

Canon reports results for the first half fiscal 1998

For the first half of 1998, Canon's consolidated net sales was up 3.2% to ¥ 1,406.1 billion (U.S.\$ 9,972 million), net income increased 0.6% to ¥ 58.7 billion (U.S.\$ 416 million), compared with the same period last year.

REPORT BY PRODUCT GROUP

BUSINESS MACHINES

Laser beam printers and faxes showed strong sales growth overseas, while sales of computers and computer related products decreased in Japan, due to continued stagnancy in the market. As a result, sales rose 2.6% to ¥ 1,177.8 billion (U.S.\$ 8,353 million). *Business machines* contributed 84% to net sales.

CAMERAS

Sales jumped 10.8% to ¥ 126.0 billion (U.S.\$ 894 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 1.2% to ¥ 102.3 billion (U.S.\$ 726 million), due to restrained capital expenditures by semiconductor manufacturers. *Optical and other products* contributed 7% 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.\$ 20,922 million) and ¥ 125.0 billion (U.S.\$ 887 million), respectively, in fiscal 1998.

(SUPPLEMENTARY INFORMATION)

	Fiscal 1998 1st half (Actual) Billions of yen	Fiscal 1998 (Projected) Billions of yen
Capital expenditure	¥ 102.1 (U.S.\$ 724 million)	¥ 230.0 (U.S.\$ 1,631 million)
Depreciation and amortization	71.4 (U.S.\$ 506 million)	155.0 (U.S.\$ 1,099 million)
R&D expenditure	80.5 (U.S.\$ 571 million)	180.0 (U.S.\$ 1,277 million)
Number of employees	80,822	-

Note: U.S. dollar amounts are translated for the convenience of the reader at the rate of ¥141=U.S.\$ 1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 1998.

CANON INC. AND SUBSIDIARIES

1. CONSOLIDATED STATEMENTS OF INCOME

Six months ended June 30, 1998 and 1997 (Unaudited)

	Millions of yen		Change(%)	Thousands of
	1998	1997		U.S. dollars
				1998
Net sales	¥ 1,406,086	¥ 1,363,075	+ 3.2	\$ 9,972,241
Cost of sales	780,262	752,834		5,533,773
Gross profit	625,824	610,241	+ 2.6	4,438,468
Selling, general and administrative expenses	487,679	472,448		3,458,716
Operating profit	138,145	137,793	+ 0.3	979,752
Other income (deductions):				
Interest and dividend income	8,096	6,526		57,418
Interest expense	(15,376)	(14,094)		(109,050)
Other, net	(5,631)	(6,151)		(39,936)
	(12,911)	(13,719)		(91,568)
Income before income taxes	125,234	124,074	+ 0.9	888,184
Income taxes	62,051	61,316		440,078
Income before minority interests	63,183	62,758		448,106
Minority interests	4,531	4,435		32,134
Net income	¥ 58,652	¥ 58,323	+ 0.6	\$ 415,972

Net income per share:	Yen		U.S. dollars
Basic	¥ 67.57	¥ 67.85	\$ 0.48
Diluted	66.35	66.14	0.47

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 1997 have been restated to conform with SFAS 128.

2. SALES BY PRODUCT

Six months ended June 30, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	<u>1998</u>	<u>1997</u>	<u>Change(%)</u>	<u>1998</u>
Business machines:				
Copying machines	¥ 461,203	¥ 459,072	+ 0.5	\$ 3,270,943
Computer peripherals	508,173	463,001	+ 9.8	3,604,064
Business systems	208,411	226,208	- 7.9	1,478,092
	<u>1,177,787</u>	<u>1,148,281</u>	<u>+ 2.6</u>	<u>8,353,099</u>
Cameras	125,989	113,719	+ 10.8	893,539
Optical and other products	102,310	101,075	+ 1.2	725,603
Total	<u>¥ 1,406,086</u>	<u>¥ 1,363,075</u>	<u>+ 3.2</u>	<u>\$ 9,972,241</u>

3. SALES BY REGION

Six months ended June 30, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	<u>1998</u>	<u>1997</u>	<u>Change(%)</u>	<u>1998</u>
Japan	¥ 395,446	¥ 446,922	- 11.5	\$ 2,804,582
Overseas:				
Americas	484,184	417,590	+ 15.9	3,433,929
Europe	421,289	388,610	+ 8.4	2,987,865
Other areas	105,167	109,953	- 4.4	745,865
	<u>1,010,640</u>	<u>916,153</u>	<u>+ 10.3</u>	<u>7,167,659</u>
Total	<u>¥ 1,406,086</u>	<u>¥ 1,363,075</u>	<u>+ 3.2</u>	<u>\$ 9,972,241</u>

4. CONSOLIDATED BALANCE SHEETS

June 30, 1998 and December 31, 1997

	Millions of yen			Thousands of U.S. dollars
	<u>June 30, 1998</u> (Unaudited)	<u>Dec. 31, 1997</u>	<u>Change</u>	<u>June 30, 1998</u> (Unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents	¥ 614,379	¥ 647,097	¥ (32,718)	\$ 4,357,298
Marketable securities	8,900	12,022	(3,122)	63,121
Trade receivables, less allowances	429,085	445,208	(16,123)	3,043,156
Inventories	634,955	564,775	70,180	4,503,227
Prepaid expenses and other current assets	228,593	208,638	19,955	1,621,226
Total current assets	1,915,912	1,877,740	38,172	13,588,028
Noncurrent receivables and restricted funds	52,280	56,840	(4,560)	370,780
Investments	70,371	66,989	3,382	499,085
Net property, plant and equipment	736,144	697,244	38,900	5,220,879
Other assets	172,217	163,114	9,103	1,221,398
Total assets	¥ 2,946,924	¥ 2,861,927	¥ 84,997	\$ 20,900,170
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term loans	¥ 538,851	¥ 535,703	¥ 3,148	\$ 3,821,638
Trade payables	448,540	457,497	(8,957)	3,181,135
Income taxes	70,668	61,497	9,171	501,191
Accrued expenses	134,838	126,148	8,690	956,298
Other current liabilities	51,524	49,488	2,036	365,419
Total current liabilities	1,244,421	1,230,333	14,088	8,825,681
Long-term debt, excluding current installments	209,393	226,889	(17,496)	1,485,057
Accrued pension and severance cost	89,319	88,529	790	633,468
Other noncurrent liabilities	14,597	15,504	(907)	103,525
Total liabilities	1,557,730	1,561,255	(3,525)	11,047,731
Minority interests	206,006	201,662	4,344	1,461,035
Stockholders' equity:				
Common stock	161,904	160,411	1,493	1,148,255
Additional paid-in capital	373,885	372,398	1,487	2,651,667
Legal reserve	30,076	28,467	1,609	213,305
Retained earnings	641,085	592,268	48,817	4,546,702
Accumulated other comprehensive income	(23,762)	(54,534)	30,772	(168,525)
Total stockholders' equity	1,183,188	1,099,010	84,178	8,391,404
Total liabilities and stockholders' equity	¥ 2,946,924	¥ 2,861,927	¥ 84,997	\$ 20,900,170
Allowance for doubtful receivables				
	Millions of yen			Thousands of U.S. dollars
	<u>June 30, 1998</u>	<u>Dec. 31, 1997</u>		<u>June 30, 1998</u>
Allowance for doubtful receivables	¥ 17,623	¥ 15,997		\$ 124,986
Accumulated depreciation	854,999	797,083		6,063,823
Accumulated other comprehensive income:				
Foreign currency translation adjustments	(4,342)	(32,644)		(30,794)
Minimum pension liability adjustments	(19,420)	(21,890)		(137,731)

Notes: (1) U.S. dollar amounts are translated from yen at the rate of ¥141=U.S.\$ 1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 1998.

(2) Canon has not applied Statement of Financial Accounting Standards No. 115 (SFAS 115), "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 June 30, 1998 and December 31, 1997 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	<u>June 30, 1998</u>	Dec. 31, 1997	<u>June 30, 1998</u>
	(Unaudited)		(Unaudited)
Stockholders' equity as reported	¥ 1,183,188	¥ 1,099,010	\$ 8,391,404
Net increase in the carrying amount of:			
Marketable securities	942	714	6,681
Investments	23,006	21,238	163,163
Net decrease in deferred tax assets and increase in deferred tax liabilities:			
Other current assets	(392)	(346)	(2,780)
Other assets	(10,775)	(10,754)	(76,418)
Other current liabilities	(74)	(13)	(525)
Other noncurrent liabilities	(49)	(86)	(347)
Net increase in minority interests	(311)	(252)	(2,206)
	<u>12,347</u>	<u>10,501</u>	<u>87,568</u>
Stockholders' equity after applying SFAS 115	¥ 1,195,535	¥ 1,109,511	\$ 8,478,972

(3) Canon has adopted SFAS 130, "Reporting Comprehensive Income," from the year beginning January 1, 1998, except for the effect on stockholders' equity of Canon's departure from the provisions of SFAS 115 (see note (2)). In this standard, comprehensive income is defined as total changes in stockholders' equity except capital transactions. Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, and change in minimum pension liability adjustments. Comprehensive income for the six months ended June 30, 1998 and 1997 were 89,424 million yen (U.S.\$ 634,213 thousand) and 42,502 million yen, respectively.