



## RESULTS FOR THE FIRST QUARTER OF FISCAL 2001

April 26, 2001

### CONSOLIDATED RESULTS

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

	Actual			Projected		
	Three months ended March 31, 2001	Three months ended March 31, 2000	Change(%)	Three months ended March 31, 2001	Year ending December 31, 2001	Change(%)
	(Unaudited)	(Unaudited)		(Unaudited)		
Net sales	¥ 714,698	¥ 641,118	+ 11.5	\$ 5,763,694	¥ 3,030,000	+ 12.4
Operating profit	78,156	70,787	+ 10.4	630,290	335,000	+ 36.2
Income before income taxes	73,711	67,730	+ 8.8	594,444	340,000	+ 49.7
Income before cumulative effect of accounting change	39,635	36,074	+ 9.9	319,637	-	-
Net income	43,327	36,074	+ 20.1	349,411	195,000	+ 45.4

#### Net income per share:

##### (Before cumulative effect of accounting change)

- Basic	¥ 45.26	¥ 41.38	+ 9.4	\$ 0.37	-	-
- Diluted	44.64	40.74	+ 9.6	0.36	-	-

##### (After cumulative effect of accounting change)

- Basic	¥ 49.48	¥ 41.38	+ 19.6	\$ 0.40	¥ 222.69	+ 44.9
- Diluted	48.79	40.74	+ 19.8	0.39	-	-

	Actual		
	As of March 31, 2001	As of Dec. 31, 2000	Change(%)
	(Unaudited)		
Total assets	¥ 2,870,268	¥ 2,832,125	+ 1.3
Stockholders' equity	¥ 1,351,919	¥ 1,298,914	+ 4.1

- Notes: 1. Canon's consolidated financial statements conform with accounting principles generally accepted in the United States of America.  
 2. In this report, U.S. dollar amounts are translated from yen at the rate of US\$ = JPY 124.00, the approximate exchange rate on the Tokyo Foreign Exchange Market as of March 30, 2001, solely for the convenience of the reader.

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# Operating Results

## **2001 First Quarter in Review**

In the first quarter of 2001, the future outlook for the U.S. economy grew increasingly unclear due to dropping stock prices and other issues, consumer spending grew only slightly, and companies in the private sector began taking a more cautious approach to capital investment, all of which contributed to a more pronounced feeling of an overall economic slowdown. In Japan, amidst continued low stock prices, consumer spending remained sluggish and the economy lackluster. On the other hand, the European economy maintained a pace of stable expansion and the performance of the economies in Asia were generally favorable, even in spite of the effects of the slowdown in Japan and the United States.

In the markets in which the Canon Group operates, favorable results were posted for business machines, including IT-related equipment such as printers and digital copying machines, even despite the weakened demand caused by unfavorable economic conditions in Japan and the United States. In the field of semiconductor-production equipment, although drastic changes in the memory devices market led manufacturers to curtail capital expenditures, shipments advanced markedly in response to the increased orders received during last year. The average value of the yen for the quarter was ¥118.35 to the U.S. dollar and ¥109.08 to the euro, a decrease of 9% and 3%, respectively, from the corresponding period for the previous year.

In this environment, owing to robust sales throughout product segments and the low value of the yen, Canon achieved consolidated net sales of ¥714.7 billion (US\$ 5,764 million) in the first quarter, a double-digit advance of 11.5% over the same period for the year before. The Company's gross profit ratio for the period, while positively affected by continuous cost reduction initiatives and the low value of the yen, was 41.7%, approximately the same level as for the first quarter of 2000 due to falling product prices. Selling, general and administrative expenses rose 11.0% from the previous year as R&D expenditure increased 9.7% to ¥42.9 billion (US\$ 346 million) and selling expenses also grew. As a result, operating profit in the first quarter totaled ¥78.2 billion (US\$ 630 million), an increase of 10.4%. In the area of non-operating income and expenses, the promotion of cash flow management has resulted in improved financial strength, making possible net interest income of ¥0.1 billion (US\$ 1 million), a ¥1.3 billion (US\$ 10 million) improvement compared with the net interest expense of ¥1.2 billion (US\$ 9 million) from the year earlier. Non-operating income and expenses overall, however, deteriorated in the first quarter by ¥1.4 billion (US\$ 11 million) from the same period for the previous year, mainly due to the currency exchange rate. Consequently, income before income taxes totaled ¥73.7 billion (US\$ 594 million), an increase of 8.8%, and net income, including the cumulative effect of accounting change, grew a notable 20.1% to ¥43.3 billion (US\$ 349 million).

Net income per share for the period was ¥49.48 (US\$ 0.40), an ¥8.10 (US\$ 0.07) increase from the corresponding period for the previous year, owing to the growth in net income.

### Note:

Canon adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities" and SFAS 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment of SFAS 133, from the fiscal year beginning 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. The cumulative effect adjustment upon the adoption of SFAS 133 and 138, net of the related income tax effect, is disclosed as the "Cumulative effect of accounting change" in the statement of income.

Canon also adopted Emerging Issues Task Force issue No.00-14 (EITF00-14) "Accounting for Certain Sales Incentives" and EITF00-22 "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future" from the fiscal year beginning January 1, 2001 and has applied these standards retroactively to the financial statements for the prior year. EITF00-14 requires that certain sales incentives provided by vendors that entitle a customer to receive a reduction in the price of a product or service as a result of a single exchange transaction, which were previously accounted for as expenses, be classified as a reduction of sales. EITF00-22 requires that certain sales incentives provided by vendors that entitle a customer to receive a reduction in the price of a product or service based on a specified cumulative level of transactions also be recognized as a reduction of sales.

## **Results by Product Segment**

In the business machine segment, sales of copying machines grew 11.6%, fueled by strong global demand for digital copying machines. In the field of computer peripherals, while sales of laser beam printers and

Bubble Jet printers were at approximately the same levels as the year before, the low value of the yen contributed to a 9.5% sales increase. Sales of business systems, including facsimile machines, computers, micrographics and calculators, decreased 5.9%, negatively influenced by severe price competition in the facsimile market. As a result, overall sales of business machines reached ¥568.4 billion (US\$ 4,584 million), achieving 7.7% sales growth from the previous year. Operating profit in the business machine segment for the period, however, decreased 2.6%, to ¥86.5 billion (US\$ 698 million), as the positive effect of the weak yen was offset by the negative effect of increased price competition.

Although demand for 35mm and APS (Advanced Photo System) cameras slipped under the effects of the increasing popularity of digital cameras, the continuing rapid growth of the digital camera market sustained a significant rise in sales, and demand for video camcorders was also strong. Overall, sales of the camera segment achieved double-digit growth, increasing 21.1%, to ¥71.8 billion (US\$ 579 million). Operating profit for the camera segment advanced 14.7%, to ¥5.1 billion (US\$ 41 million), attributable to improved profitability realized through the rapid growth in sales of digital cameras.

Sales of optical and other products, supported by active capital investment by semiconductor device manufacturers, leaped 37.6%, to ¥74.5 billion (US\$ 601 million). Also, the improved profitability of semiconductor production equipment and other products sustained an ¥8.3 billion (US\$ 67 million) increase in operating income, to ¥9.1 billion (US\$ 73 million).

### **Cash Flow**

Cash flow from operating activities in the first quarter of 2001 reached ¥63.3 billion (US\$ 510 million), owing primarily to the large increase in net income. Capital expenditure totaled ¥46.7 billion (US\$ 377 million), which was mainly used for construction of a new head office building and the expansion of manufacturing facilities for the increased production of semiconductor production equipment. Cash flow from investing activities was ¥48.7 billion (US\$ 392 million). As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled positive ¥14.6 billion (US\$ 118 million).

As for cash flow from financing activities, ¥51.7 billion (US\$ 417 million) was posted in net cash used in financing activities, mainly as a result of active efforts to repay short-term and long-term debt toward the goal of improving Canon's financial position. Cash and cash equivalents totaled ¥458.7 billion (US\$ 3,699 million), a ¥35.2 billion (US\$ 284 million) decrease from the end of the previous year.

### **Outlook**

Regarding the outlook for the second quarter and thereafter, signs of an economic recovery in the United States are not anticipated before the second half of this year as the economic adjustment stage is projected to take longer than expected. In the Japanese economy, consumer spending is not expected to rise rapidly and the overall feeling of stagnancy will probably continue. While a slowdown is anticipated in the pace of economic growth in Europe and Asia, mostly because of the sluggishness in Japan and the United States, the economies of these regions are generally expected to outperform those of the aforementioned countries.

In the businesses in which Canon is involved, stable demand is anticipated for digital and full-color machines, and the digital camera market is also expected to continue expanding. Within the semiconductor production equipment market, restrained capital investment by chip manufacturers is forecast to lead to a rapid drop in orders.

Significant changes in currency exchange rates are not predicted and the yen is expected to remain weak.

With the announcement of consolidated results for fiscal 2000, Canon released its forecast for the Canon Group's in 2001. However, in accordance with the changes in accounting standards described above, and considering the current market and currency exchange environments, Canon has revised these forecasts and now anticipates consolidated net sales of ¥3,030.0 billion (US\$ 24,435 million), consolidated income before income taxes of ¥340.0 billion (US\$ 2,742 million), and consolidated net income of ¥195.0 billion (US\$ 1,573 million). The decrease of ¥90.0 billion (US\$ 726 million) in the forecast for consolidated net sales was made in line with the change in accounting standards. Because this change affects only the disclosure amounts for net sales and selling expenses, it will not influence operating profit or net income. These forecasts assume currency exchange rates for the remainder of 2001 of ¥120.00 to the U.S. dollar, and ¥110.00 to the euro.

## Outlook

### 1st Half

						Millions of yen		
	Six months ending June 30, 2001			Change (B - A)	Six months ended June 30, 2000		Change (%) (B / C)	
	Previous Outlook (A)	Modified Outlook (B)	Results (C) (Unaudited)					
Net sales:								
Before adopting EITF 00-14 and 00-22	¥ 1,500,000	¥ 1,530,000	¥ 30,000	¥ 1,362,915	+	12.3		
After adopting EITF 00-14 and 00-22	-	1,490,000	(10,000)	1,322,458	+	12.7		
Income before income taxes	150,000	165,000	15,000	117,777	+	40.1		
Net income	85,000	98,000	13,000	68,482	+	43.1		

### Full year

						Millions of yen		
	Year ending Dec. 31, 2001			Change (B - A)	Year ended Dec. 31, 2000		Change (%) (B / C)	
	Previous Outlook (A)	Modified Outlook (B)	Results (C)					
Net sales:								
Before adopting EITF 00-14 and 00-22	¥ 3,120,000	¥ 3,120,000	¥ 0	¥ 2,781,303	+	12.2		
After adopting EITF 00-14 and 00-22	-	3,030,000	(90,000)	2,696,420	+	12.4		
Income before income taxes	320,000	340,000	20,000	227,196	+	49.7		
Net income	180,000	195,000	15,000	134,088	+	45.4		

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.)

CANON INC. AND SUBSIDIARIES

**1. CONSOLIDATED STATEMENTS OF INCOME**

Three months ended March 31, 2001 and 2000

	Millions of yen			Thousands of
	2001 (Unaudited)	2000 (Unaudited)	Change(%)	2001 (Unaudited) U.S. dollars
Net sales	¥ 714,698	¥ 641,118	+ 11.5	\$ 5,763,694
Cost of sales	416,950	372,574		3,362,500
Gross profit	297,748	268,544	+ 10.9	2,401,194
Selling, general and administrative expenses	219,592	197,757		1,770,904
Operating profit	78,156	70,787	+ 10.4	630,290
Other income (deductions):				
Interest and dividend income	2,997	2,581		24,169
Interest expense	(2,859)	(3,744)		(23,056)
Other, net	(4,583)	(1,894)		(36,959)
	(4,445)	(3,057)		(35,846)
Income before income taxes	73,711	67,730	+ 8.8	594,444
Income taxes	32,075	27,950		258,670
Income before minority interests	41,636	39,780		335,774
Minority interests	2,001	3,706		16,137
Income before cumulative effect of accounting change	39,635	36,074	+ 9.9	319,637
Cumulative effect of accounting change	3,692	-		29,774
Net income	¥ 43,327	¥ 36,074	+ 20.1	\$ 349,411

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

Comprehensive income for three months ended March 31, 2001 and 2000 were JPY 63,881 million (U.S.\$ 515,169 thousand) and JPY 29,602 million, respectively.

**2. DETAILS OF SALES**

Three months ended March 31, 2001 and 2000

**Sales by product**

	Millions of yen			Thousands of
	2001 (Unaudited)	2000 (Unaudited)	Change(%)	2001 (Unaudited) U.S. dollars
Business machines:				
<i>Copying machines</i>	¥ 209,978	¥ 188,131	+ 11.6	\$ 1,693,371
<i>Computer peripherals</i>	276,475	252,459	+ 9.5	2,229,637
<i>Business systems</i>	81,903	87,075	- 5.9	660,508
	568,356	527,665	+ 7.7	4,583,516
Cameras	71,820	59,295	+ 21.1	579,194
Optical and other products	74,522	54,158	+ 37.6	600,984
Total	¥ 714,698	¥ 641,118	+ 11.5	\$ 5,763,694

**Sales by region**

	Millions of yen			Thousands of
	2001 (Unaudited)	2000 (Unaudited)	Change(%)	2001 (Unaudited) U.S. dollars
Japan	¥ 205,311	¥ 188,616	+ 8.9	\$ 1,655,734
Overseas:				
<i>Americas</i>	233,744	208,350	+ 12.2	1,885,032
<i>Europe</i>	205,915	186,248	+ 10.6	1,660,605
<i>Other areas</i>	69,728	57,904	+ 20.4	562,323
	509,387	452,502	+ 12.6	4,107,960
Total	¥ 714,698	¥ 641,118	+ 11.5	\$ 5,763,694

**3. SEGMENT INFORMATION BY PRODUCT**

Three months ended March 31, 2001 and 2000

	Millions of yen			Change(%)	Thousands of
	2001 (Unaudited)	2000 (Unaudited)			U.S. dollars 2001 (Unaudited)
<b>Business Machines</b>					
Net sales:					
Unaffiliated customers	¥ 568,356	¥ 527,665	+ 7.7		\$ 4,583,516
Intersegment	-	-	-		-
Total	568,356	527,665	+ 7.7		4,583,516
Operating cost and expenses	481,854	438,869	+ 9.8		3,885,919
Operating profit	86,502	88,796	- 2.6		697,597
<b>Cameras</b>					
Net sales:					
Unaffiliated customers	¥ 71,820	¥ 59,295	+ 21.1		\$ 579,194
Intersegment	-	-	-		-
Total	71,820	59,295	+ 21.1		579,194
Operating cost and expenses	66,730	54,858	+ 21.6		538,146
Operating profit	5,090	4,437	+ 14.7		41,048
<b>Optical and other products</b>					
Net sales:					
Unaffiliated customers	¥ 74,522	¥ 54,158	+ 37.6		\$ 600,984
Intersegment	31,714	26,442	+ 19.9		255,758
Total	106,236	80,600	+ 31.8		856,742
Operating cost and expenses	97,170	79,784	+ 21.8		783,629
Operating profit	9,066	816	+ 1,011.0		73,113
<b>Corporate and Eliminations</b>					
Net sales:					
Unaffiliated customers	-	-	-		-
Intersegment	(31,714)	(26,442)	-		(255,758)
Total	(31,714)	(26,442)	-		(255,758)
Operating cost and expenses	(9,212)	(3,180)	-		(74,290)
Operating profit	(22,502)	(23,262)	-		(181,468)
<b>Consolidated</b>					
Net sales:					
Unaffiliated customers	¥ 714,698	¥ 641,118	+ 11.5		\$ 5,763,694
Intersegment	-	-	-		-
Total	714,698	641,118	+ 11.5		5,763,694
Operating cost and expenses	636,542	570,331	+ 11.6		5,133,404
Operating profit	78,156	70,787	+ 10.4		630,290

Note: General corporate expenses of JPY 22,489 million (U.S.\$181,363 thousand) and JPY 23,264 million in the first quarter of 2001 and 2000, respectively, are included in "Corporate and Eliminations."

**4. CONSOLIDATED BALANCE SHEETS**

As of March 31, 2001 and December 31, 2000

	Millions of yen			Thousands of U.S. dollars
	<b>March 31, 2001</b> (Unaudited)	Dec.31, 2000	Change	<b>March 31, 2001</b> (Unaudited)
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	¥ 458,721	¥ 493,962	¥ (35,241)	\$ 3,699,363
Marketable securities	7,905	10,943	(3,038)	63,750
Trade receivables, less allowance	458,050	479,790	(21,740)	3,693,952
Inventories	536,081	490,693	45,388	4,323,234
Prepaid expenses and other current assets	224,663	196,011	28,652	1,811,798
Total current assets	<b>1,685,420</b>	1,671,399	14,021	<b>13,592,097</b>
Noncurrent receivables and restricted funds	26,577	27,626	(1,049)	214,331
Investments	122,562	119,195	3,367	988,403
Net property, plant and equipment	790,846	771,594	19,252	6,377,790
Other assets	244,863	242,311	2,552	1,974,702
Total assets	<b>¥ 2,870,268</b>	¥ 2,832,125	¥ 38,143	<b>\$ 23,147,323</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term loans	¥ 209,922	¥ 248,688	¥ (38,766)	\$ 1,692,919
Trade payables	466,449	444,633	21,816	3,761,685
Income taxes	48,817	53,865	(5,048)	393,685
Accrued expenses	158,751	164,484	(5,733)	1,280,250
Other current liabilities	72,894	63,120	9,774	587,856
Total current liabilities	<b>956,833</b>	974,790	(17,957)	<b>7,716,395</b>
Long-term debt, excluding current installments	143,083	142,925	158	1,153,895
Accrued pension and severance cost	197,277	194,445	2,832	1,590,944
Other noncurrent liabilities	22,035	22,838	(803)	177,701
Total liabilities	<b>1,319,228</b>	1,334,998	(15,770)	<b>10,638,935</b>
Minority interests	199,121	198,213	908	1,605,815
Stockholders' equity:				
Common stock	164,825	164,796	29	1,329,234
Additional paid-in capital	391,968	391,939	29	3,161,032
Legal reserve	36,945	35,584	1,361	297,944
Retained earnings	884,209	853,177	31,032	7,130,718
Accumulated other comprehensive income (loss)	(126,028)	(146,582)	20,554	(1,016,355)
Total stockholders' equity	<b>1,351,919</b>	1,298,914	53,005	<b>10,902,573</b>
Total liabilities and stockholders' equity	<b>¥ 2,870,268</b>	¥ 2,832,125	¥ 38,143	<b>\$ 23,147,323</b>
<b>Allowance for doubtful receivables</b>				
	Millions of yen			Thousands of U.S. dollars
	<b>March 31, 2001</b> (Unaudited)	Dec.31, 2000		<b>March 31, 2001</b> (Unaudited)
Allowance for doubtful receivables	¥ 18,360	¥ 17,862		\$ 148,065
Accumulated depreciation	1,001,885	989,852		8,079,718
Accumulated other comprehensive income (loss):				
Foreign currency translation adjustments	(83,002)	(104,149)		(669,371)
Net unrealized gains on securities	13,111	14,167		105,734
Minimum pension liability adjustments	(54,856)	(56,600)		(442,387)
Net losses on derivative financial instruments	(1,281)	-		(10,331)

**5. CONSOLIDATED STATEMENTS OF CASH FLOWS**

Three months ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
	(Unaudited)	(Unaudited)	(Unaudited)
Net income	¥ 43,327	¥ 36,074	\$ 349,411
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	34,768	37,122	280,387
Loss on disposal of property, plant and equipment	807	2,620	6,508
Deferred income taxes	(13,384)	(6,259)	(107,935)
Decrease in trade receivables	22,125	6,546	178,427
Increase in inventories	(29,844)	(12,002)	(240,677)
Increase (decrease) in trade payables	(4,697)	43,901	(37,879)
Decrease in income taxes	(5,494)	(5,763)	(44,306)
Increase in accrued expenses	9,412	16,503	75,903
Other, net	6,233	(6,511)	50,266
Net cash provided by operating activities	63,253	112,231	510,105
Cash flows from investing activities:			
Capital expenditure	(46,713)	(33,202)	(376,718)
Proceeds from sale of property, plant and equipment	1,860	1,191	15,000
Payment for purchase of marketable securities	(4,737)	(2,837)	(38,202)
Proceeds from sale of marketable securities	38	479	306
Payment for purchase of investments	(1,966)	(2,638)	(15,855)
Other	2,895	(3,694)	23,348
Net cash used in investing activities	(48,623)	(40,701)	(392,121)
Cash flows from financing activities:			
Proceeds from long-term debt	845	8,061	6,815
Repayment of long-term debt	(2,312)	(4,767)	(18,645)
Decrease in short-term loans	(38,244)	(44,784)	(308,419)
Dividends paid	(10,945)	(7,408)	(88,266)
Other	(1,080)	(1,017)	(8,711)
Net cash used in financing activities	(51,736)	(49,915)	(417,226)
Effect of exchange rate changes on cash and cash equivalents	1,865	(4,525)	15,040
Net change in cash and cash equivalents	(35,241)	17,090	(284,202)
Cash and cash equivalents at beginning of period	493,962	480,453	3,983,565
Cash and cash equivalents at end of period	¥ 458,721	¥ 497,543	\$ 3,699,363

**6. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**(1) NUMBER OF GROUP COMPANIES**

	March 31, 2001	March 31, 2000	Change
Subsidiaries	200	141	59
Affiliates	20	23	(3)
Total	220	164	56

**CHANGES IN GROUP OF ENTITIES**

Subsidiaries

Addition: Nisca Co. and 71 other companies

Removal: Canon Manufacturing U.K. Ltd. and 12 other companies

Affiliates (Carried at Equity Basis)

Addition: 3 companies

Removal: Nisca Co., Olivetti-Canon Industriale S.p.A. and 4 other 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.

We have engaged KPMG to complete a review of the consolidated financial statements as of and for three months ended March 31, 2001, in accordance with Statement of Auditing Standards No.71, "Interim Financial Information", established by the American Institute of Certified Public Accountants.

1. Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities". In June 2000, the Financial Accounting Standards Board also issued Statement of Financial Accounting Standards No. 138 (SFAS 138), "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an amendment of FASB Statement No. 133. 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. SFAS 133, as amended, and 138 are effective for fiscal years beginning after June 15, 2000.

Canon adopted SFAS 133 and 138 as of January 1, 2001. The cumulative effect adjustment upon the adoption of SFAS 133 and 138, net of the related income tax effect, resulted in an increase to net income of JPY 3,692 million (\$29,774 thousand) and a decrease to other comprehensive income of JPY 2,401 million (\$19,363 thousand).

2. Sales Incentives

In May 2000, the Emerging Issues Task Force reached a final consensus on Issue No.00-14 (EITF 00-14), "Accounting for Certain Sales Incentives". EITF 00-14 addresses accounting and reporting standards for sales incentives such as coupons or rebates that are provided by vendors or manufacturers and are exercisable by customers at the point of sale.

In January 2001, the Emerging Issues Task Force also reached a final consensus on a portion of Issue No.00-22 (EITF 00-22), "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". EITF 00-22 addresses accounting and reporting standards for sales incentives such as loyalty programs or rebates that are offered to customers by vendors only if the customer completes a specified cumulative level of revenue transactions with the vendor.

Canon adopted these standards from the fiscal year beginning January 1, 2001 and has applied retroactively to the consolidated financial statements for the prior year. The adoption results in a reduction in sales for three months ended March 31, 2001 and March 31, 2000 of JPY 19,562 million (\$157,758) and JPY 19,920 million, respectively, and a corresponding decrease in selling, general and administrative expenses, with no effect on net income.

**CONSOLIDATED FINANCIAL RESULTS  
FOR THE FIRST QUARTER ENDED MARCH 31, 2001  
SUPPLEMENTARY REPORT**

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This report contains 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.)

# 1. SALES BY REGION AND PRODUCT

(Millions of yen)

	2000			2001			Change Year over year		
	1st qtr.	1st half	Year	1st qtr.	1st half (P)	Year (P)	1st qtr.	1st half	Year
<b>Japan</b>									
Business machines	148,350	295,527	578,874	155,277	304,700	619,600	+4.7%	+3.1%	+7.0%
Copying machines	53,591	106,569	221,805	63,701	125,500	246,100	+18.9%	+17.8%	+11.0%
Computer peripherals	37,078	75,470	159,945	38,992	75,600	168,700	+5.2%	+0.2%	+5.5%
Business systems	57,681	113,488	197,124	52,584	103,600	204,800	-8.8%	-8.7%	+3.9%
Cameras	15,911	38,848	86,594	16,640	41,200	100,700	+4.6%	+6.1%	+16.3%
Optical and other products	24,355	50,851	113,898	33,394	78,400	158,200	+37.1%	+54.2%	+38.9%
Total	188,616	385,226	779,366	205,311	424,300	878,500	+8.9%	+10.1%	+12.7%
<b>Overseas</b>									
Business machines	379,315	763,990	1,531,536	413,079	843,900	1,683,400	+8.9%	+10.5%	+9.9%
Copying machines	134,540	277,526	550,752	146,277	301,400	595,700	+8.7%	+8.6%	+8.2%
Computer peripherals	215,381	426,247	863,049	237,483	477,900	950,000	+10.3%	+12.1%	+10.1%
Business systems	29,394	60,217	117,735	29,319	64,600	137,700	-0.3%	+7.3%	+17.0%
Cameras	43,384	103,674	231,640	55,180	134,000	287,800	+27.2%	+29.3%	+24.2%
Optical and other products	29,803	69,568	153,878	41,128	87,800	180,300	+38.0%	+26.2%	+17.2%
Total	452,502	937,232	1,917,054	509,387	1,065,700	2,151,500	+12.6%	+13.7%	+12.2%
<b>Americas</b>									
Business machines	180,571	363,539	735,513	199,115	413,300	825,500	+10.3%	+13.7%	+12.2%
Copying machines	67,606	139,029	278,781	76,026	153,100	301,000	+12.5%	+10.1%	+8.0%
Computer peripherals	101,567	200,979	409,700	111,068	234,100	470,700	+9.4%	+16.5%	+14.9%
Business systems	11,398	23,531	47,032	12,021	26,100	53,800	+5.5%	+10.9%	+14.4%
Cameras	19,124	47,293	109,129	22,989	54,600	123,000	+20.2%	+15.5%	+12.7%
Optical and other products	8,655	21,142	45,122	11,640	21,400	46,800	+34.5%	+1.2%	+3.7%
Total	208,350	431,974	889,764	233,744	489,300	995,300	+12.2%	+13.3%	+11.9%
<b>Europe</b>									
Business machines	162,704	322,493	633,485	169,254	335,900	670,300	+4.0%	+4.2%	+5.8%
Copying machines	56,294	116,303	227,297	59,385	124,800	246,500	+5.5%	+7.3%	+8.4%
Computer peripherals	91,448	175,901	348,083	95,419	178,900	353,100	+4.3%	+1.7%	+1.4%
Business systems	14,962	30,289	58,105	14,450	32,200	70,700	-3.4%	+6.3%	+21.7%
Cameras	17,744	43,257	94,443	24,967	64,100	132,100	+40.7%	+48.2%	+39.9%
Optical and other products	5,800	12,813	30,014	11,694	23,400	49,000	+101.6%	+82.6%	+63.3%
Total	186,248	378,563	757,942	205,915	423,400	851,400	+10.6%	+11.8%	+12.3%
<b>Other areas</b>									
Business machines	36,040	77,958	162,538	44,710	94,700	187,600	+24.1%	+21.5%	+15.4%
Copying machines	10,640	22,194	44,674	10,866	23,500	48,200	+2.1%	+5.9%	+7.9%
Computer peripherals	22,366	49,367	105,266	30,996	64,900	126,200	+38.6%	+31.5%	+19.9%
Business systems	3,034	6,397	12,598	2,848	6,300	13,200	-6.1%	-1.5%	+4.8%
Cameras	6,516	13,124	28,068	7,224	15,300	32,700	+10.9%	+16.6%	+16.5%
Optical and other products	15,348	35,613	78,742	17,794	43,000	84,500	+15.9%	+20.7%	+7.3%
Total	57,904	126,695	269,348	69,728	153,000	304,800	+20.4%	+20.8%	+13.2%
<b>Total</b>									
Business machines	527,665	1,059,517	2,110,410	568,356	1,148,600	2,303,000	+7.7%	+8.4%	+9.1%
Copying machines	188,131	384,095	772,557	209,978	426,900	841,800	+11.6%	+11.1%	+9.0%
Computer peripherals	252,459	501,717	1,022,994	276,475	553,500	1,118,700	+9.5%	+10.3%	+9.4%
Business systems	87,075	173,705	314,859	81,903	168,200	342,500	-5.9%	-3.2%	+8.8%
Cameras	59,295	142,522	318,234	71,820	175,200	388,500	+21.1%	+22.9%	+22.1%
Optical and other products	54,158	120,419	267,776	74,522	166,200	338,500	+37.6%	+38.0%	+26.4%
Total	641,118	1,322,458	2,696,420	714,698	1,490,000	3,030,000	+11.5%	+12.7%	+12.4%

## 2. SEGMENT INFORMATION BY PRODUCT

(Millions of yen)

	2000			2001			Change Year over year		
	1st qtr.	1st half	Year	1st qtr.	1st half (P)	Year (P)	1st qtr.	1st half	Year
<b>Business machines</b>									
Unaffiliated customers	527,665	1,059,517	2,110,410	568,356	1,148,600	2,303,000	+7.7%	+8.4%	+9.1%
Intersegment	-	-	-	-	-	-	-	-	-
Total sales	527,665	1,059,517	2,110,410	568,356	1,148,600	2,303,000	+7.7%	+8.4%	+9.1%
Operating profit	88,796	168,455	318,174	86,502	179,100	383,800	-2.6%	+6.3%	+20.6%
% of sales	16.8%	15.9%	15.1%	15.2%	15.6%	16.7%	-	-	-
<b>Cameras</b>									
Unaffiliated customers	59,295	142,522	318,234	71,820	175,200	388,500	+21.1%	+22.9%	+22.1%
Intersegment	-	-	-	-	-	-	-	-	-
Total sales	59,295	142,522	318,234	71,820	175,200	388,500	+21.1%	+22.9%	+22.1%
Operating profit	4,437	11,470	33,166	5,090	19,200	45,400	+14.7%	+67.4%	+36.9%
% of sales	7.5%	8.0%	10.4%	7.1%	11.0%	11.7%	-	-	-
<b>Optical and other products</b>									
Unaffiliated customers	54,158	120,419	267,776	74,522	166,200	338,500	+37.6%	+38.0%	+26.4%
Intersegment	26,442	55,430	126,947	31,714	64,600	130,600	+19.9%	+16.5%	+2.9%
Total sales	80,600	175,849	394,723	106,236	230,800	469,100	+31.8%	+31.2%	+18.8%
Operating profit	816	-736	12,013	9,066	16,400	32,500	+1011.0%	-	+170.5%
% of sales	1.0%	-0.4%	3.0%	8.5%	7.1%	6.9%	-	-	-
<b>Corporate and Eliminations</b>									
Unaffiliated customers	-	-	-	-	-	-	-	-	-
Intersegment	-26,442	-55,430	-126,947	-31,714	-64,600	-130,600	-	-	-
Total sales	-26,442	-55,430	-126,947	-31,714	-64,600	-130,600	-	-	-
Operating profit	-23,262	-56,047	-117,354	-22,502	-59,700	-126,700	-	-	-
<b>Consolidated</b>									
Unaffiliated customers	641,118	1,322,458	2,696,420	714,698	1,490,000	3,030,000	+11.5%	+12.7%	+12.4%
Intersegment	-	-	-	-	-	-	-	-	-
Total sales	641,118	1,322,458	2,696,420	714,698	1,490,000	3,030,000	+11.5%	+12.7%	+12.4%
Operating profit	70,787	123,142	245,999	78,156	155,000	335,000	+10.4%	+25.9%	+36.2%
% of sales	11.0%	9.3%	9.1%	10.9%	10.4%	11.1%	-	-	-

### 3. PROFITABILITY

	2000		2001	
	1st qtr.	Year	1st qtr.	Year (P)
ROE	11.9%	10.7%	13.1%	13.8%
ROA	5.5%	4.9%	6.1%	6.8%

### 4. IMPACT OF FOREIGN EXCHANGE RATES

(Yen)

	2000		2001		
	1st qtr.	Year	1st qtr.	2nd-4th qtr. (P)	Year (P)
<b>Exchange rates</b>					
Yen/US\$	107.2	107.9	118.4	120.0	119.6
Yen/EUR	105.6	99.3	109.1	110.0	109.8

(Billions of yen)

	2001	
	1st qtr.	Year (P)
<b>Impact of foreign exchange rates on sales</b>		
US\$	+32.7	+133.4
EUR	+4.3	+63.7
Other currencies	-0.6	-0.9
Total	+36.4	+196.2

(Billions of yen)

	2001
	2nd-4th qtr.(P)
<b>Impact of foreign exchange rates per yen</b>	
<b>On sales</b>	
US\$	9.0
EUR	5.4
<b>On income before income taxes</b>	
US\$	3.5
EUR	3.3

## 5. CASH FLOWS

(Millions of yen)

	2000		2001	
	1st qtr.	Year	1st qtr.	Year (P)
Net cash provided by operating activities				
Net income	36,074	134,088	43,327	195,000
Depreciation and amortization	37,122	146,477	34,768	170,000
Other, net	39,035	66,051	-14,842	30,900
Total	112,231	346,616	63,253	395,900
Net cash used in investing activities	-40,701	-212,804	-48,623	-242,800
Free cash flow	71,530	133,812	14,630	153,100
Net cash provided by (used in) financing activities	-49,915	-100,597	-51,736	-168,100
Effect of exchange rate changes on cash & cash equivalents	-4,525	-19,706	1,865	1,800
Net change in cash and cash equivalents	17,090	13,509	-35,241	-13,200
Cash and cash equivalents at end of each period	497,543	493,962	458,721	480,800

## 6. CAPITAL EXPENDITURE

(Millions of yen)

	2000		2001	
	1st qtr.	Year	1st qtr.	Year (P)
Capital expenditure	33,202	170,986	46,713	220,000
Depreciation and amortization	37,122	146,477	34,768	170,000

## 7. R&D EXPENDITURE

(Millions of yen)

	2000		2001	
	1st qtr.	Year	1st qtr.	Year (P)
R&D expenditure	39,110	194,552	42,913	210,000
% of sales	6.1%	7.2%	6.0%	6.9%

## 8. INVENTORIES

(Millions of yen)

	2000	2001	Change
	Dec.31	Mar.31	
<b>Inventories</b>			
Business machines	325,043	338,111	+13,068
Cameras	54,917	68,063	+13,146
Optical and other products	110,733	129,907	+19,174
Total	490,693	536,081	+45,388

(Days)

	2000	2001	Change
	Dec.31	Mar.31	
<b>Inventories/Sales*</b>			
Business machines	56	54	-2
Cameras	57	74	+17
Optical and other products	137	161	+24
Total	65	67	+2

\*Index based on the previous six months sales.

## 9. DEBT RATIO

	2000 Dec.31	2001 Mar.31	Difference
Total debt / Total assets	13.8%	12.3%	-1.5%

## 10. NUMBER OF EMPLOYEES

	2000 Dec.31	2001 Mar.31	Change
Number of employees			
Japan	41,077	47,890	+6,813
Overseas	45,596	46,191	+595
Total	86,673	94,081	+7,408