

Canon reports results for the first half fiscal 1999

Consolidated net sales totaled ¥ 1,294.8 billion (U.S.\$ 10,701 million), a decrease of 7.9% or ¥ 111.3 billion compared to the same period last year. Income before income taxes fell 40.3% to ¥ 74.8 billion (U.S.\$ 618 million). Net income dropped 44.9% or ¥ 26.3 billion to ¥ 32.3 billion (U.S.\$ 267 million). This was due to the significant appreciation of the yen and the fall in product prices stemming from increased market competition.

As a result, basic net income per share was ¥ 37.14 (U.S.\$ 0.31), a decrease of ¥ 30.43 compared to the same period last year. Diluted net income also dropped ¥ 29.75 to ¥ 36.60 (U.S.\$ 0.30)

REPORT BY PRODUCT GROUP

BUSINESS MACHINES

Sales of business machines totaled ¥ 1,080.7 billion (U.S.\$ 8,932 million), a decrease of 8.2% from the same period last year. Sales of digital copying machines increased significantly, while demand for analog copying machines reduced sharply. Sales of computer peripherals dropped 7.2% as the result of an imbalance caused by the introduction of several new products in late 1998. Business machines contributed 83% to net sales.

CAMERAS

Camera sales increased by 2.5%, or ¥ 3.2 billion, to ¥ 129.2 billion (U.S.\$ 1,067 million). Favorable demand for single-lens reflex (SLR) cameras and significant growth in digital video camcorders contributed to this increase. Cameras accounted for 10% of net sales.

OPTICAL AND OTHER PRODUCTS

Sales of optical and other products decreased by 17.0% to ¥84.9 billion (U.S.\$ 702 million). This was due to the restrained capital expenditure by semiconductor manufacturers. Optical and other products contributed 7% to net sales.

FISCAL 1999 PROJECTION

Canon anticipates consolidated net sales to be ¥ 2,700.0 billion (U.S.\$ 22,314 million) and net income to be ¥ 75.0 billion (U.S.\$ 620 million) in fiscal 1999.

(SUPPLEMENTARY INFORMATION)

	Fiscal 1999 1 st half (Actual) Billions of yen	Fiscal 1999 (Projected) Billions of yen
Capital expenditure	¥ 121.6 (U.S.\$ 1,005 million)	¥ 230.0 (U.S.\$ 1,901 million)
Depreciation and amortization	74.9 (U.S.\$ 619 million)	170.0 (U.S.\$ 1,405 million)
R&D expenditure	85.9 (U.S.\$ 710 million)	185.0 (U.S.\$ 1,529 million)
Number of employees	80,571	-

Note: U.S. dollar amounts are translated for the convenience of the reader at the rate of ¥121=U.S.\$ 1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 1999.

The Year 2000 (Y2K) Issue

(1) Canon's state of readiness

a. Corporate Policy and System

Canon considers Y2K issue as one of the most important tasks of the company in view of customer relations and continuity of our business. In coping with the issue, Canon has established Y2K project team with the involvement of major domestic and overseas Canon-group companies, and has done such activities as fact-finding investigations, grasp of compliance status, implementation/assistance of remedial actions, introduction of contingency plans. The developments of such activities have been reported to our senior managements on a monthly basis. In taking any measures, discussions and consultations have been held with senior managements whenever necessary.

b. The Status of Readiness for the Y2K Compliance

The investigations as to whether our products will comply with Y2K have already been done, which revealed that there are some products which need to be corrected. The latest information concerning Canon products' readiness status is available at the website of each regional sales subsidiaries.

As regards the Y2K compliance of the internal computer systems, the investigations to the key systems of Canon Inc. and major domestic & overseas Canon-group companies have been mostly completed. In addition, the verification works for the data exchanges through the systems connected with outside companies are being conducted whenever necessary in cooperation with the outside companies. Canon Inc. is regularly receiving the reports from major domestic & overseas Canon-group companies concerning the developments of their Y2K readiness status.

With respect to the infrastructures related to the business of Canon Inc. and major domestic & overseas Canon-group companies, including such systems as production facilities, parts & materials procurement, information infrastructure, life-utility, etc., we are currently proceeding to take compliance measures in consultation with the business partners. It is now close to the completion in taking such measures.

(2) The costs to Canon in addressing this issue

Remedial process to comply Y2K of internal computer systems of Canon Inc. and major domestic & overseas Canon-group companies is being performed mainly by the members of IT division within each group-company. Since these cost incurs internally, it is somewhat difficult to estimate the total cost for such remedial process to any degree of accuracy. Therefore, only the costs paid or expected to be paid externally will be disclosed. We appropriated ¥ 1,600 million (U.S.\$ 13 million) for such external costs for period up to and including June 1999.

Additional costs for the remedial actions for other areas in an effort to comply with Y2K are expected to incur as well. However, we do not expect these additional costs to be materially significant to our future business operation and performance.

(3) Contingency Plans

Canon Inc. and each of major domestic & overseas Canon-group companies is in the process of making the contingency plans to prepare for the such unexpected situations as operation down of production facilities, incapability of procurement of parts and materials, malfunction of internal computer systems, disorder of information infrastructure. For those Canon group companies already made such plans, modifications and updates will be considered from time to time in response to any further situation changes.

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

Six months ended June 30, 1999 and 1998 (Unaudited)

	Millions of yen		Change(%)	Thousands of
	1999	1998		U.S. dollars
				1999
Net sales	¥ 1,294,815	¥ 1,406,086	- 7.9	\$ 10,700,950
Cost of sales	734,994	780,262		6,074,330
Gross profit	559,821	625,824	- 10.5	4,626,620
Selling, general and administrative expenses	476,088	487,679		3,934,612
Operating profit	83,733	138,145	- 39.4	692,008
Other income (deductions):				
Interest and dividend income	5,641	8,096		46,620
Interest expense	(10,452)	(15,376)		(86,380)
Other, net	(4,144)	(5,631)		(34,248)
	(8,955)	(12,911)		(74,008)
Income before income taxes	74,778	125,234	- 40.3	618,000
Income taxes	40,695	62,051		336,322
Income before minority interests	34,083	63,183		281,678
Minority interests	1,759	4,531		14,538
Net income	¥ 32,324	¥ 58,652	- 44.9	\$ 267,140
Net income per share:	Yen			U.S. dollars
Basic	¥ 37.14	¥ 67.57		\$ 0.31
Diluted	36.60	66.35		0.30

2. SALES BY PRODUCT

Six months ended June 30, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars
	<u>1999</u>	<u>1998</u>	<u>Change(%)</u>	<u>1999</u>
Business machines:				
Copying machines	¥ 419,375	¥ 461,203	- 9.1	\$ 3,465,909
Computer peripherals	471,480	508,173	- 7.2	3,896,529
Business systems	189,860	208,411	- 8.9	1,569,091
	<u>1,080,715</u>	<u>1,177,787</u>	<u>- 8.2</u>	<u>8,931,529</u>
Cameras	129,156	125,989	+ 2.5	1,067,405
Optical and other products	84,944	102,310	- 17.0	702,016
Total	<u>¥ 1,294,815</u>	<u>¥ 1,406,086</u>	<u>- 7.9</u>	<u>\$ 10,700,950</u>

3. SALES BY REGION

Six months ended June 30, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars
	<u>1999</u>	<u>1998</u>	<u>Change(%)</u>	<u>1999</u>
Japan	¥ 377,261	¥ 395,446	- 4.6	\$ 3,117,860
Overseas:				
Americas	443,901	484,184	- 8.3	3,668,603
Europe	371,332	421,289	- 11.9	3,068,860
Other areas	102,321	105,167	- 2.7	845,627
	<u>917,554</u>	<u>1,010,640</u>	<u>- 9.2</u>	<u>7,583,090</u>
Total	<u>¥ 1,294,815</u>	<u>¥ 1,406,086</u>	<u>- 7.9</u>	<u>\$ 10,700,950</u>

4. CONSOLIDATED BALANCE SHEETS

June 30, 1999 and December 31, 1998

	Millions of yen			Thousands of U.S. dollars
	June 30, 1999 (Unaudited)	Dec. 31, 1998	Change	June 30, 1999 (Unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents	¥ 524,698	¥ 499,182	¥ 25,516	\$ 4,336,347
Marketable securities	10,741	7,470	3,271	88,769
Trade receivables, less allowances	368,710	412,375	(43,665)	3,047,190
Inventories	535,050	549,257	(14,207)	4,421,901
Prepaid expenses and other current assets	199,580	197,433	2,147	1,649,421
Total current assets	1,638,779	1,665,717	(26,938)	13,543,628
Noncurrent receivables and restricted funds	34,350	50,309	(15,959)	283,884
Investments	115,785	83,212	32,573	956,901
Net property, plant and equipment	782,373	742,312	40,061	6,465,893
Other assets	186,731	186,779	(48)	1,543,231
Total assets	¥ 2,758,018	¥ 2,728,329	¥ 29,689	\$ 22,793,537
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term loans	¥ 422,374	¥ 403,332	¥ 19,042	\$ 3,490,694
Trade payables	398,810	401,527	(2,717)	3,295,950
Income taxes	35,367	61,328	(25,961)	292,289
Accrued expenses	132,686	127,905	4,781	1,096,579
Other current liabilities	51,139	47,302	3,837	422,637
Total current liabilities	1,040,376	1,041,394	(1,018)	8,598,149
Long-term debt, excluding current installments	169,314	180,320	(11,006)	1,399,289
Accrued pension and severance costs	134,637	132,818	1,819	1,112,702
Other noncurrent liabilities	12,315	12,228	87	101,777
Total liabilities	1,356,642	1,366,760	(10,118)	11,211,917
Minority interests	205,478	206,049	(571)	1,698,165
Stockholders' equity:				
Common stock	163,164	163,033	131	1,348,463
Additional paid-in capital	376,044	375,913	131	3,107,802
Legal reserve	32,678	31,396	1,282	270,066
Retained earnings	706,339	682,663	23,676	5,837,512
Accumulated other comprehensive income	(82,327)	(97,485)	15,158	(680,388)
Total stockholders' equity	1,195,898	1,155,520	40,378	9,883,455
Total liabilities and stockholders' equity	¥ 2,758,018	¥ 2,728,329	¥ 29,689	\$ 22,793,537

	Millions of yen		Thousands of U.S. dollars
	June 30, 1999	Dec. 31, 1998	June 30, 1999
Allowance for doubtful receivables	¥ 16,790	¥ 16,435	\$ 138,760
Accumulated depreciation	906,222	868,773	7,489,438
Accumulated other comprehensive income:			
Foreign currency translation adjustments	(67,571)	(66,372)	(558,438)
Unrealized gains on securities	20,729	7,442	171,314
Minimum pension liability adjustments	(35,485)	(38,555)	(293,264)

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 1999 and 1998 and year ended December 31, 1998

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1998(Year)	1999
	(Unaudited)	(Unaudited)		(Unaudited)
Net Income	¥ 32,324	¥ 58,652	¥ 109,569	\$ 267,140
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	74,855	71,431	161,787	618,636
Loss on disposal of property and equipment	3,576	2,026	6,631	29,554
Deferred income taxes	1,980	(10,350)	1,941	16,364
Decrease in trade receivables	47,188	37,409	1,640	389,983
Decrease(increase) in inventories	13,377	(65,261)	15,737	110,554
Increase(decrease) in trade payables	(8,356)	3,070	(46,636)	(69,058)
Increase(decrease) in income taxes	(25,995)	8,443	607	(214,835)
Increase(decrease) in accrued expenses	(139)	1,131	9,386	(1,149)
Other,net	(17,172)	(5,142)	(14,122)	(141,916)
Net cash provided by operating activities	121,638	101,409	246,540	1,005,273
Cash flows from investing activities:				
Payment for purchase of property, plant and equipment	(99,244)	(102,982)	(193,977)	(820,198)
Proceeds from sale of property, plant and equipment	2,572	2,384	3,404	21,256
Payment for purchase of marketable securities	(11,529)	(3,419)	(5,386)	(95,281)
Proceeds from sale of marketable securities	3,059	6,751	9,439	25,281
Payment for purchase of investments	(8,037)	(7,888)	(28,111)	(66,421)
Other	13,521	628	(636)	111,743
Net cash used in investing activities	(99,658)	(104,526)	(215,267)	(823,620)
Cash flows from financing activities:				
Proceeds from long-term debt	9,519	8,846	34,903	78,669
Payment of long-term debt	(23,746)	(18,830)	(29,458)	(196,248)
Increase(decrease) in short-term loans	28,236	(12,132)	(167,295)	233,355
Dividends paid	(7,398)	(8,235)	(15,619)	(61,140)
Other	(1,410)	(1,355)	(393)	(11,653)
Net cash provided by (used in) financing activities	5,201	(31,706)	(177,862)	42,983
Effect of exchange rate changes on cash and cash equivalents	(1,665)	2,105	(1,326)	(13,760)
Net change in cash and cash equivalents	25,516	(32,718)	(147,915)	210,876
Cash and cash equivalents at beginning of period	499,182	647,097	647,097	4,125,471
Cash and cash equivalents at end of period	¥ 524,698	¥ 614,379	¥ 499,182	\$ 4,336,347

6. SEGMENT

Six months ended June 30, 1999 and 1998

Segment information by product

(Millions of yen)

1999

	Business Machines	Cameras	Optical and other products	Corporate and Eliminations	Consolidated
Net Sales					
Unaffiliated customers	¥ 1,080,715	129,156	84,944	-	1,294,815
Intersegment	-	-	36,821	(36,821)	-
Total	1,080,715	129,156	121,765	(36,821)	1,294,815
Operating cost and expenses	947,175	121,181	130,021	12,705	1,211,082
Operating profit	133,540	7,975	(8,256)	(49,526)	83,733

Note: General corporate expenses of ¥ 49,385 million (U.S.\$ 408,140 thousand) are included in "Corporate and Eliminations."

1998

	Business Machines	Cameras	Optical and other products	Corporate and Eliminations	Consolidated
Net Sales					
Unaffiliated customers	¥ 1,177,787	125,989	102,310	-	1,406,086
Intersegment	-	-	37,987	(37,987)	-
Total	1,177,787	125,989	140,297	(37,987)	1,406,086
Operating cost and expenses	1,013,119	114,153	135,499	5,170	1,267,941
Operating profit	164,668	11,836	4,798	(43,157)	138,145

Note: General corporate expenses of ¥ 43,235 million are included in "Corporate and Eliminations."

(Thousands of U.S. dollars)

1999

	Business Machines	Cameras	Optical and other products	Corporate and Eliminations	Consolidated
Net Sales					
Unaffiliated customers	\$ 8,931,529	1,067,405	702,016	-	10,700,950
Intersegment	-	-	304,306	(304,306)	-
Total	8,931,529	1,067,405	1,006,322	(304,306)	10,700,950
Operating cost and expenses	7,827,893	1,001,496	1,074,553	105,000	10,008,942
Operating profit	1,103,636	65,909	(68,231)	(409,306)	692,008

- Notes
- (1) U.S. dollar amounts are translated from yen at the rate of ¥121=U.S.\$ 1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 1999.
 - (2) Canon adopted Statement of Financial Accounting Standards No. 115 (SFAS 115), " Accounting for Certain Investments in Debt and Equity Securities," from the fiscal year beginning January 1, 1999, and has applied SFAS 115 retroactively to the financial statements for the prior years.
 - (3) Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in minimum pension liability adjustments and change in unrealized gains on securities. Comprehensive income for the six months ended June 30, 1999 and 1998 were ¥ 47,482 million (U.S.\$ 392,413 thousands) and ¥ 91,270 million, respectively.