

Canon reports results for fiscal 1997

Canon reports its second consecutive year of record highs in both consolidated net sales and net income. Net sales was up 7.9% to ¥ 2,761.0 billion (U.S.\$ 21,239 million), net income increased 26.2% to ¥ 118.8 billion (U.S.\$ 914 million), compared with fiscal 1996.

REPORT BY PRODUCT GROUP

BUSINESS MACHINES

Sales rose 7.6% to ¥ 2,300.1 billion (U.S.\$ 17,693 million), as a result of expanded sales of copying machines and computer peripherals. In copying machines, digital and color copying machines achieved strong sales. In computer peripherals, laser beam and Bubble Jet printers showed steady growth. *Business machines* contributed 83% to net sales.

CAMERAS

Sales jumped 15.9% to ¥ 247.8 billion (U.S.\$ 1,906 million). This increase is mainly due to strong demand for Advanced Photo System based cameras. Sales of 35mm cameras also showed favorable growth. *Cameras* contributed 9% to net sales.

OPTICAL AND OTHER PRODUCTS

Sales increased 3.1% to ¥ 213.2 billion (U.S.\$ 1,640 million), due to restrained capital expenditures by semiconductor manufacturers. *Optical and other products* contributed 8% to net sales.

FISCAL 1998 PROJECTION

Canon anticipates an increase in both consolidated net sales and net income to ¥ 2,950.0 billion (U.S.\$ 22,692 million) and ¥ 125.0 billion (U.S.\$ 962 million), respectively, in fiscal 1998.

(SUPPLEMENTARY INFORMATION)

	Fiscal 1997 (Actual) Billions of yen	Fiscal 1998 (Projected) Billions of yen
Capital expenditure	¥ 219.8 (U.S.\$ 1,691 million)	¥ 240.0 (U.S.\$ 1,846 million)
Depreciation and amortization	139.8 (U.S.\$ 1,075 million)	150.0 (U.S.\$ 1,154 million)
R&D expenditure	170.8 (U.S.\$ 1,314 million)	180.0 (U.S.\$ 1,385 million)
Number of employees	78,767	-

Note: U.S. dollar amounts are translated for the convenience of the reader at the rate of ¥130=U.S.\$ 1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 1997.

CANON INC. AND SUBSIDIARIES

1. CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1997 and 1996

	Millions of yen		Change(%)	Thousands of
	<u>1997</u>	<u>1996</u>		U.S. dollars
				<u>1997</u>
Net sales:				
Domestic	¥ 857,993	¥ 828,829	+ 3.5	\$ 6,599,946
Overseas	1,903,032	1,729,398	+ 10.0	14,638,708
	<u>2,761,025</u>	<u>2,558,227</u>	+ 7.9	<u>21,238,654</u>
Cost of sales	<u>1,528,364</u>	<u>1,465,437</u>		<u>11,756,646</u>
Gross profit	<u>1,232,661</u>	<u>1,092,790</u>	+ 12.8	<u>9,482,008</u>
Selling, general and administrative expenses	<u>958,627</u>	<u>871,754</u>		<u>7,374,054</u>
Operating profit	<u>274,034</u>	<u>221,036</u>	+ 24.0	<u>2,107,954</u>
Other income (deductions):				
Interest and dividend income	13,922	12,972		107,092
Interest expense	(29,789)	(33,844)		(229,146)
Other, net	<u>(23,362)</u>	<u>(17,399)</u>		<u>(179,708)</u>
	<u>(39,229)</u>	<u>(38,271)</u>		<u>(301,762)</u>
Income before income taxes	<u>234,805</u>	<u>182,765</u>	+ 28.5	<u>1,806,192</u>
Income taxes	<u>109,364</u>	<u>80,636</u>		<u>841,262</u>
Income before minority interests	<u>125,441</u>	<u>102,129</u>		<u>964,930</u>
Minority interests	<u>6,628</u>	<u>7,952</u>		<u>50,984</u>
Net income	<u>¥ 118,813</u>	<u>¥ 94,177</u>	+ 26.2	<u>\$ 913,946</u>
Net income per share:		Yen		U.S. dollars
Basic	¥ 137.73	¥ 111.29		\$ 1.06
Diluted	<u>134.60</u>	<u>106.96</u>		<u>1.04</u>

Note: Net income per share amounts are computed based on Statement of Financial Accounting Standards No.128 (SFAS 128), "Earnings per share," which is effective for annual periods ended after December 15, 1997. Net income per share amounts for 1996 have been restated to conform with SFAS 128.

2. SALES BY PRODUCT

Years ended December 31, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	<u>1997</u>	<u>1996</u>	<u>Change(%)</u>	<u>1997</u>
Business machines:				
Copying machines	¥ 899,205	¥ 818,909	+ 9.8	\$ 6,916,962
Computer peripherals	964,808	878,170	+ 9.9	7,421,600
Business systems	436,053	440,532	- 1.0	3,354,253
	<u>2,300,066</u>	<u>2,137,611</u>	<u>+ 7.6</u>	<u>17,692,815</u>
Cameras	247,766	213,760	+ 15.9	1,905,892
Optical and other products	213,193	206,856	+ 3.1	1,639,947
Total	<u>¥ 2,761,025</u>	<u>¥ 2,558,227</u>	<u>+ 7.9</u>	<u>\$ 21,238,654</u>

3. SALES BY REGION

Years ended December 31, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	<u>1997</u>	<u>1996</u>	<u>Change(%)</u>	<u>1997</u>
Japan	¥ 857,993	¥ 828,829	+ 3.5	\$ 6,599,946
Americas	891,979	819,737	+ 8.8	6,861,377
Europe	775,592	702,516	+ 10.4	5,966,092
Other areas	235,461	207,145	+ 13.7	1,811,239
Total	<u>¥ 2,761,025</u>	<u>¥ 2,558,227</u>	<u>+ 7.9</u>	<u>\$ 21,238,654</u>

4. CONSOLIDATED BALANCE SHEETS

December 31, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars
	Dec. 31, 1997	Dec. 31, 1996	Change	Dec. 31, 1997
ASSETS				
Current assets:				
Cash and cash equivalents	¥ 647,097	¥ 651,746	¥ (4,649)	\$ 4,977,669
Marketable securities	12,022	10,526	1,496	92,477
Trade receivables, less allowances	445,208	365,575	79,633	3,424,677
Inventories	564,775	524,832	39,943	4,344,423
Prepaid expenses and other current assets	208,638	193,865	14,773	1,604,908
Total current assets	1,877,740	1,746,544	131,196	14,444,154
Noncurrent receivables and restricted funds	56,840	38,867	17,973	437,231
Investments	66,989	80,052	(13,063)	515,300
Net property, plant and equipment	697,244	626,127	71,117	5,363,415
Other assets	163,114	126,708	36,406	1,254,723
Total assets	¥ 2,861,927	¥ 2,618,298	¥ 243,629	\$ 22,014,823
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term loans	¥ 535,703	¥ 568,388	¥ (32,685)	\$ 4,120,792
Trade payables	457,497	396,613	60,884	3,519,208
Income taxes	61,497	73,404	(11,907)	473,054
Accrued expenses	126,148	111,121	15,027	970,369
Other current liabilities	49,488	44,310	5,178	380,677
Total current liabilities	1,230,333	1,193,836	36,497	9,464,100
Long-term debt, excluding current installments	226,889	192,254	34,635	1,745,300
Accrued pension and severance cost	88,529	48,573	39,956	680,992
Other noncurrent liabilities	15,504	16,756	(1,252)	119,262
Total liabilities	1,561,255	1,451,419	109,836	12,009,654
Minority interests	201,662	185,011	16,651	1,551,246
Stockholders' equity:				
Common stock	160,411	150,565	9,846	1,233,931
Additional paid-in capital	372,398	359,011	13,387	2,864,600
Legal reserve	28,467	26,770	1,697	218,977
Retained earnings	592,268	489,617	102,651	4,555,908
Foreign currency translation adjustments	(32,644)	(36,739)	4,095	(251,108)
Minimum pension liability adjustment	(21,890)	(7,356)	(14,534)	(168,385)
Total stockholders' equity	1,099,010	981,868	117,142	8,453,923
Total liabilities and stockholders' equity	¥ 2,861,927	¥ 2,618,298	¥ 243,629	\$ 22,014,823
	Millions of yen			Thousands of U.S. dollars
	Dec. 31, 1997	Dec. 31, 1996		Dec. 31, 1997
Allowance for doubtful receivables	15,997	14,772		123,054
Accumulated depreciation	797,083	719,452		6,131,408

Note: Canon has not applied Statement of Financial Accounting Standards No. 115 (SFAS 115) in accounting for certain investments in debt and equity securities. The effects on the consolidated financial statements of not adopting SFAS 115 are summarized in note (2) on page 7.

5. SEGMENT

Years ended December 31, 1997 and 1996

Segment information by product

(Millions of yen)

	1997				
	Business Machines	Cameras	Optical and other products	Corporate and Eliminations	Consolidated
Net Sales					
Unaffiliated customers	¥ 2,300,066	247,766	213,193	-	2,761,025
Intersegment	-	-	71,844	(71,844)	-
Total	2,300,066	247,766	285,037	(71,844)	2,761,025
Operating cost and expenses	1,981,113	225,652	259,573	20,653	2,486,991
Operating profit	318,953	22,114	25,464	(92,497)	274,034
Assets	1,433,626	163,095	232,436	1,032,770	2,861,927
Depreciation and amortization	102,789	9,963	8,793	18,270	139,815
Capital expenditure	148,834	13,953	17,097	39,895	219,779

Notes: (1)General corporate expenses of ¥ 92,677 million (U.S.\$ 712,900 thousand) are included in "Corporate and Eliminations."

(2)Corporate assets of ¥ 1,034,275 million (U.S.\$ 7,955,962 thousand), which mainly consist of cash and cash equivalent, marketable securities and corporate properties, are included in "Corporate and Eliminations."

	1996				
	Business Machines	Cameras	Optical and other products	Corporate and Eliminations	Consolidated
Net Sales					
Unaffiliated customers	¥ 2,137,611	213,760	206,856	-	2,558,227
Intersegment	-	-	67,190	(67,190)	-
Total	2,137,611	213,760	274,046	(67,190)	2,558,227
Operating cost and expenses	1,868,835	199,129	247,159	22,068	2,337,191
Operating profit	268,776	14,631	26,887	(89,258)	221,036
Assets	1,284,682	138,717	185,347	1,009,552	2,618,298
Depreciation and amortization	84,767	9,352	8,457	16,675	119,251
Capital expenditure	106,172	12,621	21,838	35,726	176,357

Notes: (1)General corporate expenses of ¥ 88,860 million are included in "Corporate and Eliminations."

(2)Corporate assets of ¥ 1,010,912 million, which mainly consist of cash and cash equivalent, marketable securities and corporate properties, are included in "Corporate and Eliminations."

(Thousands of U.S. dollars)

	1997				
	Business Machines	Cameras	Optical and other products	Corporate and Eliminations	Consolidated
Net Sales					
Unaffiliated customers	\$ 17,692,815	1,905,892	1,639,947	-	21,238,654
Intersegment	-	-	552,645	(552,645)	-
Total	17,692,815	1,905,892	2,192,592	(552,645)	21,238,654
Operating cost and expenses	15,239,330	1,735,784	1,996,715	158,871	19,130,700
Operating profit	2,453,485	170,108	195,877	(711,516)	2,107,954
Assets	11,027,892	1,254,577	1,787,969	7,944,385	22,014,823
Depreciation and amortization	790,685	76,638	67,638	140,539	1,075,500
Capital expenditure	1,144,877	107,331	131,515	306,885	1,690,608

Segment information by geographic area

(Millions of yen)

	1997			
	Japan	Others	Corporate and Eliminations	Consolidated
Net Sales				
Unaffiliated customers	¥ 904,545	1,856,480	-	2,761,025
Intersegment	1,226,130	188,688	(1,414,818)	-
Total	2,130,675	2,045,168	(1,414,818)	2,761,025
Operating cost and expenses	1,832,174	1,965,539	(1,310,722)	2,486,991
Operating profit	298,501	79,629	(104,096)	274,034
Assets	1,477,052	916,542	468,333	2,861,927

Notes: (1)General corporate expenses of ¥ 92,677 million (U.S.\$ 712,900 thousand) are included in "Corporate and Eliminations."

(2)Corporate assets of ¥ 1,034,275 million (U.S.\$ 7,955,962 thousand), which mainly consist of cash and cash equivalent, marketable securities and corporate properties, are included in "Corporate and Eliminations."

	1996			
	Japan	Others	Corporate and Eliminations	Consolidated
Net Sales				
Unaffiliated customers	¥ 882,959	1,675,268	-	2,558,227
Intersegment	1,072,290	158,613	(1,230,903)	-
Total	1,955,249	1,833,881	(1,230,903)	2,558,227
Operating cost and expenses	1,687,865	1,781,429	(1,132,103)	2,337,191
Operating profit	267,384	52,452	(98,800)	221,036
Assets	1,295,884	783,591	538,823	2,618,298

Notes: (1)General corporate expenses of ¥ 88,860 million are included in "Corporate and Eliminations."

(2)Corporate assets of ¥ 1,010,912 million, which mainly consist of cash and cash equivalent, marketable securities and corporate properties, are included in "Corporate and Eliminations."

(Thousands of U.S. dollars)

	1997			
	Japan	Others	Corporate and Eliminations	Consolidated
Net Sales				
Unaffiliated customers	\$ 6,958,038	14,280,616	-	21,238,654
Intersegment	9,431,770	1,451,446	(10,883,216)	-
Total	16,389,808	15,732,062	(10,883,216)	21,238,654
Operating cost and expenses	14,093,646	15,119,531	(10,082,477)	19,130,700
Operating profit	2,296,162	612,531	(800,739)	2,107,954
Assets	11,361,938	7,050,323	3,602,562	22,014,823

- Notes: (1) U.S. dollar amounts are translated from yen at the rate of ¥130=U.S.\$ 1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 1997.
- (2) Canon has not applied Statement of Financial Accounting Standards No. 115 (SFAS 115) in accounting for certain investments in debt and equity securities. The effect on balance sheet items of the departure from the provisions of SFAS 115 as of December 31, 1997 and 1996 are summarized as follows:

	Millions of yen		Thousands of
	<u>Dec. 31, 1997</u>	<u>Dec. 31, 1996</u>	<u>U.S. dollars</u>
Stockholders' equity as reported	¥ 1,099,010	¥ 981,868	\$ 8,453,923
Net increase in the carrying amount of:			
Marketable securities	714	2,447	5,492
Investments	21,238	50,159	163,369
Net decrease in deferred tax assets and increase in deferred tax liabilities:			
Other current assets	(346)	(1,003)	(2,662)
Other assets	(10,754)	(25,449)	(82,722)
Other current liabilities	(13)	(94)	(100)
Other noncurrent liabilities	(86)	(133)	(662)
Net increase in minority interests	(252)	(361)	(1,938)
	10,501	25,566	80,777
Stockholders' equity after applying SFAS 115	¥ 1,109,511	¥ 1,007,434	\$ 8,534,700