

CANON INC
Form 6-K
September 30, 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 June 30, 2003

CANON INC.

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

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

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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 September 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. Semiannual Report filed with the Japanese government pursuant to the Securities and Exchange Law of Japan
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[English summary with full translation of consolidated financial information]

**Semiannual Report filed with the Japanese government
pursuant to the Securities and Exchange Law of Japan**

**For the six months ended
June 30, 2003**

**CANON INC.
Tokyo, Japan**

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Disclaimer Regarding Forward-Looking Statements

This semiannual report includes forward-looking statements (within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934) concerning Canon Inc. and its subsidiaries. To the extent that statements in this semiannual report do not relate to historical or current facts, they constitute forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of Canon in light of the information currently available to them, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause Canon's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. Canon undertakes no obligation to publicly update any forward-looking statements after the date of this semiannual report. Investors are advised to consult any further disclosures by Canon in its subsequent filings with the U.S. Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 and its other filings.

The risks, uncertainties and other factors referred to above include, but are not limited to, exchange rate fluctuations; the uncertainty of Canon's ability to implement its plans to localize production and other measures to reduce the impact of exchange rate fluctuations; uncertainty as to economic condition, in Canon's major markets; uncertainty of continued demand for Canon's high-value-added products; uncertainty as to the recovery of computer and related markets; uncertainty of recovery in demand for Canon's semiconductor production equipment; Canon's ability to continue to develop products and to market products that incorporate new technology on a timely basis, are competitively priced and achieve market acceptance; the possibility of losses resulting from foreign currency transactions designed to reduce financial risks from changes in foreign exchange rates; and inventory risk due to shifts in market demand.

Note: Certain information that has been previously filed with the SEC in other reports, including English summaries of non-consolidated (parent company alone) financial information, is not included in this English translation.

Table of Contents**I. Corporate Information****(1) Consolidated Financial Summary**

| | Millions of Yen (except per share amounts) | | | | |
|--|--|-----------|-----------|------------------------|-----------|
| | Six months ended June 30 | | | Year ended December 31 | |
| | 2001 | 2002 | 2003 | 2001 | 2002 |
| Net sales | 1,473,975 | 1,384,483 | 1,535,588 | 2,907,573 | 2,940,128 |
| Income before income taxes | 168,622 | 127,195 | 215,506 | 281,566 | 330,017 |
| Net income | 100,063 | 73,205 | 127,767 | 167,561 | 190,737 |
| Stockholders' equity | 1,398,000 | 1,499,994 | 1,745,017 | 1,458,476 | 1,591,950 |
| Total assets | 2,827,275 | 2,764,509 | 3,120,088 | 2,844,756 | 2,942,706 |
| Net assets per share (Yen) | 1,595.72 | 1,710.86 | 1,986.32 | 1,664.52 | 1,813.65 |
| Earnings per share: basic (Yen) | 114.26 | 83.51 | 145.55 | 191.29 | 217.56 |
| Earnings per share: diluted (Yen) | 112.67 | 82.46 | 143.99 | 188.70 | 214.80 |
| Stockholders' equity to total assets (%) | 49.4 | 54.3 | 55.9 | 51.3 | 54.1 |
| Cash flows from operating activities | 178,180 | 202,917 | 228,300 | 305,752 | 448,950 |
| Cash flows from investing activities | (106,624) | (130,666) | (111,328) | (192,592) | (230,220) |
| Cash flows from financing activities | (69,662) | (119,933) | (46,688) | (121,228) | (183,714) |
| Cash and cash equivalents at end of period | 487,257 | 445,206 | 591,130 | 506,234 | 521,271 |
| Number of employees | 94,625 | 97,382 | 100,308 | 93,620 | 97,802 |

Notes:

- The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States.
- Consumption tax is excluded from the stated amount of Net sales.

(2) Number of Employees

Canon's number of employees by product group are summarized as follows:

| Number of Employees by Product Group | As of June 30, 2003 |
|--------------------------------------|------------------------|
| Business Machines | 67,774 |
| Cameras | 14,927 |
| Optical and other products | 12,840 |
| Corporate | 4,767 |
| Total | 100,308 |

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II. The Business

(1) Operating Results

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

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

Amid these conditions, Canon's consolidated net sales for the first half increased by 10.9% from the year-ago period to ¥1,535.6 billion, boosted by a significant rise in sales of digital cameras, along with a recovery in sales of semiconductor-production equipment and laser beam printers, which had suffered a large drop in the first half of the previous year due to inventory adjustment by our OEM partner. On a half-year basis, net income recorded an all-time high of ¥127.8 billion, a year-on-year increase of 74.5%. The gross profit ratio for the half was 50.5%, surpassing the 50% mark for the first time ever, representing a 3.5% improvement from the 47.0% mark achieved a year ago. This achievement was made possible through Canon's R&D reforms, which have supported the timely launch of competitive new products, and cost savings realized through sustained production reforms and the overseas shifting of production. Selling, general and administrative expenses rose 9.7% year on year for the first half which was within the increase of sales, as R&D expenditures increased by ¥15.2 billion to ¥125.7 billion along with increases in advertising and sales-promotion spending. Consequently, operating profit in the first half totaled ¥216.0 billion, a substantial increase of 54.2%. Other income improved by ¥12.4 billion through reduced currency exchange losses. As a result, income before income taxes in the first half totaled ¥215.5 billion, a year-on-year increase of 69.4%. At the end of March 2003, an amendment to the Japanese tax regulations was announced that would introduce an added value component and capital component standard to a portion of enterprise tax. As a result, the standard Japanese income tax rate will be reduced from the 2005 fiscal year. Although tax expenses increased temporarily following a reduction in deferred tax assets as a result of this amendment, with the increased tax credit for R&D expenses as well as the solid performance by the company's overseas subsidiaries, the effective tax rate during the half decreased by 2.1% compared with the previous year. Consequently, net income in the first half of 2003 totaled ¥127.8 billion, a year-on-year increase of 74.5%.

Basic earnings per share for the first half was ¥145.55, a year-on-year increase of ¥62.04.

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Canon's semiannual results by business segment are summarized as follows:

In the business machine segment, Canon's powerful imageRUNNER(iR)-series lineup of digital networked black-and-white multifunction copying machines realized healthy sales growth worldwide. In particular, the low-end iR 1600 series continued to record strong sales during the term. Among digital networked color copying machines, the iR C3200/iR C3200N, released domestically at the end of last year, has been well received in both Japan and abroad, which also contributed to increased sales of office imaging products. Overall, sales of office imaging products for the half realized a year-on-year increase of 3.0%. In the field of computer peripherals, sales of laser beam printers, which had dropped significantly during the same period of the previous year due to inventory adjustment by our OEM partner, showed robust growth as a result of a recovery in orders. Sales of inkjet printers, however, dipped slightly despite continued favorable sales of the i550 and i850 models, and strong performances by such new products as the MultiPASS MP700/MP730 multifunction inkjet systems and the portable i70 color printer, reflecting stagnant market demand for personal computers and the effects of severe price competition. As a result, sales of computer peripherals in the first half increased by 11.5%. Sales of business information products, including computers, micrographics and calculators, decreased by 18.3% due to declining personal computer sales. Consequently, first half sales of business machines overall totaled ¥1,128.0 billion, a 5.3% increase year on year. In addition to cost-cutting measures and the introduction of new price-competitive products, which contributed to a 4.4% improvement in the operating profit margin, a substantial increase in sales volume for laser beam printers boosted first-half operating profit by 33.5% year on year to ¥237.4 billion.

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

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

Semiannual results by domestic and overseas company location are summarized as follows:

Japan

Sales in Japan increased 8.0% from the previous period to ¥413.5 billion, mainly due to expanded sales in digital copying machine, color copying machine and digital camera. This was despite a decline in sales of personal computer. Geographical operating profit rose 43.5% from the previous period to ¥242.2 billion.

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Americas

Sales increased 10.8% from the previous period to ¥511.6 billion. The negative impact of a decline in inkjet printer and office-used copying machine sales was offset by increased sales of laser beam printer and digital cameras. Geographical operating profit also rose by 49.7% from the previous period to ¥30.3 billion.

Europe

Sales increased 14.9% from the previous period to ¥464.0 billion. Sales of digital camera and laser beam printer showed steady growth, while the average value of yen remained to stay weak against the euro. Geographical operating profit rose sharply by 97.7% from the previous period to ¥14.3 billion.

Asia and others

Sales increased 7.7% from the previous period to ¥146.5 billion, mainly due to an increase in semiconductor production equipment and digital camera sales. Geographical operating profit also rose by 21.6% from the previous period to ¥8.7 billion.

Cash Flows

Cash and cash equivalents increased by ¥69.9 billion from the end of the previous year, to ¥591.1 billion at the end of the first half of 2003.

Cash flows from operating activities

Cash flow from operating activities in the first half of 2003 increased by ¥25.4 billion from the previous period to ¥228.3 billion, reflecting substantial net income growth, as well as an increase in depreciation.

Cash flows from investing activities

Cash flows from investing activities totaled ¥111.3 billion, a decrease of ¥19.3 billion from the previous period, as capital expenditure totaled ¥109.8 billion, which was used mainly to expand production capabilities in both domestic and overseas regions. Also consists is a ¥12.7 billion outlay for the acquisition of Sumitomo Metal System Solutions Co. Ltd., now Canon System Solutions Inc.

Cash flows from financing activities

Cash flow from financing activities recorded an outlay of ¥46.7 billion, a decrease of ¥73.2 billion from the previous period, mainly resulting from active efforts to repay short-term loans toward the goal of improving Canon's financial position.

As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, remained positive at ¥117.0 billion.

Table of Contents**(2) Managerial Issues to be Addressed**

There were no significant changes or new developments in Canon's managerial and financial issues to be addressed during the first half of 2003.

(3) R&D Expenditure

Canon has positioned 2003, the third year of Phase II (2001-2005) of the Excellent Global Corporation Plan. Canon has been making efforts to build R&D capacity which enables us to acquire a top share in every main business area and to create new business opportunities one after another by the year of 2005. Canon's R&D expenditures for the six months ended June 30, 2003 totaled ¥125,732 million.

R&D expenditures by product group are summarized as follows:

| R&D Expenditure by Product Group | Millions of Yen | |
|----------------------------------|--------------------------|---------|
| | Six months ended June 30 | |
| | 2003 | 2002 |
| Business Machines | 58,456 | 55,434 |
| Cameras | 15,528 | 12,983 |
| Optical and other products | 12,318 | 9,760 |
| Corporate | 39,430 | 32,398 |
| Total | 125,732 | 110,575 |

III. Property, Plant, and Equipment**(1) Major Capital Investment**

There were no significant changes to the status of existing major capital investment during the first half of 2003.

(2) Prospect of Capital Investment in fiscal 2003

There were no significant changes for the plans for new construction and retirement of capital investment, originally made at the end of the previous year, during the first half of 2003. Also, there were no significant additional plans for new construction or retirement of capital investment, during the first half of 2003.

Table of Contents**IV. Shares****(1) Shares**

Total number of authorized shares is 2,000,000,000 shares. The common stock of the Company is listed on the Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Frankfurt and New York stock exchanges. Total issued shares, common stock and number of shareholders are as follows:

| | As of December 31, 2002 | Increase/Decrease during This Term | As of June 30, 2003 |
|--------------------------------|-------------------------------|--|------------------------|
| Total issued shares (share) | 879,136,244 | 855,710 | 879,991,954 |
| Common stock (Millions of yen) | 167,242 | 641 | 167,883 |

Note: The increase of the total issued shares during this term reflects the conversion of convertible shares.

(2) Major Shareholders

| | Number of shares held (thousands of shares) | (as of June 30, 2003) Number of shares held to Number of shares issued |
|--|--|--|
| State Street Bank and Trust Company | 61,349 | 6.97% |
| The Dai-Ichi Mutual Life Insurance Co. | 59,591 | 6.77% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 52,157 | 5.93% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 40,772 | 4.63% |
| Mizuho Corporate Bank, Ltd. | 32,784 | 3.73% |
| The Chase Manhattan Bank, N.A. London | 29,188 | 3.32% |
| Boston Safe Deposit BSDT Treaty Clients Omnibus | 25,097 | 2.85% |
| Moxley and Co. | 24,451 | 2.78% |
| The Chase Manhattan Bank, N.A. London Secs | 23,455 | 2.66% |
| Lending Omnibus Account | | |
| UFJ Trust Bank Ltd. (Trust Account A) | 16,685 | 1.90% |

| | Number of shares held (thousands of shares) | (as of December 31, 2002) Number of shares held to Number of shares issued |
|--|--|---|
| The Dai-Ichi Mutual Life Insurance Co. | 59,090 | 6.72% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 48,428 | 5.50% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 46,034 | 5.24% |
| State Street Bank and Trust Company | 39,905 | 4.54% |
| Mizuho Corporate Bank, Ltd. | 32,784 | 3.73% |
| Euroclear Bank SA/NV | 30,791 | 3.50% |
| The Chase Manhattan Bank, N.A. London | 28,838 | 3.28% |
| Boston Safe Deposit BSDT Treaty Clients Omnibus | 24,270 | 2.76% |
| Moxley and Co. | 23,783 | 2.71% |

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The Chase Manhattan Bank, N.A. London Secs
Lending Omnibus Account

23,373

2.66%

(3) **Stock Price Transition**

The following table sets forth the monthly reported high and low sales prices of the Company's common stock on the Tokyo Stock Exchange for the first half of fiscal 2003:

| | (Yen) | | | | | |
|------|----------------|-----------------|--------------|--------------|------------|-------------|
| | <u>January</u> | <u>February</u> | <u>March</u> | <u>April</u> | <u>May</u> | <u>June</u> |
| High | 4,730 | 4,390 | 4,530 | 4,820 | 5,070 | 5,820 |
| Low | 4,060 | 4,130 | 3,910 | 4,050 | 4,590 | 5,020 |

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V. Financial Statements

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CANON INC. AND SUBSIDIARIES
Consolidated Balance Sheets
as of June 30, 2002 and 2003, and December 31, 2002

| | Millions of yen | | |
|---|-----------------|-------------|---------------------|
| | June 30 | | December 31 2002 |
| | 2002 | 2003 | |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | 445,206 | 591,130 | 521,271 |
| Marketable securities (note 2) | 7,258 | 1,414 | 7,255 |
| Notes Receivable | 31,618 | 29,929 | 26,456 |
| Accounts Receivable | 414,717 | 482,379 | 484,162 |
| Allowance for doubtful receivable | (11,602) | (15,113) | (12,031) |
| Finished goods | 284,398 | 310,861 | 288,592 |
| Work in process | 126,690 | 149,522 | 127,769 |
| Raw materials | 16,295 | 15,531 | 15,890 |
| Prepaid expenses and other current assets | 226,140 | 266,505 | 245,610 |
| | 1,540,720 | 1,832,158 | 1,704,974 |
| Noncurrent receivables (note 7) | 20,392 | 17,089 | 20,568 |
| Investments | | | |
| Investments in Affiliated Companies | 29,757 | 26,583 | 30,007 |
| Other (notes 2 and 3) | 37,591 | 39,534 | 34,030 |
| | 67,348 | 66,117 | 64,037 |
| Property, plant and equipment (note 3) | | | |
| Land | 168,433 | 177,294 | 167,848 |
| Buildings | 735,878 | 769,564 | 743,473 |
| Machinery and equipment | 944,114 | 992,217 | 962,037 |
| Construction in progress | 30,905 | 20,317 | 34,640 |
| | 1,879,330 | 1,959,392 | 1,907,998 |
| Subtotal | 1,879,330 | 1,959,392 | 1,907,998 |
| Accumulated depreciation | (1,048,952) | (1,104,216) | (1,077,694) |
| | 830,378 | 855,176 | 830,304 |
| Net Property, plant and equipment | 830,378 | 855,176 | 830,304 |
| Other Assets | 305,671 | 349,548 | 322,823 |
| | 2,764,509 | | |
| Total assets | 2,764,509 | | |