

Canon reports results for fiscal 1998

Canon reports its fifth consecutive year of record sales , with consolidated net sales up 2.4% to ¥ 2,826.3 billion (U.S.\$ 24,364 million). This was despite the sluggish domestic demand and problems of South East Asia.

Income before income taxes was up 2.0% to ¥ 239.5 billion (U.S.\$ 2,065 million). Net income reduced 7.8% to ¥ 109.6 billion (U.S.\$ 945 million). This was mainly due to the effect of reducing Japanese income tax rates on net deferred tax assets and the associated charge to income.

REPORT BY PRODUCT GROUP

BUSINESS MACHINES

Sales rose 2.5% to ¥ 2,358.2 billion (U.S.\$ 20,329 million), largely as a result of expanded sales of laser beam printers and faxes overseas . In Japan , market conditions were difficult for most products , but especially for computers and computer peripherals. Within copying machines, digital and color copying machines managed to increase sales , with digital machines performing exceptionally well. In total Business machines contributed 83% to net sales.

CAMERAS

Sales increased 8% from the previous year up to ¥ 267.6 billion (U.S.\$ 2,307 million). This increase was mainly due to strong demand for Advanced Photo System based cameras , though sales of 35mm SLR cameras also showed favorable growth. In total Cameras contributed 10% to net sales.

OPTICAL AND OTHER PRODUCTS

Sales in 1998 were down slightly on 1997 to ¥200.4 billion (U.S.\$1,728 million) , a decrease of 6% . This was in part due to the restrained capital expenditure by semiconductor manufacturers. Optical and other products contributed 7% to net sales.

FISCAL 1999 PROJECTION

Canon anticipates an increase in consolidated net sales next year to ¥ 2,860.0 billion (U.S.\$ 24,655 million) and net income is expected to be ¥ 70.0 billion (U.S.\$ 603 million) in fiscal 1999.

(SUPPLEMENTARY INFORMATION)

	Fiscal 1998 (Actual)	Fiscal 1999 (Projected)
	Billions of yen	Billions of yen
Capital expenditure	¥ 221.4 (U.S.\$ 1,909 million)	¥ 240.0 (U.S.\$ 2,069 million)
Depreciation and amortization	161.8 (U.S.\$ 1,395 million)	180.0 (U.S.\$ 1,552 million)
R&D expenditure	177.0 (U.S.\$ 1,526 million)	180.0 (U.S.\$ 1,552 million)
Number of employees	79,799	-

Note: U.S. dollar amounts are translated for the convenience of the reader at the rate of ¥116=U.S.\$ 1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 1998.

The Year 2000 Issue

(1) Canon's state of readiness

Canon has formed a Year 2000 committee that is responsible for coordinating all aspects of the Y2K preparations of Canon on a group wide basis. This committee is made up of senior managers and reports to the Board of Directors regularly concerning Canon's Y2K preparedness.

As regards Canon products, most products now sold by Canon are Y2K compliant, with work continuing to bring the remaining products into Y2K compliance. The latest information concerning Canon products' Y2K readiness is available at the website of each of the regional sales subsidiaries.

As regards Canon Inc.'s main Information Systems, all Y2K compliance work is scheduled to have finished by the end of March 1999. As for the main subsidiaries, the Y2K committee is receiving regular reports from local management regarding their Y2K preparedness.

With regard to its manufacturing facilities, information infrastructure, and utilities, Canon is contacting its major suppliers and business partners, with the consultation process scheduled to finish by the end of June 1999.

(2) The costs to Canon to address this issue

The remediation process of Canon's main Information Systems is being effected mainly by its IT division. These internal costs are difficult to estimate to any degree of accuracy and so would have limited usefulness. Therefore, only the external costs paid or expected to be paid for remediation of the Information Systems will be disclosed. For periods up to and including 1998, the total external costs were ¥1,200 million (\$10,345 thousand) and for 1999, the estimated costs are ¥400 million (\$3,448 thousand).

For all other areas of cost concerning Y2K readiness, Canon does not believe these costs to be materially significant.

(3) Canon's contingency plans

Canon does not have any contingency plans at the moment, but it is intended that these will be prepared by the end of June 1999.

These reports contain forward-looking statements which reflect management's current views with respects to certain future events and financial performance. Actual results may differ materially from those projected or implied in any forward looking statements. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. ("Cautionary Statements for Purposes of the Safe Harbor' Provisions of the United States Private Securities Litigation Reform Act of 1995.")

CANON INC. AND SUBSIDIARIES

1. CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1998 and 1997

	Millions of yen		Change(%)	Thousands of
	1998	1997		U.S. dollars
				1998
Net sales	¥ 2,826,269	¥ 2,761,025	+ 2.4	\$ 24,364,388
Cost of sales	1,569,197	1,528,364		13,527,560
Gross profit	1,257,072	1,232,661	+ 2.0	10,836,828
Selling, general and administrative expenses	996,294	958,627		8,588,742
Operating profit	260,778	274,034	- 4.8	2,248,086
Other income (deductions):				
Interest and dividend income	12,576	13,922		108,414
Interest expense	(28,881)	(29,789)		(248,974)
Other, net	(4,960)	(23,362)		(42,759)
	(21,265)	(39,229)		(183,319)
Income before income taxes	239,513	234,805	+ 2.0	2,064,767
Income taxes	123,843	109,364		1,067,612
Income before minority interests	115,670	125,441		997,155
Minority interests	6,101	6,628		52,595
Net income	¥ 109,569	¥ 118,813	- 7.8	\$ 944,560
Net income per share:	Yen			U.S. dollars
Basic	¥ 126.10	¥ 137.73		\$ 1.09
Diluted	123.93	134.60		1.07

2. SALES BY PRODUCT

Years ended December 31, 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	¥ 896,641	¥ 899,205	- 0.3	\$ 7,729,664
Computer peripherals	1,064,304	964,808	+ 10.3	9,175,034
Business systems	397,272	436,053	- 8.9	3,424,759
	<u>2,358,217</u>	<u>2,300,066</u>	<u>+ 2.5</u>	<u>20,329,457</u>
Cameras	267,636	247,766	+ 8.0	2,307,207
Optical and other products	200,416	213,193	- 6.0	1,727,724
Total	<u>¥ 2,826,269</u>	<u>¥ 2,761,025</u>	<u>+ 2.4</u>	<u>\$ 24,364,388</u>

3. SALES BY REGION

Years ended December 31, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	<u>1998</u>	<u>1997</u>	<u>Change(%)</u>	<u>1998</u>
Japan	¥ 761,776	¥ 857,993	- 11.2	\$ 6,567,034
Overseas:				
Americas	1,005,648	891,979	+ 12.7	8,669,379
Europe	850,226	775,592	+ 9.6	7,329,534
Other areas	208,619	235,461	- 11.4	1,798,441
	<u>2,064,493</u>	<u>1,903,032</u>	<u>+ 8.5</u>	<u>17,797,354</u>
Total	<u>¥ 2,826,269</u>	<u>¥ 2,761,025</u>	<u>+ 2.4</u>	<u>\$ 24,364,388</u>

4. CONSOLIDATED BALANCE SHEETS

As at December 31, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars
	<u>Dec. 31, 1998</u>	<u>Dec. 31, 1997</u>	<u>Change</u>	<u>Dec. 31, 1998</u>
ASSETS				
Current assets:				
Cash and cash equivalents	¥ 499,182	¥ 647,097	¥ (147,915)	\$ 4,303,293
Marketable securities	6,956	12,022	(5,066)	59,966
Trade receivables, less allowances	412,375	445,208	(32,833)	3,554,957
Inventories	549,257	564,775	(15,518)	4,734,974
Prepaid expenses and other current assets	197,626	208,638	(11,012)	1,703,672
Total current assets	1,665,396	1,877,740	(212,344)	14,356,862
Noncurrent receivables and restricted funds	50,309	56,840	(6,531)	433,698
Investments	69,245	66,989	2,256	596,940
Net property, plant and equipment	742,312	697,244	45,068	6,399,241
Other assets	193,335	163,114	30,221	1,666,681
Total assets	¥ 2,720,597	¥ 2,861,927	¥ (141,330)	\$ 23,453,422
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term loans	¥ 403,332	¥ 535,703	¥ (132,371)	\$ 3,477,000
Trade payables	401,527	457,497	(55,970)	3,461,440
Income taxes	61,328	61,497	(169)	528,690
Accrued expenses	127,905	126,148	1,757	1,102,629
Other current liabilities	47,268	49,488	(2,220)	407,482
Total current liabilities	1,041,360	1,230,333	(188,973)	8,977,241
Long-term debt, excluding current installments	180,320	226,889	(46,569)	1,554,483
Accrued pension and severance costs	132,818	88,529	44,289	1,144,983
Other noncurrent liabilities	12,211	15,504	(3,293)	105,267
Total liabilities	1,366,709	1,561,255	(194,546)	11,781,974
Minority interests	205,810	201,662	4,148	1,774,224
Stockholders' equity:				
Common stock	163,033	160,411	2,622	1,405,457
Additional paid-in capital	375,913	372,398	3,515	3,240,629
Legal reserve	31,396	28,467	2,929	270,655
Retained earnings	682,663	592,268	90,395	5,885,026
Accumulated other comprehensive income	(104,927)	(54,534)	(50,393)	(904,543)
Total stockholders' equity	1,148,078	1,099,010	49,068	9,897,224
Total liabilities and stockholders' equity	¥ 2,720,597	¥ 2,861,927	¥ (141,330)	\$ 23,453,422
Allowance for doubtful receivables				
Millions of yen				
	<u>Dec. 31, 1998</u>	<u>Dec. 31, 1997</u>		Thousands of U.S. dollars
Allowance for doubtful receivables	¥ 16,435	¥ 15,997		\$ 141,681
Accumulated depreciation	868,773	797,083		7,489,422
Accumulated other comprehensive income:				
Foreign currency translation adjustments	(66,372)	(32,644)		(572,172)
Minimum pension liability adjustments	(38,555)	(21,890)		(332,371)

5. SEGMENT

Years ended December 31, 1998 and 1997

Segment information by product

(Millions of yen)

1998

	Business Machines	Cameras	Optical and other products	Corporate and Eliminations	Consolidated
Net Sales					
Unaffiliated customers	¥ 2,358,217	267,636	200,416	-	2,826,269
Intersegment	-	-	80,179	(80,179)	-
Total	2,358,217	267,636	280,595	(80,179)	2,826,269
Operating cost and expenses	2,041,532	240,429	275,946	7,584	2,565,491
Operating profit	316,685	27,207	4,649	(87,763)	260,778
Assets	1,438,218	159,896	239,884	882,599	2,720,597
Depreciation and amortization	117,179	11,695	9,925	22,988	161,787
Capital expenditure	149,072	14,019	17,296	41,014	221,401

Notes: (1)General corporate expenses of ¥ 88,064 million (U.S.\$ 759,172 thousand) are included in "Corporate and Eliminations."

(2)Corporate assets of ¥ 885,131 million (U.S.\$ 7,630,440 thousand), which mainly consist of cash and cash equivalents, marketable securities and corporate properties, are included in "Corporate and Eliminations."

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 are included in "Corporate and Eliminations."

(2)Corporate assets of ¥ 1,034,275 million which mainly consists of cash and cash equivalents, marketable securities and corporate properties, are included in "Corporate and Eliminations."

(Thousands of U.S. dollars)

1998

	Business Machines	Cameras	Optical and other products	Corporate and Eliminations	Consolidated
Net Sales					
Unaffiliated customers	\$ 20,329,457	2,307,207	1,727,724	-	24,364,388
Intersegment	-	-	691,198	(691,198)	-
Total	20,329,457	2,307,207	2,418,922	(691,198)	24,364,388
Operating cost and expenses	17,599,414	2,072,664	2,378,845	65,379	22,116,302
Operating profit	2,730,043	234,543	40,077	(756,577)	2,248,086
Assets	12,398,430	1,378,414	2,067,966	7,608,612	23,453,422
Depreciation and amortization	1,010,164	100,819	85,560	198,172	1,394,715
Capital expenditure	1,285,103	120,853	149,103	353,569	1,908,628

Segment information by geographic area

(Millions of yen)

1998

	Japan	Americas	Europe	Others	Corporate and Eliminations	Consolidated
Net Sales						
Unaffiliated customers	¥ 796,406	1,003,683	841,400	184,780	-	2,826,269
Intersegment	1,312,405	21,523	3,126	198,702	(1,535,756)	-
Total	2,108,811	1,025,206	844,526	383,482	(1,535,756)	2,826,269
Operating cost and expenses	1,831,816	1,002,166	820,257	370,036	(1,458,784)	2,565,491
Operating profit	276,995	23,040	24,269	13,446	(76,972)	260,778
Assets	1,384,473	328,634	391,354	136,843	479,293	2,720,597

Notes: (1)General corporate expenses of ¥ 88,064 million (U.S.\$ 759,172 thousand) are included in "Corporate and Eliminations."

(2)Corporate assets of ¥ 885,131 million (U.S.\$ 7,630,440 thousand), which mainly consist of cash and cash equivalents, marketable securities and corporate properties, are included in "Corporate and Eliminations."

1997

	Japan	Americas	Europe	Others	Corporate and Eliminations	Consolidated
Net Sales						
Unaffiliated customers	¥ 904,545	887,302	765,580	203,598	-	2,761,025
Intersegment	1,226,130	17,793	3,842	190,602	(1,438,367)	-
Total	2,130,675	905,095	769,422	394,200	(1,438,367)	2,761,025
Operating cost and expenses	1,832,174	883,698	733,016	371,221	(1,333,118)	2,486,991
Operating profit	298,501	21,397	36,406	22,979	(105,249)	274,034
Assets	1,477,052	353,027	397,824	165,691	468,333	2,861,927

Notes: (1)General corporate expenses of ¥ 92,677 million are included in "Corporate and Eliminations."

(2)Corporate assets of ¥ 1,034,275 million, which mainly consist of cash and cash equivalents, marketable securities and corporate properties, are included in "Corporate and Eliminations."

(Thousands of U.S. dollars)

1998

	Japan	Americas	Europe	Others	Corporate and Eliminations	Consolidated
Net Sales						
Unaffiliated customers	\$ 6,865,569	8,652,440	7,253,448	1,592,931	-	24,364,388
Intersegment	11,313,836	185,543	26,949	1,712,948	(13,239,276)	-
Total	18,179,405	8,837,983	7,280,397	3,305,879	(13,239,276)	24,364,388
Operating cost and expenses	15,791,517	8,639,362	7,071,182	3,189,965	(12,575,724)	22,116,302
Operating profit	2,387,888	198,621	209,215	115,914	(663,552)	2,248,086
Assets	11,935,112	2,833,052	3,373,741	1,179,681	4,131,836	23,453,422

- Notes: (1) U.S. dollar amounts are translated from yen at the rate of ¥116=U.S.\$ 1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 1998.
- (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, 1998 and 1997 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	<u>Dec. 31, 1998</u>	<u>Dec. 31, 1997</u>	<u>Dec. 31, 1998</u>
Stockholders' equity as reported	<u>¥ 1,148,078</u>	<u>¥ 1,099,010</u>	<u>\$ 9,897,224</u>
Net increase/(decrease) in the carrying amount of:			
Marketable securities	514	714	4,431
Investments	13,967	21,238	120,405
Net decrease in deferred tax assets and increase in deferred tax liabilities:			
Other current assets	(193)	(346)	(1,664)
Other assets	(6,556)	(10,754)	(56,517)
Other current liabilities	(34)	(13)	(293)
Other noncurrent liabilities	(17)	(86)	(147)
Net increase in minority interests	<u>(239)</u>	<u>(252)</u>	<u>(2,060)</u>
	<u>7,442</u>	<u>10,501</u>	<u>64,155</u>
Stockholders' equity after applying SFAS 115	<u>¥ 1,155,520</u>	<u>¥ 1,109,511</u>	<u>\$ 9,961,379</u>

- (3) Canon has adopted the Statement of Financial Accounting Standards No. 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 years ended December 31, 1998 and 1997 were ¥ 59,176 million (U.S.\$ 510,138 thousand) and ¥ 108,374 million, respectively.