.7%       | -15.9%      | -6.6%  |

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|                                   |                |                |                  |                |                |                  |               |              |               |
|-----------------------------------|----------------|----------------|------------------|----------------|----------------|------------------|---------------|--------------|---------------|
| Total sales                       | <u>112,211</u> | <u>101,289</u> | <u>446,100</u>   | <u>93,656</u>  | <u>92,674</u>  | <u>382,121</u>   | <u>+19.8%</u> | <u>+9.3%</u> | <u>+16.7%</u> |
| Operating profit                  | 11,747         | 853            | 15,500           | 1,708          | -1,884         | -9,883           | +587.8%       |              |               |
| % of sales                        | <u>10.5%</u>   | <u>0.8%</u>    | <u>3.5%</u>      | <u>1.8%</u>    | <u>-2.0%</u>   | <u>-2.6%</u>     |               |              |               |
| <b>Corporate and Eliminations</b> |                |                |                  |                |                |                  |               |              |               |
| Unaffiliated customers            |                |                |                  |                |                |                  |               |              |               |
| Intersegment                      | <u>-30,698</u> | <u>-31,002</u> | <u>-123,700</u>  | <u>-32,196</u> | <u>-36,858</u> | <u>-132,389</u>  |               |              |               |
| Total sales                       | <u>-30,698</u> | <u>-31,002</u> | <u>-123,700</u>  | <u>-32,196</u> | <u>-36,858</u> | <u>-132,389</u>  |               |              |               |
| Operating profit                  | <u>-32,013</u> | <u>-44,187</u> | <u>-159,800</u>  | <u>-29,445</u> | <u>-40,643</u> | <u>-147,576</u>  |               |              |               |
| <b>Consolidated</b>               |                |                |                  |                |                |                  |               |              |               |
| Unaffiliated customers            | 798,052        | 839,948        | 3,400,000        | 731,561        | 804,027        | 3,198,072        | +9.1%         | +4.5%        | +6.3%         |
| Intersegment                      |                |                |                  |                |                |                  |               |              |               |
| Total sales                       | <u>798,052</u> | <u>839,948</u> | <u>3,400,000</u> | <u>731,561</u> | <u>804,027</u> | <u>3,198,072</u> | <u>+9.1%</u>  | <u>+4.5%</u> | <u>+6.3%</u>  |
| Operating profit                  | 133,523        | 110,477        | 499,000          | 117,407        | 98,567         | 454,424          | +13.7%        | +12.1%       | +9.8%         |
| % of sales                        | <u>16.7%</u>   | <u>13.2%</u>   | <u>14.7%</u>     | <u>16.0%</u>   | <u>12.3%</u>   | <u>14.2%</u>     |               |              |               |

(P)=Projection

#### 4. OTHER INCOME / DEDUCTIONS

|                          | 2004        |             | 2003        |             |       | (Millions of yen)<br>Change year over year |             |      |        |
|--------------------------|-------------|-------------|-------------|-------------|-------|--|-------------|------|--------|
|                          | 1st quarter | 2nd quarter | 1st quarter | 2nd quarter | Year  | 1st quarter                                | 2nd quarter | Year |        |
|                          |             | (P)         | Year (P)    |             |       |  |             |      |        |
| Interest & dividend, net | 537         | 563         | 1,600       | 950         | 1,030 | 4,657                                      | -413        | -467 | -3,057 |

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|   |              |              |               |              |             |               |               |               |               |
|---|--------------|--------------|---------------|--------------|-------------|---------------|---------------|---------------|---------------|
| Forex gain /<br>loss                                    | -4,415       | -2,985       | -14,100       | -1,679       | -1,087      | -20,311       | -2,736        | -1,898        | +6,211        |
| Equity<br>earnings / loss<br>of affiliated<br>companies | 106          | 294          | 1,500         | -1,332       | -712        | -1,124        | +1,438        | +1,006        | +2,624        |
| Others, net   | <u>6,111</u> | <u>4,789</u> | <u>12,000</u> | <u>1,853</u> | <u>509</u>  | <u>10,524</u> | <u>+4,258</u> | <u>+4,280</u> | <u>+1,476</u> |
| Total   | <u>2,339</u> | <u>2,661</u> | <u>1,000</u>  | <u>-208</u>  | <u>-260</u> | <u>-6,254</u> | <u>+2,547</u> | <u>+2,921</u> | <u>+7,254</u> |

(P)=Projection

(Note)

Beginning this quarter, 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) to better reflect present relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.

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Canon Inc.

**5. SEGMENT INFORMATION BY PRODUCT (2003)**

(Millions of yen)

|                                   | 2003      |             |             |           |           |
|-----------------------------------|-----------|-------------|-------------|-----------|-----------|
|                                   | 1st half  | 3rd quarter | 4th quarter | 2nd half  | Year      |
| <b>Business machines</b>          |           |             |             |           |           |
| Unaffiliated customers            | 1,134,511 | 551,102     | 609,187     | 1,160,289 | 2,294,800 |
| Intersegment                      | —         | —           | —           | —         | —         |
| Total sales                       | 1,134,511 | 551,102     | 609,187     | 1,160,289 | 2,294,800 |
| Operating profit                  | 236,444   | 122,697     | 126,424     | 249,121   | 485,565   |
| % of sales                        | 20.8%     | 22.3%       | 20.8%       | 21.5%     | 21.2%     |
| <b>Cameras</b>                    |           |             |             |           |           |
| Unaffiliated customers            | 283,801   | 155,755     | 213,984     | 369,739   | 653,540   |
| Intersegment                      | —         | —           | —           | —         | —         |
| Total sales                       | 283,801   | 155,755     | 213,984     | 369,739   | 653,540   |
| Operating profit                  | 49,794    | 38,695      | 37,829      | 76,524    | 126,318   |
| % of sales                        | 17.5%     | 24.8%       | 17.7%       | 20.7%     | 19.3%     |
| <b>Optical and other products</b> |           |             |             |           |           |
| Unaffiliated customers            | 117,276   | 60,742      | 71,714      | 132,456   | 249,732   |
| Intersegment                      | 69,054    | 35,056      | 28,279      | 63,335    | 132,389   |
| Total sales                       | 186,330   | 95,798      | 99,993      | 195,791   | 382,121   |
| Operating profit                  | -176      | -2,888      | -6,819      | -9,707    | -9,883    |
| % of sales                        | -0.1%     | -3.0%       | -6.8%       | -5.0%     | -2.6%     |
| <b>Corporate and Eliminations</b> |           |             |             |           |           |
| Unaffiliated customers            |           |             |             |           |           |

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|                        |                             |                             |                             |                             |                             |
|------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Intersegment           | <u>-69,054</u>              | <u>-35,056</u>              | <u>-28,279</u>              | <u>-63,335</u>              | <u>-132,389</u>             |
| Total sales            | <u>-69,054</u>              | <u>-35,056</u>              | <u>-28,279</u>              | <u>-63,335</u>              | <u>-132,389</u>             |
| Operating profit       | <u>-70,088</u>              | <u>-32,942</u>              | <u>-44,546</u>              | <u>-77,488</u>              | <u>-147,576</u>             |
| <b>Consolidated</b>    |                             |                             |                             |                             |                             |
| Unaffiliated customers | 1,535,588                   | 767,599                     | 894,885                     | 1,662,484                   | 3,198,072                   |
| Intersegment           | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Total sales            | <u>1,535,588</u>            | <u>767,599</u>              | <u>894,885</u>              | <u>1,662,484</u>            | <u>3,198,072</u>            |
| Operating profit       | 215,974                     | 125,562                     | 112,888                     | 238,450                     | 454,424                     |
| % of sales             | <u>14.1%</u>                | <u>16.4%</u>                | <u>12.6%</u>                | <u>14.3%</u>                | <u>14.2%</u>                |

(Note)

Beginning this quarter, 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) to better reflect present relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.

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Canon Inc.

**6. SALES COMPOSITION BY PRODUCT**

|   | 2004        |                |         | 2003        |             |      |
|---|-------------|----------------|---------|-------------|-------------|------|
|   | 1st quarter | 2nd quarter(P) | Year(P) | 1st quarter | 2nd quarter | Year |
| <b>Office imaging products</b>            |             |                |         |             |             |      |
| Monochrome copying machines               | 63%         | 62%            | 62%     | 70%         | 67%         | 67%  |
| Digital*                                  | 92%         |                |         | 94%         | 92%         | 93%  |
| Analog*                                   | 8%          |                |         | 6%          | 8%          | 7%   |
| Color copying machines                    | 23%         | 25%            | 24%     | 17%         | 19%         | 20%  |
| Others                                    | 14%         | 13%            | 14%     | 13%         | 14%         | 13%  |
| <b>Computer peripherals</b>               |             |                |         |             |             |      |
| Laser beam printers                       | 69%         | 71%            | 69%     | 71%         | 70%         | 70%  |
| Inkjet printers<br>(includes inkjet MFPs) | 28%         | 27%            | 29%     | 26%         | 27%         | 27%  |
| Others                                    | 3%          | 2%             | 2%      | 3%          | 3%          | 3%   |
| <b>Business information products</b>      |             |                |         |             |             |      |
| Personal computers                        | 76%         | 73%            | 72%     | 78%         | 77%         | 76%  |
| Others                                    | 24%         | 27%            | 28%     | 22%         | 23%         | 24%  |
| <b>Cameras</b>                            |             |                |         |             |             |      |
| Film cameras / Lenses                     | 17%         | 12%            | 13%     | 24%         | 21%         | 21%  |
| Digital cameras                           | 68%         | 71%            | 71%     | 58%         | 59%         | 61%  |
| Video camcorders                          | 15%         | 17%            | 16%     | 18%         | 20%         | 18%  |
| <b>Optical and other products</b>         |             |                |         |             |             |      |
| Semiconductor production equipment        | 65%         | 64%            | 66%     | 57%         | 48%         | 54%  |
| Others                                    | 35%         | 36%            | 34%     | 43%         | 52%         | 46%  |

(P)=Projection

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

**7. SALES GROWTH IN LOCAL CURRENCY**

|                          | 2004        |                |         |
|--------------------------|-------------|----------------|---------|
|                          | 1st quarter | 2nd quarter(P) | Year(P) |
| <b>Business machines</b> |             |                |         |
| Japan                    | +3.5%       | -0.8%          | +1.9%   |
| Overseas                 | +5.0%       | +7.3%          | +5.1%   |
| Total                    | +4.6%       | +5.2%          | +4.3%   |

|                                   |        |        |        |
|-----------------------------------|--------|--------|--------|
| <b>Cameras</b>                    |        |        |        |
| Japan                             | +24.8% | +36.0% | +19.9% |
| Overseas                          | +40.2% | +30.8% | +30.6% |
|                                   | <hr/>  | <hr/>  | <hr/>  |
| Total                             | +37.4% | +31.6% | +28.8% |
|                                   | <hr/>  | <hr/>  | <hr/>  |
| <b>Optical and other products</b> |        |        |        |
| Japan                             | +20.0% | +42.3% | +16.3% |
| Overseas                          | +46.9% | +21.4% | +41.7% |
|                                   | <hr/>  | <hr/>  | <hr/>  |
| Total                             | +36.1% | +29.6% | +31.4% |
|                                   | <hr/>  | <hr/>  | <hr/>  |
| <b>Total</b>                      |        |        |        |
| Japan                             | +8.1%  | +8.7%  | +6.3%  |
| Overseas                          | +14.0% | +13.5% | +13.2% |
| Americas                          | +8.3%  | +7.9%  | +7.3%  |
| Europe                            | +11.8% | +13.1% | +12.0% |
| Other areas                       | +35.7% | +31.9% | +31.9% |
|                                   | <hr/>  | <hr/>  | <hr/>  |
| Total                             | +12.5% | +12.3% | +11.4% |
|                                   | <hr/>  | <hr/>  | <hr/>  |

(P)=Projection

(Note)

Beginning this quarter, 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) to better reflect present relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.



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Canon Inc.

**8. P&L SUMMARY (2nd Quarter 2004/Projection)**

|                            | (Millions of yen) |                |                             |
|----------------------------|-------------------|----------------|-----------------------------|
|                            | 2004              | 2003           | Change<br>year<br>over year |
|                            | 2nd<br>quarter(P) | 2nd<br>quarter |                             |
| Net sales                  | 839,948           | 804,027        | +4.5%                       |
| Operating profit           | 110,477           | 98,567         | +12.1%                      |
| Income before income taxes | 113,138           | 98,307         | +15.1%                      |
| Net income                 | 69,720            | 56,166         | +24.1%                      |

(P)=Projection

**9. PROFITABILITY**

|     | 2004           |         | 2003           |       |
|-----|----------------|---------|----------------|-------|
|     | 1st<br>quarter | Year(P) | 1st<br>quarter | Year  |
| ROE | 17.8%          | 15.6%   | 17.6%          | 15.9% |
| ROA | 10.6%          | 9.3%    | 9.7%           | 9.0%  |

(P)=Projection

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

|          | (Yen)          |                       |         |                |        |
|----------|----------------|-----------------------|---------|----------------|--------|
|          | 2004           |                       |         | 2003           |        |
|          | 1st<br>quarter | 2nd-4th<br>quarter(P) | Year(P) | 1st<br>quarter | Year   |
| Yen/US\$ | 107.43         | 105.00                | 105.55  | 118.92         | 115.61 |
| Yen/EUR  | 134.02         | 125.00                | 127.04  | 127.72         | 131.02 |

(P)=Projection

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

(Billions of yen)  
2004

|                  | <b>1st<br/>quarter</b> | <b>Year(P)</b> |
|------------------|------------------------|----------------|
| US\$             | -29.3                  | -120.2         |
| Euro             | +9.4                   | -26.4          |
| Other currencies | +0.7                   | +1.0           |
| <b>Total</b>     | <b>-19.2</b>           | <b>-145.6</b>  |

(P)=Projection

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

|                     | <b>(Billions of yen)<br/>2004</b> |
|---------------------|-----------------------------------|
|                     | <b>2nd-4th<br/>quarter(P)</b>     |
| On sales            |                                   |
| US\$                | 9.5                               |
| Euro                | 5.0                               |
| On operating profit |                                   |
| US\$                | 5.0                               |
| Euro                | 3.5                               |

(P)=Projection

**11. CASH FLOWS**

|   | <b>2004</b>            |                | <b>(Millions of yen)<br/>2003</b> |                |
|---|------------------------|----------------|-----------------------------------|----------------|
|   | <b>1st<br/>quarter</b> | <b>Year(P)</b> | <b>1st<br/>quarter</b>            | <b>Year</b>    |
| Net cash provided by operating activities           |                        |                |                                   |                |
| Net income  | 84,280                 | 309,000        | 71,601                            | 275,730        |
| Depreciation and amortization                       | 44,486                 | 190,000        | 40,498                            | 183,604        |
| Other, net  | -23,703                | 9,000          | -14,999                           | 6,315          |
| <b>Total</b>  | <b>105,063</b>         | <b>508,000</b> | <b>97,100</b>                     | <b>465,649</b> |
| Net cash used in investing activities               | -49,888                | -308,000       | -54,754                           | -199,948       |
| Free cash flow                                      | 55,175                 | 200,000        | 42,346                            | 265,701        |
| Net cash provided by (used in) financing activities | -56,175                | -74,900        | -37,508                           | -102,039       |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Effect of exchange rate changes on cash & cash equivalents | -5,832  | -2,798  | 4,662   | 5,365   |
| Net change in cash and cash equivalents                    | -6,832  | 122,302 | 9,500   | 169,027 |
| Cash and cash equivalents at end of each period            | 683,466 | 812,600 | 530,771 | 690,298 |

(P)=Projection

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Canon Inc.

**12. R&D EXPENDITURE**

|                            | <b>2004</b>       |                   | <b>(Millions of yen)</b><br><b>2003</b> |                   |
|----------------------------|-------------------|-------------------|---|-------------------|
|                            | <b>1st</b>        |                   | <b>1st</b>                              |                   |
|                            | <b>quarter</b>    | <b>Year(P)</b>    | <b>quarter</b>                          | <b>Year</b>       |
| Business machines          | 26,044            |                   | 25,779                                  | 119,975           |
| Cameras                    | 8,158             |                   | 7,301                                   | 31,687            |
| Optical and other products | 23,326            |                   | 20,755                                  | 107,478           |
|                            | <u>          </u> | <u>          </u> | <u>          </u>                       | <u>          </u> |
| Total                      | 57,528            | 285,000           | 53,835                                  | 259,140           |
|                            | <u>          </u> | <u>          </u> | <u>          </u>                       | <u>          </u> |
| % of sales                 | 7.2%              | 8.4%              | 7.4%                                    | 8.1%              |

(P)=Projection

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

|                                      | <b>2004</b>       |                   | <b>(Millions of yen)</b><br><b>2003</b> |                   |
|--------------------------------------|-------------------|-------------------|---|-------------------|
|                                      | <b>1st</b>        |                   | <b>1st</b>                              |                   |
|                                      | <b>quarter</b>    | <b>Year(P)</b>    | <b>quarter</b>                          | <b>Year</b>       |
| <b>Capital expenditure</b>           |                   |                   |   |                   |
| Business machines                    |                   |                   |   | 106,013           |
| Cameras                              |                   |                   |   | 25,894            |
| Optical and other products           |                   |                   |   | 31,170            |
| Corporate and eliminations           |                   |                   |   | 46,961            |
|                                      | <u>          </u> | <u>          </u> | <u>          </u>                       | <u>          </u> |
| Total                                | 54,749            | 300,000           | 40,657                                  | 210,038           |
|                                      | <u>          </u> | <u>          </u> | <u>          </u>                       | <u>          </u> |
| <b>Depreciation and amortization</b> |                   |                   |   |                   |
| Business machines                    |                   |                   |   | 118,806           |
| Cameras                              |                   |                   |   | 17,712            |
| Optical and other products           |                   |                   |   | 20,276            |
| Corporate and eliminations           |                   |                   |   | 26,810            |
|                                      | <u>          </u> | <u>          </u> | <u>          </u>                       | <u>          </u> |
| Total                                | 44,486            | 190,000           | 40,498                                  | 183,604           |
|                                      | <u>          </u> | <u>          </u> | <u>          </u>                       | <u>          </u> |

(P)=Projection

**14. INVENTORIES****(1) Inventories**

|                            | (Millions of yen) |                |                |
|----------------------------|-------------------|----------------|----------------|
|                            | 2004              | 2003           |                |
|                            | Mar. 31           | Dec. 31        | Difference     |
| Business machines          | 244,754           | 241,477        | +3,277         |
| Cameras                    | 83,828            | 64,043         | +19,785        |
| Optical and other products | 141,517           | 138,724        | +2,793         |
|                            | <u>470,099</u>    | <u>444,244</u> | <u>+25,855</u> |

**(2) Inventories/Sales\***

|                            | (Days)    |           |            |
|----------------------------|-----------|-----------|------------|
|                            | 2004      | 2003      |            |
|                            | Mar. 31   | Dec. 31   | Difference |
| Business machines          | 38        | 38        | 0          |
| Cameras                    | 41        | 32        | +9         |
| Optical and other products | 169       | 191       | -22        |
|                            | <u>51</u> | <u>49</u> | <u>+2</u>  |

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\* Index based on the previous six months sales.

**15. DEBT RATIO**

|  | 2004                    | 2003    | Difference |
|--|-------------------------|---------|------------|
|  | Mar. 31                 | Dec. 31 |            |
|  | Total debt/Total assets | 2.1%    |            |

**16. OVERSEAS PRODUCTION RATIO**

| 2004 | 2003 |
|------|------|
|------|------|

|                           | 1st quarter | Year |
|---------------------------|-------------|------|
| Overseas production ratio | 43%         | 42%  |

**17. NUMBER OF EMPLOYEES**

|          | 2004    | 2003    |            |
|----------|---------|---------|------------|
|          | Mar. 31 | Dec. 31 | Difference |
| Japan    | 45,092  | 45,380  | -288       |
| Overseas | 57,040  | 57,187  | -147       |
| Total    | 102,132 | 102,567 | -435       |

(Note)

Beginning this quarter, 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) to better reflect present relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.

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April 27, 2004

To Our Shareholders

***Canon Inc.***

30-2, Shimomaruko 3-chome,  
Ohta-ku, Tokyo, Japan  
Fujio Mitarai,  
President and CEO

**Information on Replacement of Share Certificates  
As a Result of Change in Number of Shares Constituting One Unit**

As reported previously, a resolution was adopted at a meeting of the Board of Directors of the Company held on January 29, 2004, regarding the amendment of the Articles of Incorporation to change the number of shares constituting one unit from 1,000 shares to 100 shares as of May 6, 2004 (Thursday).

In accordance with this change, the trading unit of the Company's share at the Tokyo, Osaka, Nagoya, Fukuoka and Sapporo Stock Exchanges will be changed from 1,000 shares to 100 shares, as of the same day.

We would like to inform you of the procedures to replace the share certificate in your possession to certificates denominated in 100 shares, as stated below.

The use of the Central Securities Depository System, which eliminates the need to replace the old share certificates, is also explained thereafter for your consideration.

**I. Summary of Replacement of Share Certificates**

1. Share certificates to be replaced:

Share certificates in denominations of 500, 1,000 and 10,000 shares

2. Promotion period for replacement of share certificates:

From May 6, 2004 (Thursday) to June 30, 2004 (Wednesday)

(Requests for replacement after the above period will also be acceptable, but you are kindly requested to complete the replacement procedures within the period.)

3. Place for replacement of share certificates:

|  |  |
|--|--|
| Business handling place of transfer agent: | Stock Transfer Agency Department, Head Office,<br>Mizuho Trust & Banking Co., Ltd.<br>2-1, Yaesu 1-chome, Chuo-ku, Tokyo |
|--|--|

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|                                       |   |
|---------------------------------------|---|
| Mailing address and telephone number: | Stock Transfer Agency Department,<br>Mizuho Trust & Banking Co., Ltd.<br>17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722<br>Telephone: +81-3-5213-5213  |
| Intermediary offices:                 | Branches of Mizuho Trust & Banking Co., Ltd.<br>Head office and branches of<br>Mizuho Investors Securities Co., Ltd.<br>(For further details, please refer to the transfer service network listed below.) |

4. Procedures for replacement of share certificates

(1) Request by visit:

Please fill the necessary information in the attached Share Certificate Replacement Request, stamp the (registered) seal impression and present it together with the share certificates to be replaced at the place for replacement shown in Item 3 above.

(2) Request by mail:

Please fill the necessary information in the Share Certificate Replacement Request, stamp the (registered) seal impression, enclose it together with the share certificates to be replaced in the envelope provided for mailing share certificates and mail them by registered mail from a nearby post office.

(The postage will be free if you mail the said envelope during the promotion period for replacement of share certificates, so it is not necessary to affix a postage stamp.)

[Note]

Should you have deposited the share certificates for safe custody at securities companies, please ask the securities companies to take the procedures described above or retrieve the share certificates from the securities companies to follow the procedures by yourself.

If you are using the Central Securities Depository System for share certificates in possession, you are not required to take the said procedures.

5. Issue of new share certificates

(1) A share certificate in denomination of 100 shares will be issued for each 100 shares, after the submission of old share certificates.

(2) Please kindly be advised that the issue of new share certificates will take approximately three weeks after the submission of old share certificates and that shares cannot be traded during that period.



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**II. Handling of Under Unit Shares**

As a result of the change in the number of shares constituting one unit from 1,000 shares to 100 shares as of May 6, 2004 (Thursday), shares less than 100 shares will be handled as under unit shares, on and after the same day.

Under these circumstances, please note that the issue of share certificates and the request for purchase or sale of the under unit shares will be handled as set out below.

1. Issue of share certificates concerning under unit shares

Under unit shares registered on the register of shareholders as of April 30, 2004 (Friday, as May 1 through May 5 are holidays of the transfer agent) will be handled as follows:

- (1) Share certificates in the denomination of 100 shares will be issued for shares in multiples of 100 and forwarded to the registered address by the Recorded Delivery Mail in the middle of May 2004;
- (2) Shares falling short of 100 shares will remain to be registered on the register of shareholders.

2. Request for purchase or sale of under unit shares with the Company

The request for purchase or sale of under unit shares with the Company can only be made for shares falling short of 100 shares on and after May 6, 2004 (Thursday).

**III. Others**

1. If you have a share certificate in the name other than yourself and if you have not completed the registration of transfer, you are cordially requested to fill the necessary information in the Share Transfer Registration Request and Shareholder Card, available at the place for replacement of share certificates stated in Item I-3 above, stamp the seal impression and submit them together with the share certificates to be replaced.
2. Please note that the replacement procedures cannot be cancelled once the replacement request is made.
3. If you have any questions regarding the replacement of share certificates or if the share certificates cannot be submitted because they have been lost, please contact the place for replacement of share certificates stated in Item I-3 above.

**IV. Use of Central Securities Depository System**

Shareholders may choose to use the Central Securities Depository System through securities companies, without replacement of share certificates explained above.

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Use of this system eliminates the need to replace share certificates and so shortens the period during which share trading cannot be made.

The Central Securities Depository System is a system under which securities companies deposit share certificates entrusted by shareholders with the Japan Securities Depository Center, Inc. by obtaining the consents of shareholders (investors). Thereafter, the trading of stocks is made by book-entry transfer in the book accounts of Japan Securities Depository Center, Inc. and securities companies, without actually handling share certificates.

Please contact your securities companies for details about how to use the Central Securities Depository System.

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April 27, 2004

**FOR IMMEDIATE RELEASE**

Canon Inc.  
30-2, Shimomaruko 3-Chome,  
Ohta-ku, Tokyo 146-8501, Japan  
President & CEO: Fujio Mitarai  
Securities code: 7751

Inquiries:  
Toshizo Tanaka  
Group Executive,  
Finance & Accounting Headquarters  
+81-3-3758-2111

**Notice regarding change (dismissal)  
of accounting auditors**

TOKYO, April 27, 2004 Canon Inc. ( Canon ) announced that, following a decision reached today by its Board of Directors, the company would make a change to its accounting auditors, dismissing one of the two firms which, as certified public accountants, conduct accounting audits for Canon pursuant to Paragraph 1 of Article 193-2 of the Securities Exchange Law of Japan.

1. Reason for the dismissal of accounting auditor

AZSA & Co. has been conducting accounting audits on Canon s consolidated financial statements since June 26, 2003. However, in March 2004, a former partner of Azsa & Co. was accused of and was arrested for involvement in the reporting of fraudulent financial statements. Canon s management has been closely following the developments related to this incident but, because additional time will be required for a full investigation, Canon has decided not to retain the services of Azsa & Co. for the accounting audit of consolidated financial statements for fiscal 2004.

2. The name of the dismissed audit firm

|                          |  |
|--------------------------|--|
| Company name:            | AZSA & Co.   |
| Location of head office: | Azsa Center Building<br>1-2 Tsukudocho, Shinjuku-ku, Tokyo |

3. Future Outlook

Shin Nihon & Co. will continue to conduct accounting audits for Canon pursuant to Paragraph 1 of Article 193-2 of the Securities Exchange Law of Japan.