

CANON INC  
Form 6-K  
February 02, 2004

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 December 31, 2003

**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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**TABLE OF CONTENTS**

SIGNATURES

RESULTS FOR THE FOURTH QUARTER AND THE FISCAL YEAR ENDED DECEMBER 31, 2003

Management Policy

Operating Results and Financial Conditions

SUPPLEMENTARY REPORT

Notice of change in the number of shares that constitute one unit

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**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.

		<b>CANON INC.</b>
		_____
		(Registrant)
Date February 2, 2004	By	/s/ Shunji Onda
		_____
		(Signature)*
		Shunji Onda General Manager, Finance Division Canon Inc.

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

The following materials are included.

1. RESULTS FOR THE FOURTH QUARTER AND THE FISCAL YEAR ENDED DECEMBER 31, 2003
  2. Notice of change in the number of shares that constitute one unit
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Table of Contents

January 29, 2004

**RESULTS FOR THE FOURTH QUARTER  
AND THE FISCAL YEAR ENDED DECEMBER 31, 2003**

**CONSOLIDATED RESULTS**

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

	Actual			Projected		
	Year ended December 31, 2003	Year ended December 31, 2002	Change(%)	Year ended December 31, 2003	Year ending December 31, 2004	Change(%)
Net sales	¥3,198,072	¥ 2,940,128	+ 8.8	\$ 29,888,523	¥3,330,000	+ 4.1
Operating profit	454,424	346,359	+ 31.2	4,246,953	465,000	+ 2.3
Income before income taxes	448,170	330,017	+ 35.8	4,188,505	470,000	+ 4.9
Net income	275,730	190,737	+ 44.6	2,576,916	286,000	+ 3.7
<b>Earnings per share:</b>						
Basic	¥ 313.81	¥ 217.56	+ 44.2	\$ 2.93	¥ 325.10	+ 3.6
Diluted	310.75	214.80	+ 44.7	2.90		

## Actual

	As of December 31, 2003	As of December 31, 2002	Change(%)	As of December 31, 2003
	Total assets	¥3,182,148	¥ 2,942,706	+ 8.1
Stockholders equity	¥1,865,545	¥ 1,591,950	+ 17.2	\$ 17,435,000

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 U.S.\$1 = JPY107, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2003, solely for the convenience of the reader.

**NON-CONSOLIDATED RESULTS**

(Millions of yen, except per share amounts)

	Actual			Projected	
	Year ended December 31, 2003	Year ended December 31, 2002	Change(%)	Year ending December 31, 2004	Change(%)
Net sales	¥2,023,722	¥ 1,789,005	+ 13.1	¥2,170,000	+ 7.2
Operating profit	320,039	237,193	+ 34.9	320,000	0.0
Ordinary profit	320,616	240,983	+ 33.0	338,000	+ 5.4
Net income	228,667	144,185	+ 58.6	217,000	5.1

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<b>Earnings per share:</b>					
<b>Basic</b>	¥ 260.03	¥ 164.46	+ 58.1	¥ 246.67	5.1
<b>Diluted</b>	257.50	162.38	+ 58.6		
<b>Dividend per share</b>	50.00	30.00		50.00	

Actual

	As of December 31, 2003	As of December 31, 2002	Change(%)
<b>Total assets</b>	¥2,059,317	¥ 1,848,137	+ 11.4
<b>Stockholders equity</b>	¥1,444,160	¥ 1,235,310	+ 16.9

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 have implemented the following mid- to 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 have leveraged our expertise in optical and image-processing technologies to continuously launch competitive products, which has allowed us to become a top market-share holder. Going forward, we aim to further expand our market share and profit.

In the field of inkjet printers, we will continue to promote high image quality and improved printing speeds while also enhancing the durability of color prints through the improvement of inks and papers. In the fast growing market for inkjet multifunctional devices, we will work to strengthen our lineup. Moreover, as we did in 2003, we will continue to actively introduce digital cameras and printers that support the PictBridge standard, which enables any compliant printer to print directly from any compliant digital camera. In addition, by enhancing such products as photo-print software and print media, 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, in 2003 we 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 spot, we will further strengthen our position by focusing on the development of next-generation equipment.

##### 2) Strengthening R&D

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

In order to accelerate product development and curtail costs, we aim to realize prototype-less design through the effective utilization of 3D-CAD systems, eliminating, to the extent possible, physical prototypes from the design process. Moreover, in order to strengthen our R&D structure and production technology, we will work to build new facilities and improve our infrastructure.





## **Table of Contents**

### 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 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 structure and bolster the competitive strength of each company, and will continue these initiatives. Overseas, we have strengthened our direct sales network in order to support our solutions business 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 the expanding Chinese market and plan to further strengthen our sales structure there as well.

Other measures being undertaken to improve profitability for the Group include: increasing the penetration and scale of worldwide production reform activities; developing innovative tools for factory automation; and strengthening supply-chain management in order to reduce inventories, shorten production lead times and accelerate 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 mitigate the impact of changes in exchange rates by increasing product development speed, which will facilitate the introduction of new products priced to reflect the latest foreign exchange levels, and further reducing costs through such reform activities as integrating development and production activities.

For the long term, we will establish product development operations in the United States and Europe, enabling each region—Japan, the Americas and Europe—to develop, produce and export its own products 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.

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

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

#### 1) Implementation of corporate governance measures

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 decided at board and 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 whom are outside corporate auditors. In accordance with the board of corporate auditors' auditing policies and their assigned duties, the members attend board, management, and various committee meetings, listen to business reports from the

## **Table of Contents**

directors and others, carefully examine documents related to important decisions, and conduct strict audits of the company's business and its assets.

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 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 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 management's strong sense of mission and ethics.

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

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

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

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 firms, 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 firms and the company before they are entered into.

Furthermore, we established in January 2004 a formal committee focused on business ethics with the president as chairman. The purpose of this committee is to examine, from various viewpoints, Canon's social responsibilities and to convey the findings to the company with the intention of raising compliance and ethical awareness.

### **Basic policy regarding profit distribution**

With regard to profit distribution, Canon recognizes its dividend policy as one of the company's most important management issues. For fiscal 2003, Canon passed a resolution to raise its year-end dividend per share from 17.5 yen to 35 yen, to be approved during the upcoming shareholders meeting. If approved, the full-year dividend per share would be raised from 30 yen to 50 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's expansion and new business cultivation, and to repay debt in order to strengthen the company's financial structure.

### **Basic policy regarding share trading unit**

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

Until now, Canon opted not to reduce the number of shares constituting a trading unit, as the company's stock enjoyed adequate levels of liquidity. Owing to an increase in the total investment amount required to realize one trading unit, however, the proportion of ownership by individual investors in recent years has decreased.

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As such, the company has decided to change the number of shares that constitute one trading unit from 1,000 to 100, effective May 6, 2004. This is an important measure aimed at offering a wider range of investors, including individuals, an opportunity to invest in the company.

- 4 -

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**Table of Contents**

**Operating Results and Financial Conditions**

Looking back at the global economy in 2003, although economic conditions in the United States remained stagnant during the first half of the year, a recovery quickly took hold from the third quarter, led by healthy consumer spending resulting from tax cuts, and growth in capital investment in the private sector, which was supported by low-interest rate monetary policy. The economies of Europe remained flat through most of 2003, although an increase in exports accompanying the upturn in the U.S. economy pointed to signs of a recovery in the region in the latter half of the year. Asian economies grew substantially during 2003, particularly in China, as the adverse effects of the Severe Acute Respiratory Syndrome (SARS) epidemic were kept to a minimum. In Japan, while there were no signs of a turnaround in consumer spending or employment and income conditions, a gradual recovery was evident during the second half of the year as exports and capital investment showed steady improvement.

As for the markets in which the Canon Group operates, demand for digital cameras and digital video camcorders continued to expand in 2003. While 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. In the field of optical equipment, the semiconductor-production equipment market began to show signs of a recovery while increased demand for liquid crystal display (LCD) televisions fueled growth in the market for projection aligners, used in the production of LCDs. The average value of the yen in 2003 was ¥115.61 to the U.S. dollar, and ¥131.02 to the euro, representing an appreciation of 8% against the dollar, and a depreciation of 10% against the euro.

Amid these conditions, Canon's consolidated net sales in 2003 totaled ¥3,198.1 billion (US\$29,889 million), marking the first time the company has surpassed the ¥3,000 billion level. The achievement represents a 8.8% increase from the previous year, owing to significant growth in sales of digital cameras and color network digital MFDs. Net income for the year also rose 44.6% to ¥275.7 billion (US\$2,577 million). The results mark new record highs for the company in both consolidated net sales and net income, and the fourth consecutive year of sales and profit growth. Canon's gross profit during the term increased by 14.9% compared to the previous year, boosted by an increase in sales volume as well as an improved gross profit ratio, made possible through R&D reforms supporting the timely launch of competitive new products, and cost savings realized through sustained production reforms. Selling, general and administrative expenses rose 9.6% year on year as R&D expenditures grew 10.9% to ¥259.1 billion (US\$2,421 million) and advertising and sales-promotion spending increased markedly, reflecting management's policy to strengthen the company's corporate and brand images. Consequently, operating profit in 2003 significantly increased by 31.2% to ¥454.4 billion (US\$4,247 million). Other income (deductions) improved by ¥10.1 billion (US\$94 million), owing to the increase in net interest income resulting from the company's strengthened financial condition, in addition to the decrease in currency exchange losses and improved equity affiliates earnings. As a result, income before income taxes in 2003 totaled ¥448.2 billion (US\$4,189 million), an increase of 35.8%. The effective tax rate during the term declined by 4.5% compared with the previous year due to an increased tax credit for R&D expenditures arising from an amendment to Japanese tax regulations. Consequently, net income in 2003 totaled ¥275.7 billion (US\$2,577 million), a year-on-year increase of 44.6%, which exceeds the growth rate of income before income taxes.

Basic earnings per share for 2003 was ¥313.81 (US\$2.93), a year-on-year increase of ¥96.25 (US\$0.90).

**Results by Product Segment**

In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, indicate a shift from monochrome machines to color models, as well as a trend toward higher-end features. Additionally, the iR C3200/iR C3200N, Canon's first color offerings in the powerful imageRUNNER (iR)-series lineup, was well received in Japan and overseas markets, contributing significantly to increased sales of office imaging products. Among monochrome network digital MFDs, the high-end iR5000 series and iR105 model continued to record strong sales during the term. Overall, year-on-year sales of office

**Table of Contents**

imaging products grew 3.7%. In the field of computer peripherals, sales of which were flat in the previous year due to inventory adjustment by Canon's OEM partner, a recovery in orders fueled robust growth in terms of unit sales during 2003, especially among personal models. Inkjet printers also performed well, with sales of the i560 and i860 remaining brisk, and a large rise in unit sales of such products as the MultiPASS MP700/MP730 high-speed multifunction inkjet systems. As a result, despite the adverse effect of severe price competition, sales of computer peripherals in 2003 increased by 3.2%. Conversely, sales of business information products, including computers, micrographics and calculators, decreased by 16.1% due to the intentional curtailing of sales of personal computer in the domestic market. Collectively, sales of business machines in 2003 totaled ¥2,273.9 billion (US\$21,251 million), a year-on-year increase of 2.1%. In addition to cost-cutting measures and the introduction of new price-competitive products, which contributed to an improvement in the gross profit ratio, a steady increase in sales volume boosted operating profit in 2003 by 18.5% to ¥487.1 billion (US\$4,552 million).

In the camera segment, amid the continued strong demand for digital cameras worldwide, Canon launched several new compact digital cameras in 2003, including six new PowerShot-series models and three new DIGITAL ELPH-series. These new products, led by the PowerShot S400 DIGITAL ELPH, contributed greatly to an increase in sales. Canon's digital SLR cameras also enjoyed robust sales growth, bolstered by the introduction of a new product lineup, including the EOS 10D, launched in the first half of 2003, and the EOS Digital Rebel, launched in September. Sales of conventional film cameras, however, continued to slip during the term amid the increasing popularity of digital models and price competition. In the field of digital video camcorders, the six new products Canon launched during the year, including the OPTURA300, achieved healthy sales for the term. The camera segment as a whole continued to achieve significant sales growth of 34.5%, totaling ¥653.5 billion (US\$6,108 million) in 2003. Operating profit for the camera segment appreciably advanced 79.7% to ¥126.3 billion (US\$1,181 million), attributable to the rapid growth in sales of digital cameras, along with a significant improvement in the gross profit ratio, made possible through effective cost-saving initiatives.

In the optical and other products segment, sales of aligners for the production of LCDs displayed notable growth as the PC monitor industry continued its shift from CRT to LCD computer displays, and the LCD television market continued to expand, while sales of steppers, used for the production of semiconductors, also increased as the semiconductor market began to show signs of a turnaround. Accordingly, sales of optical and other products totaled ¥270.6 billion (US\$2,529 million), a year-on-year increase of 18.6%. Despite increased sales for the segment, the gross profit ratio decreased in 2003 due to severe competition in the market and a one-time expense for the disposal of inventories, resulting in an operating loss of ¥11.4 billion (US\$107 million) for the term.

**Cash Flows**

Cash flow from operating activities in 2003 increased by ¥16.7 billion (US\$156 million) from the previous year to ¥465.6 billion (US\$4,352 million), mainly due to the substantial increase in net income and an increase in depreciation. Capital expenditures for the period totaled ¥210.0 billion (US\$1,963 million), which was mainly to expand production capabilities in Japan and overseas. Cash flows from investing activities totaled ¥199.9 billion (US\$1,869 million), including a ¥12.7 billion (US\$119 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 ¥265.7 billion (US\$2,483 million), marking the second consecutive year that the company has maintained a free cash flow over ¥200.0 billion (US\$1,869 million).

Cash flow from financing activities recorded an outlay of ¥102.0 billion (US\$954 million) in 2003, mainly resulting from active efforts to repay short-term and long-term loans towards the goal of improving the company's financial position, including the redemption of ¥10.0 billion (US\$93 million) in debentures. Consequently, cash and cash equivalents, which totaled ¥690.3 billion (US\$6,451 million), remained at a high level, representing a ¥169.0 billion (US\$1,579 million) increase from the end of the previous year.

## **Table of Contents**

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

Canon Inc.'s non-consolidated net sales in 2003 grew by 13.1% to ¥2,023.7 billion (US\$18,913 million) while ordinary profit increased by 33.0% to ¥320.6 billion (US\$2,996 million), both representing new record highs for the company. Non-consolidated net income, however, increased significantly by 58.6% to ¥228.7 billion (US\$2,137 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.

In response to continued shareholder support, the Board of Directors intend to propose a ¥20.0 (US\$0.19) increase in the company's year-end dividend to ¥35.00 (US\$0.33) which, when combined with the interim dividend of ¥15.00 (US\$0.14), would bring the company's annual dividend rate to ¥50.00 (US\$0.47) per share.

### **Outlook**

Regarding the outlook for the global economy, the U.S. economy is likely to continue its course toward recovery. The Japanese and European economies are also expected to show a moderate recovery owing to the growth in the U.S., while the economies of China and Southeast Asia will probably sustain substantial growth. While the global economy in general appears to be headed toward recovery, uncertainties are likely to continue due to concern over such issues as the postwar handling of Iraq and the appreciation of the yen against U.S. dollar.

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 color-model network digital MFDs and laser beam printers. Additionally, in the semiconductor-production equipment market, a pickup in capital spending by chipmakers is anticipated while orders for aligners by LCD manufacturers are expected to rise steadily.

In fiscal 2004 Canon anticipates consolidated net sales of ¥3,330.0 billion (US\$31,121 million), consolidated income before income taxes of ¥470.0 billion (US\$4,393 million), and consolidated net income of ¥286.0 billion (US\$2,673 million). The company also forecasts non-consolidated net sales of ¥2,170.0 billion (US\$20,280 million), non-consolidated ordinary profit of ¥338.0 billion (US\$3,159 million), and non-consolidated net income of ¥217.0 billion (US\$2,028 million). These forecasts assume currency exchange rates of ¥105.00 to the U.S. dollar and ¥130.00 to the euro. Although uncertainty surrounds several factors that could affect currency exchange rates, the yen is expected to be stronger against U.S. dollar by approximately 11%, and weaker against euro by approximately 2% compared with 2003.

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, plan, project 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.

**Table of Contents**

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## GROUP POSITION

## 1. NUMBER OF GROUP COMPANIES

	<u>December 31, 2003</u>	<u>December 31, 2002</u>	<u>Change</u>
Subsidiaries	198	195	3
Affiliated Companies	19	19	
<b>Total</b>	<b>217</b>	<b>214</b>	<b>3</b>

## 2. GROUP STRUCTURE AND MAJOR GROUP COMPANIES

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

2. Following subsidiaries are listed on domestic stock exchange.

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

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

JASDAQ: Nisca Corporation

3. Canon Precision Inc. and its subsidiary, Hirosaki Precision Inc., have merged and became as Canon Precision Inc. on January 1, 2004. On the same date, Canon N.T.C. Inc. changed its name to Canon Semiconductor Equipment Inc. and also newly established a company through spin off and named it as Canon Ecology Industry Inc.

- 8 -

**Table of Contents**

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 1. CONSOLIDATED STATEMENTS OF INCOME

**Result for the fourth quarter**

	Millions of yen			Thousands of U.S. dollars
	Three months ended December 31, 2003	Three months ended December 31, 2002	Change(%)	Three months ended December 31, 2003
Net sales	¥894,885	¥ 861,663	+3.9	\$ 8,363,411
Cost of sales	450,674	444,236		4,211,906
Gross profit	444,211	417,427	+6.4	4,151,505
Selling, general and administrative expenses	331,323	303,826		3,096,477
Operating profit	112,888	113,601	-0.6	1,055,028
Other income (deductions):				
Interest and dividend income	2,577	2,143		24,084
Interest expense	(972)	(1,774)		(9,084)
Other, net	835	(9,524)		7,804
	2,440	(9,155)		22,804
Income before income taxes	115,328	104,446	+10.4	1,077,832
Income taxes	37,872	43,776		353,944
Income before minority interests	77,456	60,670		723,888
Minority interests	2,498	602		23,346
Net income	¥ 74,958	¥ 60,068	+24.8	\$ 700,542

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains and losses on securities, change in minimum pension liability adjustments and change in net gains and losses on derivative financial instruments. Comprehensive income for the three months ended December 31, 2003 and 2002 were JPY69,876 million (U.S.\$653,047 thousand) and JPY42,520 million, respectively.

**Result for the fiscal year**

	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2003	Year ended December 31, 2002	Change(%)	Year ended December 31, 2003
Net sales	¥3,198,072	¥ 2,940,128	+ 8.8	\$ 29,888,523
Cost of sales	1,589,172	1,540,097		14,852,075



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Gross profit	<b>1,608,900</b>	1,400,031	+14.9	<b>15,036,448</b>
Selling, general and administrative expenses	<b>1,154,476</b>	1,053,672		<b>10,789,495</b>
Operating profit	<b>454,424</b>	346,359	+31.2	<b>4,246,953</b>
Other income (deductions):				
Interest and dividend income	<b>9,284</b>	9,198		<b>86,766</b>
Interest expense	<b>(4,627)</b>	(6,788)		<b>(43,243)</b>
Other, net	<b>(10,911)</b>	(18,752)		<b>(101,971)</b>
	<b>(6,254)</b>	(16,342)		<b>(58,448)</b>
Income before income taxes	<b>448,170</b>	330,017	+35.8	<b>4,188,505</b>
Income taxes	<b>162,653</b>	134,703		<b>1,520,122</b>
Income before minority interests	<b>285,517</b>	195,314		<b>2,668,383</b>
Minority interests	<b>9,787</b>	4,577		<b>91,467</b>
Net income	<b>¥ 275,730</b>	¥ 190,737	+44.6	<b>\$ 2,576,916</b>

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains and losses on securities, change in minimum pension liability adjustments and change in net gains and losses on derivative financial instruments. Comprehensive income for the years ended December 31, 2003 and 2002 were JPY298,922 million (U.S.\$2,793,664 thousand) and JPY159,438 million, respectively.

**Table of Contents**

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 2. DETAILS OF SALES

**Result for the fourth quarter**

Sales by product	Millions of yen			Thousands of U.S. dollars
	Three months ended December 31, 2003	Three months ended December 31, 2002	Change(%)	Three months ended December 31, 2003
Business machines:				
<i>Office imaging products</i>	¥276,475	¥ 271,247	+1.9	\$ 2,583,878
<i>Computer peripherals</i>	296,220	328,063	-9.7	2,768,411
<i>Business information products</i>	29,201	34,119	-14.4	272,907
	601,896	633,429	-5.0	5,625,196
Cameras	213,984	158,504	+35.0	1,999,850
Optical and other products	79,005	69,730	+13.3	738,365
Total	¥894,885	¥ 861,663	+3.9	\$ 8,363,411

Sales by region	Millions of yen			Thousands of U.S. dollars
	Three months ended December 31, 2003	Three months ended December 31, 2002	Change(%)	Three months ended December 31, 2003
Japan	¥227,953	¥ 202,242	+12.7	\$ 2,130,402
Overseas:				
<i>Americas</i>	282,579	302,072	-6.5	2,640,925
<i>Europe</i>	278,323	258,288	+7.8	2,601,150
<i>Other areas</i>	106,030	99,061	+7.0	990,934
	666,932	659,421	+1.1	6,233,009
Total	¥894,885	¥ 861,663	+3.9	\$ 8,363,411

**Result for the fiscal year**

Sales by product	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2003	Year ended December 31, 2002	Change(%)	Year ended December 31, 2003

Business machines:				
Office imaging products	¥1,061,099	¥ 1,023,131	+3.7	\$ 9,916,813
Computer peripherals	1,089,312	1,055,956	+3.2	10,180,486
Business information products	123,493	147,108	-16.1	1,154,140
	<b>2,273,904</b>	<b>2,226,195</b>	<b>+2.1</b>	<b>21,251,439</b>
Cameras	653,540	485,778	+34.5	6,107,850
Optical and other products	270,628	228,155	+18.6	2,529,234
	<b>¥3,198,072</b>	<b>¥ 2,940,128</b>	<b>+8.8</b>	<b>\$ 29,888,523</b>

Sales by region	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2003	Year ended December 31, 2002	Change(%)	Year ended December 31, 2003
Japan	¥ 801,400	¥ 732,551	+9.4	\$ 7,489,719
Overseas:				
Americas	1,045,166	1,010,166	+3.5	9,767,907
Europe	969,042	857,167	+13.1	9,056,467
Other areas	382,464	340,244	+12.4	3,574,430
	<b>2,396,672</b>	<b>2,207,577</b>	<b>+8.6</b>	<b>22,398,804</b>
Total	<b>¥3,198,072</b>	<b>¥ 2,940,128</b>	<b>+8.8</b>	<b>\$ 29,888,523</b>

## 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's 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 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

Office

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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

- 10 -

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**Table of Contents**

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 3. SEGMENT INFORMATION BY PRODUCT

**Result for the fourth quarter**

	Millions of yen			Thousands of U.S. dollars
	Three months ended December 31, 2003	Three months ended December 31, 2002	Change(%)	Three months ended December 31, 2003
<b>Business machines:</b>				
Net sales:				
Unaffiliated customers	¥601,896	¥ 633,429	-5.0	\$ 5,625,196
Intersegment				
Total	601,896	633,429	-5.0	5,625,196
Operating cost and expenses	475,621	503,717	-5.6	4,445,056
Operating profit	126,275	129,712	-2.6	1,180,140
<b>Cameras:</b>				
Net sales:				
Unaffiliated customers	¥213,984	¥ 158,504	+35.0	\$ 1,999,850
Intersegment				
Total	213,984	158,504	+35.0	1,999,850
Operating cost and expenses	176,155	136,437	+29.1	1,646,308
Operating profit	37,829	22,067	+71.4	353,542
<b>Optical and other products:</b>				
Net sales:				
Unaffiliated customers	¥ 79,005	¥ 69,730	+13.3	\$ 738,365
Intersegment	30,729	37,248	-17.5	287,187
Total	109,734	106,978	+2.6	1,025,552
Operating cost and expenses	116,404	107,215	+8.6	1,087,888
Operating profit	(6,670)	(237)		(62,336)
<b>Corporate and Eliminations:</b>				
Net sales:				
Unaffiliated customers	¥	¥		\$
Intersegment	(30,729)	(37,248)		(287,187)

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Total	<u>(30,729)</u>	<u>(37,248)</u>		<u>(287,187)</u>
Operating cost and expenses	<u>13,817</u>	<u>693</u>	<u>+1,893.8</u>	<u>129,131</u>
Operating profit	<u>(44,546)</u>	<u>(37,941)</u>		<u>(416,318)</u>
<b>Consolidated:</b>				
Net sales:				
Unaffiliated customers	<u>¥894,885</u>	<u>¥ 861,663</u>	<u>+3.9</u>	<u>\$ 8,363,411</u>
Intersegment				
Total	<u>894,885</u>	<u>861,663</u>	<u>+3.9</u>	<u>8,363,411</u>
Operating cost and expenses	<u>781,997</u>	<u>748,062</u>	<u>+4.5</u>	<u>7,308,383</u>
Operating profit	<u>112,888</u>	<u>113,601</u>	<u>-0.6</u>	<u>1,055,028</u>

Note: General corporate expenses of JPY44,547 million (U.S.\$416,327 thousand) and JPY37,908 million in the three months ended December 31, 2003 and 2002, respectively, are included in Corporate and Eliminations.

- 11 -

**Table of Contents**

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**Result for the fiscal year**

	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2003	Year ended December 31, 2002	Change(%)	Year ended December 31, 2003
<b>Business Machines:</b>				
Net sales:				
Unaffiliated customers	¥2,273,904	¥ 2,226,195	+2.1	\$ 21,251,439
Intersegment				
Total	2,273,904	2,226,195	+2.1	21,251,439
Operating cost and expenses	1,786,808	1,815,179	-1.6	16,699,140
Operating profit	487,096	411,016	+18.5	4,552,299
Assets	1,260,790	1,296,829	-2.8	11,783,084
Depreciations and amortization	118,556	106,865	+10.9	1,108,000
Capital expenditure	105,700	104,877	+0.8	987,850
<b>Cameras:</b>				
Net sales:				
Unaffiliated customers	¥ 653,540	¥ 485,778	+34.5	\$ 6,107,850
Intersegment				
Total	653,540	485,778	+34.5	6,107,850
Operating cost and expenses	527,222	415,488	+26.9	4,927,308
Operating profit	126,318	70,290	+79.7	1,180,542
Assets	317,672	263,532	+20.5	2,968,897
Depreciations and amortization	17,712	14,118	+25.5	165,533
Capital expenditure	25,894	15,627	+65.7	242,000
<b>Optical and Other Products:</b>				
Net sales:				
Unaffiliated customers	¥ 270,628	¥ 228,155	+18.6	\$ 2,529,234
Intersegment	141,718	139,608	+1.5	1,324,467
Total	412,346	367,763	+12.1	3,853,701
Operating cost and expenses	423,760	379,415	+11.7	3,960,374
Operating profit	(11,414)	(11,652)		(106,673)

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Assets	418,208	338,377	+23.6	3,908,486
Depreciations and amortization	20,526	19,817	+3.6	191,832
Capital expenditure	31,483	23,767	+32.5	294,234
<b>Corporate and Eliminations:</b>				
Net sales:				
Unaffiliated customers	¥	¥		\$
Intersegment	(141,718)	(139,608)		(1,324,467)
Total	(141,718)	(139,608)		(1,324,467)
Operating cost and expenses	5,858	(16,313)		54,748
Operating profit	(147,576)	(123,295)		(1,379,215)
Assets	1,185,478	1,043,968	+13.6	11,079,234
Depreciations and amortization	26,810	24,460	+9.6	250,560
Capital expenditure	46,961	54,431	-13.7	438,888
<b>Consolidated:</b>				
Net sales:				
Unaffiliated customers	¥3,198,072	¥ 2,940,128	+8.8	\$ 29,888,523
Intersegment				
Total	3,198,072	2,940,128	+8.8	29,888,523
Operating cost and expenses	2,743,648	2,593,769	+5.8	25,641,570
Operating profit	454,424	346,359	+31.2	4,246,953
Assets	3,182,148	2,942,706	+8.1	29,739,701
Depreciations and amortization	183,604	165,260	+11.1	1,715,925
Capital expenditure	210,038	198,702	+5.7	1,962,972

Notes:

1. General corporate expenses of JPY147,616 million (U.S.\$1,379,589 thousand) and JPY123,193 million in the years ended December 31, 2003 and 2002, respectively, are included in Corporate and Eliminations.
2. Corporate assets of JPY1,185,506 million (U.S.\$11,079,495 thousand) and JPY1,044,036 million as of December 31, 2003 and 2002, respectively, which mainly consist of cash and cash equivalents, marketable securities and corporate properties, are included in Corporate and Eliminations.



**Table of Contents**

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## 4. SEGMENT INFORMATION BY GEOGRAPHIC AREA

**Result for the fiscal year**

	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2003	Year ended December 31, 2002	Change(%)	Year ended December 31, 2003
<b>Japan:</b>				
Net sales:				
Unaffiliated customers	¥ 856,851	¥ 789,066	+8.6	\$ 8,007,953
Intersegment	1,662,172	1,475,091	+12.7	15,534,318
<b>Total</b>	<b>2,519,023</b>	<b>2,264,157</b>	<b>+11.3</b>	<b>23,542,271</b>
Operating cost and expenses	2,025,442	1,867,817	+8.4	18,929,365
Operating profit	493,581	396,340	+24.5	4,612,906
Assets	1,600,726	1,485,238	+7.8	14,960,056
<b>Americas:</b>				
Net sales:				
Unaffiliated customers	¥1,044,998	¥ 1,007,572	+3.7	\$ 9,766,337
Intersegment	8,101	9,791	-17.3	75,710
<b>Total</b>	<b>1,053,099</b>	<b>1,017,363</b>	<b>+3.5</b>	<b>9,842,047</b>
Operating cost and expenses	998,492	969,542	+3.0	9,331,701
Operating profit	54,607	47,821	+14.2	510,346
Assets	306,140	346,021	-11.5	2,861,121
<b>Europe:</b>				
Net sales:				
Unaffiliated customers	¥ 968,938	¥ 852,931	+13.6	\$ 9,055,495
Intersegment	3,861	4,639	-16.8	36,084
<b>Total</b>	<b>972,799</b>	<b>857,570</b>	<b>+13.4</b>	<b>9,091,579</b>
Operating cost and expenses	946,282	836,341	+13.1	8,843,757
Operating profit	26,517	21,229	+24.9	247,822
Assets	546,625	460,521	+18.7	5,108,645
<b>Others:</b>				
Net sales:				

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Unaffiliated customers	¥ 327,285	¥ 290,559	+12.6	\$ 3,058,738
Intersegment	503,119	426,914	+17.9	4,702,047
	<u>830,404</u>	<u>717,473</u>	<u>+15.7</u>	<u>7,760,785</u>
Total	<b>830,404</b>	717,473	+15.7	<b>7,760,785</b>
Operating cost and expenses	<u>806,281</u>	<u>699,420</u>	<u>+15.3</u>	<u>7,535,336</u>
Operating profit	<b>24,123</b>	18,053	+33.6	<b>225,449</b>
Assets	<b>249,755</b>			