

CANON INC
Form 6-K
August 04, 2003

Table of Contents

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 June 30, 2003

CANON INC.

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

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

TABLE OF CONTENTS

SIGNATURES

RESULTS FOR THE SECOND QUARTER AND THE FIRST HALF ENDED JUNE 30, 2003

Management Policy

Operating Results and Financial Conditions

CANON INC. AND SUBSIDIARIES

Table of Contents

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.

Date August 4, 2003

CANON INC.

(Registrant)
By /s/ Hiroyuki Yoshida

(Signature)*
Hiroyuki Yoshida
Manager, Finance Department
Canon Inc.

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

The following materials are included.

1. RESULTS FOR THE SECOND QUARTER AND THE FIRST HALF ENDED JUNE 30, 2003
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Table of Contents

**RESULTS FOR THE SECOND QUARTER
AND THE FIRST HALF ENDED JUNE 30, 2003**

July 31, 2003

CONSOLIDATED RESULTS FOR THE FIRST HALF

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

| | Actual | | | | Projected | | |
|----------------------------|--------------------------------|--------------------------------|-----------|--------------------------------|------------------------------|-------------------------------|-----------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change(%) | Six months ended June 30, 2003 | Year ended December 31, 2002 | Year ending December 31, 2003 | Change(%) |
| | (Unaudited) | (Unaudited) | | (Unaudited) | (Audited) | | |
| Net sales | ¥ 1,535,588 | ¥ 1,384,483 | + 10.9 | \$ 12,796,567 | ¥ 2,940,128 | ¥ 3,180,000 | + 8.2 |
| Operating profit | 215,974 | 140,028 | + 54.2 | 1,799,783 | 346,359 | 444,000 | + 28.2 |
| Income before income taxes | 215,506 | 127,195 | + 69.4 | 1,795,883 | 330,017 | 440,000 | + 33.3 |
| Net income | 127,767 | 73,205 | + 74.5 | 1,064,725 | 190,737 | 263,000 | + 37.9 |
| Earnings per share: | | | | | | | |
| Basic | ¥ 145.55 | ¥ 83.51 | + 74.3 | \$ 1.21 | ¥ 217.56 | ¥ 299.37 | + 37.6 |
| Diluted | 143.99 | 82.46 | + 74.6 | 1.20 | 214.80 | | |

| | Actual | | | | |
|---------------------|---------------------|---------------------|-----------|---------------------|-------------------------|
| | As of June 30, 2003 | As of June 30, 2002 | Change(%) | As of June 30, 2003 | As of December 31, 2002 |
| | (Unaudited) | (Unaudited) | | (Unaudited) | (Audited) |
| Total assets | ¥ 3,120,088 | ¥ 2,764,509 | + 12.9 | \$ 26,000,733 | ¥ 2,942,706 |
| Stockholders equity | ¥ 1,745,017 | ¥ 1,499,994 | + 16.3 | \$ 14,541,808 | ¥ 1,591,950 |

- 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 US\$ = JPY 120, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2003, solely for the convenience of the reader.

NON-CONSOLIDATED RESULTS FOR THE FIRST HALF

(Millions of yen, except per share amounts)

| | Actual | Actual | Projected |
|--|--------|--------|-----------|
|--|--------|--------|-----------|

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| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change(%) | Year ended December 31, 2002 | Year ending December 31, 2003 | Change(%) |
|---------------------|---|--------------------------------------|--------------|------------------------------------|-------------------------------------|--------------|
| | (Audited) | (Audited) | | (Audited) | (Audited) | |
| Net sales | ¥ 946,551 | ¥ 808,357 | + 17.1 | ¥ 1,789,005 | ¥ 1,977,000 | + 10.5 |
| Operating profit | 154,391 | 89,851 | + 71.8 | 237,193 | | |
| Ordinary profit | 164,293 | 93,698 | + 75.3 | 240,983 | 325,000 | + 34.9 |
| Net income | 128,775 | 58,479 | + 120.2 | 144,185 | 227,000 | + 57.4 |
| | _____ | _____ | _____ | _____ | _____ | _____ |
| Earnings per share | ¥ 146.69 | ¥ 66.71 | + 119.9 | ¥ 164.46 | ¥ 258.39 | + 57.1 |
| Dividend per share | 15.00 | 12.50 | | 30.00 | 30.00 | |
| | _____ | _____ | _____ | _____ | _____ | _____ |
| | Actual | | | Actual | | |
| | As of June 30, 2003 | As of June 30, 2002 | Change(%) | As of December 31, 2002 | | |
| | (Audited) | (Audited) | | (Audited) | | |
| Total assets | ¥ 1,923,322 | ¥ 1,739,892 | + 10.5 | ¥ 1,848,137 | | |
| | _____ | _____ | _____ | _____ | | |
| Stockholders equity | ¥ 1,349,765 | ¥ 1,163,384 | + 16.0 | ¥ 1,235,310 | | |
| | _____ | _____ | _____ | _____ | | |

Canon Inc. Headquarter office

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

Phone: +81-3-3758-2111

Table of Contents

Management Policy

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

Management objectives

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

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

Mid- to long-term management strategies

In order to achieve the objectives above, we are executing the following mid- and long-term management strategies:

1) **Becoming No.1 in core businesses**

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

With regard to digital cameras, we intend to leverage our expertise in optical and image-processing technologies to continuously launch competitive products, thereby supporting our goal of becoming a top manufacturer in terms of operational scale and profitability.

In the field of inkjet printers, we will continue to improve printing speeds while raising the level of photo-image quality. Moreover, from the second-half of this year, we will aggressively introduce digital cameras and printers that comply with an industry standard enabling any compliant printer to print directly from any compliant digital camera. In addition, by enhancing such products as photo-print software and paper, we will work to expand the home photo-printing market.

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

In the area of semiconductor production equipment, we have already introduced new products based on a new platform and aim to pursue the No. 1 position in the industry by continuously launching new products ahead of our competitors. Furthermore, in the aligner market for large LCD panels, where we maintain the No. 1 position, we will focus on product development in order to further expand our share.

2) **Strengthening R&D**

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

In order to speedup product development and curtail costs, we aim to realize prototype-less design through the effective utilization of 3D-CAD systems, eliminating, to the extent possible, physical prototypes from the design process.

3) **Achieving a strong financial position**

We believe that the establishment of a healthy financial constitution is essential for the realization of continued corporate growth. While Canon Inc. has been actively strengthening its financial position, we

Table of Contents

will continue to promote cash-flow management to achieve financial strength befitting a truly excellent global company.

In addition to the management strategies outlined above, we will continue working to establish the Three Regional Headquarters System by enhancing the headquarters functions of Canon's regional marketing headquarters in Europe and the Americas. We have also been actively reorganizing the Canon Group in Japan to achieve an optimal organization and bolster the competitive strength of each company, and will continue these initiatives. Overseas, we have reorganized our sales structure in South America and adopted a new streamlined sales organization in the EU that better accommodates market integration in the region. We are also keeping a close eye on developments in China and are strengthening our marketing structure there accordingly.

Other measures being undertaken to improve profitability for the Group include increasing the penetration and scale of worldwide production reform activities, optimizing production allocation based on a shift to China and Southeast Asia, reducing inventories and shortening production lead times through supply-chain management, and accelerating the in-house production of key components. Through these activities we will target growth for the Canon Group and seek to heighten Canon's corporate value as represented by such financial indicators as ROA (Return on Assets) and ROE (Return on Equity).

Business challenges and countermeasures

One of the challenges that Canon faces is the establishment of stable business management that offers resilience against the influence of exchange rate fluctuations. With an overseas sales ratio of more than 70%, we are heavily exposed to this risk. For the short term, we will work to alleviate the impact of changes in exchange rates by shifting production overseas and by increasing the proportion of locally procured parts.

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

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

Basic attitude in regard to corporate governance and state of implementation of related measures

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

1) State of implementation of measures in regard to corporate governance

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

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

Canon's board of corporate auditors consists of four members, two of which are outside corporate auditors. In accordance with the board of corporate auditors' auditing policies and their assigned duties, the members attend board of director meetings, listen to business reports from the directors and others, carefully examine documents related to important decisions, and conduct strict audits of the company's business and its property.

Furthermore, the Corporate Audit Center, which serves as an internal auditing division, conducts inspections covering such areas as compliance, risk management and internal control systems, and then

Table of Contents

provides assessments and proposals. The various relevant administrative divisions also work very closely with the Corporate Audit Center to inspect such areas as quality, environment issues, information security and physical security.

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

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

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

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

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

- 3) State of implementation of measures intended to improve and enhance the company's corporate governance over the past year
To realize a management structure, capable of responding rapidly to changes in the business climate, Canon reduced the term of office for company directors from two years to one.

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

Basic policy in regard to profit distribution

With regard to profit distribution, Canon recognizes its dividend policy as one of the company's most important management issues. For fiscal 2002, Canon increased its annual dividend from 25 yen per share in fiscal 2001, to 30 yen. This reflects the strong results we achieved for the year and appreciation for continued shareholder support. We intend to maintain stable dividend payments in the future, contingent upon the combination of consolidated financial performance, as well as capital requirements to fund future business expansion and improve profitability.

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

Attitude in regard to share trading unit

Currently, one trading unit, or round lot, for Canon's stock on the Tokyo Stock Exchange consists of 1,000 shares. The Tokyo Stock Exchange has requested that some listed companies with a high stock price reduce the number of shares making up a trading unit with the aim of encouraging participation in the market by individual investors. While we appreciate that reduced-quantity round lots can increase liquidity and attract new investors, it is the company's basic policy that the issue should be assessed in a prudent manner in accordance with future market demands. As we believe that Canon's stock now enjoys a reasonable level of liquidity, the related costs of smaller round lot investment would not be justified at this time.

Table of Contents**Operating Results and Financial Conditions****2003 First Half in Review**

Looking back at the global economy in the first half of 2003, the U.S. economy showed sluggish growth in consumer spending and capital investment although signs of an economic upturn appeared during the latter half of the six-month period. The economies of Europe were relatively flat due to restrained exports resulting from the stagnant U.S. economy and the appreciation of the euro, while Asian economies achieved only moderate growth due to the adverse effects caused by the spread of Severe Acute Respiratory Syndrome (SARS). The Japanese economy remained flat, showing no signs of an upward trend in consumer spending and capital investment.

As for the markets in which the Canon Group operates, the digital camera market continued to show robust growth while digital copying machines and computer peripherals struggled amid severe price competition. In the field of optical equipment, the market for semiconductor-production equipment remained sluggish while the market for projection aligners used in the production of liquid crystal displays (LCDs) expanded, fueled by increased demand for LCD televisions. The average value of the yen for the half was ¥118.70 to the U.S. dollar and ¥131.46 to the euro, representing a year-on-year increase of 9% against the dollar, and decrease of 11% against the euro.

Amid these conditions, Canon's consolidated net sales for the first half increased by 10.9% from the year-ago period to ¥1,535.6 billion (U.S.\$12,797 million), boosted by a significant rise in sales of digital cameras, along with a recovery in sales of semiconductor-production equipment and laser beam printers, which had suffered a large drop in the first half of the previous year due to inventory adjustment by our OEM partner. On a half-year basis, net income recorded an all-time high of ¥127.8 billion (U.S.\$1,065 million), a year-on-year increase of 74.5%. The gross profit ratio for the half was 50.5%, surpassing the 50% mark for the first time ever, representing a 3.5% improvement from the 47.0% mark achieved a year ago. This achievement was made possible through the company's R&D reforms, which have supported the timely launch of competitive new products, and cost savings realized through sustained production reforms and the overseas shifting of production. Selling, general and administrative expenses rose 9.7% year on year for the first half which was within the increase of sales, as R&D expenditures increased by ¥15.1 billion (U.S.\$126 million) to ¥125.7 billion (U.S.\$1,048 million) along with increases in advertising and sales-promotion spending. Consequently, operating profit in the first half totaled ¥216.0 billion (U.S.\$1,800 million), a substantial increase of 54.2%. Other income improved by ¥12.4 billion (U.S.\$103 million) through reduced currency exchange losses. As a result, income before income taxes in the first half totaled ¥215.5 billion (U.S.\$1,796 million), a year-on-year increase of 69.4%. At the end of March 2003, an amendment to the Japanese tax regulations was announced that would introduce an added value component and capital component standard to a portion of enterprise tax. As a result, the standard Japanese income tax rate will be reduced from the 2005 fiscal year. Although tax expenses increased temporarily following a reassessment of deferred tax assets and liabilities as a result of this amendment, with the increased tax credit for R&D expenses as well as the solid performance by the company's overseas subsidiaries, the effective tax rate during the half decreased by 2.1% compared with the previous year. Consequently, net income in the first half of 2003 totaled ¥127.8 billion (U.S.\$1,065 million), a year-on-year increase of 74.5%.

Basic earnings per share for the first half was ¥145.55 (U.S.\$1.21), a year-on-year increase of ¥62.04 (U.S.\$0.52).

Results by Product Segment

In the business machine segment, Canon's powerful imageRUNNER(iR)-series lineup of digital networked black-and-white multifunction copying machines realized healthy sales growth worldwide. In particular, the low-end iR 1600 series continued to record strong sales during the term. Among digital networked color copying machines, the iR C3200/iR C3200N, released domestically at the end of last year, has been well received in both Japan and abroad, which also contributed to increased sales of office imaging products. Overall, sales of office imaging products for the half realized a year-on-year increase of 3.0%. In the field of computer peripherals, sales of laser beam printers, which had dropped significantly during the same period of the previous year due to inventory adjustment by our OEM partner, showed robust growth as a result of a recovery in orders. Sales of inkjet printers, however, dipped slightly despite continued favorable sales of the i550 and i850 models, and strong performances by such new products as the MultiPASS MP700/MP730 multifunction inkjet systems and the portable i70 color printer, reflecting stagnant market demand for personal computers and the effects of severe price competition. As a result, sales of computer peripherals in the first half increased by 11.5%. Sales of business information products, including computers, micrographics and calculators, decreased by 18.3% due to declining personal computer sales. Consequently, first half sales of business machines overall totaled ¥1,128.0 billion (U.S.\$9,400 million), a

Table of Contents

5.3% increase year on year. In addition to cost-cutting measures and the introduction of new price-competitive products, which contributed to a 4.4% improvement in the operating profit margin, a substantial increase in sales volume for laser beam printers boosted first-half operating profit by 33.5% year on year to ¥237.4 billion (U.S.\$1,979 million). Beginning from the first quarter, Canon updated the breakdown of product categories comprising the business machines segment to better reflect present sales conditions. Accordingly, previous-year sales for each category have been restated to reflect the changes.

Within the camera segment, amid the continued strong demand for digital models worldwide, Canon launched in the first half of last year several new compact digital cameras to strengthen its line-up, including five new PowerShot-series models and two new Digital ELPH-series models, which have contributed to a significant increase in sales. The company's digital SLR models also achieved strong sales growth, namely the EOS 10D, which was introduced as a more affordable model. Sales of conventional film cameras, however, continued to slip during the quarter amid the increasing popularity of digital models and price competition. Sales of digital video camcorders were healthy with the introduction of such new products as the mega-pixel model FV M10, which contributed to the realization of a strong product lineup. As a result, camera sales overall continued to show strong growth, reaching ¥283.8 billion (U.S.\$2,365 million) for the first half, an increase of 34.3% from the year-ago period. Operating profit for the camera segment appreciably advanced 77.5% to ¥49.8 billion (U.S.\$415 million), attributable to the rapid growth in sales of digital cameras and digital video camcorders, along with the effects of cost savings initiatives, which resulted in a 4.2% improvement in the operating income ratio.

In the optical and other products segment, despite the continued restrained capital spending for semiconductor production equipment by memory device manufacturers during the term, sales increased by 22.1% to ¥123.8 billion (U.S.\$1,032 million), boosted by a substantial increase in sales of aligners for the production of LCDs, reflecting the shift from CRT computer displays to LCD monitors, along with the expansion of the LCD television market. Optical and other products, however, suffered an operating loss of ¥1.2 billion (U.S.\$10 million) for the half, a slight improvement from the ¥8.5 billion operating loss recorded for the corresponding period of the previous year.

Cash Flows

In the first half of 2003, Canon maintained cash flows from operating activities of ¥228.3 billion (U.S.\$1,903 million), a year-on-year increase of ¥25.4 billion (U.S.\$212 million) for the period, reflecting substantial net income growth, as well as an increase in depreciation. Capital expenditure totaled ¥109.8 billion (U.S.\$915 million), which was used mainly to expand production capabilities in both domestic and overseas regions. Cash flows from investing activities totaled ¥111.3 billion (U.S.\$928 million), including a ¥12.7 billion (U.S.\$106 million) outlay for the acquisition of Sumitomo Metal System Solutions Co. Ltd., now Canon System Solutions Inc. As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled positive ¥117.0 billion (U.S.\$975 million).

Cash flows from financing activities recorded an outlay of ¥46.7 billion (U.S.\$389 million), mainly resulting from active efforts to repay short-term and long-term loans toward the goal of improving the company's financial position. Consequently, cash and cash equivalents, which totaled ¥591.1 billion (U.S.\$4,926 million), remained at a high level, representing a ¥69.9 billion (U.S.\$582 million) increase from the end of the previous year.

Non-consolidated Results and Dividend

Canon Inc.'s non-consolidated net sales during the first half increased year on year by 17.1% to ¥946.6 billion (US\$7,888 million), and ordinary profit also grew by 75.3% to ¥164.3 billion (US\$1,369 million). Non-consolidated net income leaped 120.2% to ¥128.8 billion (US\$1,073 million) owing to a temporary gain realized through exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the Employees' Pension Fund.

The Board of Directors is planning to increase the interim dividend by ¥2.50 (US\$0.02) on a year-on-year basis, to ¥15.00 (US\$0.13) per share.

Table of Contents**Outlook**

Regarding the outlook for the global economy in the third quarter and thereafter, the U.S. economy is likely to realize a moderate recovery as personal consumption is expected to continue growing and business investment to gradually pick up. The Japanese economy is expected to remain sluggish owing to flat consumer spending and capital investment, and a decrease in exports. The economies of Europe will also probably show stagnant growth due to decreased exports influenced by the appreciation of the euro. In China and Southeast Asia, despite the effects of SARS, exports are expected to make a recovery and the economy will likely show steady growth.

In the businesses in which Canon is involved, the digital camera market is expected to continue enjoying rapid growth and stable demand is projected for full-color copying machines and laser beam printers. Within the semiconductor-production equipment market, a recovery in capital investment by memory device manufacturers is taking longer than was originally anticipated and orders are now expected to show signs of a turnaround sometime after next year.

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 weaker against the euro than during the previous year.

Upon considering the current market and currency exchange environments, the company has revised upward its forecasts for the 2003 fiscal year and now anticipates consolidated net sales of ¥3,180.0 billion (U.S.\$26,500 million), consolidated income before income taxes of ¥440.0 billion (U.S.\$3,667 million), and consolidated net income of ¥263.0 billion (U.S.\$2,192 million). The company also projects non-consolidated net sales of ¥1,977.0 billion (U.S.\$16,475 million), non-consolidated ordinary profit of ¥325.0 billion (U.S.\$2,708 million), and non-consolidated net income of ¥227.0 billion (U.S.\$1,892 million). These forecasts assume currency exchange rates of ¥118.00 to the U.S. dollar and ¥132.00 to the euro for the remainder of 2003.

Consolidated Outlook**Fiscal year**

| | Millions of yen | | | | |
|----------------------------|----------------------------------|---------------------|-------------------|---------------------------------|-----------------------|
| | Year ending December 31, 2003 | | Change (B - A) | Year ended December 31, 2002 | Change (%) (B / C) |
| | Previous Outlook (A) | Revised Outlook (B) | | Results (C) | |
| Net sales | ¥ 3,152,000 | ¥ 3,180,000 | ¥ 28,000 | ¥ 2,940,128 | + 8.2% |
| Income before income taxes | 410,000 | 440,000 | 30,000 | 330,017 | + 33.3% |
| Net income | 240,000 | 263,000 | 23,000 | 190,737 | + 37.9% |

These reports contain forward-looking statements which reflect management's current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in any forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. (Cautionary Statements for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995.)

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

GROUP POSITION

1. NUMBER OF GROUP COMPANIES

| | <u>June 30, 2003</u> | <u>December 31, 2002</u> | <u>Change</u> |
|----------------------|----------------------|--------------------------|-------------------|
| Subsidiaries | 202 | 195 | 7 |
| Affiliated Companies | 20 | 19 | 1 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 222 | 214 | 8 |
| | <u> </u> | <u> </u> | <u> </u> |

2. GROUP STRUCTURE AND MAJOR GROUP COMPANIES

Notes:

1. The companies with (*) are affiliated companies (equity method).
2. Following subsidiaries are listed on domestic stock exchange.
Tokyo Stock Exchange (1st section): Canon Sales Co., Inc., Canon Electronics Inc., Canon Finetech Inc.
JASDAQ: Canon Software Inc., Nisca Corporation.

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

1. CONSOLIDATED STATEMENTS OF INCOME

Results for the second quarter

| | Millions of yen | | | Thousands of U.S. dollars |
|--|--|--|-----------|--|
| | Three months ended June 30, 2003 | Three months ended June 30, 2002 | Change(%) | Three months ended June 30, 2003 |
| | (Unaudited) | (Unaudited) | | (Unaudited) |
| Net sales | ¥804,027 | ¥ 733,392 | +9.6 | \$ 6,700,225 |
| Cost of sales | 399,109 | 389,717 | | 3,325,908 |
| Gross profit | 404,918 | 343,675 | +17.8 | 3,374,317 |
| Selling, general and administrative expenses | 306,351 | 268,198 | | 2,552,925 |
| Operating profit | 98,567 | 75,477 | +30.6 | 821,392 |
| Other income (deductions): | | | | |
| Interest and dividend income | 2,434 | 2,248 | | 20,283 |
| Interest expense | (1,404) | (1,698) | | (11,700) |
| Other, net | (1,290) | (10,849) | | (10,750) |
| | (260) | (10,299) | | (2,167) |
| Income before income taxes | 98,307 | 65,178 | +50.8 | 819,225 |
| Income taxes | 37,585 | 22,320 | | 313,208 |
| Income before minority interests | 60,722 | 42,858 | | 506,017 |
| Minority interests | 4,556 | 1,307 | | 37,967 |
| Net income | ¥ 56,166 | ¥ 41,551 | +35.2 | \$ 468,050 |

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 June 30, 2003 and 2002 were JPY 75,969 million (U.S.\$633,075 thousand) and JPY 13,470 million, respectively.

Results for the first half

| Millions of yen | | Change(%) | Thousands of U.S. dollars | Millions of yen |
|--------------------------------------|--------------------------------------|-----------|--------------------------------------|------------------------------------|
| Six months ended June 30, 2003 | Six months ended June 30, 2002 | | Six months ended June 30, 2003 | Year ended December 31, 2002 |
| | | | | |

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| | (Unaudited) | (Unaudited) | | (Unaudited) | (Audited) |
|--|-------------|-------------|-------|--------------|------------|
| Net sales | ¥1,535,588 | ¥1,384,483 | +10.9 | \$12,796,567 | ¥2,940,128 |
| Cost of sales | 759,714 | 734,221 | | 6,330,950 | 1,540,097 |
| Gross profit | 775,874 | 650,262 | +19.3 | 6,465,617 | 1,400,031 |
| Selling, general and administrative expenses | 559,900 | 510,234 | | 4,665,834 | 1,053,672 |
| Operating profit | 215,974 | 140,028 | +54.2 | 1,799,783 | 346,359 |
| Other income (deductions): | | | | | |
| Interest and dividend income | 4,630 | 4,734 | | 38,583 | 9,198 |
| Interest expense | (2,650) | (3,482) | | (22,083) | (6,788) |
| Other, net | (2,448) | (14,085) | | (20,400) | (18,752) |
| | (468) | (12,833) | | (3,900) | (16,342) |
| Income before income taxes | 215,506 | 127,195 | +69.4 | 1,795,883 | 330,017 |
| Income taxes | 82,801 | 51,539 | | 690,008 | 134,703 |
| Income before minority interests | 132,705 | 75,656 | | 1,105,875 | 195,314 |
| Minority interests | 4,938 | 2,451 | | 41,150 | 4,577 |
| Net income | ¥ 127,767 | ¥ 73,205 | +74.5 | \$ 1,064,725 | ¥ 190,737 |

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 six months ended June 30, 2003 and 2002 were JPY 167,590 million (U.S.\$1,396,583 thousand) and JPY 53,370 million, respectively.

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. DETAILS OF SALES

Results for the second quarter

| | Millions of yen | | | Thousands of U.S. dollars |
|--------------------------------------|--|--|-----------|--|
| | Three months ended June 30, 2003 | Three months ended June 30, 2002 | Change(%) | Three months ended June 30, 2003 |
| | (Unaudited) | (Unaudited) | | (Unaudited) |
| Sales by product | | | | |
| Business machines: | | | | |
| <i>Office imaging products</i> | ¥ 278,302 | ¥ 265,733 | + 4.7 | \$ 2,319,183 |
| <i>Computer peripherals</i> | 267,663 | 252,030 | + 6.2 | 2,230,525 |
| <i>Business information products</i> | 30,518 | 36,561 | - 16.5 | 254,317 |
| | <u>576,483</u> | <u>554,324</u> | + 4.0 | <u>4,804,025</u> |
| Cameras | 166,257 | 125,681 | + 32.3 | 1,385,475 |
| Optical and other products | 61,287 | 53,387 | + 14.8 | 510,725 |
| | <u>600,000</u> | <u>550,000</u> | | <u>5,000,000</u> |
| Total | <u>¥ 804,027</u> | <u>¥ 733,392</u> | + 9.6 | <u>\$ 6,700,225</u> |

| | Millions of yen | | | Thousands of U.S. dollars |
|------------------------|--|--|-----------|--|
| | Three months ended June 30, 2003 | Three months ended June 30, 2002 | Change(%) | Three months ended June 30, 2003 |
| | (Unaudited) | (Unaudited) | | (Unaudited) |
| Sales by region | | | | |
| Japan | ¥ 197,941 | ¥ 182,750 | + 8.3 | \$ 1,649,508 |
| Overseas: | | | | |
| <i>Americas</i> | 268,268 | 245,711 | + 9.2 | 2,235,567 |
| <i>Europe</i> | 248,108 | 217,865 | + 13.9 | 2,067,567 |
| <i>Other areas</i> | 89,710 | 87,066 | + 3.0 | 747,583 |
| | <u>606,086</u> | <u>550,642</u> | + 10.1 | <u>5,050,717</u> |
| Total | <u>¥ 804,027</u> | <u>¥ 733,392</u> | + 9.6 | <u>\$ 6,700,225</u> |

Results for the first half

Thousands of

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| | Millions of yen | | | U.S. dollars | Millions of yen |
|-------------------------------|-----------------------------------|-----------------------------------|---------------|-----------------------------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change(%) | Six months ended June 30, 2003 | Year ended December 31, 2002 |
| | (Unaudited) | (Unaudited) | | (Unaudited) | (Audited) |
| Sales by product | | | | | |
| Business machines: | | | | | |
| Office imaging products | ¥ 532,623 | ¥ 516,952 | + 3.0 | \$ 4,438,525 | ¥ 1,023,131 |
| Computer peripherals | 531,262 | 476,288 | + 11.5 | 4,427,183 | 1,055,956 |
| Business information products | 64,073 | 78,443 | - 18.3 | 533,942 | 147,108 |
| | <u>1,127,958</u> | <u>1,071,683</u> | <u>+ 5.3</u> | <u>9,399,650</u> | <u>2,226,195</u> |
| Cameras | 283,801 | 211,392 | + 34.3 | 2,365,009 | 485,778 |
| Optical and other products | 123,829 | 101,408 | + 22.1 | 1,031,908 | 228,155 |
| | <u>1,535,588</u> | <u>1,384,483</u> | <u>+ 10.9</u> | <u>\$12,796,567</u> | <u>¥ 2,940,128</u> |

| | Millions of yen | | | Thousands of U.S. dollars | Millions of yen |
|------------------------|-----------------------------------|-----------------------------------|---------------|-----------------------------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change(%) | Six months ended June 30, 2003 | Year ended December 31, 2002 |
| | (Unaudited) | (Unaudited) | | (Unaudited) | (Audited) |
| Sales by region | | | | | |
| Japan | ¥ 383,919 | ¥ 361,138 | + 6.3 | \$ 3,199,325 | ¥ 732,551 |
| Overseas: | | | | | |
| Americas | 511,088 | 462,772 | + 10.4 | 4,259,067 | 1,010,166 |
| Europe | 464,519 | 406,617 | + 14.2 | 3,870,992 | 857,167 |
| Other areas | 176,062 | 153,956 | + 14.4 | 1,467,183 | 340,244 |
| | <u>1,151,669</u> | <u>1,023,345</u> | <u>+ 12.5</u> | <u>9,597,242</u> | <u>2,207,577</u> |
| Total | ¥ 1,535,588 | ¥ 1,384,483 | + 10.9 | \$12,796,567 | ¥ 2,940,128 |

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

- The primary products included in each of the product segments are as follows:
 - Business machines:
 - Office imaging products: Office 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 / Video camcorders / etc.
 - Optical and other products: Semiconductor production equipment / Mirror projection mask aligners for LCD panels / Broadcasting equipment / Medical equipment / Components / etc.
- 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

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. SEGMENT INFORMATION BY PRODUCT

Result for the second quarter

| | Millions of yen | | | Thousands of U.S. dollars |
|-----------------------------------|--|--|--------------|--|
| | Three months ended June 30, 2003 | Three months ended June 30, 2002 | Change(%) | Three months ended June 30, 2003 |
| | (Unaudited) | (Unaudited) | | (Unaudited) |
| Business machines | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥576,483 | ¥ 554,324 | +4.0 | \$ 4,804,025 |
| Intersegment | | | | |
| Total | 576,483 | 554,324 | +4.0 | 4,804,025 |
| Operating cost and expenses | 462,432 | 459,044 | +0.7 | 3,853,600 |
| Operating profit | 114,051 | 95,280 | +19.7 | 950,425 |
| Cameras | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥166,257 | ¥ 125,681 | +32.3 | \$ 1,385,475 |
| Intersegment | | | | |
| Total | 166,257 | 125,681 | +32.3 | 1,385,475 |
| Operating cost and expenses | 138,131 | 108,322 | +27.5 | 1,151,092 |
| Operating profit | 28,126 | 17,359 | +62.0 | 234,383 |
| Optical and other products | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 61,287 | ¥ 53,387 | +14.8 | \$ 510,725 |
| Intersegment | 39,327 | 34,485 | +14.0 | 327,725 |
| Total | 100,614 | 87,872 | +14.5 | 838,450 |
| Operating cost and expenses | 103,581 | 91,908 | +12.7 | 863,175 |
| Operating profit | (2,967) | (4,036) | | (24,725) |
| Corporate and Eliminations | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ |
| Intersegment | (39,327) | (34,485) | | (327,725) |

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| | | | | |
|-----------------------------|-----------------|-----------|-------|---------------------|
| Total | (39,327) | (34,485) | | (327,725) |
| Operating cost and expenses | 1,316 | (1,359) | | 10,966 |
| Operating profit | (40,643) | (33,126) | | (338,691) |
| Consolidated | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥804,027 | ¥ 733,392 | +9.6 | \$ 6,700,225 |
| Intersegment | | | | |
| Total | 804,027 | 733,392 | +9.6 | 6,700,225 |
| Operating cost and expenses | 705,460 | 657,915 | +7.2 | 5,878,833 |
| Operating profit | 98,567 | 75,477 | +30.6 | 821,392 |

Note: General corporate expenses of JPY 40,652 million (U.S.\$338,767 thousand) and JPY 33,143 million in the three months ended June 30, 2003 and 2002, respectively, are included in Corporate and Eliminations.

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Result for the first half

| | Millions of yen | | | Thousands of U.S. dollars | Millions of yen |
|-----------------------------------|--------------------------------------|--------------------------------------|-----------|--------------------------------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change(%) | Six months ended June 30, 2003 | Year ended December 31, 2002 |
| | (Unaudited) | (Unaudited) | | (Unaudited) | (Audited) |
| Business machines | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥1,127,958 | ¥ 1,071,683 | +5.3 | \$ 9,399,650 | ¥ 2,226,195 |
| Intersegment | | | | | |
| Total | 1,127,958 | 1,071,683 | +5.3 | 9,399,650 | 2,226,195 |
| Operating cost and expenses | 890,537 | 893,832 | -0.4 | 7,421,142 | 1,815,179 |
| Operating profit | 237,421 | 177,851 | +33.5 | 1,978,508 | 411,016 |
| Cameras | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 283,801 | ¥ 211,392 | +34.3 | \$ 2,365,008 | ¥ 485,778 |
| Intersegment | | | | | |
| Total | 283,801 | 211,392 | +34.3 | 2,365,008 | 485,778 |
| Operating cost and expenses | 234,007 | 183,337 | +27.6 | 1,950,058 | 415,488 |
| Operating profit | 49,794 | 28,055 | +77.5 | 414,950 | 70,290 |
| Optical and other products | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 123,829 | ¥ 101,408 | +22.1 | \$ 1,031,909 | ¥ 228,155 |
| Intersegment | 74,037 | 63,259 | +17.0 | 616,975 | 139,608 |
| Total | 197,866 | 164,667 | +20.2 | 1,648,884 | 367,763 |
| Operating cost and expenses | 199,019 | 173,158 | +14.9 | 1,658,492 | 379,415 |
| Operating profit | (1,153) | (8,491) | | (9,608) | (11,652) |
| Corporate and Eliminations | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ | ¥ |
| Intersegment | (74,037) | (63,259) | | (616,975) | (139,608) |
| Total | (74,037) | (63,259) | | (616,975) | (139,608) |

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| | | | | | |
|-----------------------------|-------------------|-------------------|--------------|---------------------|-------------------|
| Operating cost and expenses | <u>(3,949)</u> | <u>(5,872)</u> | | <u>(32,908)</u> | <u>(16,313)</u> |
| Operating profit | <u>(70,088)</u> | <u>(57,387)</u> | | <u>(584,067)</u> | <u>(123,295)</u> |
| Consolidated | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | <u>¥1,535,588</u> | <u>¥1,384,483</u> | <u>+10.9</u> | <u>\$12,796,567</u> | <u>¥2,940,128</u> |
| Intersegment | | | | | |
| Total | <u>1,535,588</u> | <u>1,384,483</u> | <u>+10.9</u> | <u>12,796,567</u> | <u>2,940,128</u> |
| Operating cost and expenses | <u>1,319,614</u> | <u>1,244,455</u> | <u>+6.0</u> | <u>10,996,784</u> | <u>2,593,769</u> |
| Operating profit | <u>215,974</u> | <u>140,028</u> | <u>+54.2</u> | <u>1,799,783</u> | <u>346,359</u> |

Note: General corporate expenses of JPY 70,108 million (U.S.\$584,233 thousand) and JPY 57,366 million in the six months ended June 30, 2003 and 2002, respectively, are included in Corporate and Eliminations.

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. SEGMENT INFORMATION BY GEOGRAPHIC AREA

Result for the first half

| | Millions of yen | | | Thousands of U.S. dollars | Millions of yen |
|-----------------------------|--------------------------------------|--------------------------------------|--------------|--------------------------------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change(%) | Six months ended June 30, 2003 | Year ended December 31, 2002 |
| | (Unaudited) | (Unaudited) | | (Unaudited) | (Audited) |
| Japan | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 413,551 | ¥ 383,068 | +8.0 | \$ 3,446,258 | ¥ 789,066 |
| Intersegment | 779,689 | 666,437 | +17.0 | 6,497,409 | 1,475,091 |
| Total | 1,193,240 | 1,049,505 | +13.7 | 9,943,667 | 2,264,157 |
| Operating cost and expenses | 951,009 | 880,659 | +8.0 | 7,925,075 | 1,867,817 |
| Operating profit | 242,231 | 168,846 | +43.5 | 2,018,592 | 396,340 |
| Americas | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 511,603 | ¥ 461,538 | +10.8 | \$ 4,263,358 | ¥ 1,007,572 |
| Intersegment | 4,210 | 6,127 | -31.3 | 35,084 | 9,791 |
| Total | 515,813 | 467,665 | +10.3 | 4,298,442 | 1,017,363 |
| Operating cost and expenses | 485,557 | 447,457 | +8.5 | 4,046,309 | 969,542 |
| Operating profit | 30,256 | 20,208 | +49.7 | 252,133 | 47,821 |
| Europe | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 463,973 | ¥ 403,829 | +14.9 | \$ 3,866,442 | ¥ 852,931 |
| Intersegment | 1,497 | 2,464 | -39.2 | 12,475 | 4,639 |
| Total | 465,470 | 406,293 | +14.6 | 3,878,917 | 857,570 |
| Operating cost and expenses | 451,126 | 399,036 | +13.1 | 3,759,384 | 836,341 |
| Operating profit | 14,344 | 7,257 | +97.7 | 119,533 | 21,229 |
| Others | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 146,461 | ¥ 136,048 | +7.7 | \$ 1,220,509 | ¥ 290,559 |
| Intersegment | 221,145 | 193,561 | +14.3 | 1,842,874 | 426,914 |
| Total | 367,606 | 329,609 | +11.5 | 3,063,383 | 717,473 |

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| | | | | | |
|-----------------------------------|--------------------|------------------|--------------|--------------------|--------------------|
| Operating cost and expenses | <u>358,877</u> | <u>322,431</u> | <u>+11.3</u> | <u>2,990,641</u> | <u>699,420</u> |
| Operating profit | <u>8,729</u> | <u>7,178</u> | <u>+21.6</u> | <u>72,742</u> | <u>18,053</u> |
| Corporate and Eliminations | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ | ¥ |
| Intersegment | <u>(1,006,541)</u> | <u>(868,589)</u> | | <u>(8,387,842)</u> | <u>(1,916,435)</u> |
| Total | <u>(1,006,541)</u> | <u>(868,589)</u> | | <u>(8,387,842)</u> | <u>(1,916,435)</u> |
| Operating cost and expenses | <u>(926,955)</u> | <u>(805,128)</u> | | <u>(7,724,625)</u> | <u>(1,779,351)</u> |
| Operating profit | <u>(79,586)</u> | <u>(63,461)</u> | | <u>(663,217)</u> | <u>(137,084)</u> |
| Consolidated | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ | ¥ |
| Intersegment | <u>1,535,588</u> | <u>1,384,483</u> | <u>+10.9</u> | <u>12,796,567</u> | <u>2,940,128</u> |
| Total | <u>1,535,588</u> | <u>1,384,483</u> | <u>+10.9</u> | <u>12,796,567</u> | <u>2,940,128</u> |
| Operating cost and expenses | <u>1,319,614</u> | <u>1,244,455</u> | <u>+6.0</u> | <u>10,996,784</u> | <u>2,593,769</u> |
| Operating profit | <u>215,974</u> | <u>140,028</u> | <u>+54.2</u> | <u>1,799,783</u> | <u>346,359</u> |

Note: General corporate expenses of JPY 70,108 million (U.S.\$584,233 thousand) and JPY 57,366 million for the six months ended June 30, 2003 and 2002, respectively, are included in Corporate and Eliminations.

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED BALANCE SHEETS

| | Millions of yen | | | Thousands of | Millions of yen |
|--|------------------|------------------|----------------|-------------------|------------------|
| | As of | As of | Change | U.S. dollars | As of |
| | June 30, 2003 | Dec. 31, 2002 | | June 30, 2003 | June 30, 2002 |
| | (Unaudited) | (Audited) | | (Unaudited) | (Unaudited) |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | ¥ 591,130 | ¥ 521,271 | ¥ 69,859 | \$ 4,926,083 | ¥ 445,206 |
| Marketable securities | 1,414 | 7,255 | (5,841) | 11,783 | 7,258 |
| Trade receivables, less allowance | 497,195 | 498,587 | (1,392) | 4,143,292 | 434,733 |
| Inventories | 475,914 | 432,251 | 43,663 | 3,965,950 | 427,383 |
| Prepaid expenses and other current assets | 266,505 | 245,610 | 20,895 | 2,220,875 | 226,140 |
| | <u>1,832,158</u> | <u>1,704,974</u> | <u>127,184</u> | <u>15,267,983</u> | <u>1,540,720</u> |
| Total current assets | 1,832,158 | 1,704,974 | 127,184 | 15,267,983 | 1,540,720 |
| Noncurrent receivables | 17,089 | 20,568 | (3,479) | 142,408 | 20,392 |
| Investments | 66,117 | 64,037 | 2,080 | 550,975 | 67,348 |
| Net property, plant and equipment | 855,176 | 830,304 | 24,872 | 7,126,467 | 830,378 |
| Other assets | 349,548 | 322,823 | 26,725 | 2,912,900 | 305,671 |
| | <u>3,120,088</u> | <u>2,942,706</u> | <u>177,382</u> | <u>26,000,733</u> | <u>2,764,509</u> |
| Total assets | ¥ 3,120,088 | ¥ 2,942,706 | ¥ 177,382 | \$ 26,000,733 | ¥ 2,764,509 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | |
| Current liabilities: | | | | | |
| Short-term loans | ¥ 59,428 | ¥ 66,754 | ¥ (7,326) | \$ 495,233 | ¥ 103,847 |
| Trade payables | 419,687 | 408,464 | 11,223 | 3,497,392 | 382,484 |
| Income taxes | 76,153 | 80,169 | (4,016) | 634,608 | 41,371 |
| Accrued expenses | 173,417 | 154,621 | 18,796 | 1,445,142 | 141,935 |
| Other current liabilities | 99,310 | 91,832 | 7,478 | 827,583 | 77,257 |
| | <u>827,995</u> | <u>801,840</u> | <u>26,155</u> | <u>6,899,958</u> | <u>746,894</u> |
| Total current liabilities | 827,995 | 801,840 | 26,155 | 6,899,958 | 746,894 |
| Long-term debt, excluding current installments | 86,188 | 81,349 | 4,839 | 718,233 | 87,136 |
| Accrued pension and severance cost | 271,805 | 285,129 | (13,324) | 2,265,042 | 251,341 |
| Other noncurrent liabilities | 30,735 | 26,193 | 4,542 | 256,125 | 19,729 |
| | <u>1,216,723</u> | <u>1,194,511</u> | <u>22,212</u> | <u>10,139,358</u> | <u>1,105,100</u> |
| Total liabilities | 1,216,723 | 1,194,511 | 22,212 | 10,139,358 | 1,105,100 |
| Minority interests | 158,348 | 156,245 | 2,103 | 1,319,567 | 159,415 |
| Stockholders' equity: | | | | | |
| Common stock | 167,883 | 167,242 | 641 | 1,399,025 | 165,651 |
| Additional paid-in capital | 394,846 | 394,088 | 758 | 3,290,383 | 393,871 |
| Retained earnings | 1,315,655 | 1,203,248 | 112,407 | 10,963,792 | 1,096,678 |
| Accumulated other comprehensive income (loss) | (126,644) | (166,467) | 39,823 | (1,055,367) | (155,003) |
| Treasury stock | (6,723) | (6,161) | (562) | (56,025) | (1,203) |
| | <u>1,745,017</u> | <u>1,591,950</u> | <u>153,067</u> | <u>14,541,808</u> | <u>1,499,994</u> |
| Total stockholders' equity | 1,745,017 | 1,591,950 | 153,067 | 14,541,808 | 1,499,994 |
| Total liabilities and stockholders' equity | ¥ 3,120,088 | ¥ 2,942,706 | ¥ 177,382 | \$ 26,000,733 | ¥ 2,764,509 |

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| | Millions of yen | | Thousands of U.S. dollars | Millions of yen |
|--|------------------------|------------------------|------------------------------|------------------------|
| | As of June 30, 2003 | As of Dec. 31, 2002 | As of June 30, 2003 | As of June 30, 2002 |
| | (Unaudited) | (Audited) | (Unaudited) | (Unaudited) |
| Allowance for doubtful receivables | ¥ 15,113 | ¥ 12,031 | \$ 125,942 | ¥ 11,602 |
| Accumulated depreciation | 1,104,216 | 1,077,694 | 9,201,800 | 1,048,952 |
| Accumulated other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (44,574) | (68,524) | (371,450) | (76,006) |
| Net unrealized gains (losses) on securities | 54 | (1,168) | 450 | 7 |
| Minimum pension liability adjustments | (80,047) | (96,441) | (667,059) | (80,324) |
| Net gains (losses) on derivative financial instruments | (2,077) | (334) | (17,308) | 1,320 |

-14-

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

6. CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| | Millions of yen | | Thousands of U.S. dollars | Millions of yen |
|--------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Six months ended June 30, 2003 | Year ended December 31, 2002 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Balance at beginning of period | ¥ 1,203,248 | ¥ 1,036,178 | \$ 10,027,067 | ¥ 1,036,178 |
| Net income | 127,767 | 73,205 | 1,064,725 | 190,737 |
| Cash dividends | (15,360) | (12,705) | (128,000) | (23,663) |
| Other | | | | (4) |
| Balance at end of period | ¥ 1,315,655 | ¥ 1,096,678 | \$ 10,963,792 | ¥ 1,203,248 |

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars | Millions of yen |
|---|---|--------------------------------------|--------------------------------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Six months ended June 30, 2003 | Year ended December 31, 2002 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Net income | ¥ 127,767 | ¥ 73,205 | \$ 1,064,725 | ¥ 190,737 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 85,094 | 71,945 | 709,117 | 165,260 |
| Loss on disposal of property, plant and equipment | 7,041 | 6,609 | 58,675 | 13,137 |
| Deferred income taxes | 555 | 938 | 4,625 | (1,788) |
| Decrease (increase) in trade receivables | 22,753 | 8,357 | 189,608 | (47,077) |
| Decrease (increase) in inventories | (28,274) | 11,237 | (235,617) | 14,029 |
| Increase in trade payables | 7,794 | 38,323 | 64,950 | 64,040 |
| Increase (decrease) in income taxes | (4,534) | (23,583) | (37,783) | 14,935 |
| Increase in accrued expenses | 8,632 | 2,794 | 71,933 | 12,901 |
| Other, net | 1,472 | 13,092 | 12,267 | 22,776 |
| Net cash provided by operating activities | 228,300 | 202,917 | 1,902,500 | 448,950 |
| Cash flows from investing activities: | | | | |
| Capital expenditure | (109,793) | (104,906) | (914,942) | (198,702) |
| Proceeds from sale of property, plant and equipment | 6,025 | 7,436 | 50,208 | 11,971 |
| Payment for purchase of marketable securities | (573) | (3,196) | (4,775) | (2,751) |
| Proceeds from sale of marketable securities | 6,655 | 959 | 55,458 | 1,099 |
| Payment for purchase of investments | (20,270) | (22,379) | (168,916) | (30,331) |
| Other | 6,628 | (8,580) | 55,234 | (11,506) |

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| | | | | |
|--|-------------------|-------------------|---------------------|-------------------|
| Net cash used in investing activities | (111,328) | (130,666) | (927,733) | (230,220) |
| Cash flows from financing activities: | | | | |
| Proceeds from long-term debt | 1,154 | 3,197 | 9,617 | 10,609 |
| Repayment of long-term debt | (11,168) | (10,877) | (93,067) | (60,690) |
| Decrease in short-term loans | (19,959) | (97,148) | (166,325) | (101,125) |
| Dividends paid | (15,360) | (12,705) | (128,000) | (23,663) |
| Other | (1,355) | (2,400) | (11,292) | (8,845) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in financing activities | (46,688) | (119,933) | (389,067) | (183,714) |
| Effect of exchange rate changes on cash and cash equivalents | (425) | (13,346) | (3,542) | (19,979) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net change in cash and cash equivalents | 69,859 | (61,028) | 582,158 | 15,037 |
| Cash and cash equivalents at beginning of period | 521,271 | 506,234 | 4,343,925 | 506,234 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of period | ¥ 591,130 | ¥ 445,206 | \$ 4,926,083 | ¥ 521,271 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

- 15 -

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) CHANGES IN GROUP OF ENTITIES

Subsidiaries

Addition: Fukushima Canon Inc. and 10 other companies

Removal: Copyer Co., Ltd and 3 other companies

Notes: 1. Fukushima Canon Inc. was established as a wholly owned subsidiary in April 2003 through the spin-off of Fukushima Plant.

2. Copyer Co., Ltd have merged with Canon Aptex Inc. and became as Canon Finetech Inc. on January 1, 2003.

Affiliates (Carried at Equity Basis)

Addition: 1 company

(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.

1. Marketable Securities and Investments

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

2. Inventories

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

3. Depreciation

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

4. Employee Retirement and Severance Benefits

Canon has been adopting Statement of Financial Accounting Standards No.87, Employer's Accounting for Pensions.

5. New Accounting Standards

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

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.146 (SFAS 146), Accounting for Costs Associated with Exit or Disposal Activities. Canon adopted the provisions of SFAS 146 on January 1, 2003. The adoption of SFAS 146 did not have a material effect on Canon's consolidated financial position and results of operations.

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

9. MARKETABLE SECURITIES AND DERIVATIVE CONTRACTS

(1) MARKET VALUE ON MARKETABLE SECURITIES

| | Millions of yen | | | | | |
|------------------------------|---------------------|-------------------------|----------------------------|-------------------------|-------------------------|----------------------------|
| | As of June 30, 2003 | | | As of December 31, 2002 | | |
| | Acquisition Cost | Estimated Fair Value | Unrealized Gains/Losses | Acquisition Cost | Estimated Fair Value | Unrealized Gains/Losses |
| Marketable securities: | | | | | | |
| Governmental bond securities | ¥ 65 | ¥ 63 | ¥ (2) | ¥ 59 | ¥ 61 | ¥ 2 |
| Corporate debt securities | 57 | 98 | 41 | 5,698 | 5,728 | 30 |
| Bank debt securities | 91 | 91 | | 91 | 91 | |
| Fund trust | 5 | 10 | 5 | 220 | 310 | 90 |
| Equity securities | 1,098 | 1,152 | 54 | 1,194 | 1,065 | (129) |
| | <u>¥ 1,316</u> | <u>¥ 1,414</u> | <u>¥ 98</u> | <u>¥ 7,262</u> | <u>¥ 7,255</u> | <u>¥ (7)</u> |
| Investment securities: | | | | | | |
| Governmental bond securities | ¥ 241 | ¥ 249 | ¥ 8 | ¥ 220 | ¥ 227 | ¥ 7 |
| Corporate debt securities | 5,150 | 5,210 | 60 | 5,149 | 5,173 | 24 |
| Bank debt securities | | | | 150 | 150 | |
| Fund trust | 2,087 | 2,317 | 230 | 2,302 | 2,109 | (193) |
| Equity securities | 4,674 | 8,187 | 3,513 | 5,263 | 7,011 | 1,748 |
| | <u>¥ 12,152</u> | <u>¥ 15,963</u> | <u>¥ 3,811</u> | <u>¥ 13,084</u> | <u>¥ 14,670</u> | <u>¥ 1,586</u> |

| | Thousands of U.S. dollars | | |
|------------------------------|---------------------------|-------------------------|----------------------------|
| | As of June 30, 2003 | | |
| | Acquisition Cost | Estimated Fair Value | Unrealized Gains/Losses |
| Marketable securities: | | | |
| Governmental bond securities | \$ 542 | \$ 525 | \$ (17) |
| Corporate debt securities | 475 | 817 | 342 |
| Bank debt securities | 758 | 758 | |
| Fund trust | 42 | 83 | 41 |
| Equity securities | 9,150 | 9,600 | 450 |
| | <u>\$ 10,967</u> | <u>\$ 11,783</u> | <u>\$ 816</u> |
| Investment securities: | | | |
| Governmental bond securities | \$ 2,008 | \$ 2,075 | \$ 67 |
| Corporate debt securities | 42,917 | 43,417 | 500 |
| Bank debt securities | | | |
| Fund trust | 17,392 | 19,308 | 1,916 |

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| | | | |
|-------------------|------------------|------------------|------------------|
| Equity securities | <u>38,950</u> | <u>68,225</u> | <u>29,275</u> |
| | <u>\$101,267</u> | <u>\$133,025</u> | <u>\$ 31,758</u> |

- 17 -

Table of Contents

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

(2) DERIVATIVE CONTRACTS

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---------------------|----------------------|-------------------------|----------------------|---------------------------|----------------------|
| | As of June 30, 2003 | | As of December 31, 2002 | | As of June 30, 2003 | |
| | Contract Amount | Estimated Fair Value | Contract Amount | Estimated Fair Value | Contract Amount | Estimated Fair Value |
| Trade receivables and anticipated sales transactions: | | | | | | |
| To sell foreign currencies | ¥437,870 | ¥ (4,274) | ¥422,796 | ¥ 1,490 | \$3,648,917 | \$(35,617) |
| To buy foreign currencies | 7,525 | (337) | 6,652 | (391) | 62,708 | (2,808) |
| Long-term debt (including due within a year): | | | | | | |
| Interest rate swaps: | | | | | | |
| Receive-fixed | ¥ | ¥ | ¥ 180 | ¥ 1 | \$ | \$ |
| Pay-fixed | 73,958 | (1,270) | 57,270 | (1,149) | 616,317 | (10,583) |

- 18 -

Table of Contents

CANON INC.

NON-CONSOLIDATED

1. NON-CONSOLIDATED STATEMENTS OF INCOME

(Parent company only)

| | Millions of yen | | | Millions of yen |
|--|--------------------------------------|-----------------------------------|------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change (%) | Year ended December 31, 2002 |
| Net sales | ¥ 946,551 | ¥ 808,357 | + 17.1 | ¥ 1,789,005 |
| Cost of sales | 569,687 | 525,023 | | 1,149,326 |
| Gross profit | 376,864 | 283,333 | + 33.0 | 639,679 |
| Selling, general and administrative expenses | 222,473 | 193,482 | | 402,485 |
| Operating profit | 154,391 | 89,851 | + 71.8 | 237,193 |
| Other income (deductions): | | | | |
| Interest and dividend income | 3,943 | 8,612 | | 10,543 |
| Interest expense | (133) | (152) | | (282) |
| Other, net | 6,092 | (4,612) | | (6,470) |
| | 9,902 | 3,847 | | 3,789 |
| Ordinary profit | 164,293 | 93,698 | + 75.3 | 240,982 |
| Non-ordinary loss, net | (43,826) | 3,146 | | 8,693 |
| Income before income taxes | 208,119 | 90,551 | | 232,289 |
| Income taxes | 79,344 | 32,073 | | 88,105 |
| Net income | ¥ 128,775 | ¥ 58,478 | + 120.2 | ¥ 144,184 |
| Earnings per share: | Yen | | | Yen |
| Basic | ¥ 146.69 | ¥ 66.71 | | ¥ 164.46 |

2. DETAILS OF SALES

(Parent company only)

Sales by product

| | Millions of yen | | | Millions of yen |
|-------------------------|--------------------------------------|-----------------------------------|------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change (%) | Year ended December 31, 2002 |
| Business machines: | | | | |
| Office Imaging Products | ¥ 235,822 | ¥ 228,877 | + +3.0 | ¥ 455,888 |

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| | | | | |
|-----------------------------|------------------|-----------|--------|-------------|
| <i>Computer peripherals</i> | 448,343 | 396,205 | + 13.2 | 882,792 |
| | 684,165 | 625,082 | + 9.5 | 1,338,680 |
| Cameras | 208,302 | 146,805 | + 41.9 | 346,433 |
| Optical and other products | 54,084 | 36,468 | + 48.3 | 103,890 |
| Total | ¥ 946,551 | ¥ 808,357 | + 17.1 | ¥ 1,789,005 |

Sales by region

| | Millions of yen | | | Millions of yen |
|--------------------|--------------------------------------|-----------------------------------|------------|------------------------------------|
| | Six months ended June 30, 2003 | Six months ended June 30, 2002 | Change (%) | Year ended December 31, 2002 |
| Japan | ¥ 152,156 | ¥ 138,927 | + 9.5 | ¥ 298,905 |
| Overseas: | | | | |
| <i>Americas</i> | 349,248 | 299,151 | + 16.7 | 686,119 |
| <i>Europe</i> | 318,335 | 268,421 | + 18.6 | 562,156 |
| <i>Other areas</i> | 126,812 | 101,856 | + 24.5 | 241,822 |
| | 794,395 | 669,429 | + 18.7 | 1,490,099 |
| Total | ¥ 946,551 | ¥ 808,357 | + 17.1 | ¥ 1,789,005 |

Table of Contents

CANON INC.

NON-CONSOLIDATED

3. NON-CONSOLIDATED BALANCE SHEETS

(Parent company only)

| | Millions of yen | | | |
|--|------------------------|------------------------|-----------------|------------------------|
| | As of June 30, 2003 | As of Dec. 31, 2002 | Change | As of June 30, 2002 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | ¥ 155,571 | ¥ 64,262 | ¥ 91,309 | ¥ 70,017 |
| Trade receivables | 543,242 | 577,372 | (34,130) | 465,620 |
| Marketable securities | 99 | 474 | (375) | 395 |
| Inventories | 200,110 | 176,305 | 23,805 | 169,882 |
| Prepaid expenses and other current assets | 138,349 | 144,653 | (6,304) | 142,617 |
| Allowance for doubtful accounts | (10,053) | (10,986) | 933 | (10,176) |
| | <u>1,027,318</u> | <u>952,082</u> | <u>75,236</u> | <u>838,357</u> |
| Fixed assets: | | | | |
| Net property, plant and equipment | 451,556 | 440,501 | 11,055 | 445,861 |
| Intangibles | 22,940 | 27,668 | (4,728) | 33,060 |
| Investments and other fixed assets | 421,551 | 427,937 | (6,386) | 422,628 |
| Allowance for doubtful accounts | (43) | (52) | 9 | (16) |
| | <u>896,004</u> | <u>896,054</u> | <u>(50)</u> | <u>901,534</u> |
| Total assets | <u>¥ 1,923,322</u> | <u>¥ 1,848,136</u> | <u>¥ 75,186</u> | <u>¥ 1,739,891</u> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| Current liabilities: | | | | |
| Trade payables | ¥ 265,182 | ¥ 279,901 | ¥ (14,719) | ¥ 271,186 |
| Short-term loans | 57,652 | 53,772 | 3,880 | 63,173 |
| Income taxes | 58,280 | 62,629 | (4,349) | 30,922 |
| Other current liabilities | 74,587 | 44,803 | 29,784 | 40,586 |
| | <u>455,701</u> | <u>441,106</u> | <u>14,595</u> | <u>405,869</u> |
| Long-term debt, excluding current installments | 13,751 | 15,032 | (1,281) | 18,219 |
| Accrued pension and severance cost | 104,105 | 156,687 | (52,582) | 152,419 |
| | <u>573,557</u> | <u>612,827</u> | <u>(39,270)</u> | <u>576,507</u> |
| Stockholders equity: | | | | |
| Common stock | 167,883 | 167,242 | 641 | 165,651 |
| Additional paid-in capital | 299,419 | 298,778 | 641 | 297,189 |
| Retained earnings | 887,562 | 774,287 | 113,275 | 699,541 |
| Net unrealized gains on securities | 1,624 | 1,162 | 462 | 2,205 |
| Treasury stock | (6,723) | (6,162) | (561) | (1,203) |
| | <u>1,349,765</u> | <u>1,235,309</u> | <u>114,456</u> | <u>1,163,384</u> |

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| | | | | |
|--|--------------------------------|--------------------------------|-----------------|--------------------------------|
| Total liabilities and stockholders' equity | <u>¥ 1,923,322</u> | <u>¥ 1,848,136</u> | <u>¥ 75,186</u> | <u>¥ 1,739,891</u> |
| | <u>Millions of yen</u> | | | <u>Millions of yen</u> |
| | <u>As of June 30, 2003</u> | <u>As of Dec. 31, 2002</u> | | <u>As of June 30, 2002</u> |
| Accumulated depreciation | ¥ 580,732 | ¥ 575,256 | | ¥ 567,337 |

- 20 -

Table of Contents

CONSOLIDATED FINANCIAL RESULTS FOR THE SECOND QUARTER
AND THE FIRST HALF ENDED JUNE 30, 2003

SUPPLEMENTARY REPORT

TABLE OF CONTENTS

| | | <u>PAGE</u> |
|-----|---|-------------|
| 1. | SALES BY REGION AND PRODUCT | S1-2 |
| 2. | SEGMENT INFORMATION BY PRODUCT | S3 |
| 3. | OTHER INCOME / DEDUCTIONS | S4 |
| 4. | SALES COMPOSITION BY PRODUCT | S5 |
| 5. | SALES GROWTH IN LOCAL CURRENCY | S5 |
| 6. | P&L SUMMARY (3rd Quarter 2003/Projection) | S6 |
| 7. | PROFITABILITY | S6 |
| 8. | IMPACT OF FOREIGN EXCHANGE RATES | S6 |
| 9. | CASH FLOWS | S6 |
| 10. | R&D EXPENDITURE | S7 |
| 11. | CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION | S7 |
| 12. | INVENTORIES | S7 |
| 13. | DEBT RATIO | S7 |
| 14. | OVERSEAS PRODUCTION RATIO | S7 |
| 15. | NUMBER OF EMPLOYEES | S7 |

This report contains forward-looking statements which reflect management's current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in any forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. (Cautionary Statements for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995.)

Table of Contents

Canon Inc.

1. SALES BY REGION AND PRODUCT

(Millions of yen)

| | 2003 | | | | | 2002 | | | | |
|-------------------------------|----------------|------------------|----------------|------------------|------------------|----------------|------------------|----------------|------------------|------------------|
| | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year |
| | | | (P) | (P) | (P) | | | | | |
| Japan | | | | | | | | | | |
| Business machines | 145,331 | 283,912 | 131,000 | 290,988 | 574,900 | 135,228 | 273,194 | 123,246 | 277,035 | 550,229 |
| Office imaging products | 76,837 | 151,010 | 74,300 | 152,090 | 303,100 | 66,693 | 132,799 | 62,032 | 129,253 | 262,052 |
| Computer peripherals | 43,875 | 81,171 | 32,900 | 88,929 | 170,100 | 38,979 | 76,661 | 33,220 | 92,952 | 169,613 |
| Business information products | 24,619 | 51,731 | 23,800 | 49,969 | 101,700 | 29,556 | 63,734 | 27,994 | 54,830 | 118,564 |
| Cameras | 25,208 | 46,782 | 24,700 | 55,518 | 102,300 | 24,643 | 43,269 | 22,619 | 49,312 | 92,581 |
| Optical and other products | 27,402 | 53,225 | 35,500 | 70,475 | 123,700 | 22,879 | 44,675 | 23,306 | 45,066 | 89,741 |
| Total | 197,941 | 383,919 | 191,200 | 416,981 | 800,900 | 182,750 | 361,138 | 169,171 | 371,413 | 732,551 |
| Overseas | | | | | | | | | | |
| Business machines | 431,152 | 844,046 | 421,700 | 879,754 | 1,723,800 | 419,096 | 798,489 | 397,837 | 877,477 | 1,675,966 |
| Office imaging products | 201,465 | 381,613 | 188,400 | 396,287 | 777,900 | 199,040 | 384,153 | 172,900 | 376,926 | 761,079 |
| Computer peripherals | 223,788 | 450,091 | 226,600 | 468,909 | 919,000 | 213,051 | 399,627 | 218,385 | 486,716 | 886,343 |
| Business information products | 5,899 | 12,342 | 6,700 | 14,558 | 26,900 | 7,005 | 14,709 | 6,552 | 13,835 | 28,544 |
| Cameras | 141,049 | 237,019 | 114,600 | 276,181 | 513,200 | 101,038 | 168,123 | 93,263 | 225,074 | 393,197 |
| Optical and other products | 33,885 | 70,604 | 28,500 | 71,496 | 142,100 | 30,508 | 56,733 | 33,711 | 81,681 | 138,414 |
| Total | 606,086 | 1,151,669 | 564,800 | 1,227,431 | 2,379,100 | 550,642 | 1,023,345 | 524,811 | 1,184,232 | 2,207,577 |
| Americas | | | | | | | | | | |
| Business machines | 198,038 | 390,692 | 189,400 | 384,208 | 774,900 | 193,342 | 372,610 | 194,850 | 424,888 | 797,498 |
| Office imaging products | 95,541 | 183,685 | 91,600 | 184,615 | 368,300 | 99,037 | 190,947 | 91,115 | 187,857 | 378,804 |
| Computer peripherals | 99,306 | 200,163 | 94,100 | 191,637 | 391,800 | 90,737 | 173,980 | 100,142 | 229,611 | 403,591 |
| Business information products | 3,191 | 6,844 | 3,700 | 7,956 | 14,800 | 3,568 | 7,683 | 3,593 | 7,420 | 15,103 |
| Cameras | 63,545 | 105,130 | 53,500 | 130,970 | 236,100 | 45,938 | 75,309 | 42,588 | 105,145 | 180,454 |

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| | | | | | | | | | | |
|-------------------------------|---------|-----------|---------|-----------|-----------|---------|-----------|---------|-----------|-----------|
| Optical and other products | 6,685 | 15,266 | 6,500 | 14,034 | 29,300 | 6,431 | 14,853 | 7,884 | 17,361 | 32,214 |
| Total | 268,268 | 511,088 | 249,400 | 529,212 | 1,040,300 | 245,711 | 462,772 | 245,322 | 547,394 | 1,010,166 |
| Europe | | | | | | | | | | |
| Business machines | 179,676 | 353,067 | 179,000 | 388,333 | 741,400 | 170,425 | 325,728 | 153,453 | 351,157 | 676,885 |
| Office imaging products | 87,350 | 164,195 | 78,700 | 176,005 | 340,200 | 82,116 | 158,980 | 66,039 | 156,364 | 315,344 |
| Computer peripherals | 90,352 | 184,734 | 98,000 | 207,166 | 391,900 | 85,787 | 161,302 | 85,193 | 189,787 | 351,089 |
| Business information products | 1,974 | 4,138 | 2,300 | 5,162 | 9,300 | 2,522 | 5,446 | 2,221 | 5,006 | 10,452 |
| Cameras | 60,342 | 99,084 | 43,600 | 108,016 | 207,100 | 40,993 | 68,475 | 35,320 | 87,769 | 156,244 |
| Optical and other products | 8,090 | 12,368 | 5,000 | 15,132 | 27,500 | 6,447 | 12,414 | 3,489 | 11,624 | 24,038 |
| Total | 248,108 | 464,519 | 227,600 | 511,481 | 976,000 | 217,865 | 406,617 | 192,262 | 450,550 | 857,167 |
| Other areas | | | | | | | | | | |
| Business machines | 53,438 | 100,287 | 53,300 | 107,213 | 207,500 | 55,329 | 100,151 | 49,534 | 101,432 | 201,583 |
| Office imaging products | 18,574 | 33,733 | 18,100 | 35,667 | 69,400 | 17,887 | 34,226 | 15,746 | 32,705 | 66,931 |
| Computer peripherals | 34,130 | 65,194 | 34,500 | 70,106 | 135,300 | 36,527 | 64,345 | 33,050 | 67,318 | 131,663 |
| Business information products | 734 | 1,360 | 700 | 1,440 | 2,800 | 915 | 1,580 | 738 | 1,409 | 2,989 |
| Cameras | 17,162 | 32,805 | 17,500 | 37,195 | 70,000 | 14,107 | 24,339 | 15,355 | 32,160 | 56,499 |
| Optical and other products | 19,110 | 42,970 | 17,000 | 42,330 | 85,300 | 17,630 | 29,466 | 22,338 | 52,696 | 82,162 |
| Total | 89,710 | 176,062 | 87,800 | 186,738 | 362,800 | 87,066 | 153,956 | 87,227 | 186,288 | 340,244 |
| Total | | | | | | | | | | |
| Business machines | 576,483 | 1,127,958 | 552,700 | 1,170,742 | 2,298,700 | 554,324 | 1,071,683 | 521,083 | 1,154,512 | 2,226,195 |
| Office imaging products | 278,302 | 532,623 | 262,700 | 548,377 | 1,081,000 | 265,733 | 516,952 | 234,932 | 506,179 | 1,023,131 |
| Computer peripherals | 267,663 | 531,262 | 259,500 | 557,838 | 1,089,100 | 252,030 | 476,288 | 251,605 | 579,668 | 1,055,956 |
| Business information products | 30,518 | 64,073 | 30,500 | 64,527 | 128,600 | 36,561 | 78,443 | 34,546 | 68,665 | 147,108 |
| Cameras | 166,257 | 283,801 | 139,300 | 331,699 | 615,500 | 125,681 | 211,392 | 115,882 | 274,386 | 485,778 |
| Optical and other products | 61,287 | 123,829 | 64,000 | 141,971 | 265,800 | 53,387 | 101,408 | 57,017 | 126,747 | 228,155 |
| Total | 804,027 | 1,535,588 | 756,000 | 1,644,412 | 3,180,000 | 733,392 | 1,384,483 | 693,982 | 1,555,645 | 2,940,128 |

(P)=Projection

Note)

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

-S1-

Table of Contents**1. SALES BY REGION AND PRODUCT (Continued)**

Canon Inc.

| | Change year over year | | | | |
|-------------------------------|-----------------------|----------|-------------|----------|--------|
| | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year |
| Japan | | | | | |
| Business machines | +7.5% | +3.9% | +6.3% | +5.0% | +4.5% |
| Office imaging products | +15.2% | +13.7% | +19.8% | +17.7% | +15.7% |
| Computer peripherals | +12.6% | +5.9% | -1.0% | -4.3% | +0.3% |
| Business information products | -16.7% | -18.8% | -15.0% | -8.9% | -14.2% |
| Cameras | +2.3% | +8.1% | +9.2% | +12.6% | +10.5% |
| Optical and other products | +19.8% | +19.1% | +52.3% | +56.4% | +37.8% |
| Total | +8.3% | +6.3% | +13.0% | +12.3% | +9.3% |
| Overseas | | | | | |
| Business machines | +2.9% | +5.7% | +6.0% | +0.3% | +2.9% |
| Office imaging products | +1.2% | -0.7% | +9.0% | +5.1% | +2.2% |
| Computer peripherals | +5.0% | +12.6% | +3.8% | -3.7% | +3.7% |
| Business information products | -15.8% | -16.1% | +2.3% | +5.2% | -5.8% |
| Cameras | +39.6% | +41.0% | +22.9% | +22.7% | +30.5% |
| Optical and other products | +11.1% | +24.4% | -15.5% | -12.5% | +2.7% |
| Total | +10.1% | +12.5% | +7.6% | +3.6% | +7.8% |
| Americas | | | | | |
| Business machines | +2.4% | +4.9% | -2.8% | -9.6% | -2.8% |
| Office imaging products | -3.5% | -3.8% | +0.5% | -1.7% | -2.8% |
| Computer peripherals | +9.4% | +15.0% | -6.0% | -16.5% | -2.9% |
| Business information products | -10.6% | -10.9% | +3.0% | +7.2% | -2.0% |
| Cameras | +38.3% | +39.6% | +25.6% | +24.6% | +30.8% |
| Optical and other products | +3.9% | +2.8% | -17.6% | -19.2% | -9.0% |
| Total | +9.2% | +10.4% | +1.7% | -3.3% | +3.0% |
| Europe | | | | | |
| Business machines | +5.4% | +8.4% | +16.6% | +10.6% | +9.5% |
| Office imaging products | +6.4% | +3.3% | +19.2% | +12.6% | +7.9% |
| Computer peripherals | +5.3% | +14.5% | +15.0% | +9.2% | +11.6% |
| Business information products | -21.7% | -24.0% | +3.6% | +3.1% | -11.0% |
| Cameras | +47.2% | +44.7% | +23.4% | +23.1% | +32.5% |
| Optical and other products | +25.5% | -0.4% | +43.3% | +30.2% | +14.4% |
| Total | +13.9% | +14.2% | +18.4% | +13.5% | +13.9% |

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| | | | | | |
|-------------------------------|--------|--------|--------|--------|--------|
| Other areas | | | | | |
| Business machines | -3.4% | +0.1% | +7.6% | +5.7% | +2.9% |
| Office imaging products | +3.8% | -1.4% | +14.9% | +9.1% | +3.7% |
| Computer peripherals | -6.6% | +1.3% | +4.4% | +4.1% | +2.8% |
| Business information products | -19.8% | -13.9% | -5.1% | +2.2% | -6.3% |
| Cameras | +21.7% | +34.8% | +14.0% | +15.7% | +23.9% |
| Optical and other products | +8.4% | +45.8% | -23.9% | -19.7% | +3.8% |
| Total | +3.0% | +14.4% | +0.7% | +0.2% | +6.6% |
| Total | | | | | |
| Business machines | +4.0% | +5.3% | +6.1% | +1.4% | +3.3% |
| Office imaging products | +4.7% | +3.0% | +11.8% | +8.3% | +5.7% |
| Computer peripherals | +6.2% | +11.5% | +3.1% | -3.8% | +3.1% |
| Business information products | -16.5% | -18.3% | -11.7% | -6.0% | -12.6% |
| Cameras | +32.3% | +34.3% | +20.2% | +20.9% | +26.7% |
| Optical and other products | +14.8% | +22.1% | +12.2% | +12.0% | +16.5% |
| Total | +9.6% | +10.9% | +8.9% | +5.7% | +8.2% |

(Note)

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

Table of Contents**2. SEGMENT INFORMATION BY PRODUCT**

Canon Inc.

(Millions of yen)

| | 2003 | | | | | 2002 | | | | |
|-----------------------------------|-------------|-----------|-------------|-----------|-----------|-------------|-----------|-------------|-----------|-----------|
| | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year |
| | | | (P) | (P) | (P) | | | | | |
| Business machines | | | | | | | | | | |
| Unaffiliated customers | 576,483 | 1,127,958 | 552,700 | 1,170,742 | 2,298,700 | 554,324 | 1,071,683 | 521,083 | 1,154,512 | 2,226,195 |
| Intersegment | | | | | | | | | | |
| Total sales | 576,483 | 1,127,958 | 552,700 | 1,170,742 | 2,298,700 | 554,324 | 1,071,683 | 521,083 | 1,154,512 | 2,226,195 |
| Operating profit | 114,051 | 237,421 | 116,300 | 242,779 | 480,200 | 95,280 | 177,851 | 103,453 | 233,165 | 411,016 |
| % of sales | 19.8% | 21.0% | 21.0% | 20.7% | 20.9% | 17.2% | 16.6% | 19.9% | 20.2% | 18.5% |
| Cameras | | | | | | | | | | |
| Unaffiliated customers | 166,257 | 283,801 | 139,300 | 331,699 | 615,500 | 125,681 | 211,392 | 115,882 | 274,386 | 485,778 |
| Intersegment | | | | | | | | | | |
| Total sales | 166,257 | 283,801 | 139,300 | 331,699 | 615,500 | 125,681 | 211,392 | 115,882 | 274,386 | 485,778 |
| Operating profit | 28,126 | 49,794 | 25,500 | 59,006 | 108,800 | 17,359 | 28,055 | 20,168 | 42,235 | 70,290 |
| % of sales | 16.9% | 17.5% | 18.3% | 17.8% | 17.7% | 13.8% | 13.3% | 17.4% | 15.4% | 14.5% |
| Optical and other products | | | | | | | | | | |
| Unaffiliated customers | 61,287 | 123,829 | 64,000 | 141,971 | 265,800 | 53,387 | 101,408 | 57,017 | 126,747 | 228,155 |
| Intersegment | 39,327 | 74,037 | 37,000 | 75,563 | 149,600 | 34,485 | 63,259 | 39,101 | 76,349 | 139,608 |
| Total sales | 100,614 | 197,866 | 101,000 | 217,534 | 415,400 | 87,872 | 164,667 | 96,118 | 203,096 | 367,763 |
| Operating profit | -2,967 | -1,153 | 200 | 153 | -1,000 | -4,036 | -8,491 | -2,924 | -3,161 | -11,652 |
| % of sales | -2.9% | -0.6% | 0.2% | 0.1% | -0.2% | -4.6% | -5.2% | -3.0% | -1.6% | -3.2% |
| Corporate and Eliminations | | | | | | | | | | |
| Unaffiliated customers | | | | | | | | | | |
| Intersegment | -39,327 | -74,037 | -37,000 | -75,563 | -149,600 | -34,485 | -63,259 | -39,101 | -76,349 | -139,608 |
| Total sales | -39,327 | -74,037 | -37,000 | -75,563 | -149,600 | -34,485 | -63,259 | -39,101 | -76,349 | -139,608 |
| Operating profit | -40,643 | -70,088 | -33,000 | -73,912 | -144,000 | -33,126 | -57,387 | -27,967 | -65,908 | -123,295 |
| Consolidated | | | | | | | | | | |
| Unaffiliated customers | 804,027 | 1,535,588 | 756,000 | 1,644,412 | 3,180,000 | 733,392 | 1,384,483 | 693,982 | 1,555,645 | 2,940,128 |

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| Intersegment | | | | | | | | | | |
|------------------|---------|-----------|---------|-----------|-----------|---------|-----------|---------|-----------|-----------|
| Total sales | 804,027 | 1,535,588 | 756,000 | 1,644,412 | 3,180,000 | 733,392 | 1,384,483 | 693,982 | 1,555,645 | 2,940,128 |
| Operating profit | 98,567 | 215,974 | 109,000 | 228,026 | 444,000 | 75,477 | 140,028 | 92,730 | 206,331 | 346,359 |
| % of sales | 12.3% | 14.1% | 14.4% | 13.9% | 14.0% | 10.3% | 10.1% | 13.4% | 13.3% | 11.8% |

(P)=Projection

2. SEGMENT INFORMATION BY PRODUCT (Continued)

| | Change year over year | | | | |
|-----------------------------------|-----------------------|----------|-------------|----------|--------|
| | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year |
| Business machines | | | | | |
| Unaffiliated customers | +4.0% | +5.3% | +6.1% | +1.4% | +3.3% |
| Intersegment | | | | | |
| Total sales | +4.0% | +5.3% | +6.1% | +1.4% | +3.3% |
| Operating profit % of sales | +19.7% | +33.5% | +12.4% | +4.1% | +16.8% |
| Cameras | | | | | |
| Unaffiliated customers | +32.3% | +34.3% | +20.2% | +20.9% | +26.7% |
| Intersegment | | | | | |
| Total sales | +32.3% | +34.3% | +20.2% | +20.9% | +26.7% |
| Operating profit % of sales | +62.0% | +77.5% | +26.4% | +39.7% | +54.8% |
| Optical and other products | | | | | |
| Unaffiliated customers | +14.8% | +22.1% | +12.2% | +12.0% | +16.5% |
| Intersegment | +14.0% | +17.0% | -5.4% | -1.0% | +7.2% |
| Total sales | +14.5% | +20.2% | +5.1% | +7.1% | +13.0% |
| Operating profit % of sales | | | | | |
| Corporate and Eliminations | | | | | |
| Unaffiliated customers | | | | | |
| Intersegment | | | | | |
| Total sales | | | | | |
| Operating profit | | | | | |
| Consolidated | | | | | |
| Unaffiliated customers | +9.6% | +10.9% | +8.9% | +5.7% | +8.2% |
| Intersegment | | | | | |

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| | | | | | |
|--------------------------------|--------|--------|--------|--------|--------|
| Total sales | +9.6% | +10.9% | +8.9% | +5.7% | +8.2% |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Operating profit % of sales | +30.6% | +54.2% | +17.5% | +10.5% | +28.2% |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

- S3 -

Table of Contents

Canon Inc.

3. OTHER INCOME / DEDUCTIONS

(Millions of yen)

| | 2003 | | | | | 2002 | | | | |
|--|-------------|-------------|---------------|---------------|---------------|----------------|----------------|--------------|---------------|----------------|
| | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year |
| | | | (P) | (P) | (P) | | | | | |
| Interest & dividend, net | 1,030 | 1,980 | 1,100 | 1,920 | 3,900 | 550 | 1,252 | 789 | 1,158 | 2,410 |
| Forex gain / loss | -1,087 | -2,766 | -3,800 | -7,134 | -9,900 | -13,707 | -18,173 | 3,044 | -5,295 | -23,468 |
| Equity earnings / loss of affiliated companies | -712 | -2,044 | -700 | -856 | -2,900 | -164 | -1,800 | -862 | -1,721 | -3,521 |
| Others, net | 509 | 2,362 | 1,400 | 2,538 | 4,900 | 3,022 | 5,888 | 2,675 | 2,349 | 8,237 |
| Total | -260 | -468 | -2,000 | -3,532 | -4,000 | -10,299 | -12,833 | 5,646 | -3,509 | -16,342 |

(P)=Projection

3. OTHER INCOME / DEDUCTIONS (Continued)

(Millions of yen)

| | Change year over year | | | | |
|--|-----------------------|----------------|---------------|------------|----------------|
| | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year |
| Interest & dividend, net | +480 | +728 | +311 | +762 | +1,490 |
| Forex gain / loss | +12,620 | +15,407 | -6,844 | -1,839 | +13,568 |
| Equity earnings / loss of affiliated companies | -548 | -244 | +162 | +865 | +621 |
| Others, net | -2,513 | -3,526 | -1,275 | +189 | -3,337 |
| Total | +10,039 | +12,365 | -7,646 | -23 | +12,342 |

-S4-

Table of Contents

Canon Inc.

4. SALES COMPOSITION BY PRODUCT

| | 2003 | | | | | 2002 | | | | |
|---|-------------|----------|-------------|----------|------|-------------|----------|-------------|----------|------|
| | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year |
| | | | (P) | (P) | (P) | | | | | |
| Office imaging products | | | | | | | | | | |
| Copying machines | 92% | 92% | 93% | 93% | 92% | 92% | 91% | 92% | 92% | 92% |
| Monochrome | 79% | 80% | 80% | 81% | 80% | 82% | 82% | 82% | 81% | 82% |
| Color | 21% | 20% | 20% | 19% | 20% | 18% | 18% | 18% | 19% | 18% |
| Digital* | 92% | 93% | | | | 91% | 90% | 89% | 90% | 90% |
| Analog* | 8% | 7% | | | | 9% | 10% | 11% | 10% | 10% |
| Electrophotography based facsimiles, etc. | 8% | 8% | 7% | 7% | 8% | 8% | 9% | 8% | 8% | 8% |
| Computer peripherals | | | | | | | | | | |
| Laser beam printers | 70% | 71% | 72% | 69% | 70% | 69% | 66% | 72% | 68% | 68% |
| Inkjet printers | 27% | 26% | 25% | 28% | 27% | 28% | 30% | 25% | 28% | 29% |
| (includes inkjet MFPs) Others | 3% | 3% | 3% | 3% | 3% | 3% | 4% | 3% | 4% | 3% |
| Business information products | | | | | | | | | | |
| Personal computers | 77% | 78% | 76% | 75% | 76% | 80% | 80% | 80% | 79% | 79% |
| Others | 23% | 22% | 24% | 25% | 24% | 20% | 20% | 20% | 21% | 21% |
| Cameras | | | | | | | | | | |
| Film cameras / Lenses | 21% | 22% | 14% | 16% | 19% | 32% | 34% | 30% | 29% | 31% |
| Digital cameras | 59% | 59% | 63% | 63% | 61% | 45% | 43% | 44% | 47% | 45% |
| Video camcorders | 20% | 19% | 23% | 21% | 20% | 23% | 23% | 26% | 24% | 24% |
| Optical and other products | | | | | | | | | | |
| Semiconductor production equipment | 44% | 50% | 46% | 49% | 49% | 43% | 43% | 46% | 51% | 48% |
| Others | 56% | 50% | 54% | 51% | 51% | 57% | 57% | 54% | 49% | 52% |

(P)=Projection

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

5. SALES GROWTH IN LOCAL CURRENCY

| | 2003 | | | | |
|--------------------------|-----------------------|----------|-------------|----------|--------|
| | Change year over year | | | | |
| | 2nd quarter | 1st half | 3rd quarter | 2nd half | Year |
| | | | (P) | (P) | (P) |
| Business machines | | | | | |
| Japan | +7.5% | +3.9% | +6.3% | +5.0% | +4.5% |
| Overseas | +2.6% | +7.7% | +2.6% | -1.4% | +3.0% |
| Total | +3.8% | +6.8% | +3.5% | +0.1% | +3.3% |
| Cameras | | | | | |
| Japan | +2.3% | +8.1% | +9.2% | +12.6% | +10.5% |
| Overseas | +36.4% | +40.5% | +18.0% | +19.9% | +28.7% |
| Total | +29.7% | +33.9% | +16.3% | +18.6% | +25.3% |

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| | | | | | |
|-----------------------------------|--------|--------|--------|--------|--------|
| Optical and other products | | | | | |
| Japan | +19.8% | +19.1% | +52.3% | +56.4% | +37.8% |
| Overseas | +10.3% | +26.3% | -16.9% | -13.2% | +3.0% |
| Total | +14.4% | +23.2% | +11.4% | +11.5% | +16.7% |
| Total | | | | | |
| Japan | +8.3% | +6.3% | +13.0% | +12.3% | +9.3% |
| Overseas | +9.3% | +14.2% | +4.1% | +1.8% | +7.5% |
| Americas | +16.8% | +20.4% | +2.8% | -0.8% | +8.9% |
| Europe | +2.1% | +4.9% | +7.9% | +5.7% | +5.3% |
| Other areas | +6.0% | +19.7% | -0.7% | +0.3% | +9.1% |
| Total | +9.0% | +12.1% | +6.3% | +4.3% | +8.0% |

(P)=Projection

(Note)

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

-S5-

Table of Contents

Canon Inc.

6. P&L SUMMARY (3rd Quarter 2003/Projection)

| | (Millions of yen) | | |
|----------------------------|------------------------|---------------------|--------------------------|
| | 2003 3rd quarter(P) | 2002 3rd quarter | Change year over year |
| Net sales | 756,000 | 693,982 | +8.9% |
| Operating profit | 109,000 | 92,730 | +17.5% |
| Income before income taxes | 107,000 | 98,376 | +8.8% |
| Net income | 65,000 | 57,464 | +13.1% |

(P)=Projection

7. PROFITABILITY

| | 2003 | | 2002 | |
|-----|----------|---------|----------|-------|
| | 1st half | Year(P) | 1st half | Year |
| ROE | 15.3% | 15.2% | 9.9% | 12.5% |
| ROA | 8.4% | 8.5% | 5.2% | 6.6% |

(P)=Projection

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

| | (Yen) | | | | |
|----------|----------|-------------|---------|----------|--------|
| | 2003 | | | 2002 | |
| | 1st half | 2nd half(P) | Year(P) | 1st half | Year |
| Yen/US\$ | 118.70 | 118.00 | 118.34 | 129.31 | 124.73 |
| Yen/Euro | 131.46 | 132.00 | 131.74 | 116.35 | 118.39 |

(P)=Projection

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

| | (Billions of yen) | |
|------------------|-------------------|---------|
| | 2003 | |
| | 1st half | Year(P) |
| US\$ | -62.2 | -80.7 |
| Euro | +44.8 | +82.3 |
| Other currencies | +0.8 | +3.3 |
| Total | -16.6 | +4.9 |

(P)=Projection

(3) Impact of foreign exchange rates per yen

| | (Billions of yen) |
|---------------------|--------------------------|
| | 2003 |
| | 2nd half(P) |
| On sales | |
| US\$ | 6.1 |
| Euro | 3.2 |
| On operating profit | |
| US\$ | 2.5 |
| Euro | 2.1 |

(P)=Projection

9. CASH FLOWS

| | (Millions of yen) | | | |
|--|--------------------------|-----------------|-----------------|----------------|
| | 2003 | | 2002 | |
| | 1st half | Year (P) | 1st half | Year |
| Net cash provided by operating activities | | | | |
| Net income | 127,767 | 263,000 | 73,205 | 190,737 |
| Depreciation and amortization | 85,094 | 177,000 | 71,945 | 165,260 |
| Other, net | 15,439 | 54,000 | 57,767 | 92,953 |
| Total | 228,300 | 494,000 | 202,917 | 448,950 |
| Net cash used in investing activities | -111,328 | -234,000 | -130,666 | -230,220 |
| Free cash flow | 116,972 | 260,000 | 72,251 | 218,730 |
| Net cash provided by (used in) financing activities | -46,688 | -94,000 | -119,933 | -183,714 |
| Effect of exchange rate changes on cash & cash equivalents | -425 | -4,371 | -13,346 | -19,979 |
| Net change in cash and cash equivalents | 69,859 | 161,629 | -61,028 | 15,037 |
| Cash and cash equivalents at end of each period | 591,130 | 682,900 | 445,206 | 521,271 |

(P)=Projection

Table of Contents

Canon Inc.

10. R&D EXPENDITURE

(Millions of yen)

| | 2003 | | 2002 | |
|----------------------------|-------------------|----------|----------|---------|
| | 1st half | Year (P) | 1st half | Year |
| | Business machines | 58,456 | | 55,434 |
| Cameras | 15,528 | | 12,983 | 25,975 |
| Optical and other products | 51,748 | | 42,158 | 97,404 |
| Total | 125,732 | 260,000 | 110,575 | 233,669 |
| % of sales | 8.2% | 8.2% | 8.0% | 7.9% |

(P)=Projection

11. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION

(Millions of yen)

| | 2003 | | 2002 | |
|-------------------------------|---------------------|----------|----------|---------|
| | 1st half | Year (P) | 1st half | Year |
| | Capital expenditure | 109,793 | 230,000 | 104,906 |
| Depreciation and amortization | 85,094 | 177,000 | 71,945 | 165,260 |

(P)=Projection

12. INVENTORIES**(1) Inventories**

(Millions of yen)

| | 2003 | 2002 | Difference |
|----------------------------|-------------------|---------|------------|
| | Jun. 30 | Dec. 31 | |
| | Business machines | 265,519 | |
| Cameras | 63,693 | 53,343 | +10,350 |
| Optical and other products | 146,702 | 131,104 | +15,598 |
| Total | 475,914 | 432,251 | +43,663 |

(2) Inventories/Sales*

(Days)

| | <u>2003</u> | <u>2002</u> | |
|----------------------------|----------------|----------------|-------------------|
| | <u>Jun. 30</u> | <u>Dec. 31</u> | <u>Difference</u> |
| Business machines | 43 | 39 | +4 |
| Cameras | 41 | 35 | +6 |
| Optical and other products | 216 | 189 | +27 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 57 | 51 | +6 |
| | <u> </u> | <u> </u> | <u> </u> |

* Index based on the previous six months sales.

13. DEBT RATIO

| | <u>2003</u> | <u>2002</u> | |
|---------------------------|----------------|----------------|-------------------|
| | <u>Jun. 30</u> | <u>Dec. 31</u> | <u>Difference</u> |
| Total debt / Total assets | 4.7% | 5.0% | -0.3% |

14. OVERSEAS PRODUCTION RATIO

| | <u>2003</u> | <u>2002</u> |
|---------------------------|-----------------|-------------|
| | <u>1st half</u> | <u>Year</u> |
| Overseas production ratio | 41% | 38% |

15. NUMBER OF EMPLOYEES

| | <u>2003</u> | <u>2002</u> | |
|----------|----------------|----------------|-------------------|
| | <u>Jun. 30</u> | <u>Dec. 31</u> | <u>Difference</u> |
| Japan | 45,750 | 44,443 | +1,307 |
| Overseas | 54,558 | 53,359 | +1,199 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 100,308 | 97,802 | +2,506 |
| | <u> </u> | <u> </u> | <u> </u> |