

CANON INC  
Form 6-K  
April 28, 2004

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**FORM 6-K**

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the month of April , 2004

**CANON INC.**

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(Translation of registrant's name into English)

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

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(Address of principal executive offices)

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

Form 20-F  Form 40-F

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

Yes  No

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

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SIGNATURES

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

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

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

The following materials are included.

Consolidated Results For The First Quarter Ended March 31, 2004

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

Notice Regarding Change (dismissal) of Accounting Auditors

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April 27, 2004

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

**CONSOLIDATED RESULTS**

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

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

## Actual

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

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

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Canon Inc.  
Headquarter office

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Phone: +81-3-3758-2111

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**Operating Results and Financial Conditions**

**2004 First Quarter in Review**

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

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

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

million).

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

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

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

In the optical and other products segment, sales of aligners for the production of LCDs realized notable growth as the PC monitor industry continued its shift from CRT to LCD computer displays, and the LCD television market continued to expand. Sales of steppers, used for the production of semiconductors, also increased as investment in semiconductor-production equipment showed a recovery owing to the improved conditions in the semiconductor-device market. As a result, sales for the segment increased by 32.6% to ¥81.5 billion (U.S.\$769 million). The operating profit ratio for the segment improved substantially due to the significant growth in sales, enabling optical and other products to record an operating profit of ¥11.7 billion (U.S.\$111 million), compared with ¥1.7 billion for the same period of the previous year.

**Cash Flow**

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

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Cash flow from financing activities recorded an outlay of ¥56.2 billion (U.S.\$530 million), mainly resulting from active efforts to repay short-term loans toward the goal of improving the company's financial position and an increase in the dividend payout. Consequently, cash and cash equivalents, which totaled ¥683.5 billion (U.S.\$6,448 million), although representing a ¥6.8 billion (U.S.\$64 million) decrease from the end of the previous year, remained at a high level.

**Outlook**

Regarding the outlook for the global economy in the second quarter and thereafter, although global economic prospects remain uncertain due to concern over prolonged confusion in Iraq and the threat of future terrorist attacks, which could adversely affect consumer spending and exchange rate trends, the global economy is likely to continue its course toward recovery.

In the businesses in which Canon is involved, the digital camera market is expected to continue enjoying rapid growth. A shortage of key parts from suppliers, however, could have a restraining effect on market growth. As for network digital MFDs and laser beam printers, while stable demand is projected for both monochrome and full-color models, severe price competition and shifting demand toward lower priced models is expected to adversely affect sales. Within the semiconductor-production equipment market, while a recovery in capital investment by semiconductor manufacturers is likely to continue, the pace will probably slow down in the latter half of the year. In the market for projection aligners used in the production of LCDs, although demand for LCD production equipment is expected to show continued growth, improved process yields could negatively affect demand, resulting in the sale of fewer additional units than initially projected.

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

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

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

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

**Non-consolidated Outlook**

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

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

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

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 1. CONSOLIDATED STATEMENTS OF INCOME

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

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

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains (losses) on securities, change in minimum pension liability adjustments and change in net gains (losses) on derivative financial instruments. Comprehensive income for three months ended

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

## 2. DETAILS OF SALES

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

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

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

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

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

Business machines:

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

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

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

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

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

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

Broadcasting equipment / Medical equipment / Components / etc.

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

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

Other Areas: Asian regions, China, Oceania



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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 3. SEGMENT INFORMATION BY PRODUCT

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

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

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

Notes: 1. Beginning this quarter, Canon has changed classification of product categories with regards to information system business, which had been classified in Optical and other products, to Business machines (Office imaging products) to better reflect present relation with those products. Accordingly, information for previous fiscal years has been reclassified to conform with the current classification.

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



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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 4. CONSOLIDATED BALANCE SHEETS

As of March 31, 2004 and December 31, 2003

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

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

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

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## CANON INC. AND SUBSIDIARIES

**CONSOLIDATED**

## 5. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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## CANON INC. AND SUBSIDIARIES

**CONSOLIDATED**

## 6. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

## (1) NUMBER OF GROUP COMPANIES

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

## CHANGES IN GROUP OF ENTITIES

## Subsidiaries

Addition: 6 companies

Removal: 3 companies

## (2) SIGNIFICANT ACCOUNTING POLICIES

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

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



American Institute of Certified  
Public Accountants.

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CONSOLIDATED RESULTS FOR  
THE FIRST QUARTER ENDED MARCH 31, 2004

SUPPLEMENTARY REPORT

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

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Canon Inc.

**1. SALES BY REGION AND PRODUCT**

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

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

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Computer peripherals	99,795	85,205	381,100	94,382	90,352	387,662	+ 5.7%	5.7%	1.7%
Business information products	<u>2,792</u>	<u>2,408</u>	<u>10,700</u>	<u>2,164</u>	<u>1,974</u>	<u>10,660</u>	<u>+ 29.0%</u>	<u>+ 22.0%</u>	<u>+ 0.4%</u>
Cameras	<u>56,832</u>	<u>74,868</u>	<u>290,700</u>	<u>38,742</u>	<u>60,342</u>	<u>219,219</u>	<u>+ 46.7%</u>	<u>+ 24.1%</u>	<u>+ 32.6%</u>
Optical and other products	<u>5,760</u>	<u>6,340</u>	<u>26,800</u>	<u>4,278</u>	<u>8,090</u>	<u>25,596</u>	<u>+ 34.6%</u>	<u>21.6%</u>	<u>+ 4.7%</u>
Total	247,375	258,125	1,041,900	216,411	248,108	969,042	+ 14.3%	+ 4.0%	+ 7.5%