

CANON INC
Form 6-K
January 30, 2019

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the month of **January**, **2019**,

CANON INC.

(Translation of registrant's name into English)

30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, Japan

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

[If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-.....

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANON INC.
(Registrant)

Date . **January 30, 2019**

By...../s/..... Sachiho Tanino.....
(Signature)*

Sachiho Tanino
General Manager
Consolidated Accounting Div.
Canon Inc.

*Print the name and title of the signing officer under his signature.

The following materials are included.

1. RESULTS FOR THE FOURTH QUARTER AND THE FISCAL YEAR ENDED DECEMBER 31, 2018

RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 31, 2018

January 30, 2019

CONSOLIDATED RESULTS

(Millions of yen, thousands of U.S. dollars, except per share amounts)

| | Actual | | | Projected | | |
|---------------------------------------|---------------------------------|---------------------------------|-----------|------------------------------------|----------------------------------|-----------|
| | Year ended December 31, 2018 | Year ended December 31, 2017 | Change(%) | Year ended December 31, 2018 | Year ending December 31, 2019 | Change(%) |
| Net sales | ¥ 3,951,937 | ¥ 4,080,015 | - 3.1 | \$ 35,603,036 | ¥ 3,900,000 | - 1.3 |
| Operating profit | 342,952 | 321,605 | + 6.6 | 3,089,658 | 325,000 | - 5.2 |
| Income before income taxes | 362,892 | 353,884 | + 2.5 | 3,269,297 | 347,500 | - 4.2 |
| Net income attributable to Canon Inc. | ¥ 252,755 | ¥ 241,923 | + 4.5 | \$ 2,277,072 | ¥ 240,000 | - 5.0 |

Net income attributable to Canon Inc. shareholders per share:

| | | | | | | |
|-----------|----------|----------|-------|---------|----------|-------|
| - Basic | ¥ 234.09 | ¥ 222.88 | + 5.0 | \$ 2.11 | ¥ 222.27 | - 5.0 |
| - Diluted | 234.08 | 222.88 | + 5.0 | 2.11 | 222.26 | - 5.0 |

| | Actual | | | As of | | |
|--------------------------------|----------------------------|----------------------------|-----------|-------------------------------|--|--|
| | As of December 31, 2018 | As of December 31, 2017 | Change(%) | As of December 31, 2018 | | |
| Total assets | ¥ 4,899,465 | ¥ 5,198,291 | - 5.7 | \$ 44,139,324 | | |
| Canon Inc. shareholders equity | ¥ 2,827,602 | ¥ 2,870,630 | - 1.5 | \$ 25,473,892 | | |

- Notes: 1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. U.S. dollar amounts are translated from yen at the rate of JPY 111= U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 28, 2018, solely for the convenience of the reader.

Canon Inc.
Headquarter office

30-2, Shimomaruko 3-chome, Ohta-ku,
Tokyo 146-8501, Japan

I. Operating Results and Financial Conditions

2018 in Review

Looking back at the global economy in 2018, the U.S. economy steadily recovered as corporate earnings and employment conditions improved. In Europe, while domestic demand remained firm, the rate of growth decelerated due to sluggish export growth. In China, the economy slowed down due to sluggish capital investments and a decline in consumer spending. The economies of other emerging markets also worsened, due to such factors as local currency depreciation. In Japan, the economy recovered moderately supported by continuing improvements in employment conditions. As a result, the global economy overall continued to realize a moderate recovery. However, the pace of economic growth slowed down from the latter half of the year as a result of trade friction.

As for the markets in which Canon operates amid these conditions, office multifunction devices (MFDs) and laser printers enjoyed solid demand due to the shift from monochrome to color models and robust demand in emerging markets. The decline of the camera market continued and the market for inkjet printers was slightly below the level of the previous year. On the other hand, demand for medical equipment grew moderately. Within the Industry and Others sector, capital investment in semiconductor lithography equipment increased, while capital investment in organic LED (OLED) panel manufacturing equipment faced a temporary slowdown. Demand for network cameras enjoyed solid growth.

The average value of the yen during the year was ¥110.43 against the U.S. dollar, a year-on-year appreciation of approximately ¥2, and ¥130.29 against the euro, a year-on-year depreciation of approximately ¥4.

During 2018, unit sales of office MFDs increased compared with the previous year due to the expanded sales of color models, mainly outside of Japan. Additionally, unit sales of both monochrome and color laser printers increased compared with the previous year, supported by the steady sales of newly launched models. Total sales volume of interchangeable-lens digital cameras decreased compared with the previous year due to contraction of the market mainly for entry-class models. However, sales of mirrorless cameras increased. Looking at inkjet printers, although sales unit of refillable ink tank models increased in emerging markets, unit sales overall decreased compared with the previous year, due to decreasing demand in developed economies. For medical equipment, newly launched diagnostic ultrasound systems and magnetic resonance imaging (MRI) systems experienced solid demand, mainly outside of Japan, achieving increased sales compared with the previous year. For industrial equipment, sales of semiconductor lithography equipment increased significantly compared with the previous year, thanks to favorable market conditions. However, manufacturing equipment for OLED panels decreased compared with the previous year mainly due to a slowdown in investment in OLED panels. Sales of network cameras increased steadily in response to the growing market. Under these conditions, net sales for the year decreased by 3.1% year on year to ¥3,951.9 billion. In addition, the gross profit ratio dropped by 2.4 points to 46.4%. This was mainly due to the fact that certain costs that were under operating expenses have been reclassified under cost of sales following the adoption of new accounting standards related to revenue recognitions. Excluding the impact of this reclassification, the gross profit ratio increased by 0.6 points to 49.4%. Operating expenses decreased by 10.6% year on year to ¥1,492.6 billion, thanks to Group-wide efforts to thoroughly manage expenses as well as impairment loss on goodwill of commercial printing business during the previous year in addition to the impact of the aforementioned reclassification of figures related to the adoption of new accounting standards. As a result, operating profit increased by 6.6% to ¥343.0 billion. Other income (deductions) decreased by ¥12.3 billion, mainly due to gain on securities contributed to the retirement benefit trust during the previous year, while income before income taxes increased by 2.5% year on year to ¥362.9 billion and net income attributable to Canon Inc. increased by 4.5% to ¥252.8 billion.

Basic net income attributable to Canon Inc. shareholders per share for the year was ¥234.09, a year-on-year increase of ¥11.21.

Results by Segment

Looking at Canon's full-year performance by business unit, starting with the Office Business Unit, unit sales of office MFDs increased from the previous year, thanks to expanded sales of such color models as the imageRUNNER ADVANCE Gen3 2nd Edition series, which enhances convenience through compatibility with external cloud services, and the imageRUNNER C3020 series of strategic models for emerging markets. As for laser printers, sales of hardware increased from the previous year, supported by steady sales mainly of new models that achieve low power consumption, compact body designs and high productivity. Sales of consumables remained at the same level as the previous year. These factors resulted in total sales for the business unit of ¥1,807.3 billion, a year-on-year increase of 0.1%, while income before income taxes increased by 17.3% year on year to ¥229.2 billion partly due to impairment loss on goodwill during the previous year.

Looking at the Imaging System Business Unit, although unit sales of interchangeable-lens digital cameras decreased overall compared with the previous year due to shrinking market, Canon maintained the top share of the overall interchangeable-lens digital cameras market, mainly in key countries in Europe and the Americas as well as in Japan and China. In mirrorless cameras, sales were strong for such new models as the EOS R, Canon's first mirrorless camera equipped with a full-frame sensor, and the entry-class EOS Kiss M. As for digital compact cameras, although unit sales decreased compared with the previous year amid the shrinking market, sales of such high-value-added models as the PowerShot G-series enjoyed solid demand. For inkjet printers, unit sales of refillable ink tank models increased significantly in emerging markets. However, unit sales decreased overall compared with the previous year, mainly due to the shrinking market in developed economies. For large format inkjet printers, the imagePROGRAF TX series, which is suitable for outputting CAD drawings and poster designs, garnered high praise from the market and enjoyed solid sales. As a result, sales for the business unit decreased by 11.3% year on year to ¥1,008.2 billion, while income before income taxes decreased by 31.1% year on year to ¥121.3 billion.

Within the Medical System Business Unit, sales increased due to such newly launched products as the Alphenix-series of next-generation diagnostic X-ray systems and the Vantage Orian, a high-image-quality MRI system incorporating leading-edge technology. As a result, sales for the business unit increased by 0.3% year on year to ¥437.6 billion, while income before income taxes increased by 31.0% year on year to ¥29.5 billion.

In the Industry and Others Business Unit, unit sales of semiconductor lithography equipment increased from the previous year due to increasing demand for memory devices used in data centers. However, for flat panel display (FPD) lithography equipment and OLED panel manufacturing equipment, sales decreased compared with the previous year mainly due to a temporary slowdown in investment in OLED panels. As for network cameras, Axis enjoyed solid sales amid increasing market demand. Consequently, sales for the business unit increased by 1.6% year on year to ¥805.2 billion, while income before income taxes increased by 60.7% year on year to ¥67.6 billion.

Cash Flow

During 2018, cash flow from operating activities totaled ¥365.3 billion, a decrease of ¥225.3 billion compared with the previous year, mainly owing to increased working capital and payment of income taxes. Cash flow from investing activities increased by ¥30.6 billion year-on-year to ¥195.6 billion mainly due to an increase in payment for acquisitions of businesses. Accordingly, free cash flow totaled ¥169.7 billion, a decrease of ¥255.9 billion compared with the corresponding year-ago period.

Cash flow from financing activities recorded an outlay of ¥354.8 billion, mainly owing to the dividend payout, and the repayment of long-term debt.

Owing to these factors, as well as the impact from foreign currency translation adjustments, cash and cash equivalents decreased by ¥201.2 billion to ¥520.6 billion from the end of the previous year.

Outlook

As for the outlook for 2019, with regard to the U.S. economy, while consumer spending is expected to grow steadily, the rate of growth is expected to slow due to the waning effects of the country's tax reform. For the European economy, external demand is expected to remain weak in Germany and uncertainty surrounding impasses in Brexit negotiations is expected to continue. Although China is working to stabilize its economy through changes in monetary and fiscal policy, conditions are expected to worsen due to trade friction, and as a knock-on effect, emerging economies, including Southeast Asia, are expected to remain weak. With regard to the Japanese economy, while capital investment continues to increase, external demand is expected to remain at a standstill. The global economy is expected to continue to slow down from the latter half of 2018 and overall, there are concerns of further economic slowdown occurring as a result of intensifying trade friction.

In the businesses in which Canon is involved, for office MFDs, color models are expected to grow steadily. Overall demand for laser printers is expected to remain at the same level as that of the previous year, supported by the trend of shifting from monochrome to color models and increasing demand in emerging markets. For interchangeable-lens digital cameras, while demand for interchangeable-lens digital cameras equipped with full-frame sensors is expected to grow steadily, overall demand is expected to decrease. Projections for digital compact cameras indicate continued market contraction, centered mainly on low-priced models. With regard to inkjet printers, demand is expected to continue to decrease slightly from the previous year.

As for the medical equipment market, demand is expected to remain firm, mainly outside of Japan, with increasing demand in emerging markets and increased demand for advanced medical care in the United States and Europe. Looking at industrial equipment, as for the semiconductor lithography equipment, while demand for automotive devices is expected to increase, capital investment is expected to slow down for memory devices. For FPD lithography equipment and OLED panel manufacturing equipment, capital investment in small- and medium-size display panels is expected to continue to slow down. As for network cameras, demand is expected to continue expanding for high-spec models and image analysis software due to the growing use of network cameras for a widening range of applications.

With regard to currency exchange rates for the year, on which Canon's performance outlook is based, Canon anticipates exchange rates of ¥105 to the U.S. dollar and ¥125 to the euro, representing appreciations of approximately ¥5 against both the U.S. dollar and the euro compared with the annual average rates of the previous year.

Upon taking into consideration the current economic forecast, Canon projects full-year consolidated net sales in 2019 of ¥3,900.0 billion, a year-on-year decrease of 1.3%; operating profit of ¥325.0 billion, a year-on-year decrease of 5.2%; income before income taxes of ¥347.5 billion, a year-on-year decrease of 4.2%; and net income attributable to Canon Inc. of ¥240.0 billion, a year-on-year decrease of 5.0%.

This document contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as anticipate, believe, estimate, expect, intend, may, or should and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this document. A detailed description of these and other risk factors is included in Canon's annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

II. Basic Concept Regarding the Selection of Accounting Standards

Canon is listed on the New York Stock Exchange and, since registering its American Depositary Receipts on the OTC (over-the-counter) market in 1969, has prepared its consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) over the long term.

Canon has continued to adopt U.S. GAAP in order to maintain the continuity of financial statements from the past and to maintain international comparability.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

III. Financial Statements**1. CONSOLIDATED BALANCE SHEETS**

| | As of December 31, 2018 | Millions of yen As of December 31, 2017 | Change |
|--|----------------------------|---|-----------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 520,645 | 721,814 | (201,169) |
| Short-term investments | 956 | 1,965 | (1,009) |
| Trade receivables, net | 612,953 | 650,872 | (37,919) |
| Inventories | 611,281 | 570,033 | 41,248 |
| Prepaid expenses and other current assets | 304,346 | 287,965 | 16,381 |
| Total current assets | 2,050,181 | 2,232,649 | (182,468) |
| Noncurrent receivables | 18,230 | 35,444 | (17,214) |
| Investments | 42,556 | 48,320 | (5,764) |
| Property, plant and equipment, net | 1,090,992 | 1,126,620 | (35,628) |
| Intangible assets, net | 391,021 | 420,972 | (29,951) |
| Goodwill | 908,511 | 936,722 | (28,211) |
| Other assets | 397,974 | 397,564 | 410 |
| Total assets | 4,899,465 | 5,198,291 | (298,826) |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Short-term loans and current portion of long-term debt | 38,527 | 39,328 | (801) |
| Trade payables | 352,489 | 380,654 | (28,165) |
| Accrued income taxes | 41,264 | 77,501 | (36,237) |
| Accrued expenses | 321,137 | 330,188 | (9,051) |
| Other current liabilities | 276,237 | 281,809 | (5,572) |
| Total current liabilities | 1,029,654 | 1,109,480 | (79,826) |
| Long-term debt, excluding current installments | 361,962 | 493,238 | (131,276) |
| Accrued pension and severance cost | 382,789 | 365,582 | 17,207 |
| Other noncurrent liabilities | 107,147 | 133,816 | (26,669) |
| Total liabilities | 1,881,552 | 2,102,116 | (220,564) |
| Equity: | | | |
| Canon Inc. shareholders' equity: | | | |

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| | | | |
|---|--------------------|-------------|-----------|
| Common stock | 174,762 | 174,762 | - |
| Additional paid-in capital | 404,389 | 401,386 | 3,003 |
| Legal reserve | 67,116 | 66,879 | 237 |
| Retained earnings | 3,508,908 | 3,429,312 | 79,596 |
| Accumulated other comprehensive income (loss) | (269,071) | (143,228) | (125,843) |
| Treasury stock, at cost | (1,058,502) | (1,058,481) | (21) |
| Total Canon Inc. shareholders equity | 2,827,602 | 2,870,630 | (43,028) |
| Noncontrolling interests | 190,311 | 225,545 | (35,234) |
| Total equity | 3,017,913 | 3,096,175 | (78,262) |
| Total liabilities and equity | 4,899,465 | 5,198,291 | (298,826) |

| | Millions of yen | |
|---|-----------------------------------|----------------------------|
| | As of December 31, 2018 | As of December 31, 2017 |
| Notes: | | |
| 1. Allowance for doubtful receivables | 11,477 | 13,378 |
| 2. Accumulated depreciation | 2,671,922 | 2,638,055 |
| 3. Accumulated other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (63,815) | 30,208 |
| Net unrealized gains and losses on securities | - | 5,484 |
| Net gains and losses on derivative instruments | 308 | (180) |
| Pension liability adjustments | (205,564) | (178,740) |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. CONSOLIDATED STATEMENTS OF INCOME ANDCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**Consolidated statements of income****Results for the fourth quarter**

| | Millions of yen | | | |
|---|--------------------|--------------------|-----------|------|
| | Three months ended | Three months ended | Change(%) | |
| | December 31, 2018 | December 31, 2017 | | |
| Net sales | 1,058,340 | 1,120,291 | - | 5.5 |
| Cost of sales | 569,063 | 574,258 | | |
| Gross profit | 489,277 | 546,033 | - | 10.4 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 306,413 | 347,901 | | |
| Research and development expenses | 83,286 | 87,632 | | |
| Impairment losses on goodwill | - | 33,912 | | |
| | 389,699 | 469,445 | | |
| Operating profit | 99,578 | 76,588 | + | 30.0 |
| Other income (deductions): | | | | |
| Interest and dividend income | 1,174 | 1,478 | | |
| Interest expense | (144) | (236) | | |
| Other, net | (646) | 10,687 | | |
| | 384 | 11,929 | | |
| Income before income taxes | 99,962 | 88,517 | + | 12.9 |
| Income taxes | 24,204 | 28,776 | | |
| Consolidated net income | 75,758 | 59,741 | | |
| Less: Net income attributable to noncontrolling interests | 4,044 | 5,138 | | |
| Net income attributable to Canon Inc. | 71,714 | 54,603 | + | 31.3 |

Results for the fiscal year

| | Millions of yen | | | |
|-----------|-------------------|-------------------|-----------|-----|
| | Year ended | Year ended | Change(%) | |
| | December 31, 2018 | December 31, 2017 | | |
| Net sales | 3,951,937 | 4,080,015 | - | 3.1 |

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| | | | | |
|---|------------------|-----------|---|-----|
| Cost of sales | 2,116,383 | 2,089,461 | | |
| Gross profit | 1,835,554 | 1,990,554 | - | 7.8 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 1,176,760 | 1,301,666 | | |
| Research and development expenses | 315,842 | 333,371 | | |
| Impairment losses on goodwill | - | 33,912 | | |
| | 1,492,602 | 1,668,949 | | |
| Operating profit | 342,952 | 321,605 | + | 6.6 |
| Other income (deductions): | | | | |
| Interest and dividend income | 6,604 | 6,012 | | |
| Interest expense | (797) | (818) | | |
| Other, net | 14,133 | 27,085 | | |
| | 19,940 | 32,279 | | |
| Income before income taxes | 362,892 | 353,884 | + | 2.5 |
| Income taxes | 96,150 | 98,024 | | |
| Consolidated net income | 266,742 | 255,860 | | |
| Less: Net income attributable to noncontrolling interests | 13,987 | 13,937 | | |
| Net income attributable to Canon Inc. | 252,755 | 241,923 | + | 4.5 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Consolidated statements of comprehensive income**Results for the fourth quarter**

| | Millions of yen | | |
|---|--------------------------------------|--------------------------------------|-----------|
| | Three months ended December 31, 2018 | Three months ended December 31, 2017 | Change(%) |
| Consolidated net income | 75,758 | 59,741 | + 26.8 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments | (57,818) | 9,001 | |
| Net unrealized gains and losses on securities | - | (4,859) | |
| Net gains and losses on derivative instruments | 1,158 | 909 | |
| Pension liability adjustments | (33,020) | 20,975 | |
| | (89,680) | 26,026 | |
| Comprehensive income (loss) | (13,922) | 85,767 | - |
| Less: Comprehensive income attributable to noncontrolling interests | (62) | 7,731 | |
| Comprehensive income (loss) attributable to Canon Inc. | (13,860) | 78,036 | - |

Results for the fiscal year

| | Millions of yen | | |
|---|------------------------------|------------------------------|-----------|
| | Year ended December 31, 2018 | Year ended December 31, 2017 | Change(%) |
| Consolidated net income | 266,742 | 255,860 | + 4.3 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments | (93,146) | 47,090 | |
| Net unrealized gains and losses on securities | (141) | (9,362) | |
| Net gains and losses on derivative instruments | 488 | 2,588 | |
| Pension liability adjustments | (30,570) | 21,207 | |
| | (123,369) | 61,523 | |
| Comprehensive income (loss) | 143,373 | 317,383 | - 54.8 |
| Less: Comprehensive income attributable to noncontrolling interests | 6,918 | 18,807 | |
| Comprehensive income (loss) attributable to Canon Inc. | 136,455 | 298,576 | - 54.3 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. DETAILS OF SALES**Results for the fourth quarter**

| Sales by business unit | Millions of yen | | Change(%) | |
|------------------------|--|--|-----------|------------|
| | Three months ended December 31, 2018 | Three months ended December 31, 2017 | | |
| Office | 471,572 | 477,346 | - | 1.2 |
| Imaging System | 297,532 | 340,920 | - | 12.7 |
| Medical System | 118,187 | 103,682 | + | 14.0 |
| Industry and Others | 198,140 | 221,137 | - | 10.4 |
| Eliminations | (27,091) | (22,794) | - | - |
| Total | 1,058,340 | 1,120,291 | - | 5.5 |

| Sales by region | Millions of yen | | Change(%) | |
|-------------------------|--|---|-----------|------------|
| | Three months ended December 31, 2018 | Three months ended December 31, 2017 | | |
| Japan | 235,774 | 242,692 | - | 2.9 |
| Overseas: | | | | |
| <i>Americas</i> | 305,527 | 303,277 | + | 0.7 |
| <i>Europe</i> | 280,169 | 289,104 | - | 3.1 |
| <i>Asia and Oceania</i> | 236,870 | 285,218 | - | 17.0 |
| | 822,566 | 877,599 | - | 6.3 |
| Total | 1,058,340 | 1,120,291 | - | 5.5 |

*From the beginning of the third quarter of 2018, Canon has reclassified certain businesses from Office Business Unit to Industry and Others Business Unit. Net sales for the three months ended December 31, 2017 also have been restated.

Results for the fiscal year

| Sales by business unit | Millions of yen | | Change(%) | |
|------------------------|------------------------------------|------------------------------------|-----------|------|
| | Year ended December 31, 2018 | Year ended December 31, 2017 | | |
| Office | 1,807,301 | 1,804,782 | + | 0.1 |
| Imaging System | 1,008,165 | 1,136,188 | - | 11.3 |
| Medical System | 437,578 | 436,187 | + | 0.3 |
| Industry and Others | 805,211 | 792,850 | + | 1.6 |
| Eliminations | (106,318) | (89,992) | - | - |

| | 3,951,937 | 4,080,015 | - | 3.1 |
|-------------------------|---|---|---|-----------|
| | Millions of yen Year ended December 31, 2018 | Millions of yen Year ended December 31, 2017 | | Change(%) |
| Sales by region | | | | |
| Japan | 869,577 | 884,828 | - | 1.7 |
| Overseas: | | | | |
| <i>Americas</i> | 1,076,402 | 1,107,515 | - | 2.8 |
| <i>Europe</i> | 1,015,428 | 1,028,415 | - | 1.3 |
| <i>Asia and Oceania</i> | 990,530 | 1,059,257 | - | 6.5 |
| | 3,082,360 | 3,195,187 | - | 3.5 |
| Total | 3,951,937 | 4,080,015 | - | 3.1 |

*From the beginning of the third quarter of 2018, Canon has reclassified certain businesses from Office Business Unit to Industry and Others Business Unit. Net sales for the year ended December 31, 2017 also have been restated.

Notes: 1. The primary products included in each of the segments are as follows:

Office Business Unit :

Office multifunction devices (MFDs) / Laser multifunction printers (MFPs) / Laser printers / Digital continuous feed presses /

Digital sheet-fed presses / Wide-format printers / Document solutions

Imaging System Business Unit :

Interchangeable-lens digital cameras / Digital compact cameras / Digital camcorders / Digital cinema cameras / Interchangeable lenses /

Compact photo printers / Inkjet printers / Large format inkjet printers / Commercial photo printers /

Image scanners / Multimedia projectors / Broadcast equipment / Calculators

Medical System Business Unit :

Digital radiography systems / Diagnostic X-ray systems / Computed tomography (CT) systems / Magnetic resonance imaging (MRI) systems /

Diagnostic ultrasound systems / Clinical chemistry analyzers / Ophthalmic equipment

Industry and Others Business Unit :

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Semiconductor lithography equipment / FPD (Flat panel display) lithography equipment / Vacuum thin-film deposition equipment /

Organic LED (OLED) panel manufacturing equipment / Die bonders / Micromotors / Network cameras / Handy terminals /

Document scanners

2. The principal countries and regions included in each regional category are as follows:

Americas: United States of America, Canada, Latin America

Europe: United Kingdom, Germany, France, Netherlands, European countries, Middle East and Africa
Asia and Oceania: China, Asian countries, Australia

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. CONSOLIDATED STATEMENTS OF EQUITY

Millions of yen

| | Common Stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total Canon Inc. shareholders equity | Noncontrolling interests | Total equity |
|---|-----------------|----------------------------------|------------------|----------------------|---|-------------------|--|-----------------------------|-----------------|
| Balance at December 31, 2016 | 174,762 | 401,385 | 66,558 | 3,350,728 | (199,881) | (1,010,423) | 2,783,129 | 211,493 | 2,994,622 |
| Equity transactions with noncontrolling interests and other | | 1 | | | | | 1 | (1) | - |
| Dividends to Canon Inc. shareholders | | | | (162,887) | | | (162,887) | | (162,887) |
| Dividends to noncontrolling interests | | | | | | | | (4,814) | (4,814) |
| Acquisition of subsidiaries | | | | | | | | 60 | 60 |
| Transfers to legal reserve | | | 321 | (321) | | | - | | - |
| Comprehensive income: | | | | | | | | | |
| Net income | | | | 241,923 | | | 241,923 | 13,937 | 255,860 |
| Other comprehensive income (loss), net of tax: | | | | | | | | | |
| Foreign currency translation adjustments | | | | | 44,168 | | 44,168 | 2,922 | 47,090 |
| Net unrealized gains and losses on securities | | | | | (9,767) | | (9,767) | 405 | (9,362) |
| Net gains and losses on derivative | | | | | 2,562 | | 2,562 | 26 | 2,588 |

| | | | | | | | | | | |
|---|---------|---------|--------|-----------|-----------|-------------|-----------|----------|-----------|--|
| instruments | | | | | | | | | | |
| Pension liability adjustments | | | | | 19,690 | | 19,690 | 1,517 | 21,207 | |
| Total comprehensive income (loss) | | | | | | | 298,576 | 18,807 | 317,383 | |
| Repurchases of treasury stock | | | | | | (50,036) | (50,036) | | (50,036) | |
| Reissuance of treasury stock | | | | (131) | | 1,978 | 1,847 | | 1,847 | |
| Balance at December 31, 2017 | 174,762 | 401,386 | 66,879 | 3,429,312 | (143,228) | (1,058,481) | 2,870,630 | 225,545 | 3,096,175 | |
| Cumulative effects of accounting standard update adoption of ASU No.2014-09 | | | | (106) | | | (106) | (76) | (182) | |
| Cumulative effects of accounting standard update adoption of ASU No. 2016-01 | | | | 5,343 | (5,343) | | - | - | - | |
| Equity transactions with noncontrolling interests and other | | 3,003 | | | (4,200) | | (1,197) | (36,518) | (37,715) | |
| Dividends to Canon Inc. shareholders | | | | (178,159) | | | (178,159) | | (178,159) | |
| Dividends to noncontrolling interests | | | | | | | | (5,558) | (5,558) | |
| Transfers to legal reserve | | | 237 | (237) | | | - | | - | |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | 252,755 | | | 252,755 | 13,987 | 266,742 | |
| Other comprehensive income (loss), | | | | | | | | | | |

| | | | | | | | | | |
|---|----------------|----------------|---------------|------------------|------------------|--------------------|------------------|----------------|------------------|
| net of tax: | | | | | | | | | |
| Foreign currency translation adjustments | | | | | (89,823) | | (89,823) | (3,323) | (93,146) |
| Net unrealized gains and losses on securities | | | | | (141) | | (141) | - | (141) |
| Net gains and losses on derivative instruments | | | | | 488 | | 488 | - | 488 |
| Pension liability adjustments | | | | | (26,824) | | (26,824) | (3,746) | (30,570) |
| Total comprehensive income (loss) | | | | | | | 136,455 | 6,918 | 143,373 |
| Repurchases of treasury stock | | | | | | (25) | (25) | | (25) |
| Reissuance of treasury stock | | | | 0 | | 4 | 4 | | 4 |
| Balance at December 31, 2018 | 174,762 | 404,389 | 67,116 | 3,508,908 | (269,071) | (1,058,502) | 2,827,602 | 190,311 | 3,017,913 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | |
|--|---------------------------------|---------------------------------|
| | Year ended December 31, 2018 | Year ended December 31, 2017 |
| Cash flows from operating activities: | | |
| Consolidated net income | 266,742 | 255,860 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 251,554 | 261,881 |
| Loss on disposal of fixed assets | 5,726 | 6,935 |
| Impairment losses on goodwill | - | 33,912 |
| Gain on securities contributed to retirement benefit trust | - | (17,836) |
| Deferred income taxes | (11,849) | (17,603) |
| (Increase) decrease in trade receivables | (17,724) | 3,563 |
| (Increase) decrease in inventories | (61,755) | 2,967 |
| Increase (decrease) in trade payables | (31,212) | 4,951 |
| Increase (decrease) in accrued income taxes | (35,284) | 46,296 |
| Increase in accrued expenses | 2,541 | 18,503 |
| Increase (decrease) in accrued (prepaid) pension and severance cost | (17,738) | 522 |
| Other, net | 14,292 | (9,394) |
| Net cash provided by operating activities | 365,293 | 590,557 |
| Cash flows from investing activities: | | |
| Purchases of fixed assets | (191,399) | (189,484) |
| Proceeds from sale of fixed assets | 9,634 | 26,444 |
| Purchases of securities | (2,311) | (2,220) |
| Proceeds from sale and maturity of securities | 1,615 | 970 |
| Decrease in time deposits, net | 401 | 3,373 |
| Acquisitions of businesses, net of cash acquired | (13,346) | (6,557) |
| Other, net | (209) | 2,464 |
| Net cash used in investing activities | (195,615) | (165,010) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 439 | 1,570 |
| Repayments of long-term debt | (136,094) | (126,578) |
| Increase in short-term loans, net | 2,501 | 5,628 |
| Transactions with noncontrolling interests | (37,942) | - |
| Dividends paid | (178,159) | (162,887) |
| Repurchases and reissuance of treasury stock | (21) | (50,034) |
| Other, net | (5,554) | (8,163) |
| Net cash used in financing activities | (354,830) | (340,464) |
| Effect of exchange rate changes on cash and cash equivalents | (16,017) | 6,538 |

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| | | |
|--|------------------|---------|
| Net change in cash and cash equivalents | (201,169) | 91,621 |
| Cash and cash equivalents at beginning of year | 721,814 | 630,193 |
| Cash and cash equivalents at end of year | 520,645 | 721,814 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

6. NOTE FOR GOING CONCERN ASSUMPTION

Not applicable.

7. SEGMENT INFORMATION

SEGMENT INFORMATION BY BUSINESS UNIT

| <u>Results for the fiscal year</u> | Millions of yen | | Change(%) |
|------------------------------------|---------------------------------|---------------------------------|-----------|
| | Year ended December 31, 2018 | Year ended December 31, 2017 | |
| Office | | | |
| Net sales: | | | |
| External customers | 1,804,002 | 1,802,542 | + 0.1 |
| Intersegment | 3,299 | 2,240 | + 47.3 |
| Total | 1,807,301 | 1,804,782 | + 0.1 |
| Operating cost and expenses | 1,586,497 | 1,615,521 | - 1.8 |
| Operating profit | 220,804 | 189,261 | + 16.7 |
| Other income (deductions) | 8,383 | 6,108 | + 37.2 |
| Income before income taxes | 229,187 | 195,369 | + 17.3 |
| Total assets | 923,261 | 946,213 | - 2.4 |
| Depreciation and amortization | 64,964 | 72,346 | - 10.2 |
| Capital expenditures | 48,127 | 46,769 | + 2.9 |
| Imaging System | | | |
| Net sales: | | | |
| External customers | 1,007,365 | 1,135,584 | - 11.3 |
| Intersegment | 800 | 604 | + 32.5 |
| Total | 1,008,165 | 1,136,188 | - 11.3 |
| Operating cost and expenses | 891,210 | 962,663 | - 7.4 |
| Operating profit | 116,955 | 173,525 | - 32.6 |
| Other income (deductions) | 4,299 | 2,388 | + 80.0 |

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| | | | | |
|-----------------------------------|------------------|----------|---|------|
| Income before income taxes | 121,254 | 175,913 | - | 31.1 |
| Total assets | 393,004 | 387,088 | + | 1.5 |
| Depreciation and amortization | 40,541 | 41,695 | - | 2.8 |
| Capital expenditures | 25,796 | 28,508 | - | 9.5 |
| Medical System | | | | |
| Net sales: | | | | |
| External customers | 437,305 | 434,985 | + | 0.5 |
| Intersegment | 273 | 1,202 | - | 77.3 |
| Total | 437,578 | 436,187 | + | 0.3 |
| Operating cost and expenses | 408,739 | 414,246 | - | 1.3 |
| Operating profit | 28,839 | 21,941 | + | 31.4 |
| Other income (deductions) | 640 | 564 | + | 13.5 |
| Income before income taxes | 29,479 | 22,505 | + | 31.0 |
| Total assets | 247,282 | 238,824 | + | 3.5 |
| Depreciation and amortization | 9,365 | 5,212 | + | 79.7 |
| Capital expenditures | 7,454 | 8,963 | - | 16.8 |
| Industry and Others | | | | |
| Net sales: | | | | |
| External customers | 703,265 | 706,904 | - | 0.5 |
| Intersegment | 101,946 | 85,946 | + | 18.6 |
| Total | 805,211 | 792,850 | + | 1.6 |
| Operating cost and expenses | 739,665 | 752,122 | - | 1.7 |
| Operating profit | 65,546 | 40,728 | + | 60.9 |
| Other income (deductions) | 2,061 | 1,339 | + | 53.9 |
| Income before income taxes | 67,607 | 42,067 | + | 60.7 |
| Total assets | 383,568 | 376,064 | + | 2.0 |
| Depreciation and amortization | 38,582 | 39,736 | - | 2.9 |
| Capital expenditures | 24,091 | 16,620 | + | 45.0 |
| Corporate and Eliminations | | | | |
| Net sales: | | | | |
| External customers | - | - | - | - |
| Intersegment | (106,318) | (89,992) | - | - |
| Total | (106,318) | (89,992) | - | - |

| | | | | |
|-------------------------------|-----------|-----------|---|------|
| Operating cost and expenses | (17,126) | 13,858 | - | |
| Operating profit | (89,192) | (103,850) | - | |
| Other income (deductions) | 4,557 | 21,880 | - | |
| Income before income taxes | (84,635) | (81,970) | - | |
| Total assets | 2,952,350 | 3,250,102 | - | 9.2 |
| Depreciation and amortization | 98,102 | 102,892 | - | 4.7 |
| Capital expenditures | 95,036 | 80,529 | + | 18.0 |
| Consolidated | | | | |
| Net sales: | | | | |
| External customers | 3,951,937 | 4,080,015 | - | 3.1 |
| Intersegment | - | - | - | - |
| Total | 3,951,937 | 4,080,015 | - | 3.1 |
| Operating cost and expenses | 3,608,985 | 3,758,410 | - | 4.0 |
| Operating profit | 342,952 | 321,605 | + | 6.6 |
| Other income (deductions) | 19,940 | 32,279 | - | 38.2 |
| Income before income taxes | 362,892 | 353,884 | + | 2.5 |
| Total assets | 4,899,465 | 5,198,291 | - | 5.7 |
| Depreciation and amortization | 251,554 | 261,881 | - | 3.9 |
| Capital expenditures | 200,504 | 181,389 | + | 10.5 |

*From the beginning of the third quarter of 2018, Canon has reclassified certain businesses from Office Business Unit to Industry and Others Business Unit. Total assets as of December 31, 2017, and capital expenditures and operating results for the year ended December 31, 2017 also have been restated.

*Corporate expenses include certain corporate research and development expenses. Amortization costs of identified intangible assets resulting from the purchase price allocation of Canon Medical Systems Corporation are also included in corporate expenses.

*While Canon previously disclosed operating profit as segment profit, Canon has newly adopted income before income taxes as segment profit from the beginning of the fourth quarter of 2018. Due to the increase of other income (deductions) from the adoption of ASU No. 2017-07, Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, Canon has changed its business performance measure. Please refer to III. Financial Statements 9. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES on page 13 for more detailed information about the change in the accounting standard.

CANON INC. AND SUBSIDIARIES

8. NOTE ON SIGNIFICANT CHANGES IN SHAREHOLDERS' EQUITY

Not applicable.

9. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES

Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.

Recently Issued Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard related to revenue from contracts with customers, as amended. This standard requires an entity to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Canon adopted this guidance from the first quarter beginning January 1, 2018. Canon applied the modified retrospective method of adoption to contracts that were not completed as of the adoption. The cumulative-effects to the retained earnings and the impact on the consolidated result of operations for the fourth quarter and the year ended December 31, 2018 from the adoption of this standard were not material. In addition, in conjunction with the adoption of this standard, Canon has reconsidered the scope of performance obligations related to services, and as a result, certain costs related to service were also reclassified from operating expenses to cost of sales. The reclassified amounts for the fourth quarters and the year ended December 31, 2018 were ¥29,505 million and ¥115,700 million, respectively.

In January 2016, the FASB issued an amendment which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance includes the requirement that equity investments that do not result in consolidation and are not accounted for under the equity method be measured at fair value with changes in the fair value recognized in net income. Canon adopted this guidance from the first quarter beginning January 1, 2018, and Canon recognized a cumulative-effect adjustment to retained earnings of ¥5,343 million as of January 1, 2018 for the after-tax unrealized gains of available-for-sale equity securities previously recognized in accumulated other comprehensive income.

In March 2017, the FASB issued an amendment which requires an entity to disaggregate the service cost component from the other components of net benefit cost and report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component, such as in other income (deductions). The amendments also allow only the service cost component to be eligible for capitalization (for example, as a cost of internally manufactured inventory). The amendments in this guidance should be applied retrospectively for the presentation of the service cost component and the other components of net benefit cost, and prospectively for the capitalization of the service cost component of net benefit cost. Canon adopted this guidance from the first quarter beginning January 1, 2018 and the adoption of this standard resulted in the decrease in operating profit and the increase in other income of ¥2,448 million and ¥3,110 million for the fourth quarters ended December 31, 2017 and 2016, respectively, and ¥9,874 million and ¥12,441 million for the years ended December 31, 2017 and 2016, respectively.

CANON INC. AND SUBSIDIARIES

10. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) NET INCOME ATTRIBUTABLE TO CANON INC. SHAREHOLDERS PER SHARE

| Results for the fiscal year | Millions of yen | |
|--|---------------------------------|---------------------------------|
| | Year ended December 31, 2018 | Year ended December 31, 2017 |
| Net income attributable to Canon Inc. | | |
| -Basic | 252,755 | 241,923 |
| -Diluted | 252,755 | 241,923 |
| | | |
| | Number of shares | |
| Average common shares outstanding | | |
| -Basic | 1,079,753,008 | 1,085,439,370 |
| -Diluted | 1,079,802,327 | 1,085,439,370 |
| | | |
| | Yen | |
| Net income attributable to Canon Inc. shareholders per share: | | |
| -Basic | 234.09 | 222.88 |
| -Diluted | 234.08 | 222.88 |

(2) SUBSEQUENT EVENT

There is no significant subsequent event.

(Current Titles are Shown in the Parentheses)

Effective Date: March 28, 2019

Director

(1) Director to be retired

Shigeyuki Matsumoto (Executive Vice President & CTO, Group Executive of R&D Headquarters)

Audit & Supervisory Board Members

(1) Candidates for new Audit & Supervisory Board Member to be appointed

Hiroaki Sato (Senior Principal Engineer of Digital Business Platform Development Headquarters)

Yutaka Tanaka (Lawyer)
(2) Audit & Supervisory Board Members to be retired

Kazuto Ono

Tadashi Ohe

(Current Titles are Shown in the Parentheses)

Effective Date: April 1, 2019

Executive Officers

(1) New Executive Officers to be appointed

| | |
|-------------------|--|
| Saijiro Endo | (Senior General Manager of Office Imaging Products Development Planning & Management Center) |
| Toshiyuki Matsuda | (Group Executive of Peripherals Marketing Group) |
| Takeshi Ichikawa | (Senior General Manager of Semiconductor Device Research & Development Center) |
| Hiroto Okawara | (Senior General Manager of Image Solutions Development Center 2) |

(2) Executive Officers to be promoted

| | | |
|----------------------------|-------------------|--|
| Managing Executive Officer | Soichi Hiramatsu | (Executive Officer, Group Executive of Procurement Headquarters) |
| Managing Executive Officer | Takashi Takeya | (Executive Officer, Senior General Manager of Global Logistics Management Center) |
| Managing Executive Officer | Go Tokura | (Executive Officer, Chief Executive of Image Communication Business Operations) |
| Managing Executive Officer | Hisahiro Minokawa | (Executive Officer, Group Executive of Human Resources Management & Organization Headquarters) |