

CANON INC  
Form 6-K  
July 28, 2005

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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 **July, 2005**

**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 **July 28, 2005**

By: /s/ Hiroshi Kawashimo  
(Signature)\*  
Hiroshi Kawashimo  
General Manager, Finance Division  
Canon Inc.

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

The following materials are included.

1. Results For The Second Quarter And The First Half Ended June 30, 2005
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**RESULTS FOR THE SECOND QUARTER  
AND THE FIRST HALF ENDED JUNE 30, 2005**

July 27, 2005

**CONSOLIDATED RESULTS FOR THE FIRST HALF**

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

	Actual			Projected			
	Six months ended June 30, 2005 (Unaudited)	Six months ended June 30, 2004 (Unaudited)	Change(%)	Six months ended June 30, 2005 (Unaudited)	Year ended December 31, 2004	Year ending December 31, 2005	Change(%)
Net sales	¥ 1,755,840	¥ 1,648,420	+ 6.5	\$ 15,818,378	¥ 3,467,853	¥ 3,680,000	+ 6.1
Operating profit	270,189	253,376	+ 6.6	2,434,135	543,793	578,000	+ 6.3
Income before income taxes and minority interests	283,733	259,974	+ 9.1	2,556,153	552,116	594,000	+ 7.6
Net income	¥ 175,268	¥ 160,776	+ 9.0	\$ 1,578,991	¥ 343,344	¥ 367,000	+ 6.9
<b>Net income per share:</b>							
- Basic	¥ 197.61	¥ 181.84	+ 8.7	\$ 1.78	¥ 387.80	¥ 413.65	+ 6.7
- Diluted	197.38	181.17	+ 8.9	1.78	386.78		

	Actual				
	As of June 30, 2005 (Unaudited)	As of June 30, 2004 (Unaudited)	Change(%)	As of June 30, 2005 (Unaudited)	As of December 31, 2004
Total assets	¥ 3,657,425	¥ 3,353,465	+ 9.1	\$ 32,949,775	¥ 3,587,021
Stockholders equity	¥ 2,363,970	¥ 2,006,734	+ 17.8	\$ 21,297,027	¥ 2,209,896

Notes: 1. Canon's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

2. U.S. dollar amounts are translated from yen at the rate of JPY111=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2005, solely for the convenience of the reader.

**NON-CONSOLIDATED RESULTS FOR THE FIRST HALF**

(Millions of yen, except per share amounts)

	Actual		Projected	
	Six months ended	Six months ended	Year ended	Year ending

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	<b>June 30, 2005 (Unaudited)</b>	June 30, 2004 (Unaudited)	Change(%)	December 31, 2004	December 31, 2005	Change(%)
<b>Net sales</b>	¥ <b>1,158,478</b>	¥ 1,078,553	+ 7.4	¥ 2,278,374	¥2,446,000	+ 7.4
<b>Operating profit</b>	<b>192,147</b>	190,404	+ 0.9	383,284	401,000	+ 4.6
<b>Ordinary profit</b>	<b>210,125</b>	197,671	+ 6.3	396,250	427,000	+ 7.8
<b>Net income</b>	¥ <b>137,938</b>	¥ 127,036	+ 8.6	¥ 249,251	¥ 277,000	+ 11.1
<b>Net income per share</b>	¥ <b>155.52</b>	¥ 143.68	+ 8.2	¥ 281.30	¥ 312.21	+ 11.0
<b>Dividend per share</b>	<b>32.50</b>	25.00		65.00	65.00	

	<b>As of June 30, 2005 (Unaudited)</b>	Actual As of June 30, 2004 (Unaudited)	Change(%)	Actual As of December 31, 2004
<b>Total assets</b>	¥ <b>2,427,971</b>	¥ 2,206,121	+ 10.1	¥ 2,384,803
<b>Stockholders equity</b>	¥ <b>1,753,383</b>	¥ 1,550,160	+ 13.1	¥ 1,651,407

Canon Inc.  
Headquarter office

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

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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 further increase corporate value, in 2001 Canon Inc. launched Phase II of its 5-year Excellent Global Corporation Plan. This 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 all core businesses

Among our core businesses, we maintain the world's No. 1 market-share position in the areas of copying machines and laser beam printers by actively introducing a range of competitive products, which are tailored for office needs in line with advances in office document colorization. In the area of copying machines, we are focused on developing the print-on-demand market with advanced high-speed models. In the area of multifunction systems, we are striving to expand our document solutions business through models that achieve accelerated data-processing speeds. We are implementing both of these initiatives as we continue to set the trend in the office print market. In the area of laser beam printers, we are focused on expanding the number of machines in the field by introducing competitive products with advanced features that are competitively priced, and by tapping into the hidden demand in the small office and home office market, as well as in emerging markets.

In the field of inkjet printers, we aim to bolster our lineup of photo-quality printers by further improving image quality and print speeds. We will also strengthen our lineup of multifunction models amid the continued growth in demand for these products. In addition to digital cameras and printers, we will also work to expand the home photo-printing market by further enhancing photo-print software and print media products.

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 advantage and Canon's strong brand recognition, we will continue to focus on becoming No.1 in the home photo-printing market.

With regard to digital cameras, through the consecutive launches of competitive products that capitalize on our expertise in optical and image-processing technologies, we further solidified our top market-share position. And as the digital camera market matures, we will put special emphasis on expanding sales of high-value-added digital SLR cameras, which are differentiated from the competition by such innovations as our independently developed CMOS sensor and imaging engine (DIGIC II). We also aim to secure high profits and expand market share in the compact digital camera segment. Here, we are focused on promoting the development of products that meet market needs and boosting cost competitiveness through such means as reducing the number of parts required and in-house production.

In the area of semiconductor production equipment, we will strive to achieve the No. 1 position in the industry by launching industry-leading new products ahead of our competitors. Furthermore, in the aligner market for large LCD panels, where we maintain the No. 1 market share, we will further solidify our leadership position and also investigate the possibility of entering the aligner market for small and medium-size LCD panels.

- 2) Strengthening R&D

To become No. 1 in all core businesses and create new areas of business, we are further concentrating our efforts on boosting the company's R&D strength. This endeavor is focused on such activities as thoroughly bolstering

product- engine, platform, and common base technologies. In addition, we will

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fully utilize 3D-CAD systems to improve product development speed and eliminate, to the extent possible, physical prototypes from the design process. By consolidating our concurrent product development structure, which operates in unison with our production operations, we will also work to improve product quality while also achieving further cost reductions.

Moreover, we will work to bolster our infrastructure through the establishment of new facilities, such as our leading-edge-technology and production-technology centers, which will play important roles toward the creation of new businesses and the reform of production technologies.

### **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 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 strengthening the headquarters functions of Canon's regional marketing headquarters in Europe and the Americas. We have also been actively reorganizing Canon Group manufacturing and sales companies in Japan to achieve an optimal organizational structure and bolster the competitive strength of each company, and will review the overall structure to allow us to respond quickly to changing circumstances. Overseas, mainly through our sales companies, we have strengthened sales networks to support our solutions business, and adopted a new streamlined sales organization in the EU that effectively responds to market changes in the region. We are also keeping a close eye on the expanding Chinese market and plan to strengthen our sales structure there as well.

Other measures being undertaken to maintain and/or improve profitability for the Canon Group include: expanding and deepening production reform activities and spreading this to all production facilities; developing and introducing innovative tools for factory automation with the aim of achieving a higher level of factory automation and/or unmanned production; utilizing supply-chain management in order to shorten production lead times and reduce inventories; and promoting the in-house production of key components. Also, in the area of procurement reform measures, we are actively working on the establishment of a highly effective parts-procurement system, based on the consolidation of the suppliers we use, as a means of improving Group profits.

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**

Management believes it is important to promote the development of new businesses for future growth and at the same time maintain the company's high profit structure. As for creating new businesses, we are promoting research of leading-edge technologies in such fields as biotechnology, nanotechnology and life sciences, and looking for ways to utilize our core technological expertise. At the same time, we are exploring the early startup of new businesses using M&A opportunities and business alliances.

One example of creating a new business is our planned entry into the display business, which we expect will lead to future growth. In October 2004, we established a joint venture company with the Toshiba Corporation for the development and production of SED panels and are now moving forward with preparations for full-scale production. As for maintaining our high profit structure, it is important to further increase the profitability of existing businesses in order to cover the investment burden incurred with the startup of new businesses. To do this, we need to enhance our cost competitiveness through the strengthening of manufacturing engineering and production technologies. We also need to strengthen our product development capability, which will allow us to differentiate our products from the competition in performance, quality and cost. Linked to these initiatives are proactive measures we have taken to improve our infrastructure.

How to cope with severe price competition, mainly in the market for consumer goods, has also become an important business challenge. In order to construct a low cost structure that can effectively weather price competition, we are promoting measures aimed at reducing costs, mainly through the integration of development, manufacturing engineering and production technologies. By doing so, we plan to reduce development lead-times and facilitate the continuous introduction of new products that incorporate improved functions as a way to maintain selling prices.

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 are focused on creating

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environmentally conscious products designed with energy savings, resource conservation, and the elimination of harmful substances. In addition to the development of recycling systems and the 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 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 the company's corporate value.

**1) Implementation of corporate governance measures**

In addition to our Board of Directors and Board of Corporate Auditors, Canon Inc. has also created an original system of internal audit for the further development of its corporate governance.

There are currently 25 directors on the company's board. In order to realize a more streamlined and efficient management decision-making process, Canon has not adopted 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 auditors attend board, management, and various committee meetings; listen to business reports from the directors and others; carefully examine documents related to important decisions; and conduct strict audits of the company's business and assets.

Corporate auditors and the Board of Corporate Auditors shall receive from the external auditors an outline of their audit plan as well as reports on the results of the audit, the status of internal control systems as grasped by the external auditors, their risk assessment, significant accounting issues, and other relevant matters, and shall exchange opinions on such matters with the external auditors. Furthermore, corporate auditors may attend the external auditors' field work and their closing meeting as necessary, and may from time to time request of the external auditors a report on the progress of their audit.

With regard to external audits, we established regulations related to the pre-approval of policies and procedures for both auditing and non-auditing services to reinforce the independence of our accounting firms. Based on the regulations, the Board of Corporate Auditors must approve in advance the content and related fees of contracts between the accounting firms and the company before they are entered into.

Furthermore, the Corporate Audit Center, which serves as an internal auditing division, conducts audits covering such areas as compliance and internal control systems, and provides assessments and proposals. The various relevant administrative divisions also work very closely with the Corporate Audit Center to inspect such areas as product quality, environmental issues, information security and physical security.

Canon engages Ernst & Young ShinNihon to have its financial statements audited.

The names and other details of the certified public accountants that carried out audit work for the company are listed below.

Certified Public Accountant			Accounting Firm	Number of Years of Consecutive Audits
Designated Partner	Managing Partner	Michio Shibuya	Ernst & Young ShinNihon	10 Years
Designated Partner	Managing Partner	Hideo Kojima	Ernst & Young ShinNihon	
Designated Partner	Managing Partner	Eiichi Wada	Ernst & Young ShinNihon	12 Years
Designated Partner	Managing Partner	Yuichiro Munakata	Ernst & Young ShinNihon	

Designated Partner	Managing Partner	Hirokazu Tanaka	Ernst & Young ShinNihon
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Note 1: For those designated partners with less than 7 years of consecutive audits, entries for the number of years of consecutive audits have been omitted.

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Note 2 : This accounting firm has applied the audit partner rotation system in fulfillment of the Certified Public Accountant Law in Japan and Japanese Institute of Certified Public Accountants regulations. Furthermore, in accordance with the Certified Public Accountant Law, managing partners are able to conduct audits within a period of seven consecutive fiscal years for fiscal years beginning in and after April 2004.

Auditing assistants: (Certified Public Accountants: 14 persons, Junior Accountants: 12 persons, Others: 2 persons)

The company has also established a code of conduct, which calls on all Canon Group employees to strictly observe and comply with all laws as well as company rules and regulations. The Canon Code of Conduct Handbook is available in eleven different languages to further raise awareness of compliance throughout the entire Canon Group

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

Through these measures, Canon will continue to strengthen its corporate governance system 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, and business relationships, and other interests

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

In January 2004 we established standing committees, namely the Corporate Ethics and Compliance Committee, and the Internal Control Committee, with the president appointed as chairman of both groups. Accordingly, the purpose of the Corporate Ethics and Compliance 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. Moreover, in January 2005 the related administrative department, which had been part of the General Affairs Headquarters, was made an independent unit the Corporate Ethics and Compliance Administration Office under

the direct control of the company's president. A company director was appointed to head the office, which aims to improve the transparency and soundness of corporate activities while fostering a corporate culture characterized by an increased awareness of corporate ethics and compliance. Furthermore, in May of 2005, we distributed to all Group employees in Japan a wallet-sized compliance card, which they can use as a reference to check their behavior on a regular basis, with the aim of infusing an awareness of legal compliance and corporate ethics among employees. We plan to translate this card into several different languages and distribute it to group companies located outside Japan as well.

The Internal Control Committee not only serves to ensure the reliability of the company's financial reporting in accordance with the Sarbanes-Oxley Act, but also aims to ensure the effectiveness and efficiency of our business operations, as well as compliance with related laws, regulations, and internal controls. The committee performs reviews on control systems for the entire Canon Group and has documented control activities related to the company's operations. In the future, the committee will improve the documented internal-control processes and intensify efforts targeting more efficient operation processes.

Moreover, in February 2005, Canon Inc. established the Disclosure Committee to ensure not only that we are in compliance with applicable laws, rules, and regulations, but also to ensure that all important information that is disclosed is accurate, complete in every detail, fair, and made available in a timely manner.

**Basic policy regarding profit distribution**

With regard to profit distribution, Canon gives the highest priority to cash dividend distribution. In accordance with this policy, and based on our improved performance in fiscal 2004, we increased the full-year dividend per share from 50 yen in 2003, to 65 yen for the fiscal year ended on December 31, 2004.

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As for future dividends, we intend to maintain a stable dividend payment policy which, whenever possible, reflects our performance on a consolidated basis and also comprehensively takes into account such factors as our financial situation and capital requirements to fund future business expansion and improve profitability.

As for internal cash reserves, these funds will be used to support investment in such areas as current business expansion, new business cultivation, and strengthening our operating base.

**Basic policy regarding share trading unit**

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

In view of this policy, the company changed the number of shares that constitute one trading unit from 1,000 to 100, effective May 6, 2004.

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Looking back at the global economy in the first half of 2005, despite worldwide concern over the economic impact of high crude oil prices and escalating costs of raw materials, economic growth was fairly steady during the term. In the United States, employment conditions continued to show improvement while consumer spending remained healthy, which helped fuel the ongoing trend of gradual expansion. In Europe, the effects of such factors as sluggish domestic demand have resulted in an economic slowdown. As for Asia, while the rate of expansion declined somewhat, China continued to realize high growth, and other Asian economies also enjoyed generally favorable performances. In Japan, such factors as improved consumer spending and an increase in capital spending fueled by favorable corporate profits indicated a trend of modest growth.

As for the markets in which the Canon Group operates, within the camera segment demand for digital single-lens-reflex (SLR) cameras continued to grow significantly in Japan and overseas markets during the term. Although sales of digital compact cameras leveled off in Japan, they remained strong in overseas markets to realize healthy growth overall. As for network digital multifunction devices (MFDs), demand shifted toward increasing multifunctionality, speed and color capability in the business market, while price competition intensified within the market for lower-speed models. Although sales of computer peripherals, including printers, grew for both multifunction and color models, the segment suffered amid severe price competition and a shift in demand toward high-performance low-priced machines. Demand for steppers, used in the production of semiconductors, tapered off because investment by manufacturers has entered a correction phase, resulting in sluggish sales. Increased demand for liquid crystal display (LCD) televisions, however, fueled growth in the market for projection aligners, which are used in the production of LCDs. The average value of the yen for the first half was ¥106.18 to the U.S. dollar and ¥136.14 to the euro, representing a year-on-year increase of almost 2% against the U.S. dollar, and a decrease of a little over 2% against the euro.

Amid these conditions, Canon's consolidated net sales for the first half increased by 6.5% from the year-ago period to ¥1,755.8 billion (U.S.\$15,818 million), boosted by a favorable rise in sales of digital cameras and color network MFDs, along with a substantial increase in sales of projection aligners used in the production of LCDs. Net income for the first half recorded a first-half high of ¥175.3 billion (U.S.\$1,579 million), a year-on-year increase of 9.0%. Canon's gross profit ratio for the half was 48.4%, a decline of 1.7 points from the 50.1% ratio recorded in the first half of 2004. Although production-reform efforts continued during the term, the decline in the gross profit ratio was mainly caused by a combination of such factors as increases in the prices of crude oil and raw materials, and severe price competition mainly among consumer products. Selling, general and administrative expenses for the first half rose 1.3% year-on-year, which was less than the growth rate of net sales during the same period; Although R&D expenditures grew by ¥4.0 billion (U.S.\$36 million) to ¥136.4 billion (U.S.\$1,229 million) during the first half, other selling, general and administrative expenses remained at the same level as the year-ago period. Operating profit ratio for the first half was 15.4%, the same rate as the year-ago period. Consequently, operating profit in the first half totaled ¥270.2 billion (U.S.\$2,434 million), a year-on-year increase of 6.6%. Other income (deductions) improved by ¥6.9 billion (U.S.\$63 million), mainly due to a ¥3.6 billion (U.S.\$33 million) improvement in interest income (expense), along with a substantial decrease in currency exchange losses on foreign-currency-denominated trade receivables. As a result, income before income taxes and minority interests in the first half totaled ¥283.7 billion (U.S.\$2,556 million), a year-on-year increase of 9.1%. The effective tax rate during the half was 35.7%, the same rate as the year-ago period. Consequently, net income for the first half of 2005 totaled ¥175.3 billion (U.S.\$1,579 million). Basic net income per share for the first half was ¥197.61 (U.S.\$1.78), a year-on-year increase of ¥15.77 (U.S.\$0.14).



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In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, indicates a shift from monochrome machines to color models, as well as a trend toward higher-end features. Additionally, amid color network digital MFDs, the iR C3220/2620 and iR C3100 series continued to sell well and recorded healthy sales increases in both Japan and Europe. The company bolstered the strength and competitiveness of its MFD products with the Japanese-market launch in May of the iR C3170/2570 series, successor to the iR C3100 series. The company strengthened its lineup of monochrome network digital MFDs with the launch of the high-end office-use iR6570/5570 models, which contributed to the realization of expanded sales, while the low-end and mid-range office-use iR4570/3570/2870/2270 models also enjoyed healthy sales. Overall, sales of office imaging products in the first half realized a year-on-year increase of 2.4%. In the field of computer peripherals, laser beam printers enjoyed a year-on-year increase in unit sales of nearly 30%, with both monochrome systems, particularly personal-use models, and color models achieving growth. Sales in value terms also realized double-digit growth despite the effects of the shift in market demand toward lower priced models and the appreciation of the yen against the U.S. dollar. Inkjet printers recorded a considerable increase in unit sales of approximately 15%, with the PIXMA iP3000 and iP4000 models maintaining brisk sales, high-speed multifunction systems, such as the PIXIMA MP760, fueling sales growth, and the launch of popular models for markets outside of Japan, such as the PIXMA MP110/130, contributing to a stronger product lineup. Although unit sales of inkjet printers increased significantly, due to the impact of intensified price competition, sales in terms of value rose only slightly. As a result, sales of computer peripherals for the first half realized a year-on-year increase of 8.9%. Sales of business information products decreased by 10.2% due to the intentional curtailing of personal computer sales in the Japanese market. Collectively, sales of business machines during the first half totaled ¥1,197.0 billion (U.S.\$10,784 million), a year-on-year increase of 4.8%. Operating profit for the first half totaled ¥259.5 billion (U.S.\$2,337 million), a year-on-year increase of 4.3%, as cost reductions realized through the integration of manufacturing and development operations cancelled out the effects of rising materials prices and the drop in retail prices.

Within the camera segment, digital SLR cameras continued to enjoy robust growth, bolstered by particularly strong sales of the EOS DIGITAL REBEL XT launched in March, along with continued strong demand for the EOS 20D, which has also led to expanded sales of interchangeable SLR lenses. The introduction of several new compact-model digital cameras the PowerShot SD500, PowerShot SD400, PowerShot A520, and PowerShot A510 also fueled sales growth. In the field of digital video camcorders, newly introduced models such as the Optura 60, Elura 90, and ZR100 recorded strong performances. As a result, overall camera sales for the first half increased by 9.2% from the year-ago period to ¥379.1 billion (U.S.\$3,416 million). Although the operating profit ratio decreased by 1.4 points due to the effects of a decline in selling prices, operating profit for the camera segment increased year-on-year by 0.7% to ¥61.9 billion (U.S.\$557 million).

In the optical and other products segment, sales of steppers, used for the production of semiconductors, decreased because investment by manufacturers has entered a correction phase. Sales of aligners for the production of LCDs enjoyed robust growth as LCD display manufacturers actively carried out new investments. As a result, first-half sales for the segment totaled ¥179.7 billion (U.S.\$1,618 million), a year-on-year increase of 13.1%. Operating profit for the segment grew year-on-year by 38.8% to ¥21.0 billion (U.S.\$190 million), boosted by an increase in sales volume.

**Cash Flow**

In the first half of 2005, although Canon maintained cash flow from operating activities of ¥258.0 billion (U.S.\$2,324 million), reflecting the substantial growth in sales and increased cash proceeds from sales, combined with an increase in net income, the figure represents a year-on-year decrease of ¥39.9 billion (U.S.\$359 million) due to the increased corporate tax payment accompanying the increase in profit last year. Capital expenditure totaled ¥174.1 billion (U.S.\$1,568 million), which was used mainly to expand production capabilities in both Japan and overseas regions, as well as to bolster the company's R&D-related infrastructure. Cash flow from investing activities totaled ¥181.1 billion (U.S.\$1,631 million). As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled ¥76.9 billion (U.S.\$693 million).

Cash flow from financing activities recorded an outlay of ¥38.4 billion (U.S.\$346 million), mainly resulting from the dividend payout of ¥35.5 billion (U.S.\$320 million), an increase of ¥4.7 billion (U.S.\$42 million) over the previous

year. Consequently, cash and cash equivalents remained at a high level, totaling ¥935.9 billion (U.S.\$8,432 million), an increase of ¥48.1 billion (U.S.\$434 million) from the end of the previous year.

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**Non-consolidated Results and Dividend**

Canon Inc.'s non-consolidated net sales during the first half increased by 7.4% year on year to ¥1,158.5 billion (U.S.\$10,437 million), and ordinary profit also grew by 6.3% to ¥210.1 billion (U.S.\$1,893 million).

Non-consolidated net income increased 8.6% to ¥137.9 billion (U.S.\$1,243 million) owing to a decrease in the effective tax rate compared with the previous year.

The Board of Directors is planning to increase the interim dividend by ¥7.50 (U.S.\$0.07) to ¥32.50 (U.S.\$0.29) per share.

**Outlook**

Regarding the outlook for the global economy in the third quarter and thereafter, although prospects remain uncertain due to the decline in corporate profits caused by increasing prices for crude oil and raw materials, and concern over exchange rate trends such as the revaluation of the Chinese yuan, the global economy is likely to continue its course toward modest recovery.

In the businesses in which Canon is involved, demand in the digital-camera market, primarily overseas, is expected to continue growing. Competition in the MFD market will likely intensify with the introduction of network digital MFDs with increasingly advanced features to support solutions businesses, and the launch of new color digital network MFD models in response to growing market demand for color multifunction office systems. As for laser beam printers, while stable demand is projected to fuel increased unit sales of full-color models, severe price competition and shifting demand toward lower-priced models is expected to continue. Within the semiconductor-production equipment market, despite the slowdown in capital expenditure by semiconductor manufacturers and a leveling off of market growth, demand for projection aligners is expected to remain strong.

The company has revised its forecasts for the 2005 fiscal year and now anticipates consolidated net sales of ¥3,680.0 billion (U.S.\$33,153 million), consolidated income before income taxes and minority interests of ¥594.0 billion (U.S.\$5,351 million), and consolidated net income of ¥367.0 billion (U.S.\$3,306 million). The company also projects non-consolidated net sales of ¥2,446.0 billion (U.S.\$22,036 million), non-consolidated ordinary profit of ¥427.0 billion (U.S.\$3,847 million), and non-consolidated net income of ¥277.0 billion (U.S.\$2,495 million). Although uncertainty surrounds several factors that could affect currency exchange rates, significant changes in rates are not anticipated. The yen is expected to be weaker against the U.S. dollar and to be stronger against the euro compared with the previous year. Accordingly, the company's forecasts for the remainder of 2005 are based on currency exchange assumptions of ¥110.00 to the U.S. dollar and ¥132.00 to the euro.

**Table of Contents****Consolidated Outlook  
Fiscal year**

	Millions of yen			Year ended December 31, 2004	Change (%)
	Year ending		Change		
	December 31, 2005				
	Previous Outlook (A)	Revised Outlook (B)			
Net sales	¥ 3,650,000	¥ 3,680,000	¥ 30,000	¥ 3,467,853	+ 6.1%
Income before income taxes and minority interests	593,000	594,000	1,000	552,116	+ 7.6%
Net income	367,000	367,000		343,344	+ 6.9%

**Non-consolidated Outlook  
Fiscal year**

	Millions of yen			Year ended December 31, 2004	Change (%)
	Year ending		Change		
	December 31, 2005				
	Previous Outlook (A)	Revised Outlook (B)			
Net sales	¥ 2,460,000	¥ 2,446,000	¥ (14,000)	¥ 2,278,374	+ 7.4%
Ordinary profit	427,000	427,000		396,250	+ 7.8%
Net income	270,000	277,000	7,000	249,251	+ 11.1%

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

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

GROUP POSITION

1. NUMBER OF GROUP COMPANIES

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.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**1. CONSOLIDATED STATEMENTS OF INCOME****Results for the second quarter**

	Millions of yen		Change(%)		Thousands of U.S. dollars
	<b>Three months ended June 30, 2005 (Unaudited)</b>	<b>Three months ended June 30, 2004 (Unaudited)</b>			<b>Three months ended June 30, 2005 (Unaudited)</b>
Net sales	¥912,473	¥ 850,368	+	7.3	\$ 8,220,477
Cost of sales	472,097	420,058			4,253,126
Gross profit	440,376	430,310	+	2.3	3,967,351
Selling, general and administrative expenses	313,469	310,457			2,824,045
Operating profit	126,907	119,853	+	5.9	1,143,306
Other income (deductions):					
Interest and dividend income	3,289	1,719			29,631
Interest expense	(303)	(667)			(2,730)
Other, net	4,389	3,207			39,541
	7,375	4,259			66,442
Income before income taxes and minority interests	134,282	124,112	+	8.2	1,209,748
Income taxes	48,874	44,154			440,307
Income before minority interests	85,408	79,958			769,441
Minority interests	3,197	3,462			28,801
Net income	¥ 82,211	¥ 76,496	+	7.5	\$ 740,640

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 net gains (losses) on derivative financial instruments and change in minimum pension liability adjustments. Comprehensive income for three months ended June 30, 2005 and 2004 were JPY86,568 million (U.S.\$779,892 thousand) and JPY86,627 million, respectively.

**Results for the first half**

Millions of yen	Thousands of U.S. dollars
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