



## RESULTS FOR THE SECOND QUARTER AND THE FIRST HALF ENDED JUNE 30, 2001

July 31, 2001

### CONSOLIDATED RESULTS FOR THE FIRST HALF

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

|  | Actual   |  |           | Projected  |   |                                     |           |
|--|--|--|-----------|--|---|-------------------------------------|-----------|
|  | Six months ended<br>June 30, 2001<br>(Unaudited) | Six months ended<br>June 30, 2000<br>(Unaudited) | Change(%) | Six months ended<br>June 30, 2001<br>(Unaudited) | Year ended<br>December 31,<br>2000<br>(Audited) | Year ending<br>December 31,<br>2001 | Change(%) |
|  |  |  |           |  |   |                                     |           |
| Net sales  | ¥ 1,473,975                                      | ¥ 1,322,458                                      | + 11.5    | \$ 11,791,800                                    | ¥ 2,696,420                                     | ¥ 3,010,000                         | + 11.6    |
| Operating profit                                       | 168,760  | 123,142  | + 37.0    | 1,350,080  | 245,999   | 333,000                             | + 35.4    |
| Income before income taxes                             | 168,622  | 117,777  | + 43.2    | 1,348,976  | 227,196   | 323,000                             | + 42.2    |
| Income before cumulative effect of accounting change   | 96,371   | 68,482   | + 40.7    | 770,968  | -   | -                                   | -         |
| Net income   | 100,063  | 68,482   | + 46.1    | 800,504  | 134,088   | 188,000                             | + 40.2    |
| <b>Net income per share:</b>                           |  |  |           |  |   |                                     |           |
| <b>(Before cumulative effect of accounting change)</b> |  |  |           |  |   |                                     |           |
| - Basic  | ¥ 110.04   | ¥ 78.55  | + 40.1    | \$ 0.88  | -   | -                                   | -         |
| - Diluted  | 108.51   | 77.42  | + 40.2    | 0.87   | -   | -                                   | -         |
| <b>(After cumulative effect of accounting change)</b>  |  |  |           |  |   |                                     |           |
| - Basic  | ¥ 114.26   | ¥ 78.55  | + 45.5    | \$ 0.91  | ¥ 153.66  | ¥ 214.59                            | + 39.7    |
| - Diluted  | 112.67   | 77.42  | + 45.5    | 0.90   | 151.51  | -                                   | -         |

|                      | Actual                                |                                       |           |                                       |   |
|----------------------|---------------------------------------|---------------------------------------|-----------|---------------------------------------|---|
|                      | As of June 30,<br>2001<br>(Unaudited) | As of June 30,<br>2000<br>(Unaudited) | Change(%) | As of June 30,<br>2001<br>(Unaudited) | As of<br>December 31, 2000<br>(Audited) |
|                      |                                       |                                       |           |                                       |   |
| Total assets         | ¥ 2,827,275                           | ¥ 2,624,335                           | + 7.7     | \$ 22,618,200                         | ¥ 2,832,125                             |
| Stockholder's equity | ¥ 1,398,000                           | ¥ 1,246,375                           | + 12.2    | \$ 11,184,000                         | ¥ 1,298,914                             |

- 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 125, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2001, solely for the convenience of the reader.  
 3. Canon adopted new accounting standards for sales recognition, and applied retroactively to the consolidated financial statements for the prior year.

### NON-CONSOLIDATED RESULTS FOR THE FIRST HALF

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

|                                      | Actual   |  |           | Actual  |                                     |           | Projected                                       |                                     |           |
|--------------------------------------|--|--|-----------|---|-------------------------------------|-----------|---|-------------------------------------|-----------|
|                                      | Six months ended<br>June 30, 2001<br>(Audited) | Six months ended<br>June 30, 2000<br>(Audited) | Change(%) | Year ended<br>December 31,<br>2000<br>(Audited) | Year ending<br>December 31,<br>2001 | Change(%) | Year ended<br>December 31,<br>2000<br>(Audited) | Year ending<br>December 31,<br>2001 | Change(%) |
|                                      |  |  |           |   |                                     |           |   |                                     |           |
| Net sales                            | ¥ 903,737                                      | ¥ 814,172                                      | + 11.0    | ¥ 1,684,209                                     | ¥ 1,810,000                         | + 7.5     | ¥ 1,684,209                                     | ¥ 1,810,000                         | + 7.5     |
| Operating profit                     | 128,834  | 87,790   | + 46.8    | 178,762   | 209,000                             | + 16.9    | 178,762   | 209,000                             | + 16.9    |
| Ordinary profit                      | 130,035  | 80,113   | + 62.3    | 155,947   | 215,000                             | + 37.9    | 155,947   | 215,000                             | + 37.9    |
| Net income                           | 26,111   | 43,531   | - 40.0    | 88,414  | 38,000                              | - 57.0    | 88,414  | 38,000                              | - 57.0    |
| Net income per share                 | ¥ 29.82  | ¥ 49.93  | - 40.3    | ¥ 101.32  | ¥ 43.37                             | - 57.2    | ¥ 101.32  | ¥ 43.37                             | - 57.2    |
| Dividend per share                   | 10.50  | 8.50   | -         | 21.00   | 21.00                               | -         | 21.00   | 21.00                               | -         |
| <b>As of June 30, 2001 (Audited)</b> |  |  |           |   |                                     |           |   |                                     |           |
| Total assets                         | ¥ 1,650,860                                    | ¥ 1,507,751                                    | + 9.5     | ¥ 1,581,257                                     |                                     |           | ¥ 1,581,257                                     |                                     |           |
| Stockholder's equity                 | ¥ 1,117,314                                    | ¥ 1,047,335                                    | + 6.7     | ¥ 1,095,680                                     |                                     |           | ¥ 1,095,680                                     |                                     |           |

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# **Management Policy**

## **Basic management policy**

Beginning this year, Canon implemented Phase II of the Global Excellent Corporation Plan, a five-year initiative that will conclude in 2005. The aim of this plan is to become a truly excellent global company, achieving all of the following objectives:

- Becoming No.1 in all core business areas
- Maintaining an R&D strength capable of continuously creating new businesses
- Realizing financial strength to support long term financial investments
- Fostering a corporate culture whereby all employees work with vigor and pride

## **Mid- and long-term management strategy**

In order to realize these objectives, Canon's mid- and long-term strategy will first need to focus on the shift from the analog camera market to the digital photo market. We aim to increase our market share in the rapidly growing digital camera market by launching attractive new products backed by Canon's advanced technology. At the same time we will contribute to the creation of the digital photo market, from cameras to services and consumables, by linking cameras with photo-quality Bubble Jet printing, aiming to become a leading player.

Within our Bubble Jet and semiconductor exposure equipment businesses, we will create competitive products through the in-house development of key components and strengthening of base technologies. This, combined with efforts to secure more effective sales channels, will support our aim to secure the No. 1 position.

Additionally, in the copier and printer business areas, we will not only launch networked products, but also create new business domains, including solutions targeting networked office environments.

From an organizational standpoint, we are strengthening our restructuring efforts through the addition of production and development functions to the company's U.S. and European headquarters. We are pursuing an international diversification strategy through the reformation of our corporate group structure and the establishment of a Three Regional Headquarters System. In Europe we have already reviewed the headquarters function and transferred to London some of the administrative functions that had been based in Amsterdam.

In terms of business operations, we are actively pursuing measures to improve the profit performance of the Canon Group, including the realization of the most efficient production allocation structure, including the transfer of some production responsibilities from Japan to overseas; reviewing development themes; and reducing inventories through optimized supply chain management.

Through these activities Canon intends not only to increase sales, but also improve such financial indicators as ROA and ROE.

## **Management challenges**

One of the challenges that Canon's management faces is how to deal with currency exchange rate fluctuations. As more than 70% of Canon's sales is generated outside of Japan, such fluctuations have a strong impact on financial results. In order to absorb this impact, we have moved ahead with the shifting of production from Japan to overseas.

Another important issue is protection of the natural environment. Accordingly, Canon has taken such steps as implementing global recycling and green procurement programs, and establishing a "zero waste" policy. Furthermore, the company discloses environmental information and actively participates in local environmental preservation activities.

# Operating Results

## **2001 First half in Review**

Looking back at the global economy in the first half of 2001, while consumer spending and housing investment held steady in the U.S. market, restrained capital spending in the business sector due to deteriorating profits pointed to a further slowing of the U.S. economy overall. Within Japan, further weakening of the economy was evident as consumer spending remained stagnant and exports and capital spending dropped owing to the U.S. economic slowdown. As for the economies of Europe, while some slowing was evident, they generally showed steady, gradual economic expansion. In Asia, the pace of economic growth declined slightly due to the weakened U.S. and Japanese economies.

In the markets in which the Canon Group operates, favorable results were generally 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. The digital camera market continued to show significant growth. In the field of semiconductor-production equipment, drastic changes in the memory devices market led manufacturers to curtail capital expenditures. The average value of the yen for the first half of 2001 was ¥120.58 to the U.S. dollar, and ¥108.08 to the euro; a decrease of 11% and 5%, respectively, from the corresponding period for the previous year.

Amid these conditions, Canon achieved consolidated net sales of ¥1,474.0 billion (US\$ 11,792 million) in the first half, a double-digit advance of 11.5% over the same period for the previous year. The lower value of the yen and sound sales growth throughout Canon's product lineup mainly contributed to the favorable results. Despite severe price competition in the market, Canon's gross profit ratio during the first six months of the year improved by 2.3% to 43.9%, reflecting the positive effects of continued cost reduction initiatives realized through production reformation combined with the lower value of the yen. Selling, general and administrative expenses rose 12.1% from the previous year as R&D expenditure increased 11.8% to ¥107.2 billion (US\$ 858 million) and selling expenses also grew due to sales expansion. Consequently, operating profit in the first half totaled ¥168.8 billion (US\$ 1,350 million), an increase of 37.0%. In the area of non-operating income and expenses, the promotion of cash flow management has resulted in improved financial strength, making possible a ¥2.0 billion (US\$ 16 million) improvement in interest income and expense. Additionally, the securities contributed to retirement benefit trust yielded a gain of ¥15.5 billion (U.S.\$ 124 million) while currency exchange gain and loss worsened by ¥5.3 billion (U.S.\$ 42 million). Non-operating income and expenses overall improved by ¥5.2 billion (US\$ 42 million) from the same period for the previous year. Consequently, income before income taxes totaled ¥168.6 billion (US\$ 1,349 million), an increase of 43.2%, and net income grew a notable 46.1% to ¥100.1 billion (US\$ 801 million).

Net income per share for the period was ¥114.26 (US\$ 0.91), an ¥35.71 (US\$ 0.29) 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 00-14 (EITF00-14), "Accounting for Certain Sales Incentives" and Issue 00-22 (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 13.3% in the first half of the year, fueled by strong global demand for monochrome digital copying machines, especially the “iR” series. Color copying machines also contributed to the increase. In the field of computer peripherals, while sales of laser beam printers and Bubble Jet printers on a local currency basis slightly declined by the slowdown of PC market expansion, the low value of the yen contributed to a 8.3% sales increase. Sales of business systems, including facsimile machines, computers, micrographics and calculators, decreased 8.2%, negatively influenced by severe price competition in the facsimile market. As a result, overall sales of business machines reached ¥1,138.2 billion (US\$ 9,106 million), achieving 7.4% sales growth from the previous year. Operating profit in the business machine segment for the period increased 13.2%, to ¥190.7 billion (US\$ 1,525 million), as cost-cutting measures and the positive effect of the weak yen offset the negative impact of increased price competition.

While demand for 35mm and Advanced Photo System cameras slipped under the effects of the increasing popularity of digital models, sales of digital cameras increased more than twice during the first six months of 2001 compared with the same period for the previous year. This can be attributed to the continued rapid growth of the digital camera market and the launch of five new products—including the IXY DIGITAL 300 and 200 (PowerShot S300 and S110 in North America, DIGITAL IXUS 300 and v in Europe), sister models to the IXY DIGITAL—aimed at strengthening Canon’s digital camera lineup to achieve greater market share. Sales of video camcorders in the first half also continued to show substantial growth. Overall, camera sales achieved double-digit growth, increasing 22.8%, to ¥175.0 billion (US\$ 1,400 million). Operating profit for the camera segment advanced 36.1%, to ¥15.6 billion (US\$ 125 million), owing to improved profitability realized through the rapid growth in sales of digital cameras.

Although orders from semiconductor manufacturers have declined, sales of optical and other products leaped 33.5%, to ¥160.8 billion (US\$ 1,286 million), supported by active capital investment by semiconductor device manufacturers until last year. Also, the improved profitability of semiconductor production equipment and other products realized an operating profit of ¥16.8 billion (US\$ 134 million), a drastic change from the ¥0.7 billion operating loss incurred the year before.

## Cash Flow

Cash flow from operating activities in the first half of 2001 recorded income of ¥178.2 billion (US\$ 1,425 million), ¥14.8 billion (US\$ 118 million) less than the corresponding period for the previous year mainly due to the increase of working capital, such as inventory, despite the large increase in net income. Capital expenditure totaled ¥105.3 billion (US\$ 843 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. Net cash used in investing activities was ¥106.6 billion (US\$ 853 million). As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled positive ¥71.6 billion (US\$ 572 million).

As for cash flow from financing activities, ¥69.7 billion (US\$ 557 million) was posted, mainly as a result of active efforts to repay short-term and long-term debt toward the goal of improving Canon’s financial strength. As a result, accompanied by the effect of exchange rate fluctuation as well, cash and cash equivalents totaled ¥487.3 billion (US\$ 3,898 million), a ¥6.7 billion (US\$ 54 million) decrease from the end of the previous year.

## Non-consolidated Results and Dividend

Canon Inc.’s non-consolidated net sales grew by 11.0% to ¥903.7 billion and ordinary profit also increased to ¥130.0 billion. Non-consolidated net income, however, decreased significantly to ¥26.1 billion owing to a one-time amortization of net transition obligation in accordance with the introduction of new Japanese pension accounting.

In 2000, Canon increased its year-end dividend by ¥4.00, making year-total dividend to ¥21.00 (US\$ 0.17). The Board of Directors is planning to change the interim dividend from ¥8.50 to ¥10.50 (US\$ 0.08) while keeping the year-total dividend the same as the previous year. The interim dividend will be paid from August 28, 2001, nearly one month earlier than in previous years.

## Outlook

Regarding the outlook for the second half, signs of an economic recovery in the United States are anticipated in the latter half of this year, having been delayed due to a longer-than-expected economic adjustment stage. In Japan, consumer spending is not expected to rise rapidly and the overall feeling of economic stagnancy will probably continue. While a slowdown is anticipated in the pace of growth in Europe and Asia, mostly because of the economic 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 copying 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 expected 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.

Given the current environment of the market and currency exchange, Canon has revised its forecast and now anticipates consolidated net sales of ¥3,010.0 billion (US\$ 24,080 million), consolidated income before income taxes of ¥323.0 billion (US\$ 2,584 million), and consolidated net income of ¥188.0 billion (US\$ 1,504 million). Canon also forecasts non-consolidated net sales of ¥1,810.0 billion, non-consolidated ordinary profit of ¥215.0 billion, and non-consolidated net income of ¥38.0 billion. These forecasts assume currency exchange rates for the remainder of 2001 of ¥120.00 to the U.S. dollar, and ¥105.00 to the euro.

## Consolidated Outlook

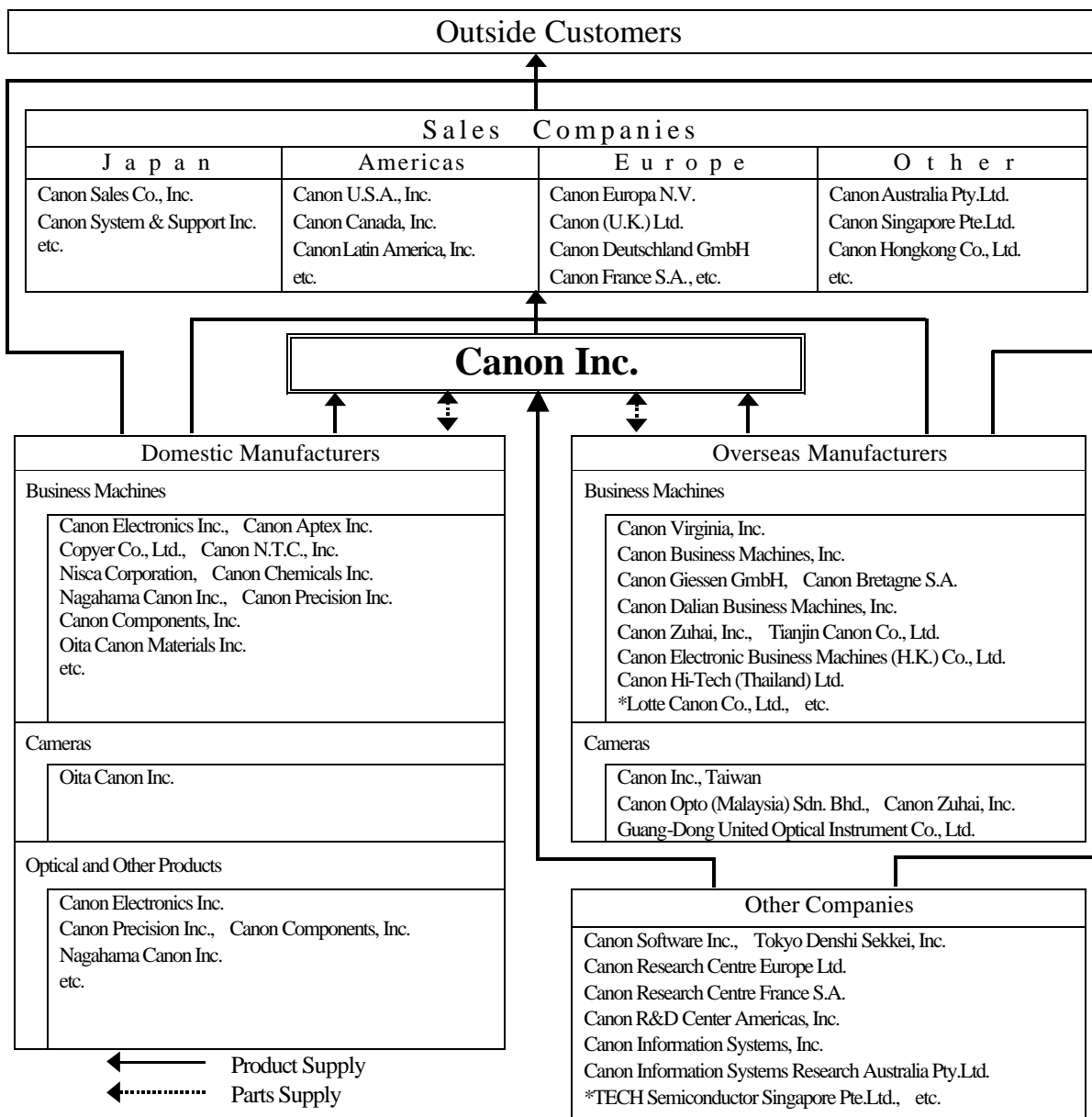
|                            | Millions of yen              |                      |                   |                             |         |                       |
|----------------------------|------------------------------|----------------------|-------------------|-----------------------------|---------|-----------------------|
|                            | Year ending<br>Dec. 31, 2001 |                      | Change<br>(B - A) | Year ended<br>Dec. 31, 2000 |         | Change (%)<br>(B / C) |
|                            | Previous Outlook (A)         | Modified Outlook (B) |                   | Results (C)                 | (B / C) |                       |
| Net sales                  | ¥ 3,030,000                  | ¥ 3,010,000          | (20,000)          | ¥ 2,696,420                 | +       | 11.6                  |
| Income before income taxes | 340,000                      | 323,000              | (17,000)          | 227,196                     | +       | 42.2                  |
| Net income                 | 195,000                      | 188,000              | (7,000)           | 134,088                     | +       | 40.2                  |

Canon adopted new accounting standards for sales recognition, and applied retroactively to the consolidated financial statements for the prior year.

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.)

**GROUP POSITION****1. NUMBER OF GROUP COMPANIES**

|                      | June 30, 2001 | June 30, 2000 | Change |
|----------------------|---------------|---------------|--------|
| Subsidiaries         | 202           | 145           | 57     |
| Affiliated Companies | 21            | 21            | 0      |
| Total                | 223           | 166           | 57     |

**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 System & Support Inc., Canon Aptex Inc.

Tokyo Stock Exchange (2nd section): Coper Co., Ltd., Canon N.T.C., Inc.

JASDAQ: Canon Software Inc., Canon Components, Inc., Nisca Corporation.

3. Nippon Typewriter Co., Ltd. changed its corporate name to Canon N.T.C., Inc. as of May 1, 2001.

1. CONSOLIDATED STATEMENTS OF INCOME

|  | Millions of yen   |  | Change(%) | Thousands of |
|--|---|--|-----------|--------------|
|  | Three months ended<br><b>June 30, 2001</b><br>(Unaudited) | Three months ended<br>June 30, 2000<br>(Unaudited) |           | U.S. dollars |
| Net sales                                    | ¥ 759,277   | ¥ 681,340  | + 11.4    | \$ 6,074,216 |
| Cost of sales                                | 409,858   | 400,148  |           | 3,278,864    |
| Gross profit                                 | 349,419   | 281,192  | + 24.3    | 2,795,352    |
| Selling, general and administrative expenses | 258,815   | 228,837  |           | 2,070,520    |
| Operating profit                             | 90,604  | 52,355   | + 73.1    | 724,832      |
| Other income (deductions):                   |   |  |           |              |
| Interest and dividend income                 | 2,642   | 2,761  |           | 21,136       |
| Interest expense                             | (2,868)   | (3,660)  |           | (22,944)     |
| Other, net                                   | 4,533   | (1,409)  |           | 36,264       |
|  | 4,307   | (2,308)  |           | 34,456       |
| Income before income taxes                   | 94,911  | 50,047   | + 89.6    | 759,288      |
| Income taxes                                 | 38,890  | 18,350   |           | 311,120      |
| Income before minority interests             | 56,021  | 31,697   |           | 448,168      |
| Minority interests                           | (715)   | (711)  |           | (5,720)      |
| Net income                                   | ¥ 56,736  | ¥ 32,408   | + 75.1    | \$ 453,888   |

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 June 30, 2001 and 2000 were JPY 45,454 million (U.S.\$ 363,632 thousand) and JPY 21,432 million, respectively.

|   | Millions of yen   |  | Change(%) | Thousands of  | Millions of yen                                 |
|---|---|--|-----------|---------------|---|
|   | Six months ended<br><b>June 30, 2001</b><br>(Unaudited) | Six months ended<br>June 30, 2000<br>(Unaudited) |           | U.S. dollars  | Year ended<br>December 31,<br>2000<br>(Audited) |
| Net sales   | ¥ 1,473,975   | ¥ 1,322,458                                      | + 11.5    | \$ 11,791,800 | ¥ 2,696,420                                     |
| Cost of sales   | 826,808   | 772,722  |           | 6,614,464     | 1,577,461                                       |
| Gross profit  | 647,167   | 549,736  | + 17.7    | 5,177,336     | 1,118,959                                       |
| Selling, general and administrative expenses            | 478,407   | 426,594  |           | 3,827,256     | 872,960   |
| Operating profit  | 168,760   | 123,142  | + 37.0    | 1,350,080     | 245,999   |
| Other income (deductions):                              |   |  |           |               |   |
| Interest and dividend income                            | 5,639   | 5,342  |           | 45,112        | 11,428  |
| Interest expense  | (5,727)   | (7,404)  |           | (45,816)      | (15,018)  |
| Other, net  | (50)  | (3,303)  |           | (400)         | (15,213)  |
|   | (138)   | (5,365)  |           | (1,104)       | (18,803)  |
| Income before income taxes                              | 168,622   | 117,777  | + 43.2    | 1,348,976     | 227,196   |
| Income taxes  | 70,965  | 46,300   |           | 567,720       | 87,197  |
| Income before minority interests                        | 97,657  | 71,477   |           | 781,256       | 139,999   |
| Minority interests                                      | 1,286   | 2,995  |           | 10,288        | 5,911   |
| Income before cumulative<br>effect of accounting change | 96,371  | 68,482   | + 40.7    | 770,968       | 134,088   |
| Cumulative effect of accounting change                  | 3,692   | -  |           | 29,536        | -   |
| Net income  | ¥ 100,063   | ¥ 68,482   | + 46.1    | \$ 800,504    | ¥ 134,088                                       |

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 six months ended June 30, 2001 and 2000 were JPY 109,335 million (U.S.\$ 874,680 thousand) and JPY 51,034 million, respectively.

2. DETAILS OF SALES

| Sales by product            | Millions of yen              |                              |           | Thousands of<br>U.S. dollars |
|-----------------------------|------------------------------|------------------------------|-----------|------------------------------|
|                             | Three months<br>ended        | Three months<br>ended        | Change(%) | Three months<br>ended        |
|                             | June 30, 2001<br>(Unaudited) | June 30, 2000<br>(Unaudited) |           | June 30, 2001<br>(Unaudited) |
| Business machines:          |                              |                              |           |                              |
| <i>Copying machines</i>     | ¥ 225,286                    | ¥ 195,964                    | + 15.0    | \$ 1,802,288                 |
| <i>Computer peripherals</i> | 266,970                      | 249,258                      | + 7.1     | 2,135,760                    |
| <i>Business systems</i>     | 77,618                       | 86,630                       | - 10.4    | 620,944                      |
|                             | 569,874                      | 531,852                      | + 7.1     | 4,558,992                    |
| Cameras                     | 103,143                      | 83,227                       | + 23.9    | 825,144                      |
| Optical and other products  | 86,260                       | 66,261                       | + 30.2    | 690,080                      |
| Total                       | ¥ 759,277                    | ¥ 681,340                    | + 11.4    | \$ 6,074,216                 |

| Sales by region    | Millions of yen              |                              |           | Thousands of<br>U.S. dollars |
|--------------------|------------------------------|------------------------------|-----------|------------------------------|
|                    | Three months<br>ended        | Three months<br>ended        | Change(%) | Three months<br>ended        |
|                    | June 30, 2001<br>(Unaudited) | June 30, 2000<br>(Unaudited) |           | June 30, 2001<br>(Unaudited) |
| Japan              | ¥ 214,576                    | ¥ 196,610                    | + 9.1     | \$ 1,716,608                 |
| Overseas:          |                              |                              |           |                              |
| <i>Americas</i>    | 256,980                      | 223,624                      | + 14.9    | 2,055,840                    |
| <i>Europe</i>      | 203,296                      | 192,315                      | + 5.7     | 1,626,368                    |
| <i>Other areas</i> | 84,425                       | 68,791                       | + 22.7    | 675,400                      |
|                    | 544,701                      | 484,730                      | + 12.4    | 4,357,608                    |
| Total              | ¥ 759,277                    | ¥ 681,340                    | + 11.4    | \$ 6,074,216                 |

| Sales by product            | Millions of yen              |                              |           | Thousands of<br>U.S. dollars | Millions of yen            |
|-----------------------------|------------------------------|------------------------------|-----------|------------------------------|----------------------------|
|                             | Six months<br>ended          | Six months<br>ended          | Change(%) | Six months<br>ended          | Year ended<br>December 31, |
|                             | June 30, 2001<br>(Unaudited) | June 30, 2000<br>(Unaudited) |           | June 30, 2001<br>(Unaudited) | 2000<br>(Audited)          |
| Business machines:          |                              |                              |           |                              |                            |
| <i>Copying machines</i>     | ¥ 435,264                    | ¥ 384,095                    | + 13.3    | \$ 3,482,112                 | ¥ 772,557                  |
| <i>Computer peripherals</i> | 543,445                      | 501,717                      | + 8.3     | 4,347,560                    | 1,022,994                  |
| <i>Business systems</i>     | 159,521                      | 173,705                      | - 8.2     | 1,276,168                    | 314,859                    |
|                             | 1,138,230                    | 1,059,517                    | + 7.4     | 9,105,840                    | 2,110,410                  |
| Cameras                     | 174,963                      | 142,522                      | + 22.8    | 1,399,704                    | 318,234                    |
| Optical and other products  | 160,782                      | 120,419                      | + 33.5    | 1,286,256                    | 267,776                    |
| Total                       | ¥ 1,473,975                  | ¥ 1,322,458                  | + 11.5    | \$ 11,791,800                | ¥ 2,696,420                |

| Sales by region    | Millions of yen              |                              |           | Thousands of<br>U.S. dollars | Millions of yen            |
|--------------------|------------------------------|------------------------------|-----------|------------------------------|----------------------------|
|                    | Six months<br>ended          | Six months<br>ended          | Change(%) | Six months<br>ended          | Year ended<br>December 31, |
|                    | June 30, 2001<br>(Unaudited) | June 30, 2000<br>(Unaudited) |           | June 30, 2001<br>(Unaudited) | 2000<br>(Audited)          |
| Japan              | ¥ 419,887                    | ¥ 385,226                    | + 9.0     | \$ 3,359,096                 | ¥ 779,366                  |
| Overseas:          |                              |                              |           |                              |                            |
| <i>Americas</i>    | 490,724                      | 431,974                      | + 13.6    | 3,925,792                    | 889,764                    |
| <i>Europe</i>      | 409,211                      | 378,563                      | + 8.1     | 3,273,688                    | 757,942                    |
| <i>Other areas</i> | 154,153                      | 126,695                      | + 21.7    | 1,233,224                    | 269,348                    |
|                    | 1,054,088                    | 937,232                      | + 12.5    | 8,432,704                    | 1,917,054                  |
| Total              | ¥ 1,473,975                  | ¥ 1,322,458                  | + 11.5    | \$ 11,791,800                | ¥ 2,696,420                |

3. SEGMENT INFORMATION BY PRODUCT

|                                   | Millions of yen   |   |           | Thousands of<br>U.S. dollars                                    |
|-----------------------------------|---|---|-----------|---|
|                                   | <b>Three months<br/>ended<br/>June 30, 2001<br/>(Unaudited)</b> | Three months<br>ended<br>June 30, 2000<br>(Unaudited) | Change(%) | <b>Three months<br/>ended<br/>June 30, 2001<br/>(Unaudited)</b> |
| <b>Business machines</b>          |   |   |           |   |
| Net sales:                        |   |   |           |   |
| Unaffiliated customers            | ¥ 569,874   | ¥ 531,852   | + 7.1     | \$ 4,558,992  |
| Intersegment                      | -   | -   | -         | -   |
| Total                             | 569,874   | 531,852   | + 7.1     | 4,558,992   |
| Operating cost and expenses       | 465,693   | 452,193   | + 3.0     | 3,725,544   |
| Operating profit                  | 104,181   | 79,659  | + 30.8    | 833,448   |
| <b>Cameras</b>                    |   |   |           |   |
| Net sales:                        |   |   |           |   |
| Unaffiliated customers            | ¥ 103,143   | ¥ 83,227  | + 23.9    | \$ 825,144  |
| Intersegment                      | -   | -   | -         | -   |
| Total                             | 103,143   | 83,227  | + 23.9    | 825,144   |
| Operating cost and expenses       | 92,618  | 76,194  | + 21.6    | 740,944   |
| Operating profit                  | 10,525  | 7,033   | + 49.7    | 84,200  |
| <b>Optical and other products</b> |   |   |           |   |
| Net sales:                        |   |   |           |   |
| Unaffiliated customers            | ¥ 86,260  | ¥ 66,261  | + 30.2    | \$ 690,080  |
| Intersegment                      | 30,451  | 28,988  | + 5.0     | 243,608   |
| Total                             | 116,711   | 95,249  | + 22.5    | 933,688   |
| Operating cost and expenses       | 108,968   | 96,801  | + 12.6    | 871,744   |
| Operating profit                  | 7,743   | (1,552)   | -         | 61,944  |
| <b>Corporate and Eliminations</b> |   |   |           |   |
| Net sales:                        |   |   |           |   |
| Unaffiliated customers            | -   | -   | -         | -   |
| Intersegment                      | (30,451)  | (28,988)  | -         | (243,608)   |
| Total                             | (30,451)  | (28,988)  | -         | (243,608)   |
| Operating cost and expenses       | 1,394   | 3,797   | - 63.3    | 11,152  |
| Operating profit                  | (31,845)  | (32,785)  | -         | (254,760)   |
| <b>Consolidated</b>               |   |   |           |   |
| Net sales:                        |   |   |           |   |
| Unaffiliated customers            | ¥ 759,277   | ¥ 681,340   | + 11.4    | \$ 6,074,216  |
| Intersegment                      | -   | -   | -         | -   |
| Total                             | 759,277   | 681,340   | + 11.4    | 6,074,216   |
| Operating cost and expenses       | 668,673   | 628,985   | + 6.3     | 5,349,384   |
| Operating profit                  | 90,604  | 52,355  | + 73.1    | 724,832   |

Note: General corporate expenses of JPY 31,905 million (U.S.\$255,240 thousand) and JPY 32,511 million in the three months ended June 30, 2001 and 2000, respectively, are included in "Corporate and Eliminations."

|                                   | Millions of yen                                     |   |           | Thousands of  | Millions of yen |
|-----------------------------------|---|---|-----------|---|-----------------|
|                                   | Six months<br>ended<br>June 30, 2001<br>(Unaudited) | Six months<br>ended<br>June 30, 2000<br>(Unaudited) | Change(%) | U.S. dollars<br>Six months<br>ended<br>June 30, 2001<br>(Unaudited) |                 |
| <b>Business machines</b>          |   |   |           |   |                 |
| Net sales:                        |   |   |           |   |                 |
| Unaffiliated customers            | ¥ 1,138,230   | ¥ 1,059,517   | + 7.4     | \$ 9,105,840  | ¥ 2,110,410     |
| Intersegment                      | -   | -   | -         | -   | -               |
| Total                             | <b>1,138,230</b>                                    | 1,059,517   | + 7.4     | <b>9,105,840</b>  | 2,110,410       |
| Operating cost and expenses       | <b>947,547</b>                                      | 891,062   | + 6.3     | <b>7,580,376</b>  | 1,792,236       |
| Operating profit                  | <b>190,683</b>                                      | 168,455   | + 13.2    | <b>1,525,464</b>  | 318,174         |
| <b>Cameras</b>                    |   |   |           |   |                 |
| Net sales:                        |   |   |           |   |                 |
| Unaffiliated customers            | ¥ 174,963   | ¥ 142,522   | + 22.8    | \$ 1,399,704  | ¥ 318,234       |
| Intersegment                      | -   | -   | -         | -   | -               |
| Total                             | <b>174,963</b>                                      | 142,522   | + 22.8    | <b>1,399,704</b>  | 318,234         |
| Operating cost and expenses       | <b>159,348</b>                                      | 131,052   | + 21.6    | <b>1,274,784</b>  | 285,068         |
| Operating profit                  | <b>15,615</b>                                       | 11,470  | + 36.1    | <b>124,920</b>  | 33,166          |
| <b>Optical and other products</b> |   |   |           |   |                 |
| Net sales:                        |   |   |           |   |                 |
| Unaffiliated customers            | ¥ 160,782   | ¥ 120,419   | + 33.5    | \$ 1,286,256  | ¥ 267,776       |
| Intersegment                      | <b>62,165</b>                                       | 55,430  | + 12.2    | <b>497,320</b>  | 126,947         |
| Total                             | <b>222,947</b>                                      | 175,849   | + 26.8    | <b>1,783,576</b>  | 394,723         |
| Operating cost and expenses       | <b>206,138</b>                                      | 176,585   | + 16.7    | <b>1,649,104</b>  | 382,710         |
| Operating profit                  | <b>16,809</b>                                       | (736)   | -         | <b>134,472</b>  | 12,013          |
| <b>Corporate and Eliminations</b> |   |   |           |   |                 |
| Net sales:                        |   |   |           |   |                 |
| Unaffiliated customers            | -   | -   | -         | -   | -               |
| Intersegment                      | <b>(62,165)</b>                                     | (55,430)  | -         | <b>(497,320)</b>  | (126,947)       |
| Total                             | <b>(62,165)</b>                                     | (55,430)  | -         | <b>(497,320)</b>  | (126,947)       |
| Operating cost and expenses       | <b>(7,818)</b>                                      | 617   | -         | <b>(62,544)</b>   | (9,593)         |
| Operating profit                  | <b>(54,347)</b>                                     | (56,047)  | -         | <b>(434,776)</b>  | (117,354)       |
| <b>Consolidated</b>               |   |   |           |   |                 |
| Net sales:                        |   |   |           |   |                 |
| Unaffiliated customers            | ¥ 1,473,975   | ¥ 1,322,458   | + 11.5    | \$ 11,791,800   | ¥ 2,696,420     |
| Intersegment                      | -   | -   | -         | -   | -               |
| Total                             | <b>1,473,975</b>                                    | 1,322,458   | + 11.5    | <b>11,791,800</b>   | 2,696,420       |
| Operating cost and expenses       | <b>1,305,215</b>                                    | 1,199,316   | + 8.8     | <b>10,441,720</b>   | 2,450,421       |
| Operating profit                  | <b>168,760</b>                                      | 123,142   | + 37.0    | <b>1,350,080</b>  | 245,999         |

Note: General corporate expenses of JPY 54,394 million (U.S.\$435,152 thousand) and JPY 55,775 million in the six months ended June 30, 2001 and 2000, respectively, are included in "Corporate and Eliminations."

## 4. SEGMENT INFORMATION BY GEOGRAPHIC AREA

|                                   | Millions of yen                                     |   |           | Thousands of<br>U.S. dollars                        | Millions of yen                                 |
|-----------------------------------|---|---|-----------|---|---|
|                                   | Six months<br>ended<br>June 30, 2001<br>(Unaudited) | Six months<br>ended<br>June 30, 2000<br>(Unaudited) | Change(%) | Six months<br>ended<br>June 30, 2001<br>(Unaudited) | Year ended<br>December 31,<br>2000<br>(Audited) |
| <b>Japan</b>                      |   |   |           |   |   |
| Net sales:                        |   |   |           |   |   |
| Unaffiliated customers            | ¥ 440,400   | ¥ 412,088   | + 6.9     | \$ 3,523,200  | ¥ 832,297                                       |
| Intersegment                      | 730,703   | 653,406   | + 11.8    | 5,845,624   | 1,345,983                                       |
| Total                             | 1,171,103   | 1,065,494   | + 9.9     | 9,368,824   | 2,178,280                                       |
| Operating cost and expenses       | 959,546   | 904,895   | + 6.0     | 7,676,368   | 1,858,201                                       |
| Operating profit                  | 211,557   | 160,599   | + 31.7    | 1,692,456   | 320,079   |
| <b>Americas</b>                   |   |   |           |   |   |
| Net sales:                        |   |   |           |   |   |
| Unaffiliated customers            | ¥ 491,100   | ¥ 431,958   | + 13.7    | \$ 3,928,800  | ¥ 889,377                                       |
| Intersegment                      | 8,804   | 4,958   | + 77.6    | 70,432  | 11,748  |
| Total                             | 499,904   | 436,916   | + 14.4    | 3,999,232   | 901,125   |
| Operating cost and expenses       | 487,683   | 420,187   | + 16.1    | 3,901,464   | 871,322   |
| Operating profit                  | 12,221  | 16,729  | - 26.9    | 97,768  | 29,803  |
| <b>Europe</b>                     |   |   |           |   |   |
| Net sales:                        |   |   |           |   |   |
| Unaffiliated customers            | ¥ 407,818   | ¥ 376,290   | + 8.4     | \$ 3,262,544  | ¥ 753,979                                       |
| Intersegment                      | 1,148   | 1,462   | - 21.5    | 9,184   | 3,782   |
| Total                             | 408,966   | 377,752   | + 8.3     | 3,271,728   | 757,761   |
| Operating cost and expenses       | 407,012   | 370,443   | + 9.9     | 3,256,096   | 742,044   |
| Operating profit                  | 1,954   | 7,309   | - 73.3    | 15,632  | 15,717  |
| <b>Others</b>                     |   |   |           |   |   |
| Net sales:                        |   |   |           |   |   |
| Unaffiliated customers            | ¥ 134,657   | ¥ 102,122   | + 31.9    | \$ 1,077,256  | ¥ 220,767                                       |
| Intersegment                      | 150,789   | 107,962   | + 39.7    | 1,206,312   | 246,024   |
| Total                             | 285,446   | 210,084   | + 35.9    | 2,283,568   | 466,791   |
| Operating cost and expenses       | 277,821   | 206,700   | + 34.4    | 2,222,568   | 455,929   |
| Operating profit                  | 7,625   | 3,384   | + 125.3   | 61,000  | 10,862  |
| <b>Corporate and Eliminations</b> |   |   |           |   |   |
| Net sales:                        |   |   |           |   |   |
| Unaffiliated customers            | -   | -   | -         | -   | -   |
| Intersegment                      | (891,444)   | (767,788)   | -         | (7,131,552)   | (1,607,537)                                     |
| Total                             | (891,444)   | (767,788)   | -         | (7,131,552)   | (1,607,537)                                     |
| Operating cost and expenses       | (826,847)   | (702,909)   | -         | (6,614,776)   | (1,477,075)                                     |
| Operating profit                  | (64,597)  | (64,879)  | -         | (516,776)   | (130,462)                                       |
| <b>Consolidated</b>               |   |   |           |   |   |
| Net sales:                        |   |   |           |   |   |
| Unaffiliated customers            | ¥ 1,473,975   | ¥ 1,322,458   | + 11.5    | \$ 11,791,800                                       | ¥ 2,696,420                                     |
| Intersegment                      | -   | -   | -         | -   | -   |
| Total                             | 1,473,975   | 1,322,458   | + 11.5    | 11,791,800  | 2,696,420                                       |
| Operating cost and expenses       | 1,305,215   | 1,199,316   | + 8.8     | 10,441,720  | 2,450,421                                       |
| Operating profit                  | 168,760   | 123,142   | + 37.0    | 1,350,080   | 245,999   |

Note: General corporate expenses of JPY 54,394 million (U.S.\$435,152 thousand) and JPY 55,775 million for the six months ended June 30, 2001 and 2000, respectively, are included in "Corporate and Eliminations."

5. CONSOLIDATED BALANCE SHEETS

|  | Millions of yen      |                     |           | Thousands of         | Millions of yen      |
|--|----------------------|---------------------|-----------|----------------------|----------------------|
|  | As of                | As of               | Change    | U.S. dollars         | As of                |
|  | <u>June 30, 2001</u> | <u>Dec 31, 2000</u> |           | <u>June 30, 2001</u> | <u>June 30, 2000</u> |
|  | (Unaudited)          | (Audited)           |           | (Unaudited)          | (Unaudited)          |
| <b>ASSETS</b>                                  |                      |                     |           |                      |                      |
| Current assets:                                |                      |                     |           |                      |                      |
| Cash and cash equivalents                      | ¥ 487,257            | ¥ 493,962           | ¥ (6,705) | \$ 3,898,056         | ¥ 497,207            |
| Marketable securities                          | 12,479               | 10,943              | 1,536     | 99,832               | 12,550               |
| Trade receivables, less allowance              | 443,191              | 479,790             | (36,599)  | 3,545,528            | 382,552              |
| Inventories                                    | 517,098              | 490,693             | 26,405    | 4,136,784            | 438,009              |
| Prepaid expenses and other current assets      | 211,193              | 196,011             | 15,182    | 1,689,544            | 188,763              |
| Total current assets                           | 1,671,218            | 1,671,399           | (181)     | 13,369,744           | 1,519,081            |
| Noncurrent receivables and restricted funds    | 26,533               | 27,626              | (1,093)   | 212,264              | 29,050               |
| Investments                                    | 73,236               | 119,195             | (45,959)  | 585,888              | 135,951              |
| Net property, plant and equipment              | 804,495              | 771,594             | 32,901    | 6,435,960            | 756,115              |
| Other assets                                   | 251,793              | 242,311             | 9,482     | 2,014,344            | 184,138              |
| Total assets                                   | ¥ 2,827,275          | ¥ 2,832,125         | ¥ (4,850) | \$ 22,618,200        | ¥ 2,624,335          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>    |                      |                     |           |                      |                      |
| Current liabilities:                           |                      |                     |           |                      |                      |
| Short-term loans                               | ¥ 198,034            | ¥ 248,688           | ¥(50,654) | \$ 1,584,272         | ¥ 210,408            |
| Trade payables                                 | 432,502              | 444,633             | (12,131)  | 3,460,016            | 435,275              |
| Income taxes                                   | 65,531               | 53,865              | 11,666    | 524,248              | 42,071               |
| Accrued expenses                               | 133,619              | 164,484             | (30,865)  | 1,068,952            | 120,773              |
| Other current liabilities                      | 78,829               | 63,120              | 15,709    | 630,632              | 57,009               |
| Total current liabilities                      | 908,515              | 974,790             | (66,275)  | 7,268,120            | 865,536              |
| Long-term debt, excluding current installments | 136,609              | 142,925             | (6,316)   | 1,092,872            | 165,889              |
| Accrued pension and severance cost             | 160,790              | 194,445             | (33,655)  | 1,286,320            | 134,776              |
| Other noncurrent liabilities                   | 26,063               | 22,838              | 3,225     | 208,504              | 11,238               |
| Total liabilities                              | 1,231,977            | 1,334,998           | (103,021) | 9,855,816            | 1,177,439            |
| Minority interests                             | 197,298              | 198,213             | (915)     | 1,578,384            | 200,521              |
| Stockholders' equity:                          |                      |                     |           |                      |                      |
| Common stock                                   | 165,144              | 164,796             | 348       | 1,321,152            | 164,346              |
| Additional paid-in capital                     | 392,287              | 391,939             | 348       | 3,138,296            | 377,218              |
| Retained earnings                              | 977,879              | 888,761             | 89,118    | 7,823,032            | 830,566              |
| Accumulated other comprehensive income (loss)  | (137,310)            | (146,582)           | 9,272     | (1,098,480)          | (125,755)            |
| Total stockholders' equity                     | 1,398,000            | 1,298,914           | 99,086    | 11,184,000           | 1,246,375            |
| Total liabilities and stockholders' equity     | ¥ 2,827,275          | ¥ 2,832,125         | ¥ (4,850) | \$ 22,618,200        | ¥ 2,624,335          |

|  | Millions of yen      |                     | Thousands of         | Million of yen       |
|--|----------------------|---------------------|----------------------|----------------------|
|  | As of                | As of               | U.S. dollars         | As of                |
|  | <u>June 30, 2001</u> | <u>Dec 31, 2000</u> | <u>June 30, 2001</u> | <u>June 30, 2000</u> |
|  | (Unaudited)          | (Audited)           | (Unaudited)          | (Unaudited)          |
| Allowance for doubtful receivables             | ¥ 17,748             | ¥ 17,862            | \$ 141,984           | ¥ 15,342             |
| Accumulated depreciation                       | 1,000,262            | 989,852             | 8,002,096            | 940,876              |
| Accumulated other comprehensive income (loss): |                      |                     |                      |                      |
| Foreign currency translation adjustments       | (86,658)             | (104,149)           | (693,264)            | (127,364)            |
| Net unrealized gains on securities             | 3,165                | 14,167              | 25,320               | 29,091               |
| Minimum pension liability adjustments          | (53,465)             | (56,600)            | (427,720)            | (27,482)             |
| Net losses on derivative financial instruments | (352)                | -                   | (2,816)              | -                    |

6. CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

|                                | Millions of yen                                   |  | Thousands of | Millions of yen                        |
|--------------------------------|---|--|--------------|--|
|                                | <b>Six months ended June 30, 2001 (Unaudited)</b> | Six months ended June 30, 2000 (Unaudited) | U.S. dollars | Year ended December 31, 2000 (Audited) |
| Balance at beginning of period | ¥ 888,761   | ¥ 769,493                                  | \$ 7,110,088 | ¥ 769,493                              |
| Net income                     | 100,063   | 68,482                                     | 800,504      | 134,088                                |
| Cash dividends                 | (10,945)  | (7,408)                                    | (87,560)     | (14,820)                               |
| Other                          | -   | (1)  | -            | -                                      |
| Balance at end of period       | ¥ 977,879   | ¥ 830,566                                  | \$ 7,823,032 | ¥ 888,761                              |

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Millions of yen                                   |  | Thousands of | Millions of yen                        |
|---|---|--|--------------|--|
|   | <b>Six months ended June 30, 2001 (Unaudited)</b> | Six months ended June 30, 2000 (Unaudited) | U.S. dollars | Year ended December 31, 2000 (Audited) |
| Net income  | ¥ 100,063   | ¥ 68,482                                   | \$ 800,504   | ¥ 134,088                              |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |  |              |  |
| Depreciation and amortization   | 70,334  | 66,018                                     | 562,672      | 146,477                                |
| Loss on disposal of property, plant and equipment                                 | 7,928   | 6,823                                      | 63,424       | 14,080                                 |
| Gain on securities contributed to retirement benefit trust                        | (15,536)  | -  | (124,288)    | -                                      |
| Deferred income taxes   | 5,141   | (4,883)                                    | 41,128       | (10,280)                               |
| Decrease (increase) in trade receivables  | 32,888  | (6,155)                                    | 263,104      | (52,751)                               |
| Increase in inventories   | (14,685)  | (2,420)                                    | (117,480)    | (27,884)                               |
| Increase (decrease) in trade payables   | (25,352)  | 63,735                                     | (202,816)    | 100,588                                |
| Increase (decrease) in income taxes   | 11,391  | (4,188)                                    | 91,128       | 6,917                                  |
| Increase (decrease) in accrued expenses   | (14,985)  | 5,301                                      | (119,880)    | 21,343                                 |
| Other, net  | 20,993  | 255  | 167,944      | 14,038                                 |
| Net cash provided by operating activities   | 178,180   | 192,968                                    | 1,425,440    | 346,616                                |
| Cash flows from investing activities:   |   |  |              |  |
| Capital expenditure   | (105,316)   | (81,573)                                   | (842,528)    | (170,986)                              |
| Proceeds from sale of property, plant and equipment                               | 3,468   | 2,602                                      | 27,744       | 5,752                                  |
| Payment for purchase of marketable securities                                     | (9,460)   | (6,209)                                    | (75,680)     | (3,082)                                |
| Proceeds from sale of marketable securities                                       | 1,806   | 5,408                                      | 14,448       | 2,428                                  |
| Payment for purchase of investments   | (1,389)   | (8,769)                                    | (11,112)     | (14,702)                               |
| Other   | 4,267   | 7,672                                      | 34,136       | (32,214)                               |
| Net cash used in investing activities   | (106,624)   | (80,869)                                   | (852,992)    | (212,804)                              |
| Cash flows from financing activities:   |   |  |              |  |
| Proceeds from long-term debt  | 4,209   | 13,216                                     | 33,672       | 17,358                                 |
| Repayment of long-term debt   | (10,132)  | (21,329)                                   | (81,056)     | (32,529)                               |
| Decrease in short-term loans  | (50,955)  | (79,198)                                   | (407,640)    | (67,923)                               |
| Dividends paid  | (10,945)  | (7,408)                                    | (87,560)     | (14,820)                               |
| Dividends paid to minority stockholders of subsidiaries                           | (1,839)   | (1,276)                                    | (14,712)     | (2,683)                                |
| Net cash used in financing activities   | (69,662)  | (95,995)                                   | (557,296)    | (100,597)                              |
| Effect of exchange rate changes on cash and cash equivalents                      | (8,599)   | 650  | (68,792)     | (19,706)                               |
| Net change in cash and cash equivalents   | (6,705)   | 16,754                                     | (53,640)     | 13,509                                 |
| Cash and cash equivalents at beginning of period                                  | 493,962   | 480,453                                    | 3,951,696    | 480,453                                |
| Cash and cash equivalents at end of period  | ¥ 487,257   | ¥ 497,207                                  | \$ 3,898,056 | ¥ 493,962                              |

**8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES****(1) CHANGES IN GROUP OF ENTITIES**

## Subsidiaries

|           |  |
|-----------|--|
| Addition: | Nisca Corporation and 70 other companies             |
| Removal:  | Canon Manufacturing U.K. Ltd. and 13 other companies |

## Affiliates (Carried at Equity Basis)

|           |  |
|-----------|--|
| Addition: | 4 companies  |
| Removal:  | Nisca Corporation, Olivetti-Canon Industriale S.p.A. and 2 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 six months ended June 30, 2001, in accordance with Statement of Auditing Standards No.71, "Interim Financial Information", established by the American Institute of Certified Public Accountants.

**1. Marketable Securities and Marketable Investments**

Canon's consolidated financial statements are based on SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." Under SFAS 115, certain investments in debt and equity securities should be classified as trading, available-for-sale or held-to-maturity. Canon's marketable securities and marketable investments consist of available-for-sale securities. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized

**2. Inventories**

Inventories are stated at the lower of cost or market. Cost is determined principally by the average method for domestic inventories and the first-in, first-out method for overseas inventories.

**3. Depreciation**

Depreciation is calculated principally by the declining-balance method over the estimated useful lives of assets.

**4. Employee Retirement and Severance Benefits**

Canon has been adopting SFAS 87, "Employer's Accounting for Pensions."

**5. 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 (\$29,536 thousand) and a decrease to other comprehensive income (loss) of JPY 2,401 million (\$19,208 thousand).

**6. Sales Incentives**

In May 2000, the Emerging Issues Task Force reached a final consensus on Issue 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 sales.

In January 2001, the Emerging Issues Task Force also reached a final consensus on a portion of Issue 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 June 30, 2001 and 2000 of JPY 19,130 million (\$153,040 thousand) and JPY 20,537 million, respectively, and for six months ended June 30, 2001 and 2000 of JPY 38,692 million (\$309,536 million) and JPY 40,457 million, respectively, and a corresponding decrease in selling, general and administrative expenses, with no effect on net income.

9. MARKETABLE SECURITIES AND DERIVATIVE CONTRACTS

## (1) MARKET VALUE ON MARKETABLE SECURITIES

|                              | Millions of yen     |                         |                            |                         |                         |                            |
|------------------------------|---------------------|-------------------------|----------------------------|-------------------------|-------------------------|----------------------------|
|                              | As of June 30, 2001 |                         |                            | As of December 31, 2000 |                         |                            |
|                              | Acquisition<br>Cost | Estimated<br>Fair Value | Unrealized<br>Gains/Losses | Acquisition<br>Cost     | Estimated<br>Fair Value | Unrealized<br>Gains/Losses |
| Marketable securities:       |                     |                         |                            |                         |                         |                            |
| Governmental bond securities | ¥ 48                | ¥ 48                    | ¥ 0                        | ¥ 49                    | ¥ 49                    | ¥ 0                        |
| Corporate debt securities    | 10,312              | 10,312                  | 0                          | 2,734                   | 3,007                   | 273                        |
| Bank debt securities         | 91                  | 91                      | 0                          | 91                      | 91                      | 0                          |
| Fund trust                   | 1,076               | 1,074                   | (2)                        | 2,977                   | 3,517                   | 540                        |
| Equity securities            | 954                 | 954                     | 0                          | 3,260                   | 4,279                   | 1,019                      |
|                              | <u>¥ 12,481</u>     | <u>¥ 12,479</u>         | <u>¥ (2)</u>               | <u>¥ 9,111</u>          | <u>¥ 10,943</u>         | <u>¥ 1,832</u>             |
| Investment securities:       |                     |                         |                            |                         |                         |                            |
| Governmental bond securities | ¥ 172               | ¥ 177                   | ¥ 5                        | ¥ 174                   | ¥ 174                   | ¥ 0                        |
| Corporate debt securities    | 5,466               | 5,910                   | 444                        | 5,133                   | 5,259                   | 126                        |
| Bank debt securities         | 150                 | 150                     | 0                          | 149                     | 150                     | 1                          |
| Fund trust                   | 1,962               | 2,413                   | 451                        | 40                      | 39                      | (1)                        |
| Equity securities            | 5,670               | 15,364                  | 9,694                      | 26,696                  | 58,119                  | 31,423                     |
|                              | <u>¥ 13,420</u>     | <u>¥ 24,014</u>         | <u>¥ 10,594</u>            | <u>¥ 32,192</u>         | <u>¥ 63,741</u>         | <u>¥ 31,549</u>            |

|                              | Thousands of U.S. dollars |                         |                            |
|------------------------------|---------------------------|-------------------------|----------------------------|
|                              | As of June 30, 2001       |                         |                            |
|                              | Acquisition<br>Cost       | Estimated<br>Fair Value | Unrealized<br>Gains/Losses |
| Marketable securities:       |                           |                         |                            |
| Governmental bond securities | \$ 384                    | \$ 384                  | \$ 0                       |
| Corporate debt securities    | 82,496                    | 82,496                  | 0                          |
| Bank debt securities         | 728                       | 728                     | 0                          |
| Fund trust                   | 8,608                     | 8,592                   | (16)                       |
| Equity securities            | 7,632                     | 7,632                   | 0                          |
|                              | <u>\$ 99,848</u>          | <u>\$ 99,832</u>        | <u>\$ (16)</u>             |
| Investment securities:       |                           |                         |                            |
| Governmental bond securities | \$ 1,376                  | \$ 1,416                | \$ 40                      |
| Corporate debt securities    | 43,728                    | 47,280                  | 3,552                      |
| Bank debt securities         | 1,200                     | 1,200                   | 0                          |
| Fund trust                   | 15,696                    | 19,304                  | 3,608                      |
| Equity securities            | 45,360                    | 122,912                 | 77,552                     |
|                              | <u>\$ 107,360</u>         | <u>\$ 192,112</u>       | <u>\$ 84,752</u>           |

## (2) DERIVATIVE CONTRACTS

|  | Millions of yen     |                         |                         |                         | Thousands of U.S. dollars |                         |
|--|---------------------|-------------------------|-------------------------|-------------------------|---------------------------|-------------------------|
|  | As of June 30, 2001 |                         | As of December 31, 2000 |                         | As of June 30, 2001       |                         |
|  | Contract<br>Amount  | Estimated<br>Fair Value | Contract<br>Amount      | Estimated<br>Fair Value | Contract<br>Amount        | Estimated<br>Fair Value |
| Trade receivables and<br>anticipated sales transactions: |                     |                         |                         |                         |                           |                         |
| To sell foreign currencies                               | ¥ 361,006           | ¥ (3,544)               | ¥ 361,279               | ¥ (20,138)              | \$ 2,888,048              | \$ (28,352)             |
| To buy foreign currencies                                | 12,339              | 51                      | 9,600                   | 211                     | 98,712                    | 408                     |
| Long-term debt<br>(including due within a year):         |                     |                         |                         |                         |                           |                         |
| Interest rate swaps:                                     |                     |                         |                         |                         |                           |                         |
| Receive-fixed  | ¥ 41,732            | ¥ 1,018                 | ¥ 40,000                | ¥ 1,393                 | \$ 333,856                | \$ 8,144                |
| Pay-fixed  | 77,249              | (1,157)                 | 73,538                  | (593)                   | 617,992                   | (9,256)                 |

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

|  | Millions of yen                           |                                   | Change(%) | Millions of yen                    |
|--|---|-----------------------------------|-----------|------------------------------------|
|  | <b>Six months ended<br/>June 30, 2001</b> | Six months ended<br>June 30, 2000 |           | Year ended<br>December 31,<br>2000 |
| Net sales                                    | ¥ 903,737                                 | ¥ 814,172                         | + 11.0    | ¥ 1,684,209                        |
| Cost of sales                                | <b>584,730</b>                            | 562,710                           |           | 1,152,990                          |
| Gross profit                                 | <b>319,007</b>                            | 251,461                           | + 26.9    | 531,219                            |
| Selling, general and administrative expenses | <b>190,172</b>                            | 163,670                           |           | 352,456                            |
| Operating profit                             | <b>128,834</b>                            | 87,790                            | + 46.8    | 178,762                            |
| Other income (deductions):                   |   |                                   |           |                                    |
| Interest and dividend income                 | 2,772                                     | 5,218                             |           | 9,407                              |
| Interest expense                             | (2,680)                                   | (4,522)                           |           | (9,101)                            |
| Other, net                                   | <b>1,108</b>                              | (8,373)                           |           | (23,121)                           |
|  | <b>1,200</b>                              | (7,677)                           |           | (22,815)                           |
| Ordinary profit                              | <b>130,035</b>                            | 80,113                            | + 62.3    | 155,947                            |
| Non-ordinary loss, net                       | <b>91,752</b>                             | 9,830                             |           | 14,660                             |
| Income before income taxes                   | <b>38,283</b>                             | 70,283                            |           | 141,286                            |
| Income taxes                                 | <b>12,172</b>                             | 26,752                            |           | 52,872                             |
| Net income                                   | ¥ <b>26,111</b>                           | ¥ 43,531                          | - 40.0    | ¥ 88,414                           |
| Net income per share:                        | Yen                                       |                                   |           | Yen                                |
| Basic  | ¥ <b>29.82</b>                            | ¥ 49.93                           |           | ¥ 101.32                           |

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

**2. DETAILS OF SALES****( Parent company only )**

| <b>Sales by product</b>    | Millions of yen                           |                                   | Change(%) | Millions of yen                    |
|----------------------------|---|-----------------------------------|-----------|------------------------------------|
|                            | <b>Six months ended<br/>June 30, 2001</b> | Six months ended<br>June 30, 2000 |           | Year ended<br>December 31,<br>2000 |
| Business machines:         |   |                                   |           |                                    |
| Copying machines           | ¥ 206,854                                 | ¥ 200,373                         | + 3.2     | ¥ 401,037                          |
| Computer peripherals       | <b>438,746</b>                            | 409,835                           | + 7.1     | 841,044                            |
| Business systems           | <b>31,537</b>                             | 37,867                            | - 16.7    | 72,282                             |
|                            | <b>677,139</b>                            | 648,076                           | + 4.5     | 1,314,363                          |
| Cameras                    | <b>135,186</b>                            | 106,440                           | + 27.0    | 233,379                            |
| Optical and other products | <b>91,412</b>                             | 59,655                            | + 53.2    | 136,467                            |
| Total                      | ¥ <b>903,737</b>                          | ¥ 814,172                         | + 11.0    | ¥ 1,684,209                        |
| <b>Sales by region</b>     | Millions of yen                           |                                   | Change(%) | Millions of yen                    |
|                            | <b>Six months ended<br/>June 30, 2001</b> | Six months ended<br>June 30, 2000 |           | Year ended<br>December 31,<br>2000 |
| Japan                      | ¥ 170,122                                 | ¥ 149,713                         | + 13.6    | ¥ 317,424                          |
| Overseas:                  |   |                                   |           |                                    |
| Americas                   | <b>337,737</b>                            | 301,973                           | + 11.8    | 613,856                            |
| Europe                     | <b>282,981</b>                            | 269,445                           | + 5.0     | 548,333                            |
| Other areas                | <b>112,896</b>                            | 93,039                            | + 21.3    | 204,595                            |
|                            | <b>733,615</b>                            | 664,458                           | + 10.4    | 1,366,785                          |
| Total                      | ¥ <b>903,737</b>                          | ¥ 814,172                         | + 11.0    | ¥ 1,684,209                        |

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

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

|  | Millions of yen                |                               |                 |                                |
|--|--------------------------------|-------------------------------|-----------------|--------------------------------|
|  | <u>As of<br/>June 30, 2001</u> | <u>As of<br/>Dec.31, 2000</u> | <u>Change</u>   | <u>As of<br/>June 30, 2000</u> |
| <b>ASSETS</b>                                  |                                |                               |                 |                                |
| Current assets:                                |                                |                               |                 |                                |
| Cash   | ¥ 116,820                      | ¥ 109,974                     | ¥ 6,846         | ¥ 115,797                      |
| Trade receivables                              | 395,811                        | 390,601                       | 5,210           | 349,650                        |
| Marketable securities                          | 74                             | 4,283                         | (4,209)         | 4,355                          |
| Inventories                                    | 196,843                        | 179,541                       | 17,302          | 163,458                        |
| Prepaid expenses and other current assets      | 126,099                        | 123,091                       | 3,008           | 116,726                        |
| Allowance for doubtful accounts                | (11,071)                       | (11,755)                      | 684             | (11,785)                       |
| Total current assets                           | <u>824,579</u>                 | <u>795,737</u>                | <u>28,842</u>   | <u>738,202</u>                 |
| Fixed assets:                                  |                                |                               |                 |                                |
| Net property, plant and equipment              | 408,425                        | 394,955                       | 13,470          | 392,257                        |
| Intangibles                                    | 43,400                         | 48,165                        | (4,765)         | 50,536                         |
| Investments and other fixed assets             | 374,484                        | 342,526                       | 31,958          | 326,866                        |
| Allowance for doubtful accounts                | (29)                           | (128)                         | 99              | (112)                          |
| Total fixed assets                             | <u>826,280</u>                 | <u>785,519</u>                | <u>40,761</u>   | <u>769,548</u>                 |
| Total assets                                   | <u>¥ 1,650,860</u>             | <u>¥ 1,581,257</u>            | <u>¥ 69,603</u> | <u>¥ 1,507,751</u>             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>    |                                |                               |                 |                                |
| Current liabilities:                           |                                |                               |                 |                                |
| Trade payables                                 | ¥ 300,076                      | ¥ 337,488                     | ¥ (37,412)      | ¥ 326,519                      |
| Short-term loans                               | 27,532                         | 29,046                        | (1,514)         | 9,058                          |
| Income taxes                                   | 52,580                         | 36,749                        | 15,831          | 28,051                         |
| Other current liabilities                      | 37,799                         | 39,489                        | (1,690)         | 33,155                         |
| Total current liabilities                      | <u>417,988</u>                 | <u>442,773</u>                | <u>(24,785)</u> | <u>396,785</u>                 |
| Long-term debt, excluding current installments | 115,557                        | 42,803                        | 72,754          | 63,630                         |
| Total liabilities                              | <u>533,546</u>                 | <u>485,576</u>                | <u>47,970</u>   | <u>460,415</u>                 |
| Stockholders' equity:                          |                                |                               |                 |                                |
| Common stock                                   | 165,144                        | 164,796                       | 348             | 164,345                        |
| Additional paid-in capital                     | 296,227                        | 295,880                       | 347             | 285,455                        |
| Legal reserve                                  | 21,194                         | 20,086                        | 1,108           | 19,344                         |
| Retained earnings                              | 628,850                        | 614,918                       | 13,932          | 578,188                        |
| Net unrealized gains on securities             | 5,897                          | -                             | 5,897           | -                              |
| Total stockholders' equity                     | <u>1,117,314</u>               | <u>1,095,680</u>              | <u>21,634</u>   | <u>1,047,335</u>               |
| Total liabilities and stockholders' equity     | <u>¥ 1,650,860</u>             | <u>¥ 1,581,257</u>            | <u>¥ 69,603</u> | <u>¥ 1,507,751</u>             |
| Millions of yen                                |                                |                               |                 |                                |
|  | <u>As of<br/>June 30, 2001</u> | <u>As of<br/>Dec.31, 2000</u> | Millions of yen |                                |
| Accumulated depreciation                       | ¥ 548,660                      | ¥ 566,238                     | ¥ 557,942       |                                |

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

## **SHAREHOLDERS' INFORMATION**

### **STOCK EXCHANGE LISTINGS:**

Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, New York and Frankfurt Stock Exchanges.

American Depositary Receipts (ADRs) are traded on the New York Stock Exchange.

### **OTHER INFORMATION:**

Information on Canon and its products can be found on Canon's Home Page at

<http://www.canon.com/>

**CONSOLIDATED FINANCIAL RESULTS FOR THE SECOND QUARTER  
 AND THE FIRST HALF ENDED JUNE 30, 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<br>Year over year |          |          |
|----------------------------|-------------|-----------|-----------|-------------|-----------|-----------|--------------------------|----------|----------|
|                            | 2nd quarter | 1st half  | Year      | 2nd quarter | 1st half  | Year (P)  | 2nd quarter              | 1st half | Year (P) |
| <b>Japan</b>               |             |           |           |             |           |           |                          |          |          |
| Business machines          | 147,177     | 295,527   | 578,874   | 149,545     | 304,822   | 621,000   | +1.6%                    | +3.1%    | +7.3%    |
| Copying machines           | 52,978      | 106,569   | 221,805   | 63,050      | 126,751   | 255,600   | +19.0%                   | +18.9%   | +15.2%   |
| Computer peripherals       | 38,392      | 75,470    | 159,945   | 39,074      | 78,066    | 165,000   | +1.8%                    | +3.4%    | +3.2%    |
| Business systems           | 55,807      | 113,488   | 197,124   | 47,421      | 100,005   | 200,400   | -15.0%                   | -11.9%   | +1.7%    |
| Cameras                    | 22,937      | 38,848    | 86,594    | 23,735      | 40,375    | 89,400    | +3.5%                    | +3.9%    | +3.2%    |
| Optical and other products | 26,496      | 50,851    | 113,898   | 41,296      | 74,690    | 153,500   | +55.9%                   | +46.9%   | +34.8%   |
| Total                      | 196,610     | 385,226   | 779,366   | 214,576     | 419,887   | 863,900   | +9.1%                    | +9.0%    | +10.8%   |
| <b>Overseas</b>            |             |           |           |             |           |           |                          |          |          |
| Business machines          | 384,675     | 763,990   | 1,531,536 | 420,329     | 833,408   | 1,677,500 | +9.3%                    | +9.1%    | +9.5%    |
| Copying machines           | 142,986     | 277,526   | 550,752   | 162,236     | 308,513   | 630,100   | +13.5%                   | +11.2%   | +14.4%   |
| Computer peripherals       | 210,866     | 426,247   | 863,049   | 227,896     | 465,379   | 921,700   | +8.1%                    | +9.2%    | +6.8%    |
| Business systems           | 30,823      | 60,217    | 117,735   | 30,197      | 59,516    | 125,700   | -2.0%                    | -1.2%    | +6.8%    |
| Cameras                    | 60,290      | 103,674   | 231,640   | 79,408      | 134,588   | 295,100   | +31.7%                   | +29.8%   | +27.4%   |
| Optical and other products | 39,765      | 69,568    | 153,878   | 44,964      | 86,092    | 173,500   | +13.1%                   | +23.8%   | +12.8%   |
| Total                      | 484,730     | 937,232   | 1,917,054 | 544,701     | 1,054,088 | 2,146,100 | +12.4%                   | +12.5%   | +11.9%   |
| <b>Americas</b>            |             |           |           |             |           |           |                          |          |          |
| Business machines          | 182,968     | 363,539   | 735,513   | 210,816     | 409,931   | 828,300   | +15.2%                   | +12.8%   | +12.6%   |
| Copying machines           | 71,423      | 139,029   | 278,781   | 82,480      | 158,506   | 324,400   | +15.5%                   | +14.0%   | +16.4%   |
| Computer peripherals       | 99,412      | 200,979   | 409,700   | 116,223     | 227,291   | 454,500   | +16.9%                   | +13.1%   | +10.9%   |
| Business systems           | 12,133      | 23,531    | 47,032    | 12,113      | 24,134    | 49,400    | -0.2%                    | +2.6%    | +5.0%    |
| Cameras                    | 28,169      | 47,293    | 109,129   | 36,267      | 59,256    | 135,400   | +28.7%                   | +25.3%   | +24.1%   |
| Optical and other products | 12,487      | 21,142    | 45,122    | 9,897       | 21,537    | 46,000    | -20.7%                   | +1.9%    | +1.9%    |
| Total                      | 223,624     | 431,974   | 889,764   | 256,980     | 490,724   | 1,009,700 | +14.9%                   | +13.6%   | +13.5%   |
| <b>Europe</b>              |             |           |           |             |           |           |                          |          |          |
| Business machines          | 159,789     | 322,493   | 633,485   | 157,503     | 326,757   | 654,200   | -1.4%                    | +1.3%    | +3.3%    |
| Copying machines           | 60,009      | 116,303   | 227,297   | 65,302      | 124,687   | 253,700   | +8.8%                    | +7.2%    | +11.6%   |
| Computer peripherals       | 84,453      | 175,901   | 348,083   | 77,577      | 172,996   | 337,100   | -8.1%                    | -1.7%    | -3.2%    |
| Business systems           | 15,327      | 30,289    | 58,105    | 14,624      | 29,074    | 63,400    | -4.6%                    | -4.0%    | +9.1%    |
| Cameras                    | 25,513      | 43,257    | 94,443    | 34,514      | 59,481    | 126,900   | +35.3%                   | +37.5%   | +34.4%   |
| Optical and other products | 7,013       | 12,813    | 30,014    | 11,279      | 22,973    | 45,800    | +60.8%                   | +79.3%   | +52.6%   |
| Total                      | 192,315     | 378,563   | 757,942   | 203,296     | 409,211   | 826,900   | +5.7%                    | +8.1%    | +9.1%    |
| <b>Other areas</b>         |             |           |           |             |           |           |                          |          |          |
| Business machines          | 41,918      | 77,958    | 162,538   | 52,010      | 96,720    | 195,000   | +24.1%                   | +24.1%   | +20.0%   |
| Copying machines           | 11,554      | 22,194    | 44,674    | 14,454      | 25,320    | 52,000    | +25.1%                   | +14.1%   | +16.4%   |
| Computer peripherals       | 27,001      | 49,367    | 105,266   | 34,096      | 65,092    | 130,100   | +26.3%                   | +31.9%   | +23.6%   |
| Business systems           | 3,363       | 6,397     | 12,598    | 3,460       | 6,308     | 12,900    | +2.9%                    | -1.4%    | +2.4%    |
| Cameras                    | 6,608       | 13,124    | 28,068    | 8,627       | 15,851    | 32,800    | +30.6%                   | +20.8%   | +16.9%   |
| Optical and other products | 20,265      | 35,613    | 78,742    | 23,788      | 41,582    | 81,700    | +17.4%                   | +16.8%   | +3.8%    |
| Total                      | 68,791      | 126,695   | 269,348   | 84,425      | 154,153   | 309,500   | +22.7%                   | +21.7%   | +14.9%   |
| <b>Total</b>               |             |           |           |             |           |           |                          |          |          |
| Business machines          | 531,852     | 1,059,517 | 2,110,410 | 569,874     | 1,138,230 | 2,298,500 | +7.1%                    | +7.4%    | +8.9%    |
| Copying machines           | 195,964     | 384,095   | 772,557   | 225,286     | 435,264   | 885,700   | +15.0%                   | +13.3%   | +14.6%   |
| Computer peripherals       | 249,258     | 501,717   | 1,022,994 | 266,970     | 543,445   | 1,086,700 | +7.1%                    | +8.3%    | +6.2%    |
| Business systems           | 86,630      | 173,705   | 314,859   | 77,618      | 159,521   | 326,100   | -10.4%                   | -8.2%    | +3.6%    |
| Cameras                    | 83,227      | 142,522   | 318,234   | 103,143     | 174,963   | 384,500   | +23.9%                   | +22.8%   | +20.8%   |
| Optical and other products | 66,261      | 120,419   | 267,776   | 86,260      | 160,782   | 327,000   | +30.2%                   | +33.5%   | +22.1%   |
| Total                      | 681,340     | 1,322,458 | 2,696,420 | 759,277     | 1,473,975 | 3,010,000 | +11.4%                   | +11.5%   | +11.6%   |

## 2. SALES COMPOSITION BY PRODUCT

|                                    | 2000     | 2001     |
|------------------------------------|----------|----------|
|                                    | 1st half | 1st half |
| <b>Copying machines</b>            |          |          |
| Monochrome                         | 79%      | 80%      |
| Color                              | 21%      | 20%      |
| <b>Computer peripherals</b>        |          |          |
| Laser beam printers                | 72%      | 75%      |
| Bubble Jet printers                | 25%      | 22%      |
| Others                             | 3%       | 3%       |
| <b>Cameras</b>                     |          |          |
| Film cameras / Lenses              | 63%      | 48%      |
| Digital cameras                    | 15%      | 30%      |
| Video camcorders                   | 22%      | 22%      |
| <b>Optical and other products</b>  |          |          |
| Semiconductor production equipment | 54%      | 59%      |
| Others                             | 46%      | 41%      |

## 3. SALES GROWTH IN LOCAL CURRENCY

|                                   | 2001                  |          |
|-----------------------------------|-----------------------|----------|
|                                   | Change year over year |          |
|                                   | 1st half              | Year (P) |
| <b>Business machines</b>          |                       |          |
| Japan                             | +3.1%                 | +7.3%    |
| Overseas                          | -0.9%                 | -0.4%    |
| Total                             | +0.2%                 | +1.7%    |
| <b>Cameras</b>                    |                       |          |
| Japan                             | +3.9%                 | +3.2%    |
| Overseas                          | +19.0%                | +16.5%   |
| Total                             | +14.9%                | +12.9%   |
| <b>Optical and other products</b> |                       |          |
| Japan                             | +46.9%                | +34.8%   |
| Overseas                          | +17.0%                | +6.0%    |
| Total                             | +29.6%                | +18.2%   |
| <b>Total</b>                      |                       |          |
| Japan                             | +9.0%                 | +10.8%   |
| Overseas                          | +2.6%                 | +2.2%    |
| Americas                          | +0.8%                 | +1.8%    |
| Europe                            | +1.1%                 | +0.9%    |
| Others                            | +13.5%                | +7.1%    |
| Total                             | +4.5%                 | +4.7%    |

#### 4. SEGMENT INFORMATION BY PRODUCT

(Millions of yen)

|                                   | 2000        |           |           | 2001        |           |           | Change<br>Year over year |          |          |
|-----------------------------------|-------------|-----------|-----------|-------------|-----------|-----------|--------------------------|----------|----------|
|                                   | 2nd quarter | 1st half  | Year      | 2nd quarter | 1st half  | Year (P)  | 2nd quarter              | 1st half | Year (P) |
| <b>Business machines</b>          |             |           |           |             |           |           |                          |          |          |
| Unaffiliated customers            | 531,852     | 1,059,517 | 2,110,410 | 569,874     | 1,138,230 | 2,298,500 | +7.1%                    | +7.4%    | +8.9%    |
| Intersegment                      | -           | -         | -         | -           | -         | -         | -                        | -        | -        |
| Total sales                       | 531,852     | 1,059,517 | 2,110,410 | 569,874     | 1,138,230 | 2,298,500 | +7.1%                    | +7.4%    | +8.9%    |
| Operating profit                  | 79,659      | 168,455   | 318,174   | 104,181     | 190,683   | 377,300   | +30.8%                   | +13.2%   | +18.6%   |
| % of sales                        | 15.0%       | 15.9%     | 15.1%     | 18.3%       | 16.8%     | 16.4%     | -                        | -        | -        |
| <b>Cameras</b>                    |             |           |           |             |           |           |                          |          |          |
| Unaffiliated customers            | 83,227      | 142,522   | 318,234   | 103,143     | 174,963   | 384,500   | +23.9%                   | +22.8%   | +20.8%   |
| Intersegment                      | -           | -         | -         | -           | -         | -         | -                        | -        | -        |
| Total sales                       | 83,227      | 142,522   | 318,234   | 103,143     | 174,963   | 384,500   | +23.9%                   | +22.8%   | +20.8%   |
| Operating profit                  | 7,033       | 11,470    | 33,166    | 10,525      | 15,615    | 38,000    | +49.7%                   | +36.1%   | +14.6%   |
| % of sales                        | 8.5%        | 8.0%      | 10.4%     | 10.2%       | 8.9%      | 9.9%      | -                        | -        | -        |
| <b>Optical and other products</b> |             |           |           |             |           |           |                          |          |          |
| Unaffiliated customers            | 66,261      | 120,419   | 267,776   | 86,260      | 160,782   | 327,000   | +30.2%                   | +33.5%   | +22.1%   |
| Intersegment                      | 28,988      | 55,430    | 126,947   | 30,451      | 62,165    | 128,200   | +5.0%                    | +12.2%   | +1.0%    |
| Total sales                       | 95,249      | 175,849   | 394,723   | 116,711     | 222,947   | 455,200   | +22.5%                   | +26.8%   | +15.3%   |
| Operating profit                  | -1,552      | -736      | 12,013    | 7,743       | 16,809    | 33,700    | -                        | -        | +180.5%  |
| % of sales                        | -1.6%       | -0.4%     | 3.0%      | 6.6%        | 7.5%      | 7.4%      | -                        | -        | -        |
| <b>Corporate and Eliminations</b> |             |           |           |             |           |           |                          |          |          |
| Unaffiliated customers            | -           | -         | -         | -           | -         | -         | -                        | -        | -        |
| Intersegment                      | -28,988     | -55,430   | -126,947  | -30,451     | -62,165   | -128,200  | -                        | -        | -        |
| Total sales                       | -28,988     | -55,430   | -126,947  | -30,451     | -62,165   | -128,200  | -                        | -        | -        |
| Operating profit                  | -32,785     | -56,047   | -117,354  | -31,845     | -54,347   | -116,000  | -                        | -        | -        |
| <b>Consolidated</b>               |             |           |           |             |           |           |                          |          |          |
| Unaffiliated customers            | 681,340     | 1,322,458 | 2,696,420 | 759,277     | 1,473,975 | 3,010,000 | +11.4%                   | +11.5%   | +11.6%   |
| Intersegment                      | -           | -         | -         | -           | -         | -         | -                        | -        | -        |
| Total sales                       | 681,340     | 1,322,458 | 2,696,420 | 759,277     | 1,473,975 | 3,010,000 | +11.4%                   | +11.5%   | +11.6%   |
| Operating profit                  | 52,355      | 123,142   | 245,999   | 90,604      | 168,760   | 333,000   | +73.1%                   | +37.0%   | +35.4%   |
| % of sales                        | 7.7%        | 9.3%      | 9.1%      | 11.9%       | 11.4%     | 11.1%     | -                        | -        | -        |

## 5. PROFITABILITY

|     | 2000     |       | 2001     |          |
|-----|----------|-------|----------|----------|
|     | 1st half | Year  | 1st half | Year (P) |
| ROE | 11.2%    | 10.7% | 14.8%    | 13.5%    |
| ROA | 5.3%     | 4.9%  | 7.1%     | 6.6%     |

## 6. IMPACT OF FOREIGN EXCHANGE RATES

(Yen)

|                       | 2000     |       | 2001     |              |          |
|-----------------------|----------|-------|----------|--------------|----------|
|                       | 1st half | Year  | 1st half | 2nd half (P) | Year (P) |
| <b>Exchange rates</b> |          |       |          |              |          |
| Yen/US\$              | 106.9    | 107.9 | 120.6    | 120.0        | 120.3    |
| Yen/Euro              | 102.5    | 99.3  | 108.1    | 105.0        | 106.5    |

(Billions of yen)

|  | 2001     |          |
|--|----------|----------|
|  | 1st half | Year (P) |
| <b>Impact of foreign exchange rates on sales</b> |          |          |
| US\$   | +76.4    | +138.9   |
| Euro   | +16.3    | +46.7    |
| Other currencies                                 | -0.4     | +1.6     |
| Total  | +92.3    | +187.2   |

(Billions of yen)

|   | 2001        |
|---|-------------|
|   | 2nd half(P) |
| <b>Impact of foreign exchange rates per yen</b> |             |
| <b>On sales</b>                                 |             |
| US\$  | 5.6         |
| Euro  | 3.5         |
| <b>On income before income taxes</b>            |             |
| US\$  | 2.2         |
| Euro  | 2.2         |

## 7. CASH FLOWS

(Millions of yen)

|  | 2000     |          | 2001     |          |
|--|----------|----------|----------|----------|
|  | 1st half | Year     | 1st half | Year (P) |
| Net cash provided by operating activities                  |          |          |          |          |
| Net income   | 68,482   | 134,088  | 100,063  | 188,000  |
| Depreciation and amortization                              | 66,018   | 146,477  | 70,334   | 155,000  |
| Other, net   | 58,468   | 66,051   | 7,783    | 29,500   |
| Total  | 192,968  | 346,616  | 178,180  | 372,500  |
| Net cash used in investing activities                      | -80,869  | -212,804 | -106,624 | -236,900 |
| Free cash flow   | 112,099  | 133,812  | 71,556   | 135,600  |
| Net cash provided by (used in) financing activities        | -95,995  | -100,597 | -69,662  | -140,000 |
| Effect of exchange rate changes on cash & cash equivalents | 650      | -19,706  | -8,599   | -8,562   |
| Net change in cash and cash equivalents                    | 16,754   | 13,509   | -6,705   | -12,962  |
| Cash and cash equivalents at end of each period            | 497,207  | 493,962  | 487,257  | 481,000  |

## 8. CAPITAL EXPENDITURE

(Millions of yen)

|                               | 2000     |         | 2001     |          |
|-------------------------------|----------|---------|----------|----------|
|                               | 1st half | Year    | 1st half | Year (P) |
| Capital expenditure           | 81,573   | 170,986 | 105,316  | 220,000  |
| Depreciation and amortization | 66,018   | 146,477 | 70,334   | 155,000  |

## 9. R&D EXPENDITURE

(Millions of yen)

|                 | 2000     |         | 2001     |          |
|-----------------|----------|---------|----------|----------|
|                 | 1st half | Year    | 1st half | Year (P) |
| R&D expenditure | 95,849   | 194,552 | 107,194  | 210,000  |
| % of sales      | 7.2%     | 7.2%    | 7.3%     | 7.0%     |

## 10. INVENTORIES

(Millions of yen)

|                            | 2000    | 2001    | Change  |
|----------------------------|---------|---------|---------|
|                            | Dec.31  | Jun.30  |         |
| <b>Inventories</b>         |         |         |         |
| Business machines          | 325,043 | 326,051 | +1,008  |
| Cameras                    | 54,917  | 64,605  | +9,688  |
| Optical and other products | 110,733 | 126,442 | +15,709 |
| Total                      | 490,693 | 517,098 | +26,405 |

(Days)

|                            | 2000   | 2001   | Change |
|----------------------------|--------|--------|--------|
|                            | Dec.31 | Jun.30 |        |
| <b>Inventories/Sales*</b>  |        |        |        |
| Business machines          | 56     | 52     | -4     |
| Cameras                    | 57     | 67     | +10    |
| Optical and other products | 137    | 144    | +7     |
| Total                      | 65     | 64     | -1     |

\*Index based on the previous six months sales.

### 11. DEBT RATIO

|                           | 2000<br>Dec.31 | 2001<br>Jun.30 | Difference |
|---------------------------|----------------|----------------|------------|
| Total debt / Total assets | 13.8%          | 11.8%          | -2.0%      |

### 12. OVERSEAS PRODUCTION RATIO

|                           | 2000<br>Year | 2001<br>1st half | Difference |
|---------------------------|--------------|------------------|------------|
| Overseas production ratio | 30%          | 32%              | +2%        |

### 13. NUMBER OF EMPLOYEES

|                     | 2000<br>Dec.31 | 2001<br>Jun.30 | Change |
|---------------------|----------------|----------------|--------|
| Number of employees |                |                |        |
| Japan               | 39,496         | 45,424         | +5,928 |
| Overseas            | 47,177         | 49,201         | +2,024 |
| Total               | 86,673         | 94,625         | +7,952 |