

CANON INC
Form 6-K
February 03, 2003

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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 January 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- _____]

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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.

CANON INC.

(Registrant)

Date **January 30, 2003**

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, 2002
 2. Notice regarding spin-off by Canon Inc. of Fukushima Plant
 3. Notice of Purchase of Its Own Shares (Acquisition of Its Own Shares Pursuant to Article 210 of the Commercial Code)
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RESULTS FOR THE FOURTH QUARTER AND THE FISCAL YEAR ENDED DECEMBER 31, 2002

Notice regarding spin-off by Canon Inc. of Fukushima Plant

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**RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 31, 2002**

CONSOLIDATED RESULTS

January 30, 2003

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

Actual Projected

**Year ended Year ended Year
ended Year ending December
31, 2002 December 31,
2001 Change(%) December 31,
2002 December 31,
2003 Change(%)**

Net sales

¥2,940,128 ¥2,907,573 + 1.1 **\$24,501,067** ¥3,120,000 +
6.1

Operating profit

346,359 281,839 +
22.9 **2,886,325** 360,000 + 3.9

Income before income taxes

330,017 281,566 +
17.2 **2,750,142** 350,000 + 6.1

**Income before cumulative effect
of change**

in accounting principle
190,737 163,869 +
16.4 **1,589,475**

Net income

190,737 167,561 +
13.8 **1,589,475** 205,000 +
7.5

Earnings per share:

**Income before cumulative effect
of change
in accounting principle:**

- **Basic**
 ¥217.56 ¥187.07 +
 16.3 \$1.81
 - **Diluted**
 214.80 184.55 +
 16.4 1.79

Net income:

- **Basic**
 ¥217.56 ¥191.29 +
 13.7 \$1.81 ¥233.55 + 7.3
 - **Diluted**
 214.80 188.70 +
 13.8 1.79

Actual

	As of December 31, 2002	As of December 31, 2001	Change(%)	As of December 31, 2002
Total assets	¥ 2,942,706	¥ 2,844,756	+ 3.4	\$ 24,522,550

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Stockholders equity	<u>¥1,591,950</u>	<u>¥ 1,458,476</u>	<u>+ 9.2</u>	<u>\$ 13,266,250</u>
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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 US\$ = JPY 120, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2002, solely for the convenience of the reader

NON-CONSOLIDATED RESULTS

(Millions of yen, except per share amounts)

	Actual			Projected	
	Year ended December 31, 2002	Year ended December 31, 2001	Change(%)	Year ending December 31, 2003	Change(%)
Net sales	<u>¥1,789,005</u>	<u>¥ 1,707,459</u>	<u>+ 4.8</u>	<u>¥ 1,920,000</u>	<u>+ 7.3</u>
Operating profit	<u>237,193</u>	<u>193,389</u>	<u>+ 22.7</u>	<u>256,000</u>	<u>+ 7.9</u>
Ordinary profit	<u>240,982</u>	<u>211,127</u>	<u>+ 14.1</u>	<u>255,000</u>	<u>+ 5.8</u>
Net income	<u>144,184</u>	<u>39,163</u>	<u>+ 268.2</u>	<u>154,000</u>	<u>+ 6.8</u>
Earnings per share:					
- Basic	<u>¥ 164.46</u>	<u>¥ 44.71</u>	<u>+ 267.8</u>	<u>¥ 175.45</u>	<u>+ 6.7</u>
- Diluted	<u>162.38</u>	<u>44.21</u>	<u>+ 267.3</u>		
Dividend per share	<u>30.00</u>	<u>25.00</u>		<u>30.00</u>	

	Actual		
	As of December 31, 2002	As of December 31, 2001	Change(%)
Total assets	<u>¥1,848,136</u>	<u>¥ 1,658,066</u>	<u>+ 11.5</u>
Stockholders equity	<u>¥1,235,309</u>	<u>¥ 1,118,443</u>	<u>+ 10.4</u>

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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 office copiers, 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 Bubble Jet printers, we will continue to improve printing speeds while reaching new heights in photo-image quality. Last year, Canon and five other companies proposed an industry standard, tentatively named DPS, enabling digital still cameras to be connected directly to printers for image output. Taking full advantage of this standard, we will aggressively introduce compliant digital cameras and printers. Furthermore, by enhancing such products as photo-print software and printer 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 the home photo printing sector to secure the No.1 share of the digital photo market.

In the area of semiconductor production equipment, we aim to accelerate the development of base technologies and speed up the in-house production of key components to realize the early launch of next-generation tools in pursuit of the No. 1 position in the industry. Furthermore, in the LCD aligner market, we will focus on product development to further build on the No.1 share position that we attained last year.

- 2) Strengthening of R&D

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

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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 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 structure 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 revenues for the Group include increasing the penetration and scale of worldwide production reformation 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 parts. 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 into creating environmentally conscious products designed with energy savings, resource conservation, and the elimination of harmful substances in mind. Furthermore, we actively disclose environmental information and support local environmental activities.

Measures for improvement of corporate management organizations

Canon will continue striving to improve its corporate governance via the company's board of directors and auditing system. Under the current system, as a rule, all matters of importance are actively discussed and decided at management meetings attended by all directors. Moreover, various management advisory committees have been set up to consult company-wide on 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. Moreover, to construct a management structure, which responds more promptly to changes in the business environment, a proposal will be made to shorten the term of office of Canon directors from two years to one at a general shareholders' meeting to be held in March 2003.

The company has also established a code of conduct, which calls on all Group employees to strictly observe the law as well as company rules and regulations. Contained in the Canon Code of Conduct handbook and distributed to all employees, this is one way we have been able to further strengthen compliance and awareness.

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

Through these systems and on the basis of the strong sense of mission and ethics held by our management, Canon will continue to reinforce its corporate governance.

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Dividend policy

With regard to profit distribution, Canon recognizes its dividend policy as one of the company's most important management issues. For fiscal 2002, Canon plans to increase its annual dividend from 25 yen per share, equivalent to the amount paid 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.

Round lot policy

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.

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Operating Results and Financial Conditions

2002 in Review

Looking back at the global economy in 2002, at the beginning of the year the U.S economy pointed to signs of an economic upturn, led mainly by progress made in the area of inventory adjustment. In the second half of the year, however, the economic recovery in the United States began losing its momentum, owing to deterioration in consumer confidence, which resulted in sluggish consumer spending; and the collapse of several major companies, which led to a decline in business confidence. While European economies recovered moderately overall in 2002, the pace of recovery decelerated in Germany and France during the latter half of the year. In Asia, China's economy continued to grow substantially while the other economies in the region sustained modest growth. The Japanese economy remained stagnant throughout the year with no signs of a recovery amid the harsh backdrop of falling stock prices and growing uncertainty over prospects of a recovery in the global economy, especially in the United States.

As for the markets in which the Canon Group operates, flagging global demand for personal computers resulted in reduced demand for printers and other IT-related equipment while corporate-use digital copying machines, especially multifunction and color machines, posted favorable results. The digital camera and digital video camcorder markets continued to show strong growth in Japan and overseas, supported by robust demand. In the field of semiconductor-production equipment, price declines in the memory device market due to weak sales of personal computers inhibited a recovery in capital spending by chip manufacturers. The average value of the yen in 2002 was ¥124.73 to the U.S. dollar, and ¥118.39 to the euro, a depreciation of 3% and 8%, respectively, compared with the previous year.

Amid these conditions, Canon's consolidated net sales in 2002 totaled ¥2,940.1 billion (US\$24,501 million), a 1.1% increase from the previous year, owing to a significant rise in sales of digital cameras and digital video camcorders, and steady growth in the copying machine segment. Net income also rose 13.8% to ¥190.7 billion (US\$1,589 million). The results mark record highs for the company in both consolidated net sales and net income, and the third consecutive year of sales and profit growth. Canon's gross profit ratio during the term improved 3.6% to 47.6%, reflecting the positive effects of R&D reformation activities, which have realized significantly shortened product-development lead times, making possible the launch of successive competitive new products for consistently stable product prices; along with cost reductions achieved through continued production-reformation activities, and the lower value of the yen. Selling, general and administrative expenses rose 5.5% from the previous year as R&D expenditures grew 6.9% to ¥233.7 billion (US\$1,948 million). Selling expenses also increased due to advertising and sales promotion costs. As a result of the above, operating profit in 2002 totaled ¥346.4 billion (US\$2,886 million), reflecting double digit growth of 22.9%.

In the area of other income and expenses, the promotion of cash flow management has bolstered financial strength, making possible an improvement in net interest income of ¥3.6 billion (US\$30 million) compared with the previous year, achieving a positive figure in this category for the first time. Currency exchange losses, however, increased by ¥8.7 billion (US\$72 million) while securities contributed to the company's retirement benefit trust in the previous year realized a ¥15.5 billion gain. Consequently, non-operating income and expenses worsened by ¥16.1 billion (US\$134 million) from the previous year. As a result of the above, income before income taxes totaled ¥330.0 billion (US\$2,750 million), a year-on-year increase of 17.2%, and net income also grew by 13.8% to ¥190.7 billion (US\$1,589 million).

Basic earnings per share for 2002 was ¥217.56 (US\$1.81), a year-on-year increase of ¥26.27 (US\$0.22).

Table of Contents**Results by Product Segment**

In the business machine segment, Canon's imageRUNNER-series lineup of 16 to 105 copy-per-minute digital networked black-and-white multifunction copying machines showed steady sales growth in 2002. In particular, the mid-range iR2200/2800/3300 series and the high-end iR5000/6000 series, iR7200 and iR105 model recorded healthy sales during the term. While the color copying machine market showed some growth during the year, reflecting the growing acceptance of color office documents, sales of Canon color copying machines decreased slightly in 2002 due to a decrease in unit sales of high-end models. Overall, year-on-year sales of copying machines realized an increase of 5.2%. In the field of computer peripherals, the introduction of new Bubble Jet printer products, such as the BJ S500/300-series lineup and PIXUS 950i/550i models, contributed to strong sales of Bubble Jet printers in the Japanese and U.S. markets while laser beam printer sales declined due to inventory adjustment by Canon's OEM partner in the first half of 2002. As a result, computer peripheral sales overall suffered a slight decline of 0.7%. Within the business system sub-segment, including facsimile machines, micrographics and calculators, facsimile machine sales grew steadily, supported by strong sales of multifunction models. The negative impact of declining personal computer sales in Japan, however, resulted in a 12.0% decrease in sales of business systems. Consequently, sales of business machines overall remained at approximately the same level as for the previous year, increasing by 0.1% to ¥2,226.2 billion (US\$18,552 million). Cost-cutting measures, however, along with healthy sales of price-competitive mid-range and high-end copying machines and Bubble Jet printers favorably affected the operating profit ratio. As a result, operating profit for the business machine segment increased by 22.7% to ¥411.0 billion (US\$3,425 million).

Within the camera segment, demand for digital cameras continued to be strong worldwide, with the successive launches of new compact PowerShot-series and IXY DIGITAL-series models bolstering Canon's lineup and contributing to a significant increase in sales. Also well received by the market were the EOS D60 and EOS-1Ds digital SLR models, which were introduced last year as well. By comparison, sales of conventional film cameras continued to slip in 2002 amid the increasing popularity of digital models and price competition. Sales of digital video camcorders continued to show substantial growth through the introduction of new ZR-series, Elura-series and Optura-series models. Consequently, camera sales overall enjoyed double-digit 27.4% growth in 2002, totaling ¥485.8 billion (US\$4,048 million). Greatly improved profitability for camera products, realized through the rapid rise in sales of digital cameras and video camcorders coupled with effective cost-cutting measures and a decline in the price of electronic components, boosted operating profit in the camera segment by 94.5% to ¥70.3 billion (US\$586 million).

Sales of optical and other products decreased by 24.6% to ¥228.2 billion (US\$1,901 million) due to a drop in demand for semiconductor-production equipment, reflecting the restrained capital spending by memory device manufacturers. Optical and other products, which recorded an operating profit of ¥23.9 billion in 2001, suffered operating losses of ¥11.7 billion (US\$97 million) in 2002.

Cash Flow

Cash flow from operating activities in 2002 increased by ¥143.2 billion (US\$1,193 million) from the previous year to ¥448.9 billion (US\$3,741 million), mainly due to the increase in net income and the reduction of working capital. Capital expenditure totaled ¥198.7 billion (US\$1,656 million), a decrease of ¥9.0 billion (US\$75 million), mainly used for the development of the company's headquarters facilities and construction of a new factory for manufacturing copying machines in Suzhou, China. Cash flow from investing activities totaled ¥230.2 billion (US\$1,918 million), including payment of ¥21.1 billion (US\$176 million) for the purchase of outstanding stock of Canon System and Support Inc., Canon N.T.C., Inc., and Canon (Schweiz) AG from their minority shareholders to realize full ownership of the three subsidiaries. As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, remained positive at ¥218.7 billion (US\$1,823 million), marking the fourth consecutive year that Canon has maintained a free cash flow of over ¥100.0 billion.

Cash flow from financing activities recorded an outlay of ¥183.7 billion (US\$1,531 million), mainly as a result of active efforts to repay short-term loans toward the goal of improving Canon's financial position. This, accompanied by the redemption of the company's straight bonds of ¥37.0 billion (US\$308 million) in 2002, resulted in cash and cash equivalents of ¥521.3 billion (US\$4,344 million) at the end of 2002. While this represents a ¥15.0 billion (US\$125 million) increase from the end of the previous year, cash and cash equivalents remain at a high level.

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Non-consolidated Results and Dividend

Canon's non-consolidated net sales in 2002 grew by 4.8% to ¥1,789.0 billion (US\$14,908 million) while ordinary profit grew by 14.1% to ¥240.9 billion (US\$2,008 million), both representing record highs for the company. Non-consolidated net income, however, increased significantly by 268.2% to ¥144.1 billion (US\$1,201 million), owing to a one-time amortization of net transition obligations in accordance with the introduction of the new Japanese pension accounting method in 2001.

In response to continued shareholder support, the Board of Directors intends to propose a ¥5.00 (US\$0.04) increase in the company's year-end dividend to ¥17.50 (US\$0.15) which, when combined with the interim dividend of ¥12.50 (US\$0.10), would bring the company's annual dividend rate to ¥30.00 (US\$0.25) per share.

Outlook

Regarding the outlook for the global economy, in the United States, there are concerns over depressed consumer spending and employment conditions are not expected to improve. Additionally, the likelihood of a military strike against Iraq has also led to uncertainty regarding prospects of a recovery. In Japan, consumer spending is expected to remain flat while a delay in the recovery of the U.S. economy would negatively affect export sales. Consequently, the overall feeling of economic stagnation in Japan will probably continue. In Europe and Asia, a slowdown in economic growth is anticipated in 2003, mostly due to the lack of growth in the economies of Japan and the United States.

In the businesses in which Canon is involved, stable demand is projected for full-color copying machines and laser beam printers, and the digital camera market is expected to continue expanding. Within the semiconductor-production equipment market, although restrained capital investment by chip manufacturers is likely to continue, it is expected that there will be signs of recovery in orders by the end of the year.

Although uncertainty surrounds several factors that could affect currency exchange rates, such as military action against Iraq and concerns involving North Korea, significant changes in rates are not anticipated with the yen expected to be slightly stronger against the U.S. dollar and weaker against the euro than during 2002.

In fiscal 2003 Canon anticipates consolidated net sales of ¥3,120.0 billion (US\$26,000 million), consolidated income before income taxes of ¥350.0 billion (US\$2,917 million), and consolidated net income of ¥205.0 billion (US\$1,708 million). The company also forecasts non-consolidated net sales of ¥1,920.0 billion (US\$16,000 million), non-consolidated ordinary profit of ¥255.0 billion (US\$2,125 million), and non-consolidated net income of ¥154.0 billion (US\$1,283 million). These forecasts assume currency exchange rates of ¥120.00 to the U.S. dollar and the euro.

<p>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.)</p>

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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, 2002	Three months ended December 31, 2001	Change(%)	Three months ended December 31, 2002
Net sales	¥861,663	¥ 753,317	+ 14.4	\$ 7,180,525
Cost of sales	444,236	427,388		3,701,967
Gross profit	417,427	325,929	+ 28.1	3,478,558
Selling, general and administrative expenses	303,826	284,056		2,531,883
Operating profit	113,601	41,873	+ 171.3	946,675
Other income (deductions):				
Interest and dividend income	2,143	1,948		17,858
Interest expense	(1,774)	(2,463)		(14,783)
Other, net	(9,524)	1,495		(79,367)
	(9,155)	980		(76,292)
Income before income taxes	104,446	42,853	+ 143.7	870,383
Income taxes	43,776	13,304		364,800
Income before minority interests	60,670	29,549		505,583
Minority interests	602	(479)		5,016
Net income	¥ 60,068	¥ 30,028	+ 100.0	\$ 500,567

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 the three months ended December 31, 2002 and 2001 were JPY 42,520 million (U.S.\$354,333 thousand) and JPY 37,312 million, respectively.

Result for the fiscal year

	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2002	Year ended December 31, 2001	Change(%)	Year ended December 31, 2002

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Net sales	¥ 2,940,128	¥ 2,907,573	+ 1.1	\$ 24,501,067
Cost of sales	1,540,097	1,626,959		12,834,142
Gross profit	1,400,031	1,280,614	+ 9.3	11,666,925
Selling, general and administrative expenses	1,053,672	998,775		8,780,600
Operating profit	346,359	281,839	+ 22.9	2,886,325
Other income (deductions):				
Interest and dividend income	9,198	9,571		76,650
Interest expense	(6,788)	(10,712)		(56,567)
Other, net	(18,752)	868		(156,266)
	(16,342)	(273)		(136,183)
Income before income taxes	330,017	281,566	+ 17.2	2,750,142
Income taxes	134,703	115,154		1,122,525
Income before minority interests	195,314	166,412		1,627,617
Minority interests	4,577	2,543		38,142
Income before cumulative effect of change in accounting principle	190,737	163,869	+ 16.4	1,589,475
Cumulative effect of accounting change		3,692		
Net income	¥ 190,737	¥ 167,561	+ 13.8	\$ 1,589,475

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 the years ended December 31, 2002 and 2001 were JPY 159,438 million (U.S.\$1,328,650 thousand) and JPY 178,975 million, respectively.

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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, 2002	Three months ended December 31, 2001	Change(%)	Three months ended December 31, 2002
Business machines:				
<i>Copying machines</i>	¥249,285	¥ 246,125	+ 1.3	\$ 2,077,375
<i>Computer peripherals</i>	316,059	249,858	+ 26.5	2,633,825
<i>Business systems</i>	68,085	75,836	- 10.2	567,375
	633,429	571,819	+ 10.8	5,278,575
Cameras	158,504	119,165	+ 33.0	1,320,867
Optical and other products	69,730	62,333	+ 11.9	581,083
Total	¥861,663	¥ 753,317	+ 14.4	\$ 7,180,525

Sales by region	Millions of yen			Thousands of U.S. dollars
	Three months ended December 31, 2002	Three months ended December 31, 2001	Change(%)	Three months ended December 31, 2002
Japan	¥202,242	¥ 206,644	- 2.1	\$ 1,685,350
Overseas:				
<i>Americas</i>	302,072	257,830	+ 17.2	2,517,267
<i>Europe</i>	258,288	221,811	+ 16.4	2,152,400
<i>Other areas</i>	99,061	67,032	+ 47.8	825,508
	659,421	546,673	+ 20.6	5,495,175
Total	¥861,663	¥ 753,317	+ 14.4	\$ 7,180,525

Result for the fiscal year

	Millions of yen	Thousands of U.S. dollars
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Sales by product	Year ended December 31, 2002	Year ended December 31, 2001	Change(%)	Year ended December 31, 2002
Business machines:				
<i>Copying machines</i>	¥ 938,338	¥ 891,814	+ 5.2	\$ 7,819,483
<i>Computer peripherals</i>	1,018,418	1,025,352	- 0.7	8,486,817
<i>Business systems</i>	269,439	306,323	- 12.0	2,245,325
	<u>2,226,195</u>	<u>2,223,489</u>	+ 0.1	<u>18,551,625</u>
Cameras	485,778	381,367	+ 27.4	4,048,150
Optical and other products	228,155	302,717	- 24.6	1,901,292
	<u>2,940,128</u>	<u>2,907,573</u>	+ 1.1	<u>\$ 24,501,067</u>

Sales by region	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2002	Year ended December 31, 2001	Change(%)	Year ended December 31, 2002
Japan	¥ 732,551	¥ 827,288	- 11.5	\$ 6,104,592
Overseas:				
<i>Americas</i>	1,010,166	982,104	+ 2.9	8,418,050
<i>Europe</i>	857,167	806,104	+ 6.3	7,143,058
<i>Other areas</i>	340,244	292,077	+ 16.5	2,835,367
	<u>2,207,577</u>	<u>2,080,285</u>	+ 6.1	<u>18,396,475</u>
Total	<u>¥2,940,128</u>	<u>¥ 2,907,573</u>	+ 1.1	<u>\$ 24,501,067</u>

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3. SEGMENT INFORMATION BY PRODUCT

Result for the fourth quarter

	Millions of yen			Thousands of U.S. dollars
	Three months ended December 31, 2002	Three months ended December 31, 2001	Change(%)	Three months ended December 31, 2002
Business machines:				
Net sales:				
Unaffiliated customers	¥633,429	¥ 571,819	+ 10.8	\$ 5,278,575
Intersegment				
Total	633,429	571,819	+ 10.8	5,278,575
Operating cost and expenses	503,717	506,313	- 0.5	4,197,642
Operating profit	129,712	65,506	+ 98.0	1,080,933
Cameras:				
Net sales:				
Unaffiliated customers	¥158,504	¥ 119,165	+ 33.0	\$ 1,320,867
Intersegment				
Total	158,504	119,165	+ 33.0	1,320,867
Operating cost and expenses	136,437	108,947	+ 25.2	1,136,975
Operating profit	22,067	10,218	+ 116.0	183,892
Optical and other products:				
Net sales:				
Unaffiliated customers	¥ 69,730	¥ 62,333	+ 11.9	\$ 581,083
Intersegment	37,248	25,364	+ 46.9	310,400
Total	106,978	87,697	+ 22.0	891,483
Operating cost and expenses	107,215	92,660	+ 15.7	893,458
Operating profit	(237)	(4,963)		(1,975)
Corporate and Eliminations:				
Net sales:				
Unaffiliated customers	¥	¥		\$
Intersegment	(37,248)	(25,364)		(310,400)

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Total	<u>(37,248)</u>	<u>(25,364)</u>		<u>(310,400)</u>
Operating cost and expenses	<u>693</u>	<u>3,524</u>	<u>- 80.3</u>	<u>5,775</u>
Operating profit	<u>(37,941)</u>	<u>(28,888)</u>		<u>(316,175)</u>
Consolidated:				
Net sales:				
Unaffiliated customers	<u>¥861,663</u>	<u>¥ 753,317</u>	<u>+14.4</u>	<u>\$ 7,180,525</u>
Intersegment				
Total	<u>861,663</u>	<u>753,317</u>	<u>+ 14.4</u>	<u>7,180,525</u>
Operating cost and expenses	<u>748,062</u>	<u>711,444</u>	<u>+ 5.1</u>	<u>6,233,850</u>
Operating profit	<u>113,601</u>	<u>41,873</u>	<u>+ 171.3</u>	<u>946,675</u>

Note: General corporate expenses of JPY 37,908 million (U.S.\$315,900 thousand) and JPY 28,955 million in the three months ended December 31, 2002 and 2001, respectively, are included in Corporate and Eliminations.

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Result for the fiscal year

	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2002	Year ended December 31, 2001	Change(%)	Year ended December 31, 2002
Business Machines:				
Net sales:				
Unaffiliated customers	¥2,226,195	¥ 2,223,489	+ 0.1	\$ 18,551,625
Intersegment				
Total	2,226,195	2,223,489	+ 0.1	18,551,625
Operating cost and expenses	1,815,179	1,888,571	- 3.9	15,126,492
Operating profit	411,016	334,918	+ 22.7	3,425,133
Assets	1,296,829	1,280,949	+ 1.2	10,806,908
Depreciations and amortization	106,865	105,907	+ 0.9	890,542
Capital expenditure	104,877	121,333	- 13.6	873,975
Cameras:				
Net sales:				
Unaffiliated customers	¥ 485,778	¥ 381,367	+ 27.4	\$ 4,048,150
Intersegment				
Total	485,778	381,367	+ 27.4	4,048,150
Operating cost and expenses	415,488	345,223	+ 20.4	3,462,400
Operating profit	70,290	36,144	+ 94.5	585,750
Assets	263,532	215,173	+ 22.5	2,196,100
Depreciations and amortization	14,118	12,745	+ 10.8	117,650
Capital expenditure	15,627	16,871	- 7.4	130,225
Optical and Other Products:				
Net sales:				
Unaffiliated customers	¥ 228,155	¥ 302,717	- 24.6	\$ 1,901,292
Intersegment	139,608	116,748	+ 19.6	1,163,400
Total	367,763	419,465	- 12.3	3,064,692
Operating cost and expenses	379,415	395,615	- 4.1	3,161,792
Operating profit	(11,652)	23,850		(97,100)

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Assets	338,377	361,799	- 6.5	2,819,808
Depreciations and amortization	19,817	15,291	+ 29.6	165,142
Capital expenditure	23,767	36,057	- 34.1	198,058
Corporate and Eliminations:				
Net sales:				
Unaffiliated customers	¥	¥		\$
Intersegment	(139,608)	(116,748)		(1,163,400)
Total	(139,608)	(116,748)		(1,163,400)
Operating cost and expenses	(16,313)	(3,675)		(135,942)
Operating profit	(123,295)	(113,073)		(1,027,458)
Assets	1,043,968	986,835	+ 5.8	8,699,734
Depreciations and amortization	24,460	18,357	+ 33.2	203,833
Capital expenditure	54,431	33,413	+ 62.9	453,592
Consolidated:				
Net sales:				
Unaffiliated customers	¥2,940,128	¥ 2,907,573	+ 1.1	\$ 24,501,067
Intersegment				
Total	2,940,128	2,907,573	+ 1.1	24,501,067
Operating cost and expenses	2,593,769	2,625,734	- 1.2	21,614,742
Operating profit	346,359	281,839	+ 22.9	2,886,325
Assets	2,942,706	2,844,756	+ 3.4	24,522,550
Depreciations and amortization	165,260	152,300	+ 8.5	1,377,167
Capital expenditure	198,702	207,674	- 4.3	1,655,850

- Notes:
1. General corporate expenses of JPY 123,193 million (U.S.\$1,026,608 thousand) and JPY 113,128 million in the years ended December 31, 2002 and 2001, respectively, are included in Corporate and Eliminations.
 2. Corporate assets of JPY 1,044,036 million (U.S.\$8,700,300 thousand) and JPY 986,801 million as of December 31, 2002 and 2001, respectively, which mainly consist of cash and cash equivalents, marketable securities and corporate properties, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

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4. SEGMENT INFORMATION BY GEOGRAPHIC AREA

Result for the fiscal year

	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2002	Year ended December 31, 2001	Change(%)	Year ended December 31, 2002
Japan:				
Net sales:				
Unaffiliated customers	¥ 789,066	¥ 858,580	8.1	\$ 6,575,550
Intersegment	1,475,091	1,378,031	+ 7.0	12,292,425
Total	2,264,157	2,236,611	+ 1.2	18,867,975
Operating cost and expenses	1,867,817	1,893,448	1.4	15,565,142
Operating profit	396,340	343,163	+ 15.5	3,302,833
Assets	1,485,238	1,376,939	+ 7.9	12,376,983
Americas:				
Net sales:				
Unaffiliated customers	¥ 1,007,572	¥ 983,561	+ 2.4	\$ 8,396,433
Intersegment	9,791	17,475	44.0	81,592
Total	1,017,363	1,001,036	+ 1.6	8,478,025
Operating cost and expenses	969,542	969,630	0.0	8,079,517
Operating profit	47,821	31,406	+ 52.3	398,508
Assets	346,021	346,046	0.0	2,883,508
Europe:				
Net sales:				
Unaffiliated customers	¥ 852,931	¥ 805,243	+ 5.9	\$ 7,107,759
Intersegment	4,639	2,449	+ 89.4	38,658
Total	857,570	807,692	+ 6.2	7,146,417
Operating cost and expenses	836,341	806,495	+ 3.7	6,969,508
Operating profit	21,229	1,197	+ 1,673.5	176,909
Assets	460,521	423,295	+ 8.8	3,837,675

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Others:				
Net sales:				
Unaffiliated customers	¥ 290,559	¥ 260,189	+ 11.7	\$ 2,421,325
Intersegment	426,914	299,410	+ 42.6	3,557,617
Total	717,473	559,599	+ 28.2	5,978,942
Operating cost and expenses	699,420	546,291	+ 28.0	5,828,501
Operating profit	18,053	13,308	+ 35.7	150,441
Assets	202,388	174,553	+ 15.9	1,686,567
Corporate and Eliminations:				
Net sales:				
Unaffiliated customers	¥	¥		\$
Intersegment	(1,916,435)	(1,697,365)		(15,970,292)
Total	(1,916,435)	(1,697,365)		(15,970,292)
Operating cost and expenses	(1,779,351)	(1,590,130)		(14,827,926)
Operating profit	(137,084)	(107,235)		(1,142,366)
Assets	448,538	523,923	14.4	3,737,817
Consolidated:				
Net sales:				
Unaffiliated customers	¥ 2,940,128	¥ 2,907,573	+1.1	\$ 24,501,067
Intersegment				
Total	2,940,128	2,907,573	+ 1.1	24,501,067
Operating cost and expenses	2,593,769	2,625,734	1.2	21,614,742
Operating profit	346,359	281,839	+ 22.9	2,886,325
Assets	2,942,706	2,844,756	+ 3.4	24,522,550

- Notes:
1. General corporate expenses of JPY 123,193 million (U.S.\$1,026,608 thousand) and JPY 113,128 million in the years ended December 31, 2002 and 2001, respectively, are included in Corporate and Eliminations.
 2. Corporate assets of JPY 1,044,036 million (U.S.\$8,700,300 thousand) and JPY 986,801 million as of December 31, 2002 and 2001, respectively, which mainly consist of cash and cash equivalents, marketable securities and corporate properties, are included in Corporate and Eliminations.

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5. CONSOLIDATED BALANCE SHEETS

	Millions of yen			Thousands of U.S. dollars
	As of December 31, 2002	As of December 31, 2001	Change	As of December 31, 2002
ASSETS				
Current assets:				
Cash and cash equivalents	¥ 521,271	¥ 506,234	¥ 15,037	\$ 4,343,925
Marketable securities	7,255	4,772	2,483	60,458
Trade receivables, less allowance	498,587	456,635	41,952	4,154,892
Inventories	432,251	448,300	(16,049)	3,602,092
Prepaid expenses and other current assets	245,610	214,353	31,257	2,046,750
Total current assets	1,704,974	1,630,294	74,680	14,208,117
Noncurrent receivables and restricted funds	20,568	21,125	(557)	171,400
Investments	64,037	66,168	(2,131)	533,642
Net property, plant and equipment	830,304	821,125	9,179	6,919,200
Other assets	322,823	306,044	16,779	2,690,191
Total assets	¥2,942,706	¥ 2,844,756	¥ 97,950	\$ 24,522,550
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term loans	¥ 66,754	¥ 200,104	¥(133,350)	\$ 556,283
Trade payables	408,464	354,446	54,018	3,403,867
Income taxes	80,169	65,324	14,845	668,075
Accrued expenses	154,621	157,335	(2,714)	1,288,508
Other current liabilities	91,832	76,974	14,858	765,267
Total current liabilities	801,840	854,183	(52,343)	6,682,000
Long-term debt, excluding current installments	81,349	95,526	(14,177)	677,908
Accrued pension and severance cost	285,129	237,537	47,592	2,376,075
Other noncurrent liabilities	26,193	17,645	8,548	218,275
Total liabilities	1,194,511	1,204,891	(10,380)	9,954,258
Minority interests	156,245	181,389	(25,144)	1,302,042
Stockholders' equity:				
Common stock	167,242	165,287	1,955	1,393,683
Additional paid-in capital	394,088	392,456	1,632	3,284,067
Retained earnings	1,203,248	1,036,178	167,070	10,027,067
Accumulated other comprehensive income (loss)	(166,467)	(135,168)	(31,299)	(1,387,225)
Treasury stock	(6,161)	(277)	(5,884)	(51,342)
Total stockholders' equity	1,591,950	1,458,476	133,474	13,266,250
Total liabilities and stockholders' equity	¥2,942,706	¥ 2,844,756	¥ 97,950	\$ 24,522,550

	Millions of yen		Thousands of U.S. dollars
	As of December 31, 2002	As of December 31, 2001	As of December 31, 2002
Allowance for doubtful receivables	¥ 12,031	¥ 11,091	\$ 100,258
Accumulated depreciation	1,077,694	1,025,107	8,980,783
Accumulated other comprehensive income (loss):			
Foreign currency translation adjustments	(68,524)	(52,660)	(571,034)
Net unrealized gains (losses) on securities	(1,168)	564	(9,733)
Minimum pension liability adjustments	(96,441)	(80,649)	(803,675)
Net losses on derivative financial instruments	(334)	(2,423)	(2,783)

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CANON INC. AND SUBSIDIARIES

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6. CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Millions of yen		Thousands of U.S. dollars
	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2002
Balance at beginning of period	¥1,036,178	¥ 888,761	\$ 8,634,817
Net income	190,737	167,561	1,589,475
Cash dividends	(23,663)	(20,144)	(197,192)
Other	(4)		(33)
Balance at end of period	¥1,203,248	¥ 1,036,178	\$ 10,027,067

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of yen		Thousands of U.S. dollars
	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2002
Net income	¥ 190,737	¥ 167,561	\$ 1,589,475
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	165,260	152,300	1,377,167
Loss on disposal of property, plant and equipment	13,137	20,323	109,475
Gain on securities contributed to retirement benefit trust		(15,536)	
Deferred income taxes	(1,788)	2,172	(14,900)
Decrease (increase) in trade receivables	(47,077)	47,844	(392,308)
Decrease in inventories	14,029	73,858	116,908
Increase (decrease) in trade payables	64,040	(161,157)	533,667
Increase in income taxes	14,935	10,561	124,458
Increase in accrued expenses	12,901	2,177	107,508
Other, net	22,776	5,649	189,800
Net cash provided by operating activities	448,950	305,752	3,741,250
Cash flows from investing activities:			
Capital expenditure	(198,702)	(207,674)	(1,655,850)
Proceeds from sale of property, plant and equipment	11,971	10,224	99,758
Payment for purchase of marketable securities	(2,751)	(9,225)	(22,925)
Proceeds from sale of marketable securities	1,099	9,473	9,158
Payment for purchase of investments	(30,331)	(2,452)	(252,758)
Other	(11,506)	7,062	(95,883)
Net cash used in investing activities	(230,220)	(192,592)	(1,918,500)
Cash flows from financing activities:			

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Proceeds from long-term debt	10,609	7,417	88,408
Repayment of long-term debt	(60,690)	(40,423)	(505,750)
Decrease in short-term loans	(101,125)	(64,292)	(842,708)
Dividends paid	(23,663)	(20,144)	(197,192)
Other	(8,845)	(3,786)	(73,708)
	<hr/>	<hr/>	<hr/>
Net cash used in financing activities	(183,714)	(121,228)	(1,530,950)
Effect of exchange rate changes on cash and cash equivalents	(19,979)	20,340	(166,492)
	<hr/>	<hr/>	<hr/>
Net change in cash and cash equivalents	15,037	12,272	125,308
Cash and cash equivalents at beginning of period	506,234	493,962	4,218,617
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of period	¥ 521,271	¥ 506,234	\$ 4,343,925
	<hr/>	<hr/>	<hr/>

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CANON INC. AND SUBSIDIARIES

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8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) CHANGES IN GROUP OF ENTITIES

Subsidiaries

Addition: 25 companies

Removal: 33 companies

Affiliates (Carried at Equity Basis)

Addition: 3 companies

Removal: 5 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.

1. Marketable Securities and Marketable 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 marketable 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 (SFAS 87), Employer's Accounting for Pensions.

5. Derivative Instruments and Hedging Activities Canon has been adopting Statement of Financial Accounting Standards No. 133(SFAS 133), Accounting for Derivative and Hedging Activities and No. 138 (SFAS 138), Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133 since January 1, 2001. Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

6. New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.141 (SFAS 141), Business Combinations, and Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets. Canon adopted the provisions of SFAS 141 and SFAS 142 on January 1, 2002, with the exception of the immediate requirement to use the purchase method of accounting for all future business combinations completed after June 30, 2001. In adopting SFAS 142, Canon evaluated the useful life and the remaining value for all intangible-assets and reclassified amortized assets apart from goodwill by March 31, 2002. Also, Canon completed the first step of the transitional assessment by June 30, 2002. In the first step, significant impairment loss of goodwill was not recognized. The adoption of SFAS 141 and 142 did not have a material effect on Canon's consolidated financial position and results of operations.

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In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets. Canon adopted the provisions of SFAS 144 on January 1, 2002. The adoption of SFAS 144 did not have a material effect on Canon's consolidated financial position and results of operations.

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9. MARKETABLE SECURITIES AND DERIVATIVE CONTRACTS

(1) MARKET VALUE ON MARKETABLE SECURITIES

	Millions of yen					
	As of December 31, 2002			As of December 31, 2001		
	Acquisition Cost	Estimated Fair Value	Unrealized Gains/Losses	Acquisition Cost	Estimated Fair Value	Unrealized Gains/Losses
Marketable securities:						
Governmental bond securities	¥ 59	¥ 61	¥ 2	¥ 55	¥ 55	¥ 0
Corporate debt securities	5,698	5,728	30	3,623	3,682	59
Bank debt securities	91	91	0	91	91	0
Fund trust	220	310	90	0	0	0
Equity securities	1,194	1,065	(129)	1,008	944	(64)
	¥ 7,262	¥ 7,255	¥ (7)	¥ 4,777	¥ 4,772	¥ (5)
Investment securities:						
Governmental bond securities	¥ 220	¥ 227	¥ 7	¥ 201	¥ 201	¥ 0
Corporate debt securities	5,149	5,173	24	5,553	5,820	267
Bank debt securities	150	150	0	0	0	0
Fund trust	2,302	2,109	(193)	1,891	1,971	80
Equity securities	5,263	7,011	1,748	6,430	11,419	4,989
	¥ 13,084	¥ 14,670	¥ 1,586	¥ 14,075	¥ 19,411	¥ 5,336

Thousands of U.S. dollars

	As of December 31, 2002		
	Acquisition Cost	Estimated Fair Value	Unrealized Gains/Losses
Marketable securities:			
Governmental bond securities	\$ 492	\$ 508	\$ 16
Corporate debt securities	47,484	47,734	250
Bank debt securities	758	758	0
Fund trust	1,833	2,583	750
Equity securities	9,950	8,875	(1,075)
	\$ 60,517	\$ 60,458	\$ (59)
Investment securities:			
Governmental bond securities	\$ 1,833	\$ 1,892	\$ 59
Corporate debt securities	42,909	43,108	199
Bank debt securities	1,250	1,250	0

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Fund trust	19,183	17,575	(1,608)
Equity securities	43,858	58,425	14,567
	<u> </u>	<u> </u>	<u> </u>
	\$ 109,033	\$ 122,250	\$ 13,217
	<u> </u>	<u> </u>	<u> </u>

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(2) DERIVATIVE CONTRACTS

	Millions of yen				Thousands of U.S. dollars	
	As of December 31, 2002		As of December 31, 2001		As of December 31, 2002	
	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	¥ 388,145	¥ 1,490	¥ 250,888	¥ (13,499)	\$ 3,234,542	\$ 12,417
To buy foreign currencies	6,652	(391)	13,743	399	55,433	(3,258)
Long-term debt (including due within a year):						
Interest rate swaps:						
Receive-fixed	¥ 180	¥ 1	¥ 21,548	¥ 575	\$ 1,500	\$ 8
Pay-fixed	57,270	(1,149)	62,788	(1,463)	477,250	(9,575)

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CANON INC.

NON-CONSOLIDATED

1. NON-CONSOLIDATED STATEMENTS OF INCOME
(Parent company only)

	Millions of yen		Change(%)
	Year ended December 31, 2002	Year ended December 31, 2001	
Net sales	¥ 1,789,005	¥ 1,707,459	+4.8
Cost of sales	1,149,326	1,129,305	
Gross profit	639,679	578,153	+10.6
Selling, general and administrative expenses	402,485	384,763	
Operating profit	237,193	193,389	+22.7
Other income (deductions):			
Interest and dividend income	10,543	15,117	
Interest expense	(282)	(4,005)	
Other, net	(6,470)	6,626	
	3,789	17,737	
Ordinary profit	240,982	211,127	+14.1
Non-ordinary loss, net	8,693	163,118	
Income before income taxes	232,289	48,009	
Income taxes	88,105	8,846	
Net income	¥ 144,184	¥ 39,163	+268.2
Earnings per share:		Yen	
Basic	¥ 164.46	¥ 44.71	

Note: Amounts less than 1 million yen have been omitted.

2. DETAILS OF SALES
(Parent company only)

Sales by product	Millions of yen		Change(%)
	Year ended December 31, 2002	Year ended December 31, 2001	
Business machines:			
Copying machines	¥ 400,167	¥ 406,387	-1.5
Computer peripherals	853,917	813,194	+5.0

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<i>Business systems</i>	84,596	68,085	+24.3
	1,338,680	1,287,667	+4.0
Cameras	346,433	269,986	+28.3
Optical and other products	103,890	149,805	-30.6
Total	¥1,789,005	¥ 1,707,459	+4.8

Sales by region	Millions of yen		
	Year ended December 31, 2002	Year ended December 31, 2001	Change(%)
Japan	¥ 298,905	¥ 329,809	-9.4
Overseas:			
<i>Americas</i>	686,119	634,010	+8.2
<i>Europe</i>	562,156	533,795	+5.3
<i>Other areas</i>	241,822	209,842	+15.2
	1,490,099	1,377,649	+8.2
Total	¥ 1,789,005	¥ 1,707,459	+4.8

Note: Amounts less than 1 million yen have been omitted.

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CANON INC.

NON-CONSOLIDATED

3. NON-CONSOLIDATED BALANCE SHEETS
(Parent company only)

	Millions of yen		
	As of December 31, 2002	As of December 31, 2001	Change
ASSETS			
Current assets:			
Cash	¥ 64,262	¥ 121,061	¥ (56,799)
Trade receivables	577,372	385,941	191,431
Marketable securities	474	103	371
Inventories	176,305	171,512	4,793
Prepaid expenses and other current assets	144,653	120,819	23,834
Allowance for doubtful accounts	(10,986)	(9,803)	(1,183)
Total current assets	952,082	789,635	162,447
Fixed assets:			
Net property, plant and equipment	440,501	420,368	20,133
Intangibles	27,668	39,105	(11,437)
Investments and other fixed assets	427,937	408,976	18,961
Allowance for doubtful accounts	(52)	(20)	(32)
Total fixed assets	896,054	868,431	27,623
Total assets	¥1,848,136	¥1,658,066	¥190,070
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Trade payables	¥ 279,901	¥ 242,926	¥ 36,975
Short-term loans	53,772	26,306	27,466
Income taxes	62,629	50,397	12,232
Other current liabilities	44,803	53,274	(8,471)
Total current liabilities	441,106	372,904	68,202
Long-term debt, excluding current installments	15,032	18,950	(3,918)
Accrued pension and severance cost	156,687	147,768	8,919
Total liabilities	612,827	539,622	73,205
Stockholders equity:			
Common stock	167,242	165,287	1,955
Additional paid-in capital	298,778	296,370	2,408
Retained earnings	774,287	653,898	120,389
Net unrealized gains on securities	1,162	3,163	(2,001)
Treasury stock	(6,162)	(276)	(5,886)

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Total stockholders' equity	1,235,309	1,118,443	116,866
Total liabilities and stockholders' equity	¥1,848,136	¥1,658,066	¥190,070

Millions of yen

As of December 31, 2002	As of December 31, 2001
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Accumulated depreciation