

CANON INC
Form 6-K
August 30, 2004

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 August, 2004

CANON INC.

(Translation of registrant's name into English)

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

(Address of principal executive offices)

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

Form 20-F

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-_____]

SIGNATURES

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

CANON INC.

(Registrant)

Date August 30, 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.

1. Interim report for the 104th business term
-

To Our Shareholders

We are pleased to present our interim report for the first half of our 104th business term (from January 1, 2004 to June 30, 2004).

Reviewing conditions in both the domestic and overseas economies during the first half of the current fiscal year, the United States economy experienced a strong recovery, driven largely by resilient consumer spending and capital investments brought on by aggressive fiscal and financial policies. The European economies showed a slow but generally stable recovery trend. The Asian economies, in particular, China, benefited from favorable exports, and showed continued strong growth. As for Japan, continued expansion in exports and capital investments together with a recovery in consumer spending contributed to steady growth in the economy. In the foreign exchange markets, the Yen strengthened against the U.S. Dollar, but weakened against the Euro, compared to the first half of 2003.

Looking at the markets in which we conduct business, the market for digital cameras and digital video cameras continued to grow strongly. The market for networked multifunctional devices and printers showed steady growth due to increasing demand for multifunctionality and color. At the same time, demand for semiconductor production equipment for IC chips and memories as well as mirror projection mask aligners for LCD panels grew as a result of an expansion in the market for digital consumer electronics, etc. and subsequent increased capital investments by semiconductor and LCD panel manufacturers.

Amid this business environment, Canon entered the fourth year of Phase II (2001 to 2005) of its Excellent Global Corporation Plan. In keeping with this plan, the Canon Group has carried out various management reforms in order to establish a highly profitable earnings structure that can withstand various changes in our business environment. In particular, we sought to further advance reforms in our production and development activities, as well as taking steps to improve the competitiveness of our products, to reduce costs, and to embark on the restructuring of our procurement activities. Further, as for our semiconductor and LCD production equipment operations, we strengthened our corporate structure in our development, production, and sales functions in order to respond flexibly to changes in the market.

As a result of these efforts, and supported by vigorous economies around the world, our earnings during the first half of the current fiscal year continued the uptrend seen during the second half of 2003. Consequently, we recorded consolidated sales of 1,648.4 billion yen (up 7.3% from the first half of 2003), consolidated income before income taxes and minority interests of 260 billion yen (up 20.6%), and consolidated net income of 160.8 billion yen (up 25.8%). On a non-consolidated basis, we recorded sales of 1,078.6 billion yen (up 13.9%), and ordinary profit of 197.7 billion yen (up 20.3%). All of these figures represent record highs. Non-consolidated net income declined to 127 billion yen, falling 1.4% from the first half of 2003 when we recorded 45.9 billion yen for gains on exemption from the substitutional portion of the employees' pension fund.

We have decided to pay an interim dividend of 25 yen per share (up 10 yen from the interim dividend for the previous business term) from August 27.

Looking ahead to the second half of the current fiscal year, while we expect economies worldwide to continue to recover, the Canon Group remains prepared for any uncertainties that may develop in our business environment. Against the background of such conditions, we seek to implement further business reforms designed to further strengthen our management structure and to raise our performance to an even higher level.

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

August 2004

FUJIO MITARAI
President & C.E.O.

Change in Business Results

Net Sales (Consolidated)
100 MILLIONS OF YEN

Net Sales (Non-Consolidated)
100 MILLIONS OF YEN

**Income before Income Taxes and
Minority Interests (Consolidated)**
100 MILLIONS OF YEN

Ordinary Profit (Non-Consolidated)
100 MILLIONS OF YEN

Net Income (Consolidated)
100 MILLIONS OF YEN

Net Income (Non-Consolidated)
100 MILLIONS OF YEN

BUSINESS CONDITIONS BY OPERATIONS

Sales by Operations

Consolidated

| Operations | Sales (100 millions of yen) | Change from the First Half of Fiscal 2003 (%) |
|-----------------------------------|--|--|
| Business Machines | 11,423 | 0.7 |
| Office Imaging Products | 5,543 | 2.8 |
| Computer Peripherals | 5,307 | (0.1) |
| Business Information Products | 573 | (10.5) |
| | | |
| Cameras | 3,473 | 22.4 |
| | | |
| Optical and Other Products | 1,588 | 35.4 |
| | | |
| Total | 16,484 | 7.3 |
| | | |

Non-Consolidated

| Operations | Sales (100 millions of yen) | Change from the First Half of Fiscal 2003 (%) |
|-----------------------------------|--|--|
| Business Machines | 6,957 | 1.7 |
| Office Imaging Products | 2,455 | 4.1 |
| Computer Peripherals | 4,502 | 0.4 |
| | | |
| Cameras | 2,878 | 38.2 |
| | | |
| Optical and Other Products | 951 | 75.8 |
| | | |
| Total | 10,786 | 13.9 |

Notes:

1. Regarding the segment of Business information products within the Business machines category in the consolidated information above, there were no sales on a non-consolidated basis.
2. From this interim period, the Company is disclosing in the Office imaging products category of the consolidated information above, the figures related to information system business (including document solution, network integration, etc.), previously classified under Optical and other products, in view of the close association between the information system business and the office imaging products business. The figures for the previous term have been reclassified, accordingly.

Consolidated

Non-Consolidated

Business Machines Operations

Office Imaging Products

Amid continuing fierce competition in both domestic and overseas markets for office imaging products, we have focused our efforts on offering increased networking functions, higher performance and color functions in order to expand sales.

For office use products, sales of iR C3200/C3200N, which was introduced in 2003 as the first color machine in our networkable, multifunctional imageRUNNER series, remained strong in all of our global markets. Also, through the additional launch of iR C3100 medium-speed color multifunction device, and our high-speed multifunction device iR C6800, we endeavored to strengthen our color product line-up and expand sales. Our strong line-up of black and white digital multifunctional devices, which ranges from low- to high-speed models, and our iR1600/2000 series in particular, was well received in both Japanese and overseas markets, and recorded a steady level of sales, much as in 2003.

We also aggressively pursued the solutions business, by taking advantage of our Multifunctional Embedded Application Platform (MEAP), which is incorporated in our imageRUNNER series machines and allows users to expand functionality by installing specialized application software, and also by promoting our solid line-up of imageWARE series software for document solution.

As for products targeting individuals and small business owners, acting upon the shift in demands from single-function copying machines to digital multifunctional devices (featuring copying machine, printer, and facsimile functions) prominent in Japan and the U.S., we strove to expand sales of products like our imageCLASS MF5550, introduced last year in the North American market. In the process of shift from analog to digital copying machines in Europe, we endeavored to expand sales of products like the PC-D320/340 compact digital copying machine that was introduced last year.

As a result of these efforts, consolidated and non-consolidated sales of this segment rose by 2.8% and 4.1%, respectively, compared to the first half of 2003.

Change in Sales
100 MILLIONS OF YEN

Consolidated

Non-Consolidated

Computer Peripherals

In order to respond to the trends of lower prices and shorter product lifecycles in this area, we sought to cut costs, increase development speed, and reduce inventory.

Regarding inkjet printers, we responded to the shift in demand towards lower priced models offering improved functionality that was especially visible in overseas markets. Further, continuing from last year, we strove to advance the added value of our products by promoting the adoption of PictBridge, a user-friendly industry-standard interface that enables direct printing from digital cameras and digital video cameras. Sales of our PIXUS 560i with the PictBridge interface, introduced last year, were strong, and our flagship model, PIXUS 9900i, which we introduced during this first half, has received high praise from professional photographers for its outstanding image resolution. While demand in Europe, North America and Japan is shifting from single-function printers to multifunctional devices (including copying, scanning and other functions), sales of our medium-class PIXUS MP360/370 machines introduced last year were quite favorable. In addition, we have sought to further expand sales through the introduction of our high-end model, the PIXUS MP740/710 during this first half.

Turning to laser beam printers, sales of our OEM-brand color laser beam printers grew strongly in volume terms along with solid sales of black and white printers. As for the Canon brand products, sales of printers that can handle A3-sized paper, including Canon's new Satera LBP3800/3700 black and white printer, were strong in Japan.

With regard to image scanners, although the demand for multifunctional devices has been on the increase, our CanoScan LiDE80 machine, introduced last year, continued to sell strongly in Japan and North America.

While sales in this division grew on a volume basis, the shift in demand towards lower-priced products continued, restraining sales figures to levels almost the same as in the first half of 2003. Sales declined 0.1% on a consolidated basis, and rose 0.4% on a non-consolidated basis.

Change in Sales
100 MILLIONS OF YEN

Consolidated

Non-Consolidated

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Business Information Products

The market for commercial-use document scanners marketed by Canon Electronics, Inc. is expanding on the back of the paperless trend in Japan, Europe and North America. In particular, DR-9080C/6080 and other high-speed scanners, with the scanning speed of 60 to 90 pages per minute, helped to boost sales.

As for calculators marketed by Canon Electronics Business Machines (H.K.) Co., Ltd., models with printing function continued to see strong sales in North America. Moreover, Canon Electronics Business Machines (H.K.) Co., Ltd.'s electronic dictionaries, which are sold in Japan, including the wordtank V70 which has Chinese language capability, wordtank C30 designed for students, and the newly-introduced wordtank G50, have contributed significantly to its sales.

With regard to personal computers sold by Canon Sales Co., Inc., intentional curtailing of personal computers as individual products, as part of a strategy to promote the sales of high value-added total solution packages, resulted in large decline in sales.

Consequently, consolidated sales in this segment declined by 10.5% compared to the first half of 2003.

Note: For this segment, there were no sales on a non-consolidated basis.

Change in Sales
100 MILLIONS OF YEN

Consolidated

Camera Operations

Demand for digital cameras, both single-lens reflex (SLR) and compact type, expanded on a global basis, while worldwide demand for conventional film cameras contracted. For video cameras, as well, demand for digital models continued to grow.

Amid these trends, in response to the strong potential of the market for digital SLR cameras, we took the lead in introducing an affordable model, EOS Kiss Digital, in September 2003, and sales of this camera continued to sell strongly. Additionally, the EOS-1D Mark II, which was introduced during the current term and boasts the world's fastest continuous shooting speed, has received extremely high recognition from professional photographers.

With regard to compact digital cameras, while widespread diffusion in Japan caused growth in the domestic market to slow, we expect to see growth in demand for these products outside of Japan. Amid this situation, we have introduced five new models in our PowerShot series, including the PowerShot Pro1, and three new models in the IXY DIGITAL series, including the IXY DIGITAL 500, to expand sales.

In the area of digital video cameras, we have bolstered our line-up in each of our markets around the globe by introducing new products such as the FV M100 KIT and the FV M20 KIT, and we have outfitted our products with our unique DIGIC DV imaging processor to differentiate them from competing models and thus successfully increased our sales. We have also focused on expanding sales of compact photo printers, and have introduced new products such as the CP-330, which employs the PictBridge industry-standard interface that allows direct printing from digital cameras and digital video cameras.

At the same time, as to film cameras, despite our introduction of several new cameras, such as the EOS 7s SLR, targeting experienced camera users, and the Autoboy N150 compact camera, sales of film cameras declined due to the shift in consumer demand towards digital cameras.

As a result, this segment's consolidated and non-consolidated sales rose by 22.4% and 38.2%, respectively, compared to the first half of 2003.

Change in Sales
100 MILLIONS OF YEN

Consolidated

Non-Consolidated

Optical and Other Products Operations

Demand for semiconductor production equipment expanded due to strength in the semiconductor market arising from brisk sales of cellular telephones and digital consumer products, as well as from replacement demand for personal computers. Demand for LCDs used in televisions and other applications was also extremely strong. Amid these trends, demand from memory manufacturers in Japan, Taiwan, Korea and other areas of Asia for our leading-edge semiconductor steppers expanded rapidly. At the same time, due to continued growth in demand for charge-coupled devices (CCD) and small-sized LCDs, orders for conventional products such as our i-line and KrF steppers continued to see favorable trends. Further, demand for mirror projection mask aligners for large-sized LCD panels remained robust, with our MPA-7800 machines for fifth generation giant panels (1,200 mm by 1,300 mm) experiencing particularly strong growth in sales volumes.

In the area of broadcast-use television lenses, brisk demand was seen in North America, where the trends of digital and high resolution broadcasting are firmly in place. Demand in Japan and other parts of Asia remained strong, as well. In particular, we focused efforts to expand sales of our handy-type, high-grade ENG lens series, including our J17ex7.7B, and succeeded to substantially increase the number of units sold.

As for medical equipment, sales of our CR-DGi non-mydratic retinal camera, introduced last year, remained strong. Furthermore, the CXDI-50G and other X-ray digital cameras, which use our unique sensor technologies, recorded favorable sales.

Consequently, this segment's consolidated and non-consolidated sales rose by 35.4% and 75.8%, respectively, compared to the first half of 2003.

Change in Sales
100 MILLIONS OF YEN

Consolidated

Non-Consolidated

Note: The products mentioned in Business Conditions by Operations above may have different names in other areas.

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Balance Sheets/Statements of Income

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

Consolidated Balance Sheets

ASSETS

| | Millions of yen | |
|---|--|--|
| | As of June 30, 2004 (Unaudited) | As of Dec. 31, 2003 (Audited) |
| Current assets: | | |
| Cash and cash equivalents | 811,221 | 690,298 |
| Marketable securities | 1,369 | 1,324 |
| Trade receivables | 526,980 | 539,006 |
| Inventories | 486,623 | 444,244 |
| Prepaid expenses and other current assets | 245,530 | 255,905 |
| | <hr/> | <hr/> |
| Total current assets | 2,071,723 | 1,930,777 |
| Noncurrent receivables | 14,999 | 16,543 |
| Investments | 73,707 | 78,912 |
| Property, plant and equipment, net | 891,248 | 846,433 |
| Other assets | 301,788 | 309,483 |
| | <hr/> | <hr/> |
| Total assets | 3,353,465 | 3,182,148 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | Millions of yen | |
|-----------------------------|--|--|
| | As of June 30, 2004 (Unaudited) | As of Dec. 31, 2003 (Audited) |
| Current liabilities: | | |
| Short-term loans | 17,152 | 39,136 |
| Trade payables | 470,817 | 391,181 |

| | | |
|--|------------------|------------------|
| Income taxes | 80,639 | 83,064 |
| Accrued expenses | 180,164 | 193,657 |
| Other current liabilities | 121,532 | 120,265 |
| | <hr/> | <hr/> |
| Total current liabilities | 870,304 | 827,303 |
| Long-term debt, excluding current installments | 35,733 | 59,260 |
| Accrued pension and severance cost | 237,152 | 238,001 |
| Other noncurrent liabilities | 37,110 | 30,843 |
| | <hr/> | <hr/> |
| Total liabilities | 1,180,299 | 1,155,407 |
| | <hr/> | <hr/> |
| Minority interests | 166,432 | 161,196 |
| Stockholders equity: | | |
| Common stock | 173,514 | 168,892 |
| Additional paid-in capital | 401,558 | 396,939 |
| Retained earnings | 1,580,425 | 1,450,440 |
| Accumulated other comprehensive income (loss) | (143,585) | (143,275) |
| Treasury stock | (5,178) | (7,451) |
| | <hr/> | <hr/> |
| Total stockholders equity | 2,006,734 | 1,865,545 |
| | <hr/> | <hr/> |
| Total liabilities and stockholders equity | 3,353,465 | 3,182,148 |
| | <hr/> | <hr/> |

Notes:

| | As of June 30, 2004 | As of Dec. 31, 2003 |
|--|--------------------------------|--------------------------------|
| | (Unaudited) | (Audited) |
| | | Millions of yen |
| | | <hr/> |
| 1. Allowance for doubtful receivables | 12,992 | 14,423 |
| 2. Accumulated depreciation | 1,138,228 | 1,118,183 |
| 3. Accumulated other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (85,849) | (83,801) |
| Net unrealized gains and losses on securities | 7,123 | 6,784 |
| Minimum pension liability adjustments | (65,043) | (65,961) |
| Net gains and losses on derivative financial instruments | 184 | (297) |
| 4. The number of consolidated subsidiaries as of June 30, 2004 was 200, and the number of companies accounted for on an equity basis as of June 30, 2004 was 19. | | |

Consolidated Statements of Income

| | Millions of yen | |
|--|---|---|
| | Six months ended June 30, 2004 (Unaudited) | Six months ended June 30, 2003 (Unaudited) |
| Net sales | 1,648,420 | 1,535,588 |
| Cost of sales | 822,653 | 759,714 |
| Gross profit | 825,767 | 775,874 |
| Selling, general and administrative expenses | 572,391 | 559,900 |
| Operating profit | 253,376 | 215,974 |
| Other income (deductions): | 6,598 | (468) |
| Interest and dividend income | 3,027 | 4,630 |
| Interest expense | (1,438) | (2,650) |
| Other, net | 5,009 | (2,448) |
| Income before income taxes and minority interests | 259,974 | 215,506 |
| Income taxes | 92,745 | 82,801 |
| Minority interests | 6,453 | 4,938 |
| Net income | 160,776 | 127,767 |

Notes:

- Basic net income per share ¥181.84
- Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains and losses on securities, change in minimum pension liability adjustments and change in net gains and losses on derivative financial instruments.
Comprehensive income for six months ended June 30, 2004 and 2003 were ¥160,466 million and ¥167,590 million, respectively.

Non-Consolidated Balance Sheets

| ASSETS | Millions of yen | |
|---|--------------------------------|--------------------------------|
| | As of June 30, 2004 | As of Dec. 31, 2003 |
| Current Assets | 1,265,705 | 1,151,428 |
| Cash and deposits | 282,523 | 197,700 |
| Notes receivable | 206,733 | 196,415 |
| Accounts receivable | 455,104 | 454,520 |
| Marketable securities | 138 | 63 |
| Finished goods | 98,237 | 84,955 |
| Work in process | 92,977 | 90,773 |
| Raw materials and supplies | 3,880 | 2,959 |
| Deferred tax assets | 21,051 | 24,351 |
| Short-term loans receivable | 15,857 | 21,868 |
| Other current assets | 95,222 | 84,870 |
| Allowance for doubtful receivables | (6,017) | (7,046) |
| Fixed Assets | 940,416 | 907,889 |
| Property, Plant and Equipment | 501,221 | 461,971 |
| Buildings | 217,467 | 213,147 |
| Machinery | 96,154 | 88,573 |
| Vehicles | 246 | 181 |
| Tools and equipment | 45,237 | 43,616 |
| Land | 92,413 | 92,413 |
| Construction in progress | 49,704 | 24,041 |
| Intangibles | 18,761 | 19,422 |
| Industrial property rights | 218 | 190 |
| Facility utility rights | 452 | 467 |
| Software | 18,091 | 18,765 |
| Investments | 420,434 | 426,496 |
| Marketable securities-noncurrent | 36,288 | 42,665 |
| Investment in affiliated companies | 306,167 | 303,184 |
| Long-term loans receivable | 7,727 | 7,027 |
| Long-term pre-paid expenses | 7,498 | 8,438 |
| Deferred tax assets-noncurrent | 57,879 | 59,758 |
| Guarantees | 3,028 | 3,130 |
| Other noncurrent assets | 1,918 | 2,334 |
| Allowance for doubtful receivables-noncurrent | (71) | (40) |
| TOTAL ASSETS | 2,206,121 | 2,059,317 |

Notes:

| | | |
|----|---|---------------------|
| 1. | Current receivable from affiliated companies | 722,923 million yen |
| | Noncurrent receivable from affiliated companies | 7,716 million yen |
| | Current payable to affiliated companies | 263,194 million yen |
| 2. | Accumulated depreciation of property, plant and equipment | 609,151 million yen |

LIABILITIES AND STOCKHOLDERS EQUITY

| | Millions of yen | |
|--|---------------------------|------------------------|
| | As of June 30, 2004 | As of Dec. 31, 2003 |
| Current Liabilities | 552,874 | 497,954 |
| Notes payable | 33,008 | 15,360 |
| Accounts payable | 296,572 | 265,848 |
| Short-term loans | 53,970 | 49,603 |
| Other payable | 40,499 | 37,278 |
| Accrued expenses | 49,688 | 49,980 |
| Accrued income taxes | 62,214 | 62,713 |
| Deposits | 9,376 | 7,641 |
| Accrued bonuses for employees | 4,702 | 4,541 |
| Other current liabilities | 2,845 | 4,990 |
| Noncurrent Liabilities | 103,087 | 117,203 |
| Convertible debenture | 2,496 | 11,734 |
| Long-term debts | | 1 |
| Accrued pension and severance cost | 99,533 | 104,230 |
| Accrued directors' retirement benefit | 1,058 | 1,238 |
| TOTAL LIABILITIES | 655,961 | 615,157 |
| Common Stock | 173,514 | 168,892 |
| Capital Surplus | 305,042 | 300,428 |
| Additional paid-in capital | 305,042 | 300,426 |
| Other capital surplus | | 2 |
| Retained Earnings | 1,068,820 | 974,276 |
| Legal reserve | 22,114 | 22,114 |
| Reserve for special depreciation | 9,071 | 3,896 |
| Reserve for deferral of capital gain on property | 7 | 9 |
| Special reserves | 889,828 | 719,428 |
| Unappropriated retained earnings | 147,800 | 228,829 |
| Net Unrealized Gains (Losses) on Securities | 7,962 | 8,015 |
| Treasury Stock | (5,178) | (7,451) |
| TOTAL STOCKHOLDERS EQUITY | 1,550,160 | 1,444,160 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | 2,206,121 | 2,059,317 |

- | | | |
|----|---|--------------------|
| 3. | Contingent liabilities | |
| | Guarantees | 46,878 million yen |
| | Letter of awareness and others | 2,696 million yen |
| 4. | From this interim period, the term which can be defined under the implementing regulation of the Japanese Commercial Code Section 48 is classified by affiliated companies. | |

Non-Consolidated Statements of Income

| | Millions of yen | |
|--|---|--------------------------------------|
| | Six months ended June 30, 2004 | Six months ended June 30, 2003 |
| OPERATING PROFIT AND LOSS | | |
| Operating Revenue | 1,078,553 | 946,551 |
| Net sales | 1,078,553 | 946,551 |
| Operating Expenses | 888,149 | 792,160 |
| Cost of sales | 666,940 | 569,687 |
| Selling, general and administrative expenses | 221,209 | 222,473 |
| OPERATING PROFIT | 190,404 | 154,391 |
| OTHER INCOME AND EXPENSE | | |
| Other Income | 27,560 | 25,048 |
| Interest income | 255 | 258 |
| Dividend income | 6,876 | 3,685 |
| Rental income | 5,869 | 4,521 |
| Patent royalties | 9,921 | 10,638 |
| Miscellaneous income | 4,639 | 5,946 |
| Other Expense | 20,293 | 15,146 |
| Interest expense | 54 | 129 |
| Selling charge for export bills | | 4 |
| Depreciation of rental assets | 5,143 | 4,017 |
| Loss on disposal and write-off of inventories | 4,434 | 5,071 |
| Foreign exchange loss | 6,772 | 3,592 |
| Miscellaneous loss | 3,890 | 2,333 |
| ORDINARY PROFIT | 197,671 | 164,293 |
| NON-ORDINARY INCOME AND LOSS | | |
| Non-Ordinary Income | 3,576 | 46,414 |
| Gain on sales of fixed assets | 5 | 7 |
| Gain on sales of marketable securities-noncurrent | 3,571 | |
| Gain on sales of investments in affiliated companies | | 527 |
| Gain on exemption from the substitutional portion of the employees' pension fund | | 45,880 |
| Non-Ordinary Loss | 4,460 | 2,588 |
| Loss on sales and disposal of fixed assets | 4,460 | 2,588 |

| | | |
|---|----------------|----------------|
| INCOME BEFORE INCOME TAXES | 196,787 | 208,119 |
| Income taxes | | |
| Current | 64,517 | 59,199 |
| Deferred | 5,234 | 20,145 |
| NET INCOME | 127,036 | 128,775 |
| Unappropriated retained earnings brought forward from previous term | 22,277 | 13,340 |
| Loss on sales of treasury stock | 1,513 | 1 |
| UNAPPROPRIATED RETAINED EARNINGS | 147,800 | 142,114 |

Notes:

- Transactions with affiliated companies:

| | |
|-------------------|-----------------------|
| Sales | 1,054,190 million yen |
| Purchase | 612,236 million yen |
| Other transaction | 12,514 million yen |
- Net income per share 143.68 yen
- From this interim period, the term which can be defined under the implementing regulation of the Japanese Commercial Code Section 48 is classified by affiliated companies.

Sales by Region

Consolidated

| Region | Sales (100 millions of yen) | Change from the First Half of Fiscal 2003 (%) |
|-----------------|--|--|
| Americas | 4,949 | (3.2) |
| Europe | 5,155 | 11.0 |
| Japan | 4,138 | 7.8 |
| Others | 2,242 | 27.3 |
| Total | 16,484 | 7.3 |

Non-Consolidated

| Region | Sales (100 millions of yen) | Change from the First Half of Fiscal 2003 (%) |
|-----------------|--|--|
| Americas | 3,573 | 2.3 |
| Europe | 3,771 | 18.5 |
| Japan | 1,757 | 15.5 |
| Others | 1,685 | 32.8 |
| Total | 10,786 | 13.9 |

Consolidated

Non-Consolidated

(100 MILLIONS OF YEN)

COMPANY PROFILE

(The following statements are the status as of June 30, 2004, if not specified otherwise.)

Canon Group Global Network

(1) Major Overseas Bases

Name [Location]

R&D

Canon Development Americas, Inc. [U.S.A.]
 Canon Research Centre Europe Ltd. [U.K.]
 Canon Research Centre France S.A.S. [France]
 Canon Information Systems Research Australia Pty. Ltd. [Australia]

Manufacturing

Canon Virginia, Inc. [U.S.A.]
 Canon Giessen GmbH [Germany]
 Canon Bretagne S.A.S. [France]
 Canon Dalian Business Machines, Inc. [China]
 Canon Zhuhai, Inc. [China]
 Canon Zhongshan Business Machines Co., Ltd. [China]
 Canon (Suzhou) Inc. [China]
 Canon Inc. Taiwan [Taiwan]
 Canon Hi-Tech (Thailand) Ltd. [Thailand]
 Canon Vietnam Co., Ltd. [Vietnam]
 Canon Opto (Malaysia) Sdn. Bhd. [Malaysia]

Marketing

Canon U.S.A., Inc. [U.S.A.]
 Canon Canada, Inc. [Canada]
 Canon Latin America, Inc. [U.S.A.]
 Canon Europa N.V. [Netherlands]
 Canon (UK) Ltd. [U.K.]
 Canon France S.A.S. [France]
 Canon Deutschland GmbH [Germany]
 Canon North-East Oy [Finland]
 Canon (China) Co., Ltd. [China]
 Canon Hongkong Co., Ltd. [Hong Kong]
 Canon Singapore Pte. Ltd. [Singapore]
 Canon Australia Pty. Ltd. [Australia]
 Canon do Brasil Indústria e Comércio Limitada [Brazil]
 Canon Chile, S.A. [Chile]
 Canon South Africa Pty. Ltd. [South Africa]

R&D, Manufacturing and Marketing

Canon Electronic Business Machines (H.K.) Co., Ltd. [Hong Kong]

(2) Major Domestic Bases

Name [Location]

Canon Inc., Headquarters [Tokyo]

Atsugi Office [Kanagawa Pref.]
Ayase Plant [Kanagawa Pref.]
Hiratsuka Development Center [Kanagawa Pref.]
Ami Plant [Ibaraki Pref.]
Optics R&D Center [Tochigi Pref.]
Toride Plant [Ibaraki Pref.]
Kosugi Office [Kanagawa Pref.]
Fuji-Susono Research Park [Shizuoka Pref.]
Tamagawa Plant [Kanagawa Pref.]
Utsunomiya Plant [Tochigi Pref.]
Utsunomiya Optical Products Plant [Tochigi Pref.]

Manufacturing

Canon Chemicals Inc. [Ibaraki Pref.]
Nagahama Canon Inc. [Shiga Pref.]
Fukushima Canon Inc. [Fukushima Pref.]
Oita Canon Inc. [Oita Pref.]

Marketing

Canon Sales Co., Inc. [Tokyo]
Canon Software Inc. [Tokyo]

R&D, Manufacturing and Marketing

Canon Electronics Inc. [Saitama Pref.]
Canon Finetech Inc. [Ibaraki Pref.]
Nisca Corporation [Yamanashi Pref.]

Main Activities of the Canon Group

Canon Group is engaged in the manufacture and sales of the following products.

| Operations | Main Products |
|-----------------------------------|---|
| Business Machines | <p>Office Imaging Products</p> <p>Digital Multifunctional Devices, Copying Machines, Laser Facsimiles</p> <p>Computer Peripherals</p> <p>Laser Beam Printers, Inkjet Printers, Inkjet Multifunctional Devices, Inkjet Facsimiles, Image Scanners</p> <p>Business Information Products</p> <p>Computers, Document Scanners, Microfilm Equipment, Handy Terminals, Calculators, Electronic Dictionaries</p> |
| Cameras | <p>Digital Cameras, Film Cameras, Digital Video Cameras, Interchangeable Lenses</p> |
| Optical and Other Products | <p>Semiconductor Production Equipment, Mirror Projection Mask Aligners for LCD Panels, TV Lenses for Broadcasting Stations, Ophthalmic Instruments, X-Ray Equipment, Medical Image Recording Equipment</p> |

Employees

Canon Inc.

| | |
|---------------------------------|----------------|
| Number of employees | 19,466 persons |
| Increase from the previous term | 638 persons |
| Average age | 39.1 years |
| Average years of service | 16.2 years |

Canon Group

| | |
|---------------------|--|
| Number of employees | 104,947 persons |
| | (Increase of 2,380 persons from the previous term) |
| Americas | 10,125 persons |
| Europe | 11,229 persons |
| Japan | 46,359 persons |
| Others | 37,234 persons |

Notes:

1. The number of employees represents the total number of employees excluding those who do not work full-time.
2. The number of employees of Canon Inc. does not include those who have been dispatched to affiliated companies, etc. (1,916 persons).

Shares

Total Number of Shares Issuable 2,000,000,000 shares

Total Outstanding Shares, Capital Stock and Number of Shareholders

| | As of the end of the Previous Term | Increase during this Half-Term | As of the end of this Half-Term |
|----------------------------------|---|---|--|
| Total Outstanding Shares (share) | 881,338,645 | 6,171,005 | 887,509,650 |
| Capital Stock (yen) | 168,892,031,931 | 4,622,082,745 | 173,514,114,676 |
| Number of Shareholders (person) | 34,935 | 8,318 | 43,253 |

Note:

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

Shareholding by Category

| | Number of Shareholders | Number of Shares |
|--|-----------------------------------|-----------------------------|
| Banking Companies | 291 | 332,402,008 |
| Securities Underwriting Companies | 75 | 25,717,624 |
| Other Domestic Companies | 705 | 29,348,003 |
| Foreign Companies, etc. | 1,141 | 451,391,612 |
| Individual and Others | 41,040 | 47,545,010 |
| The Company's Own Shares | 1 | 1,105,393 |
| Total | 43,253 | 887,509,650 |

Shareholding Ratio

Treasury Stock

| Acquisition during this Half-Term | | Disposition during this Half-Term | | Number of Treasury Stock as of the end of this Half-Term |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|--|
| Number of Shares | Total Amount of Acquisition Price | Number of Shares | Total Amount of Disposition Price | |
| Common stock 85,912 shares | 460 million yen | Common stock 587,032 shares | 1,218 million yen | Common stock 1,105,393 shares |

Notes:

1. The acquisitions during this half-term reflect the purchase of less-than-one-unit shares.
2. The dispositions during this half-term reflect the delivery of 577,920 shares of the Company's treasury stock to the shareholders of Igari Mold Co., Ltd., which was made within the Company's share exchange transaction with Igari Mold Co., Ltd., as well as the sales of less-than-one-unit shares to the Company's shareholders as per their request.
3. There were no share annulment procedures with respect to the Company's treasury stock during this half-term.
4. The number of the Company's treasury stock as of the end of the previous term was 1,606,513 shares of common stock.

Convertible Debentures
MILLIONS OF YEN

Directors and Corporate Auditors

Directors

| Position | Name | Business in Charge or Main Occupation |
|--------------------------|-------------------|---|
| President & CEO | Fujio Mitarai | |
| Senior Managing Director | Yukio Yamashita | Group Executive of Human Resources Management & Organization Headquarters |
| Senior Managing Director | Toshizo Tanaka | Group Executive of Finance & Accounting Headquarters |
| Senior Managing Director | Kinya Uchida | President of Canon U.S.A., Inc. |
| Senior Managing Director | Tsuneji Uchida | Chief Executive of Image Communication Products Operations |
| Managing Director | Yusuke Emura | Group Executive of Global Environment Promotion Headquarters |
| Managing Director | Nobuyoshi Tanaka | Group Executive of Corporate Intellectual Property and Legal Headquarters |
| Managing Director | Junji Ichikawa | Chief Executive of Optical Products Operations |
| Managing Director | Hajime Tsuruoka | President of Canon Europa N.V. |
| Managing Director | Akiyoshi Moroe | Group Executive of General Affairs Headquarters |
| Managing Director | Kunio Watanabe | Group Executive of Corporate Planning Development Headquarters |
| Managing Director | Ikuo Soma | Chief Executive of Office Imaging Products Operations |
| Managing Director | Hironori Yamamoto | Group Executive of Core Technology Development Headquarters |
| Director | Yoroku Adachi | President of Canon (China) Co., Ltd. |
| Director | Yasuo Mitsuhashi | Chief Executive of Peripheral Products Operations |
| Director | Katsuichi Shimizu | Chief Executive of Inkjet Products Operations |
| Director | Ryoichi Bamba | Executive Vice President of Canon U.S.A., Inc. |
| Director | Tomonori Iwashita | Deputy Chief Executive of Image Communication Products Operations |
| Director | Toshio Homma | Group Executive of L Printer Business Promotion Headquarters |
| Director | Shigeru Imaiida | Group Executive of Production Management Headquarters |
| Director | Masahiro Osawa* | Group Executive of Procurement Management Headquarters |
| Director | Keijiro Yamazaki* | Group Executive of Information & Communication Systems Headquarters |
| Director | Shunichi Uzawa* | |

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| | | |
|----------|----------------------|--|
| Director | Masaki Nakaoka* | Group Executive of SED Development Headquarters Deputy Chief Executive of Office Imaging Products Operations |
| Director | Toshiyuki Komatsu* | Group Executive of Leading-Edge Technology Development Headquarters; Deputy Group Executive of Core Technology Development Headquarters |
| Director | Shigeyuki Matsumoto* | Group Executive of Device Development Headquarters |
| Director | Haruhisa Honda* | Chief Executive of Chemical Products Operations |

Corporate Auditors

| Position | Name | Business in Charge or Main Occupation |
|-------------------|--------------------|--|
| Corporate Auditor | Teruomi Takahashi* | |
| Corporate Auditor | Kunihiro Nagata* | |
| Corporate Auditor | Tadashi Ohe | Attorney |
| Corporate Auditor | Tetsuo Yoshizawa | |

Notes:

1. Directors and Corporate Auditors with * were newly elected at the Ordinary General Meeting of Shareholders for the 103rd Business Term which was held on March 30, 2004, and assumed their positions accordingly.
2. Directors Mr. Ichiro Endo, Mr. Akira Tajima, Mr. Takashi Saito and Mr. Teruomi Takahashi, and Corporate Auditors Mr. Kohtaro Miyagi and Mr. Masaharu Aono retired at the end of the Ordinary General Meeting of Shareholders for the 103rd Business Term which was held on March 30, 2004.
3. Corporate Auditors Mr. Tadashi Ohe and Mr. Tetsuo Yoshizawa are outside Corporate Auditors defined by Article 18, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations.

INFORMATION ON SHARES

Closing of accounts:

December 31 of each year

Ordinary general meeting of shareholders:

March of each year

Record date for above:

December 31 of each year

Certain date for interim dividends:

June 30 of each year

Transfer agent:

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

Business handling place of the agent:

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

Mailing address and telephone number of the agent:

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

Intermediary office:

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

Number of shares to constitute one unit of share:

100 shares

Newspaper in which public notice is inserted:

The Nihon Keizai Shimbun published in Tokyo

Listed stock exchange:

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

Fee for issuing share certificate:

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

**As of May 6, 2004, the Company has changed the number of shares to constitute one unit of shares from 1,000 shares to 100 shares.*

