

CANON SALES CO., INC.

ANNUAL REPORT 2001

Year Ended December 31, 2001

The Canon logo is positioned at the bottom center of the page. It consists of the word "Canon" in a bold, red, sans-serif typeface.

Canon Sales Co., Inc., is the independent marketing arm of Canon Inc.—wholesaling and retailing a broad range of products developed and manufactured by Canon. In addition to the parent company, the Canon Sales Group currently encompasses 40 subsidiaries, 38 of which are consolidated, and four affiliates, including one accounted for using the equity method. The Group’s lineup includes such office equipment as copying machines, telecommunications products, computers and computer peripherals; optical products, including semiconductor and medical equipment; and cameras, video cameras and related products. Other operations include the manufacture of products under contract from Canon, which is carried out by certain consolidated subsidiaries.

Canon Sales has outlined a vision designed to guide the efforts of the Group toward a mature and globally focused entity with leading-edge marketing technologies, and evolve as an advanced digital solutions producer by encouraging creativity and innovation. The Company is currently implementing a variety of strategic measures aimed at the realization of this vision.

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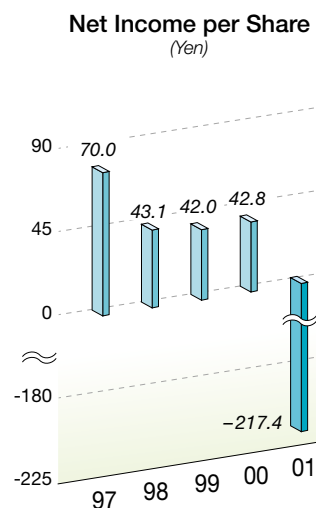
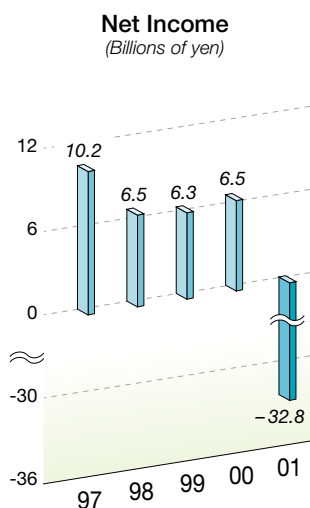
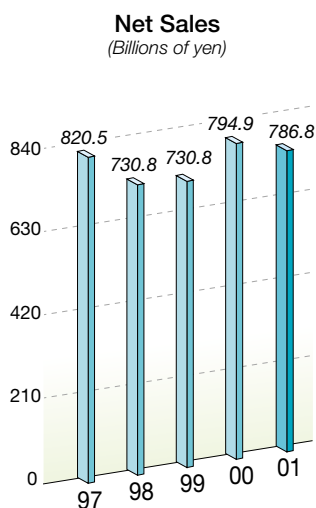
Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements about the performance and management plans of Canon Sales Co., Inc, based on management’s assumptions in light of current information. The following factors may therefore influence actual results. These factors include consumer trends in Japan as well as other major global markets, private capital expenditures, currency fluctuations, notably against the U.S. dollar, materials prices, and political turmoil in certain countries and regions.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Canon Sales Co., Inc. and Consolidated Subsidiaries	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Net sales by merchandise group			
Business machines	¥585,231	¥620,920	\$4,433,568
Copying machines and telecommunications products	250,851	268,763	1,900,386
Computer products	167,006	183,304	1,265,197
Computer peripherals	167,374	168,853	1,267,985
Optical products	105,666	81,771	800,500
Cameras	71,225	63,756	539,583
Others	24,706	28,470	187,167
Total	786,828	794,917	5,960,818
Net (loss) income	(32,831)	6,460	(248,720)
Total stockholders' equity	220,418	256,959	1,669,833
Total assets	514,698	518,958	3,899,227
	Yen		U.S. dollars
Net (loss) income per share	¥(217.39)	¥42.77	\$(1.65)

Note: The accompanying financial figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥132 to U.S.\$1, the prevailing exchange rate as of December 31, 2001.





Haruo Murase
President and CEO

Fiscal 2001 in Review

In fiscal 2001, ended December 31, 2001, a global slump in information technology (IT) affected a broad range of industries. Firms scaled back production and capital investment, while a deteriorating employment rate and income led consumers to cut spending. The September 11 terrorist attacks in the United States further aggravated the economic situation by reinforcing negative trends.

In this environment, to establish management systems that fully exploit the consolidated Group structure and bolster the Group's integrated capabilities, the Canon Sales Group pushed ahead with a management system reform project with the objective of building an integrated management infrastructure. We also implemented strategies to enhance our brand and promote customer-driven marketing.

In addition to developing the digital photo service market and pursuing new business areas, we undertook aggressive activities to help the Group grow from being mainly a seller of hardware to becoming a future solutions producer able to meet a range of customer needs. We also strove to maintain profitability through further reductions in operating costs.

On the whole, consolidated net sales declined 1.0%, to ¥786.8 billion, and

operating income fell 5.4%, to ¥19.4 billion. Accompanying a change in the accounting standard for employee retirement and severance benefits, the Company booked a charge of ¥68.8 billion for amortization of net retirement benefit obligation at transition. This accounting change had a significant impact on the Group's bottom line, leading to a net loss of ¥32.8 billion.

On a nonconsolidated basis, net sales slipped 1.0%, to ¥715.0 billion, operating income declined 6.2%, to ¥16.1 billion, and the Company posted a net loss of ¥33.8 billion.

Year-end cash dividends were maintained at ¥9.00 per share, bringing the cash dividend for the full term to ¥18.00.

In the area of environmental management, the Canon Sales Group has focused considerable efforts on achieving ISO 14001 accreditation. Following the December 2000 certification of our headquarters in Makuhari, Chiba Prefecture, in December 2001, the Company expanded accreditation to a further 21 sites, including those of the Osaka branch and other Group companies, through a multisite ISO 14001 certification program.

Challenges Ahead

In light of macroeconomic conditions and the prevailing market outlook, the Canon Sales Group reorganized its 2002–2004 management plan. The plan includes four key strategic components: a customer-driven approach, a strong pursuit of profitability, an increase in the productivity and value of our organization and staff, and enhancement of our brand. Among these, pursuit of profitability is given the highest priority. We intend to bolster sales of Canon products, but not become over-reliant on merchandise sales. A crucial part of our endeavors to increase profitability will be an expansion of offerings in the area of professional services—including consulting, applications development, data processing services and IT management services.

With the motto “from Canon-centric to customer-centric,” we are making vigorous efforts to adopt a customer-driven approach. These include adopting a view from the customer's perspective and offering optimal solutions to customers. In the business solutions area, we reinforced our customer response capabilities by introducing a regional management system that facilitates prompt action at the local sales level when business opportunities arise.

In preparation for the 2003 spring opening of our new headquarters in Shinagawa, Tokyo, we are progressing with the establishment of a Makuhari-Shinagawa head office structure and building an integrated management infrastructure. The new system aims to achieve greater Groupwide management efficiency. We believe the implementation of the aforementioned range of strategies will help us lift Group performance as well as improve corporate strength.

Although a domestic economic recovery is not yet in sight and harsh operating conditions are expected to persist, we are determined to act with a unified purpose to enhance the Group's results. In these endeavors, we look forward to the continued support and cooperation of our stockholders.

March 2002

A handwritten signature in black ink, reading "Haruo Murase" in a cursive style, followed by a long horizontal flourish.

Haruo Murase
President and CEO

REVIEW OF OPERATIONS

Copying Machines and Telecommunications Products

Computer Products

Computer Peripherals

Optical Products

Cameras

New Business Development

Copying Machines and Telecommunications Products

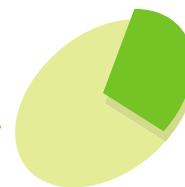
Business Environment and Results

During fiscal 2001, the shift to digital equipment in the plain-paper copier (PPC) market continued to advance. Although we were able to increase sales and document volume through the introduction of multifunctional peripherals, the overall result was significantly influenced by a slowdown in the domestic economy. Consequently, both the volume and value of sales were down compared with the previous period. The color copier market also lost momentum, shrinking in size from the previous year.

The business-use facsimile market marked a drop in terms of both shipments and sales over the previous year. An increasing shift in demand for multifunctional peripherals with facsimile functions greatly diminished business-use facsimile shipments and sales compared with last year.

Under these circumstances, Canon Sales recorded a 6.7% fall in sales of copying machines and telecommunications products, to ¥250.9 billion.

Percentage of
Net Sales: 31.9%



Digital Copiers

In fiscal 2001, despite the digital monochrome copier market remaining level with the previous year, Canon Sales was able to exceed the industry average and post growth for the year.

During the period, we released copier/printer/facsimile digital monochrome multifunctional models, including the iR1600, with an output capacity of 16 A4 copies per minute (cpm), the iR3300 (33 cpm/A4), the iR5000 (50 cpm/A4) and the iR105 (105 cpm/A4), to complete our digital monochrome copier lineup. With the launch of these new models, we changed the name of our MEDIO series to imageRUNNER and the name of our document management software to imageWARE, to consolidate and enhance overall brand image.

To fully exploit our strong product lineup, we strove to expand document volume by matching need with output of our high-capacity machines and increase the number of units shipped of our medium-capacity machines, while placing emphasis on marketing a combination of document applications. These strategies in particular contributed to sales of 50 cpm and 60 cpm machines.



iR3300



iR5000i

Color Copiers

We implemented separate marketing strategies in each market for color copiers. In the graphic arts market, we focused on providing color proofing solutions using the PIXEL D series sold with a controller for networking. As a result, the PIXEL D series made a significant impact on sales. For the general business market, we offered print-on-demand (POD), expanding sales of the CP680/PIXEL 2100 series as an easy color-document solution. For the professional POD market focused on the printing industry, we launched the CLC5000, which gained an excellent reputation.



CLC1130

Facsimile Machines

In the business-use facsimile segment, demand has shifted to multifunctional units with facsimile functions. Both the number of units shipped and sales declined by a significant margin compared with the previous term.

We endeavored to expand sales of personal-use facsimile machines through the release of several new models, including those in the MultiPASS inkjet series of multifunctional units, the Faxphone H series and the VL series, the latter being compatible with Nippon Telephone & Telegraph (NTT) Group's L-mode service.



MultiPASS C70

Computer Products

Business Environment and Results

The computer market in fiscal 2001 remained almost unchanged from the previous year in terms of units shipped. By value, however, the market slipped some 30%. Several factors contributed to the decline. In the business market, the domestic economic downturn forced many firms to keep a tight rein on costs, leading to reduced personal computer (PC) purchases and a tendency toward cost-saving purchases. In the home-use market, demand appears to have tapered off after a sustained period of strong growth fuelled by widespread consumer adoption of the Internet and e-mail. In the PC server market, the move toward lower-priced products became further entrenched, but, driven by a solid demand base, the market achieved growth in both value and units shipped. Canon Sales posted a 8.9% drop in computer product sales, to ¥167.0 billion.

Percentage of
Net Sales: 21.2%



Personal Computers

Sales of PCs declined 25% by value and 28% by volume. Although margins in the market were further squeezed, we responded by rationalizing our operations.

Sales of International Business Machines (IBM) Corporation's PC equipment grew both in value and volume as we continued to vigorously pursue the adoption of wireless solutions and our Canonet joint initiative with IBM.

The number of shipped PC equipment units of the Hewlett-Packard Company rose, but the value of sales fell. During the period, we promoted server solutions in our sales activities.

Business-use PC equipment from Compaq Computer Corporation recorded the strongest growth among all brands in both value and volume. Sales of home-use PC equipment from Compaq declined due to the dissolution of our exclusive marketing rights for the Presario brand, which we acquired in fiscal 1998. The dissolution was mutually agreed upon as part of our ongoing relationship with Compaq.

The lineup of computer products from Apple Computer, Inc., underwent some minor changes and there were some adjustments to the supply chain. Sluggish sales of the iMac, however, led to lower sales compared with the previous period, in both value and volume.

PC equipment from other manufacturers, including Fujitsu Limited, grew in volume and value.



IBM e server pSeries 616
Model 6E1



Compaq Evo Desktop D300
SF Series



PowerMac G4 Dual800



Handy Terminal HT-280

Servers

Canon Sales handles PC servers from such vendors as IBM, Hewlett-Packard and Compaq. These products posted sales increases of over 20% in units shipped and in value.

In the UNIX server category, we expanded our organizational structure for collaboration with vendors. In the latter half of the period, sales were steady. For the year as a whole, we achieved a unit volume increase over the previous year.

Software

This category covers business software solutions specifically related to Canon document equipment, namely, document management, printing operations management, business forms, POD systems and color management. It also encompasses tailor-made software solutions, a variety of application and database software, security systems and systems administration software.

Document-equipment-related software grew over the entire term. Microsoft Corporation products continued their growth from the previous term, contributing strongly to sales for the category. Market demand for security systems and systems administration software was robust, causing a large jump in sales.

The software category as a whole recorded higher sales compared with the previous term.

Computer Peripherals

Business Environment and Results

Suffering from a fall in private demand in the second half of the fiscal year, the laser-beam printer market grew only slightly in terms of units shipped and shrunk by a small margin when measured by sales.

Broken down by product category, monochrome printers posted a small increase in shipped units and a slight decrease in sales, while both units and sales of color printers exceeded the previous year's figures. The ink-jet printer market recorded a marginal decrease in units shipped as a result of a contracting PC market, which was offset somewhat by the robust growth in the digital camera market. A fall in the average unit price resulted in lower sales. The scanner market, which expanded substantially during the previous term, was also handicapped by the PC market slump, shrinking in terms of both units and sales. The projector market achieved both unit and sales gains, however, the rate of sales appears to have slowed. In this environment, Canon Sales posted a 0.9% decrease in sales of computer peripherals, to ¥167.4 billion.

Percentage of
Net Sales: 21.3%



● Laser-Beam Printers

During the period, we launched seven new models prior to the March peak in demand. By actively promoting advanced features at a low cost, we maintained our leading market share for laser-beam printers and achieved sales in line with the previous term.

In the monochrome laser-beam printer category, new models capable of serving multiple networks contributed to sales, and sales of such accessories as network cards grew. This category recorded slightly lower sales than in the previous period. Sales of color laser-beam printers grew substantially, bolstered in part by several large-lot orders secured as a result of aggressive marketing and bulk-buying negotiations. Toner cartridge sales posted an increase over the previous term.



COLOR LASERSHOT LBP-2360



PIXUS BJ F900



CanoScan N1240U

● Bubblejet Printers

Bubblejet printers made gains in both units shipped and sales. During the period, we focused on further increasing market share. Efforts included intensive advertising campaigns, in-store demonstrations, pre-installation of printer driver software by seven PC manufacturers, alliances with three major New Year's greeting card software makers, joint promotions with digital cameras and scanners and development of the office market for high-speed models. We also inaugurated the PIXUS brand, used with a new series of printers designed to lead the digital era of photo printing.

The PIXUS S500 captured the top market share for individually sold printers due to its exceptionally good cost performance, and contributed to an increase in sales for the category. Ink cartridge sales increased, bolstered by strong growth in sales of cartridges for photo-quality printing.

● Other Peripheral Equipment

We further improved our market share for scanners, achieving the top share for two consecutive years. Sales in this category declined, although at a slower rate than the recession of the market as a whole. Projector sales exceeded the previous period as we expanded our lineup through the release of new models.



Power Projector LV-7345

Optical Products

Business Environment and Results

In the semiconductor production equipment market, world prices for dynamic random-access memory (DRAM) chips suffered a decline, leading to a sudden falloff in capital investment, as evidenced by overseas plant closures and the consolidation of production lines by major semiconductor makers. Equipment deliveries peaked and subsequently began to abate during the first half of the fiscal year, while orders received also began to recede. Investment in imaging tools for flat-panel liquid crystal displays (LCDs) reached an all-time high as large LCD manufacturers continued the pattern of aggressive investment begun in the previous fiscal year. Sales of optical products—including semiconductor production equipment, engineering instruments and medical equipment—showed a 29.2% increase compared with the previous period, of ¥105.7 billion.

Percentage of
Net Sales: 13.4%



● Semiconductor Production Equipment

Although capital investment in the semiconductor sector saw a sharp decrease, we captured the top market share for steppers, based on unit sales, due in part to the fulfillment of orders received during the previous period. In particular, the FPA-5000 ES3—which we began shipping in the previous fiscal year—gained a positive reaction from the market and contributed to a large increase in stepper sales. During the period, we endeavored to bolster brand reliability, increase market share, strengthen our lineup of support services and diversify product applications to win new customers for our imaging and optical devices. The FPA-5500 iZ and other i-line steppers also achieved steady sales growth.

Sales of mirror-projection equipment to major LCD manufacturers increased over the previous term, leading to a record level of sales in this category. We also entered the market for color-filter mirror-projection equipment.

In the MAS-series of microwave ashers, the MAS-8220, which was released during the previous period, contributed to sales in fiscal 2001. Sales of rapid thermal processing (RTP) systems were bolstered by the launch of new models.



FPA-5000ES4



SURPASS300



DIGI SUPER 86 TELE XS

● Engineering Systems, Broadcasting Equipment and Surveillance Cameras

Engineering systems focused on the expansion of differentiated component sales and the early release of high-value-added products. However, a general slump in the IT sector in the second half of the fiscal period saw sales decline.

Sales of broadcasting equipment remained firm, as key broadcasters began their transition to satellite digital and high-definition television (HDTV) technologies.

Owing to a robust market for security equipment, sales of our digital security recorder (DSR) surveillance camera system surpassed the level achieved in the previous period.

Demand expanded for our laser interferometer systems. Despite a semiconductor slump in the second half of the period, weighing down sales of end-measuring instruments, sales in the instruments category were higher than in the previous term.

● Medical Equipment

Helped by the trend toward adopting digital technology in the medical field, medical imaging equipment had a strong year. The CXDI X-ray in particular made a strong contribution to sales.

Due to a slowdown in the preventative medicine market, sales of ophthalmic equipment, including nonmydriatic cameras, were lower than in the previous period. Sales of interocular lenses (IOLs) also declined.



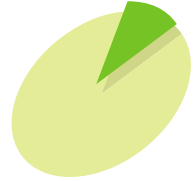
CXDI-II

Cameras

Business Environment and Results

The accelerating shift toward digital equipment in the camera market helped spur a 60% surge in the digital camera market compared with the previous term. Inversely, in the conventional camera market, single-lens reflex (SLR) cameras were down 25% and compact cameras slipped 10%. The digital video camera market suffered from a general slump in private consumption and the trend in the consumer electronics market toward digital still cameras, which led to a 10% contraction in market size. In the camera segment, Canon Sales posted 11.7% sales growth, to ¥71.2 billion.

Percentage of
Net Sales: 9.1%



● Digital Cameras

In the compact digital camera category, we implemented a strategy to strengthen model lineups in both the IXY DIGITAL and PowerShot series, helping us capture a market share of over 10%. A large-scale television campaign also assisted a rise in consumer brand awareness. In the digital SLR camera market, we launched the EOS-1D—boasting professional-level specifications—which gained a positive market response. Our overall result in the digital camera category significantly bettered the industry's growth rate.



EOS Kiss III L

● Conventional Film Cameras

In the conventional film camera market, we used carefully targeted strategies for each of the SLR camera, lens and compact camera categories. These included user campaigns for specific models, upgrading of product Web sites and other leading-edge promotional techniques. Despite such efforts, depressed consumer spending and the further shift by general users to digital photographic equipment saw the conventional camera market as a whole lose ground. We were unable to completely counter such negative influences, and sales in this category receded.



EOS-1D

● Digital Video Cameras

The digital video camera market lagged behind the previous year's results. However, we released new models in each of the three main consumer segments—compact, low-price and high-end enthusiast. As a result, the number of units shipped posted an increase, but lower average prices meant a sales decline.



IXY DIGITAL 300



IXY DV 2

New Business Development

Canon Sales currently has three areas of new business development: Internet Service Provider (ISP), Application Service Provider (ASP) and digital photographic services.

● ISP

Canonet, launched in July 2000, encompasses a wide range of services, including Internet access, domain name registration and Web site design and construction. In December 2000, we expanded our menu of Canonet services, better positioning us to respond to the needs of a broader range of customers. An additional service—which we plan to offer from May 2002—will integrate corporate e-mail systems with employees' mobile phones and external PCs.

● ASP

Our Canopy Net ASP business was also established in July 2000. The Canopy Net system comprises a variety of services aimed at improving fleet efficiency for transport companies. In November 2000, we introduced the Digital Assets Bank, encompassing a range of document-related services delivered via the Internet. Through the Digital Assets Bank we provide data storage and management services that link Canon input and output equipment and document-related applications with the Internet. ASP customers can utilize a secure environment without the need for initial investment or internal operational costs. We currently offer three services, namely, filing, knowledge management and groupware.

● Digital Photographic Services

This business is based around the Hyperphoto CD Station, a system for writing conventional film images and digital camera data to CD-ROM. Sales of this system commenced in November 2000.



Canon's ISP Service, Canonet



Canon's ASP Service, Canopy Net



Digital Assets Bank



Hyperphoto CD Station

FINANCIAL SECTION

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FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

Canon Sales Co., Inc. and Consolidated Subsidiaries
Years ended December 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2001	2000	1999	1998	1997	2001
For the year:						
Net sales	¥786,828	¥794,917	¥720,259	¥730,803	¥820,498	\$5,960,818
Cost of sales	542,732	541,199	504,370	510,880	575,544	4,111,606
Gross profit	244,096	253,718	215,889	219,923	244,954	1,849,212
Selling, general and administrative expenses	224,699	233,206	197,711	200,780	218,703	1,702,265
Operating income	19,397	20,512	18,178	19,143	26,251	146,947
(Loss) income before income taxes	(63,280)	15,313	13,770	12,526	17,975	(479,394)
Income taxes	(28,407)	7,966	7,257	6,088	7,962	(215,205)
Net (loss) income	(32,831)	6,460	6,345	6,512	10,293	(248,720)
At year-end:						
Total assets	514,698	518,958	486,176	524,704	498,760	3,899,227
Total stockholders' equity	220,418	256,959	257,740	252,925	249,328	1,669,833

Yen

U.S. dollars (Note 1)

Per share:

Net (loss) income (Note 2)	¥ (217.39)	¥ 42.77	¥ 42.01	¥ 43.12	¥ 70.00	\$ (1.65)
Cash dividends (Note 3)	18.00	18.00	18.00	18.00	20.00	0.14
Stockholders' equity	1,459.60	1,701.44	1,706.64	1,674.75	1,650.93	11.06

Notes: 1. The accompanying financial figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥132 to US\$1, the prevailing exchange rate as of December 31, 2001.

2. Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.

3. Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the year.

FINANCIAL REVIEW

Results of Operations

Sales

Consolidated net sales in fiscal 2001 declined 1.0% compared with the previous period, to ¥786.8 billion. In a harsh economic climate, this result reflects sustained efforts to remain customer-driven, as well as a re-evaluation of our current businesses, expansion of our solutions business and the aggressive promotion of new businesses.

Broken down by business segment, sales of business machines—significantly affected by the weak economy—fell 5.7%, to ¥585.2 billion. The optical products segment achieved robust growth, as large-lot purchase negotiations initiated during the previous period came to fruition and helped bolster sales 29.2%, to ¥105.7 billion. Sales in the camera segment rose 11.7%, to ¥71.2 billion, stemming from dramatic growth in digital cameras.

Canon Sales' consolidated accounts in fiscal 2001 include the results of 38 consolidated subsidiaries, a reduction of two from the previous period, owing to the merger of subsidiaries and other factors.

Earnings

Despite our efforts to maintain profitability—we offset a slight fall in gross margins through further cost reductions—operating income declined 5.4%, to ¥19.4 billion.

Canon Sales posted a net loss of ¥32.8 billion for fiscal 2001. This was mainly due to a charge of ¥68.8 billion for amortization of net retirement benefit obligation at transition, accompanying a change in the accounting standard for employee retirement and severance benefits.

Net loss per share was ¥217.39, compared with net income per share of ¥42.77 in the previous period. Cash dividends paid per share were maintained at ¥18.00.

Financial Position

As of December 31, 2001, total assets amounted to ¥514.7 billion, 0.8% lower than at the previous fiscal year-end. Major reasons for the drop included a lower

cash balance resulting from a contribution to the newly established employee retirement benefit trust, and reductions in notes and accounts receivable, and inventories.

The sum of current and long-term liabilities came to ¥273.0 billion, 14.7% higher than at the end of the previous period. The main reason for the increase was an addition to the employee retirement benefit liability accompanying the adoption of a new accounting standard for employee retirement and severance benefits.

As a result of the aforementioned changes, total stockholders' equity decreased 14.2%, to ¥220.4 billion.

Return on equity (ROE) was -13.8%, compared with 2.5% in the previous fiscal year. The equity ratio stood at 42.8%, compared with 49.5% a year earlier. Stockholders' equity per share of common stock amounted to ¥1,459.60, down from ¥1,701.44.

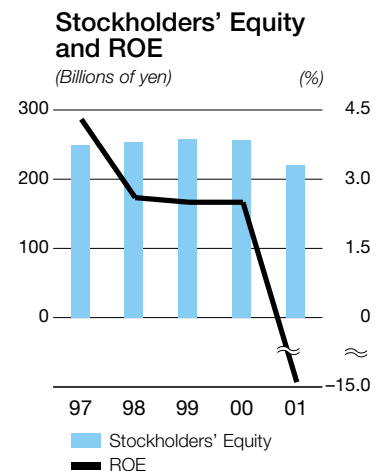
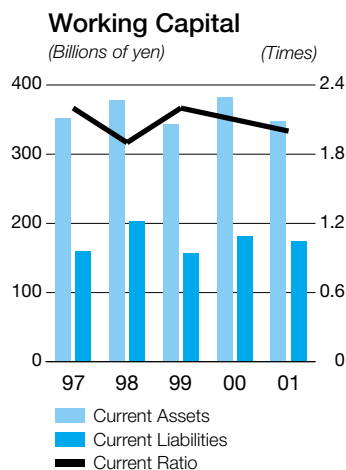
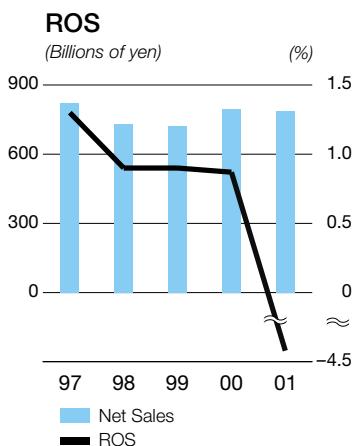
Cash Flows

Cash and cash equivalents at end of year totaled ¥141.0 billion, ¥16.9 billion lower than at the beginning of the period. The change was partly due to a contribution of ¥22.0 billion to the employee retirement benefit trust.

Net cash used in operating activities amounted to ¥3.4 billion, compared with net cash provided of ¥12.3 billion in the previous period. Significantly affecting this change were a ¥22.0 billion contribution to the employee retirement benefit trust and a ¥12.6 billion decrease in notes and accounts payable.

Net cash used in investing activities came to ¥7.4 billion, compared with ¥13.0 billion in the previous period. Of note was ¥10.0 billion used to purchase fixed assets, which was mainly related to the construction of the Company's headquarters in Shinagawa, Tokyo.

Net cash used in financing activities amounted to ¥6.2 billion, compared with ¥2.9 in the previous term. This largely consisted of ¥3.0 billion in dividends paid, and ¥2.9 billion comprising a decrease in short-term bank loans and payments of long-term bank loans.



CONSOLIDATED BALANCE SHEETS

Canon Sales Co., Inc. and Consolidated Subsidiaries
December 31, 2001 and 2000

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Current assets:			
Cash and cash equivalents	¥141,045	¥157,921	\$1,068,523
Marketable securities (Note 3)	500	975	3,788
Notes and accounts receivable	142,387	148,936	1,078,689
Inventories (Note 4)	58,094	65,093	440,106
Deferred tax assets (Note 8)	3,591	2,939	27,205
Other current assets	2,340	7,329	17,727
Allowance for doubtful receivables	(752)	(1,039)	(5,697)
Total current assets	347,205	382,154	2,630,341
Property, plant and equipment (Note 9):			
Land	42,679	44,142	323,326
Buildings and structures	68,590	69,400	519,621
Machinery	2,751	6,340	20,841
Vehicles	345	393	2,614
Furniture and fixtures	26,307	28,831	199,295
Rental assets	16,811	17,149	127,356
Construction in progress	7,278	2,009	55,136
Total	164,761	168,264	1,248,189
Accumulated depreciation	(56,649)	(57,762)	(429,159)
Net property, plant and equipment	108,112	110,502	819,030
Intangible assets:			
Software	3,026	1,642	22,924
Utilization rights	427	415	3,235
Other intangible assets	496	52	3,758
Total intangible assets	3,949	2,109	29,917
Investments and other assets:			
Investments in securities (Note 3)	5,573	5,964	42,220
Long-term loans receivable	189	1,340	1,432
Lease deposits	12,180	12,339	92,273
Deferred tax assets (Note 8)	33,961	961	257,280
Other investments	4,959	4,539	37,567
Allowance for doubtful receivables	(1,430)	(1,323)	(10,833)
Total investments and other assets	55,432	23,820	419,939
Cumulative translation adjustments	—	373	—
Total assets	¥514,698	¥518,958	\$3,899,227

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Current liabilities:			
Notes and accounts payable	¥124,638	¥137,269	\$ 944,227
Short-term bank loans (Note 5)	6,066	8,253	45,955
Current portion of long-term debt (Note 5)	5,000	—	37,879
Accrued income taxes	3,494	3,318	26,470
Advanced consumption tax payable	3,181	2,159	24,098
Accrued expenses	20,098	22,776	152,258
Reserves	2,711	2,791	20,538
Other current liabilities	8,567	5,405	64,901
Total current liabilities	173,755	181,971	1,316,326
Long-term liabilities:			
Long-term debt (Note 5)	45,150	50,685	342,045
Deferred tax liabilities (Note 8)	667	3,290	5,053
Liability for retirement benefits (Note 6)	51,718	329	391,803
Consolidated goodwill	53	199	402
Other long-term liabilities	1,674	1,473	12,682
Total long-term liabilities	99,262	55,976	751,985
Minority interests	21,263	24,052	161,083
Contingent liabilities (Note 10)			
Stockholders' equity (Notes 7 and 11):			
Common stock:			
Authorized—300,000,000 shares;			
Issued—151,023,896 shares in 2001 and 2000	73,303	73,303	555,326
Capital surplus	82,799	82,799	627,265
Retained earnings	64,797	100,858	490,886
Net unrealized losses on available-for-sale securities	(89)	—	(674)
Cumulative translation adjustments	(380)	—	(2,879)
Treasury stock	(12)	(1)	(91)
Total stockholders' equity	220,418	256,959	1,669,833
Total liabilities and stockholders' equity	¥514,698	¥518,958	\$3,899,227

CONSOLIDATED STATEMENTS OF OPERATIONS

Canon Sales Co., Inc. and Consolidated Subsidiaries
Years ended December 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Sales	¥786,828	¥794,917	\$5,960,818
Cost of sales	542,732	541,199	4,111,606
Gross profit	244,096	253,718	1,849,212
Selling, general and administrative expenses	224,699	233,206	1,702,265
Operating income	19,397	20,512	146,947
Other income (expenses):			
Interest and dividend income	363	846	2,750
Interest expense	(1,361)	(1,376)	(10,311)
Loss on sales and disposal of inventories	(4,094)	(3,079)	(31,015)
Gain on sales of investments in securities	968	14	7,333
Loss on sales and disposal of property and equipment	(4,900)	(1,705)	(37,121)
Loss on amortization of consolidated goodwill	—	(1,228)	—
Amortization of net retirement benefit obligation at transition	(68,829)	—	(521,432)
Other—net	(4,824)	1,329	(36,545)
	(82,677)	(5,199)	(626,341)
(Loss) income before income taxes	(63,280)	15,313	(479,394)
Income taxes (Note 8):			
Current	7,832	7,274	59,333
Deferred	(36,239)	692	(274,538)
	(28,407)	7,966	(215,205)
(Loss) income before minority interests	(34,873)	7,347	(264,189)
Minority interests	(2,042)	887	(15,469)
Net (loss) income	¥ (32,831)	¥ 6,460	\$ (248,720)

	Yen	U.S. dollars (Note 1)
Per share of common stock (Note 2):		
Net (loss) income	¥(217.39)	¥42.77 \$(1.65)
Cash dividends applicable to the year	18.00	18.00 0.14

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Canon Sales Co., Inc. and Consolidated Subsidiaries
Years ended December 31, 2001 and 2000

	Number of shares of common stock	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized losses on available- for-sale securities	Cumulative translation adjustments	Treasury stock
Balance at December 31, 1999	151,023,896	¥73,303	¥82,799	¥101,641	¥ —	¥ —	¥ (3)
Net income				6,460			
Cash dividends				(2,716)			
Bonuses to directors				(85)			
Adjustment due to increase in consolidated subsidiaries				(4,442)			
Increase in treasury stocks—net							2
Balance at December 31, 2000	151,023,896	¥73,303	¥82,799	¥100,858	¥ —	¥ —	¥ (1)
Net loss				(32,831)			
Cash dividends				(2,718)			
Bonuses to directors				(98)			
Adjustment due to decrease in consolidated subsidiaries				(414)			
Net unrealized losses on available-for-sale securities					(89)		
Cumulative translation adjustments						(380)	
Increase in treasury stocks—net							(11)
Balance at December 31, 2001	151,023,896	¥73,303	¥82,799	¥ 64,797	¥(89)	¥(380)	¥(12)

Thousands of U.S. dollars (Note 1)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized losses on available- for-sale securities	Cumulative translation adjustments	Treasury stock
Balance at December 31, 2000	\$555,326	\$627,265	\$764,075	\$ —	\$ —	\$ (8)
Net loss			(248,720)			
Cash dividends			(20,591)			
Bonuses to directors			(742)			
Adjustment due to decrease in consolidated subsidiaries			(3,136)			
Net unrealized losses on available-for-sale securities ...				(674)		
Cumulative translation adjustments					(2,879)	
Increase in treasury stocks—net						(83)
Balance at December 31, 2001	\$555,326	\$627,265	\$490,886	\$(674)	\$(2,879)	\$(91)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Sales Co., Inc. and Consolidated Subsidiaries
Years ended December 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Cash flows from operating activities			
(Loss) income before income taxes and minority interests	¥ (63,280)	¥ 15,313	\$ (479,394)
Adjustments for:			
Depreciation and amortization	9,798	10,419	74,227
Amortization of consolidated goodwill	(36)	(36)	(273)
Loss on amortization of consolidated goodwill	—	1,228	—
(Decrease) increase in allowance for doubtful receivables	(177)	309	(1,341)
Provision for employee retirement benefits	73,718	—	558,470
Interest and dividends income	(528)	(846)	(4,000)
Interest expenses	1,361	1,376	10,311
Equity in earnings of nonconsolidated subsidiaries and affiliates	(58)	(67)	(439)
Loss on sales and disposal of property and equipment	4,895	1,705	37,083
Gain on sales of investment securities	(968)	—	(7,333)
Decrease (increase) in notes and accounts receivable	6,649	(11,915)	50,371
Decrease (increase) in inventories	7,166	(6,334)	54,288
(Decrease) increase in notes and accounts payable	(12,638)	10,559	(95,742)
Other	995	1,858	7,538
Cash generated from operations	26,897	23,569	203,766
Interest paid	(1,371)	(1,572)	(10,386)
Interest and dividends received	598	842	4,530
Contribution to employee retirement benefit trust	(22,000)	—	(166,667)
Income taxes paid	(7,508)	(10,515)	(56,879)
Net cash (used in) provided by operating activities	(3,384)	12,324	(25,636)
Cash flows from investing activities			
Payments for purchase of marketable securities	(104)	(20,763)	(788)
Proceeds from sale of marketable securities	570	21,268	4,318
Payments for purchase of property, plant and equipment	(9,976)	(9,305)	(75,576)
Payments for purchases of intangible fixed assets	(2,544)	—	(19,273)
Payments for purchases of investment securities	(1,316)	—	(9,970)
Proceeds from sales of investment securities	1,799	—	13,629
Payments for purchase of investments in subsidiaries and affiliates	(15)	(1,969)	(114)
Payments for acquisition of new subsidiaries	—	(21)	—
Decrease (increase) in time deposits	2,101	(2,084)	15,917
Other	2,121	(141)	16,068
Net cash used in investing activities	(7,364)	(13,015)	(55,789)
Cash flows from financing activities			
(Decrease) increase in short-term bank loans	(2,403)	66	(18,205)
Proceeds from long-term loans payable	—	682	—
Payments of long-term loans payable	(534)	(225)	(4,045)
Payments for purchase of treasury stock	(258)	(731)	(1,955)
Dividends paid	(3,021)	(2,977)	(22,886)
Other	34	276	258
Net cash used in financing activities	(6,182)	(2,909)	(46,833)
Effect of exchange rate changes on cash and cash equivalents ..	232	75	1,758
Net decrease in cash and cash equivalents	(16,698)	(3,525)	(126,500)
Cash and cash equivalents at beginning of year	157,921	148,984	1,196,371
Net increase in cash and cash equivalents on newly consolidated subsidiaries	—	12,462	—
Decrease in cash and cash equivalents resulting from deconsolidation	(178)	—	(1,348)
Cash and cash equivalents at end of year	¥141,045	¥157,921	\$1,068,523

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Canon Sales Co., Inc., (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles and practices generally accepted in Japan and have been compiled from those prepared by the Company as required under the Securities and Exchange Law of Japan. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The U.S. dollar amounts are included solely for convenience of the reader and are stated, as a matter of arithmetical computation only, at the exchange rate of ¥132=US\$1, being the rate prevailing at December 31, 2001. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into, U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in nonconsolidated subsidiaries and affiliated companies are accounted for by the equity method.

Effective January 1, 2000, the Company determined its subsidiaries and affiliates in conformity with the revision of the Securities and Exchange Law of Japan to which the newly introduced control and influence approach applies in addition to determination by share of ownership.

All intercompany accounts and transactions are eliminated in consolidation. The excess of acquisition costs over net assets acquired is amortized generally over five years.

(b) Cash Equivalents

For purposes of the statement of cash flows, the Company considers deposits with banks less than three months due to be cash equivalents.

(c) Marketable Securities and Investments in Securities

Prior to January 1, 2001, listed securities included in marketable securities and investments in securities were stated at the lower of cost or market, cost being determined by the moving-average method. Securities traded on the over-the-counter market and other securities were stated at cost determined by the moving-average method.

Effective January 1, 2001, the Company adopted a new accounting standard for financial instruments. Under the standard, held-to-maturity debt securities are stated at amortized cost, and available-for-sale marketable securities are stated at fair market value, with unrealized gain or loss, net of the applicable taxes, reported as a separate component of stockholders' equity. Available-for-sale marketable securities whose fair value is not readily determinable are stated at cost determined by the moving-average method.

(d) Inventories

Inventories are valued at cost. Cost is determined mainly by the moving-average method.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method for property, plant and equipment, except for the buildings and structures of the Company's Makuhari headquarters and certain plants of subsidiaries, which are depreciated by the straight-line method, at rates based on the estimated useful lives of the assets. The useful lives are as follows: buildings, mainly 50 years; furniture and fixtures, mainly five years. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(f) Employee Retirement and Severance Benefits

The Company and its domestic consolidated subsidiaries have defined benefit retirement plans. These include the governmental welfare pension program, tax-qualified retirement pension plans and lump-sum severance payments.

Prior to January 1, 2001, amounts contributed to the pension plans by the Company and its domestic consolidated subsidiaries were charged to income when paid. In addition, certain consolidated subsidiaries recorded the liability for employees' retirement benefits at 40% of the amount which would be required if all employees voluntarily terminated their employment as of the balance sheet date.

Effective January 1, 2001, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employee retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and retirement plan assets as of December 31, 2001.

The net retirement benefit obligation at transition of ¥69.1 billion (\$523.5 million) was fully charged to income for the year ended December 31, 2001. However, certain domestic consolidated subsidiaries are amortizing net retirement benefit obligation at transition by the straight-line method over five years and have charged a proportional amount to income for the year ended December 31, 2001.

(g) Leases

Noncancelable lease transactions are accounted for as operating leases regardless of whether such leases are classified as operating leases or capital leases, except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as capital leases.

(h) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided in the amount required to cover possible losses on collection. It is determined by adding individually estimated uncollectible amounts for specific items to an amount based on the actual rate of uncollected receivables of the Company in prior years.

(i) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors must be approved at the stockholders' meeting, which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of such appropriation applicable to the immediately preceding financial year, which were approved at the stockholders' meeting and disposed of during that year. Dividends are paid to stockholders of record at the end of the fiscal year.

As is customary practice in Japan, payments of bonuses to directors and corporate auditors, which constitute a part of the appropriations cited above, are made out of retained earnings instead of being charged to income for the fiscal year.

(j) Income Taxes

Deferred tax assets are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(k) Translation of Foreign Currency Accounts

Effective January 1, 2001, the Company adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of operations.

Until December 31, 2000, short-term receivables and payables in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables in foreign currencies were translated into Japanese yen at the historical exchange rates.

(l) Foreign Currency Financial Statements

The balance sheet accounts, and revenue and expense accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rates except for stockholders' equity, which is translated at the historical exchange rate.

Prior to December 31, 2000, differences arising from such translation were shown as "Cumulative translation adjustments" as either all asset or liability on the balance sheet. Effective January 1, 2001, such differences are shown as "Cumulative translation adjustments" in a separate component of stockholders' equity in accordance with the revised accounting standard for foreign currency transactions.

(m) Per Share of Common Stock

Net income (loss) per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal years.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the fiscal year.

3. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable securities and investments in securities at December 31, 2001 were as follows:

	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale;				
Equity securities	¥2,401	¥291	¥430	¥2,262
Held-to-maturity;				
Debt securities	500	—	0	500
	<u>¥2,901</u>	<u>¥291</u>	<u>¥430</u>	<u>¥2,762</u>
	Thousands of U.S. dollars (Note1)			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale;				
Equity securities	\$18,189	\$2,205	\$3,258	\$17,136
Held-to-maturity;				
Debt securities	3,788	—	0	3,788
	<u>\$21,977</u>	<u>\$2,205</u>	<u>\$3,258</u>	<u>\$20,924</u>

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2001 were as follows:

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars (Note1)
Available-for-sale:		
Equity securities	¥561	\$4,250
	<u>¥561</u>	<u>\$4,250</u>

Market value of marketable securities and investments in securities at December 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note1)
Carrying value		
Current	¥ 975	\$ 8,478
Non-current	4,452	38,713
	<u>5,427</u>	<u>47,191</u>
Market value		
Current	980	8,522
Non-current	5,942	51,669
	<u>6,922</u>	<u>60,191</u>
Unrealized gains	<u>¥1,495</u>	<u>\$13,000</u>

4. Inventories

Inventories at December 31, 2001 and 2000 were composed of the following:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2001	2000	2001
Merchandise	¥49,082	¥55,749	\$371,833
Service parts	6,029	5,824	45,674
Finished goods	2	193	15
Raw materials	134	360	1,015
Work in progress	2,452	2,513	18,576
Supplies	395	454	2,993
	<u>¥58,094</u>	<u>¥65,093</u>	<u>\$440,106</u>

5. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans represent overdrafts. The annual interest rates applicable to the loans for the years ended December 31, 2001 and 2000, were 0.66% and 2.45%, respectively.

Long-term debt at December 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2001	2000	2001
Bonds	¥50,000	¥50,000	\$378,788
Long-term debt	150	166	1,136
Long-term debt for purpose of employee housing	—	519	—
	<u>50,150</u>	50,685	<u>379,924</u>
Less current portion	5,000	—	37,879
	<u>¥45,150</u>	<u>¥50,685</u>	<u>\$342,045</u>

The Company issued the following seven bonds, the first four on July 1, 1997, and the latter three on July 8, 1998:

Bond type	Issue price (Millions of yen)	Annual rate	Date of maturity
First Domestic Unsecured Bond	¥10,000	2.950%	June 29, 2007
Second Domestic Unsecured Bond	¥10,000	2.575%	June 30, 2004
Third Domestic Unsecured Bond	¥ 5,000	2.300%	June 30, 2003
Fourth Domestic Unsecured Bond	¥ 5,000	2.050%	June 28, 2002
Fifth Domestic Unsecured Bond	¥10,000	2.270%	July 8, 2008
Sixth Domestic Unsecured Bond	¥ 5,000	1.880%	July 8, 2005
Seventh Domestic Unsecured Bond	¥ 5,000	1.530%	July 8, 2003

6. Employee Retirement and Severance Benefits

The Company and its domestic consolidated subsidiaries have defined benefit retirement plans. These include the governmental welfare pension program, tax-qualified retirement pension plans and lump-sum severance payments.

Effective January 1, 2001, the Group adopted a new accounting standard for employee retirement benefits.

The liability for employee retirement benefits as of December 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note1)
Projected benefit obligation	¥182,747	\$1,384,447
Fair value of plan assets	(115,040)	(871,515)
Unrecognized transitional obligation	(279)	(2,114)
Unrecognized actuarial gain	(33,860)	(256,515)
Unrecognized prior service cost	18,150	137,500
Net liability	¥ 51,718	\$ 391,803

The components of net period benefit costs for the year ended December 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note1)
Service cost	¥ 9,833	\$ 74,492
Interest cost	4,912	37,212
Expected return on plan assets	(3,992)	(30,242)
Amortization of transitional obligation	68,829	521,432
Net periodic benefit costs	¥79,582	\$602,894

Assumptions used for the year ended December 31, 2001 were principally as follows:

Discount rate	2.5% (3.0% at the start of the period)
Expected rate of return on plan assets	4.0%~5.5%
Amortization period of prior service cost	10~18 years
Recognition period of actuarial gain or loss	10~18 years
Amortization period of transitional obligation	1 year (5 years for certain consolidated subsidiaries)

7. Stockholders' Equity

The proceeds from exercise of warrants were accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one half of such proceeds to each of the common stock account and the capital surplus account.

8. Income Taxes

The normal statutory rate of income taxes was approximately 42.0% for the years ended December 31, 2001 and 2000.

The effective tax rates for the years ended December 31, 2001 and 2000, differed from the normal tax rate following the adoption of tax-effect accounting for the following reasons:

	2001	2000
Normal tax rate	42.0%	42.0%
Entertainment and other expenses permanently not deductible for tax purposes	(0.9)	3.9
Interest income and other income permanently not deductible for tax purposes	0.4	(1.3)
Per-capita levy for inhabitants tax	(0.4)	1.7
Tax effect of loss carryforwards	(0.6)	2.7
Loss on amortization of consolidated goodwill	—	3.4
Loss on write-down of investment in subsidiaries	2.6	—
Loss on support of subsidiaries	1.8	—
Other	0.0	(0.4)
Effective tax rates following the adoption of tax-effect accounting	<u>44.9%</u>	<u>52.0%</u>

The effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of December 31, 2001 and 2000, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2001	2000	2001
Deferred tax assets:			
Valuation loss on disposal of inventory	¥ 1,015	¥ 556	\$ 7,689
Accrued business tax and business office tax	455	432	3,447
Accrued bonuses to employees	494	412	3,742
Retirement annuity premiums	—	249	—
Net operating loss carryforwards	1,663	1,299	12,598
Excess software depreciation	583	519	4,417
Allowance for doubtful receivables	409	385	3,098
Liability for employee retirement benefits	30,815	—	233,447
Loss on write-down of investment in subsidiaries	1,672	—	12,667
Loss on support of subsidiaries	1,258	—	9,530
Other	3,498	2,248	26,501
Gross deferred tax assets	41,862	6,100	317,136
Less: Valuation allowance	(1,663)	(1,299)	(12,598)
Total deferred tax assets	¥40,199	¥4,801	\$304,538
Deferred tax liabilities:			
Deferred capital gain	¥ 2,780	¥3,352	\$ 21,061
Reserve for development of domestic market for imported goods	151	455	1,144
Other	383	384	2,901
Gross deferred tax liabilities	3,314	4,191	25,106
Net deferred tax assets	¥36,885	¥ 610	\$279,432

9. Leases

Lease payments for finance leases excluding subleases, except for lease agreements which stipulate the transfer of ownership of the lease property to the Company and its domestic subsidiaries, were ¥1,530 million (\$11,591 thousand) and ¥1,359 million for the years ended December 31, 2001 and 2000, respectively.

(For Lessee)

Future minimum lease payments subsequent to December 31, 2001 and 2000, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2001	2000	2001
Future minimum lease payments:			
Within one year	¥1,018	¥1,765	\$ 7,712
Thereafter	1,744	3,741	13,212
	¥2,762	¥5,506	\$20,924

Future minimum lease payments include the following subleases:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2001	2000	2001
Future minimum lease payments:			
Within one year	¥110	¥110	\$ 833
Thereafter	166	170	1,258
	¥276	¥280	\$2,091

Acquisition cost, accumulated depreciation and net book value of leased property as of December 31, 2001 and 2000, excluding subleases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2001	2000	2001
Acquisition cost:			
Machinery and vehicles	¥ 237	¥ 279	\$ 1,795
Furniture and fixtures	2,908	5,926	22,030
Software	977	853	7,402
	¥4,122	¥7,058	\$31,227
Accumulated depreciation:			
Machinery and vehicles	¥ 169	¥ 219	\$ 1,280
Furniture and fixtures	1,260	1,590	9,545
Software	207	22	1,569
	¥1,636	¥1,831	\$12,394
Net book value:			
Machinery and vehicles	¥ 68	¥ 60	\$ 515
Furniture and fixtures	1,648	4,336	12,485
Software	770	831	5,833
	¥2,486	¥5,227	\$18,833

(For Lessor)

Future minimum lease payments subsequent to December 31, 2001 and 2000, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2001	2000	2001
Future minimum lease payments:			
Within one year	¥109	¥104	\$ 826
Thereafter	167	154	1,265
	¥276	¥258	\$2,091

10. Contingent Liabilities

Contingent liabilities at December 31, 2001 and 2000, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note1)
	2001	2000	2001
Guarantees of employees' housing loans	¥478	¥ —	\$3,621
	¥478	¥ —	\$3,621

11. Subsequent Event

On March 27, 2002, the following appropriations of retained earnings were approved at the stockholders' meeting of the Company:

	Millions of yen	Thousands of U.S. dollars (Note1)
Cash dividends	¥1,359	\$10,295
Bonuses to directors	63	477
	¥1,422	\$10,772

12. Segment Information

(a) Business Segment Information

Year ended December 31	Millions of yen						Corporate and eliminations	Consolidated
	Business machines	Optical products	Cameras	Other	Total	2001		
Net sales:								
Unaffiliated customers	¥585,231	¥105,666	¥71,225	¥24,706	¥786,828	¥ —	—	¥786,828
Intersegment	—	—	—	—	—	—	—	—
Total	585,231	105,666	71,225	24,706	786,828	—	—	786,828
Operating expenses	575,232	96,983	70,535	24,681	767,431	—	—	767,431
Operating income	9,999	8,683	690	25	19,397	—	—	19,397
Assets	237,178	80,973	21,726	27,548	367,425	147,273	—	514,698
Depreciation and amortization ...	7,691	1,113	146	848	9,798	—	—	9,798
Capital expenditures	11,904	1,774	573	1,033	15,284	—	—	15,284

Year ended December 31	Millions of yen						
	2000						
	Business machines	Optical products	Cameras	Other	Total	Corporate and eliminations	Consolidated
Net sales:							
Unaffiliated customers	¥620,920	¥81,771	¥63,756	¥28,470	¥794,917	¥ —	¥794,917
Intersegment	—	—	—	—	—	—	—
Total	620,920	81,771	63,756	28,470	794,917	—	794,917
Operating expenses	610,114	75,091	61,476	27,724	774,405	—	774,405
Operating income	10,806	6,680	2,280	746	20,512	—	20,512
Assets	240,123	88,357	17,223	24,202	369,905	149,053	518,958
Depreciation and amortization ...	7,603	1,290	176	1,350	10,419	—	10,419
Capital expenditures	7,570	1,918	210	671	10,369	—	10,369

Year ended December 31	Thousands of U.S. dollars						
	2001						
	Business machines	Optical products	Cameras	Other	Total	Corporate and eliminations	Consolidated
Net sales:							
Unaffiliated customers	\$4,433,568	\$800,500	\$539,583	\$187,167	\$5,960,818	\$ —	\$5,960,818
Intersegment	—	—	—	—	—	—	—
Total	4,433,568	800,500	539,583	187,167	5,960,818	—	5,960,818
Operating expenses	4,357,818	734,720	534,356	186,977	5,813,871	—	5,813,871
Operating income	75,750	65,780	5,227	190	146,947	—	146,947
Assets	1,796,803	613,432	164,591	208,697	2,783,523	1,115,704	3,899,227
Depreciation and amortization ...	58,265	8,432	1,106	6,424	74,227	—	74,227
Capital expenditures	90,182	13,439	4,341	7,826	115,788	—	115,788

(b) Geographic Segment Information

As the international sales of the Company and its consolidated subsidiaries for the year ended December 31, 2001, constituted less than 10% of consolidated net sales, geographic segment information is not disclosed.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS



Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

Phone: 03 3503-1100
Fax: 03 3503-1197

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
CANON SALES CO., INC.

We have audited the consolidated balance sheets of CANON SALES CO., INC. and consolidated subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly the financial position of CANON SALES CO., INC. and consolidated subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan, applied on a consistent basis.

As described in Note 2 to the consolidated financial statements, effective January 1, 2001, CANON SALES CO., INC. and consolidated subsidiaries have adopted new accounting standards for retirement benefits and financial instruments and revised accounting standard for foreign currency transactions in the preparation of its consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2001 are presented solely for the convenience of the reader. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

A handwritten signature in black ink that reads "Shin Nihon & Co." in a cursive, flowing script.

Shin Nihon & Co.

Tokyo, Japan
March 27, 2002

See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of CANON SALES CO., INC. under Japanese accounting principles and practices.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President and CEO

Haruo Murase

Senior Managing Director

Takashi Kojima

Managing Directors

Norio Kuroda

Hiroyuki Yoshino

Takashi Hosokawa

Keiji Nagata

Directors

Tohru Kaneko

Yoshifumi Suzuki

Masayasu Saitoh

Keiji Doman

Kazunori Asada

Kohji Ashizawa

Hiroshi Shibuya

Takane Norigoe

Fumitaka Yamada

Masami Kawasaki

Toshiyuki Sanematsu

Motoo Fukui

Corporate Auditors

Kazuya Ohyama

Masamichi Namai

Yasutaka Obayashi

Tetsuo Yoshizawa

(As of March 31, 2002)

CORPORATE INFORMATION

Group Vision

Maturing as a globally focused group with leading-edge marketing technologies

Evolving as an advanced “Digital Solutions Producer” by encouraging creativity and innovation

Basic Strategies

1. Be customer-driven
2. Vigorously pursue profitability
3. Increase the productivity and value of our organization and staff
4. Enhance the Canon brand.

Capitalization

¥73,303,082,757

Date of Establishment

February 1, 1968

Head Office

11-28, Mita 3-chome, Minato-ku,

Tokyo 108-8011, Japan

Makuhari Head Office

7-2, Nakase 1-chome, Mihama-ku, Chiba City,

Chiba 261-8711, Japan

Number of Employees

7,336 (As of December 31, 2001)

Activities

Domestic marketer of Canon Inc. products;

also handles related operations

Locations of Operations

Head offices, branches, outlets and operating

offices, totaling 72 (As of December 31, 2001)

Canon Web Site

<http://canon.jp>

Stock Listing

Canon Sales Co., Inc., common stock is traded on the First Section of the Tokyo Stock Exchange.

Annual General Meeting

Canon Sales Co., Inc., holds its annual general meeting for stockholders in March of each year.

Principal Companies

of the Canon Sales Co., Inc. Group

Canon System & Support Inc.

Canon N.T.C., Inc.

Canon Software Inc.*

Nippon Response Service Inc.

Canon Supercomputing S.I. Inc.

Canon B.M. Tokyo Inc.

Canon B.M. Sapporo Inc.

Aomori Canon B.M. Inc.

Akita Canon B.M. Inc.

Ibaragi Canon B.M. Inc.

Canon B.M. Saitama Inc.

Canon B.M. Kanagawa Inc.

Canon B.M. Osaka Inc.

Canotec Co., Ltd.

Canotec Professional Service, Inc.

Canon Trading Inc.

Niigata Canotec Co., Inc.

Sonic Inc.

Canon Staar Co., Inc.**

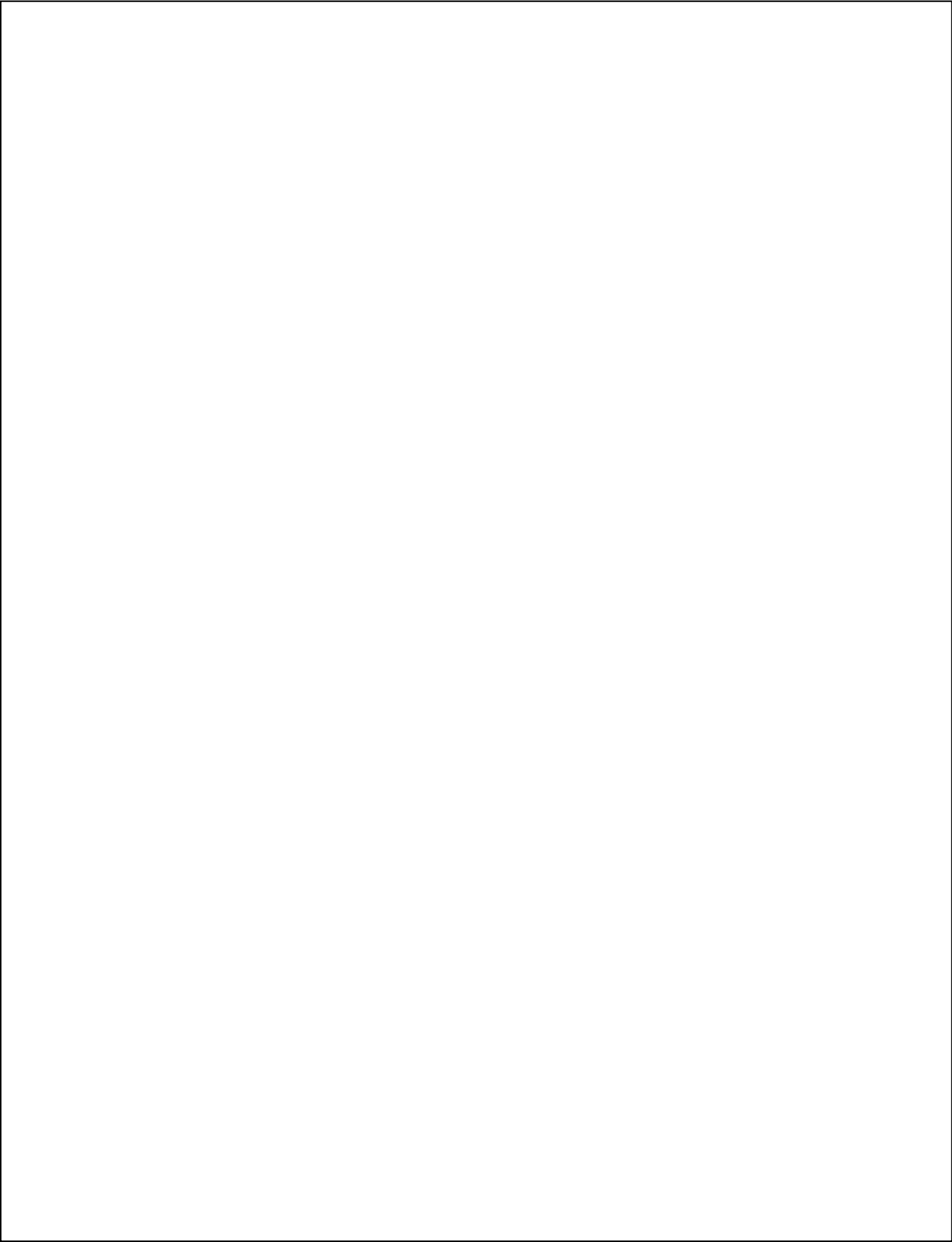
Alcan-Tech Co., Inc.**

Canon Systems Globalization Inc.**

eBuySell, Inc.**

Notes:

1. *Equity-method affiliate **Nonconsolidated subsidiary
2. Corporate information is as of March 31, 2002.





Canon Sales Co., Inc.

Head Office

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Tokyo 108-8011, Japan

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