Canon

CONSOLIDATED RESULTS FOR THE SECOND QUARTER AND THE FIRST HALF ENDED JUNE 30, 2019

July 24, 2019

CONSOLIDATED RESULTS FOR THE SECOND QUARTER

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

	Actual			
	Three months ended June 30, 2019	Three months ended June 30, 2018	Change(%)	**Three months ended June 30, 2019**
Net sales	**¥ 905,869**	¥ 1,006,387	- 10.0	**$ 8,387,676**
Operating profit	**43,127**	97,963	- 56.0	**399,324**
Income before income taxes	**51,075**	110,121	- 53.6	**472,917**
Net income attributable to Canon Inc.	**¥ 34,519**	¥ 77,670	- 55.6	**$ 319,620**
Net income attributable to Canon Inc. shareholders per share:				
- Basic	**¥ 32.21**	¥ 71.93	- 55.2	**$ 0.30**
- Diluted	**32.20**	71.93	- 55.2	**0.30**

CONSOLIDATED RESULTS FOR THE FIRST HALF

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

	Actual				Projection	
	Six months ended June 30, 2019	Six months ended June 30, 2018	Change(%)	**Six months ended June 30, 2019**	Year ending December 31, 2019	Change(%)
Net sales	**¥ 1,770,335**	¥ 1,967,099	- 10.0	**$ 16,391,991**	¥ 3,745,000	- 5.2
Operating profit	**83,553**	175,046	- 52.3	**773,639**	215,000	- 37.3
Income before income taxes	**97,188**	195,880	- 50.4	**899,889**	240,000	- 33.9
Net income attributable to Canon Inc.	**¥ 65,827**	¥ 134,783	- 51.2	**$ 609,509**	¥ 160,000	- 36.7
Net income attributable to Canon Inc. shareholders per share:						
- Basic	**¥ 61.22**	¥ 124.83	- 51.0	**$ 0.57**	¥ 149.54	- 36.1
- Diluted	**61.22**	124.82	- 51.0	**0.57**	149.52	- 36.1

	Actual			
	As of June 30, 2019	As of December 31, 2018	Change(%)	**As of June 30, 2019**
Total assets	**¥ 4,814,612**	¥ 4,899,465	- 1.7	**$ 44,579,741**
Canon Inc. shareholders' equity	**¥ 2,706,003**	¥ 2,827,602	- 4.3	**$ 25,055,583**

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 JPY108=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 28, 2019, solely for the convenience of the reader.

Canon Inc.
Headquarter office
30-2, Shimomaruko 3-chome, Ohta-ku,
Tokyo 146-8501, Japan
Phone: +81-3-3758-2111

I. Operating Results and Financial Conditions

2019 Second Quarter in Review

Looking back at the global economy in the second quarter of 2019, the U.S. economy remained solid supported by strong employment conditions, although business activities showed signs of weakness. The European economy continued to slow down due mainly to the downturn caused by sluggish exports in Germany, as well as the confusion surrounding the U.K.'s impending exit from the EU. The Chinese economy was lagging, despite government's economic stimulus measures, amid decreasing exports caused by trade friction with the United States. The economies of other emerging markets also slowed down. In Japan, a sense of stagnation was deepened due to decreasing exports caused by sluggish overseas demand. The global economy overall showed the trend of further slowdown.

As for the markets in which Canon operates amid these conditions, demand for office multifunction devices (MFDs) remained at around the same level as the previous year, while demand for laser printers decreased due mainly to the economic slowdown in China. The market for cameras continued to decline and the demand for inkjet printers was sluggish mainly in developed countries. The market for medical equipment recovered in Japan and demand grew moderately in other markets, mainly in the United States. Within the Industry and Others sector, although customers continued slowing down in capital investment for industrial equipment, the market for network cameras enjoyed solid growth.

The average values of the yen during the second quarter and the first half of the year were ¥109.80 and ¥110.05 against the U.S. dollar, respectively, year-on-year depreciation of approximately ¥1 for both periods, and ¥123.39 and ¥124.25 against the euro, respectively, year-on-year appreciation of approximately ¥7 for both periods.

During the second quarter, overall unit sales of office MFDs remained at around the same level as the previous year. Although unit sales of monochrome-model office MFDs decreased, unit sales of color-model office MFDs increased steadily. Unit sales of laser printers decreased compared with the same period of the previous year mainly due to the slowdown of the market, although sales were strong for new models. While Canon has been working towards expanded sales of mirrorless cameras, unit sales of interchangeable lens digital cameras decreased compared with the same period of the previous year amid the shrinking market. Looking at inkjet printers, although Canon has been working towards expanding product lineup, ranging from home-use models to business-use models, overall unit sales decreased compared with the same period of the previous year. Sales of medical equipment increased compared with the same period of the previous year, due to expanded sales in United States supported by robust sales of computed tomography (CT) systems. For industrial equipment, sales of semiconductor lithography equipment and manufacturing equipment for organic LED (OLED) panel decreased compared with the same period of the previous year, due to the prolonged sluggishness of capital investments for semiconductor memory and small- and medium-size display panels. On the other hand, sales of network cameras increased steadily. Under these conditions, second-quarter net sales decreased by 10.0% year on year to ¥905.9 billion. Net sales for the first half of the year decreased by 10.0% year on year to ¥1,770.3 billion. The gross profit ratio dropped by 2.3 points to 44.9% and gross profit decreased by 14.4% year on year to ¥406.4 billion mainly due to the negative effects of currency exchange rates and the product mix. Operating expenses decreased by 3.5% year on year to ¥363.3 billion, thanks to efforts to thoroughly manage expenses as well as the positive effect of currency exchange rates. As a result, second-quarter operating profit decreased by 56.0% to ¥43.1 billion. Other income (deductions) decreased by ¥4.2 billion, while income before income taxes decreased by 53.6% year on year to ¥51.1 billion and net income attributable to Canon Inc. decreased by 55.6% to ¥34.5 billion. Operating profit for the first half of the year decreased by 52.3% to ¥83.6 billion while income before income taxes decreased by 50.4% to ¥97.2 billion and first-half net income attributable to Canon Inc. decreased by 51.2% to ¥65.8 billion.

Basic net income attributable to Canon Inc. shareholders per share was ¥32.21 for the second quarter, a year-on-year decrease of ¥39.72, and ¥61.22 for the first half, a year-on-year decrease of ¥63.61.

Results by Segment

Looking at Canon's second-quarter performance by business unit, starting with the Office Business Unit, the imageRUNNER ADVANCE Gen3 3rd Edition series, which features enhanced security functions, experienced solid demand. As a result, color models compensated for the shrinking demand for monochrome models and unit sales of office MFDs were at around the same level as the same period of the previous year. As for laser printers, although sales were strong for new models that achieve low power consumption, compact body designs and high productivity, unit sales of hardware decreased compared with the same period of the previous year due to decreasing sales of low speed models and sales of consumables also decreased. These factors resulted in total sales for the business unit of ¥427.9 billion, a year-on-year decrease of 7.5%, while income before income taxes decreased by 29.6% year on year to ¥44.2 billion. Sales for the combined first six months of the year totaled ¥853.5 billion, a year-on-year decrease of 5.7%, while income before income taxes totaled ¥90.8 billion, a year-on-year decrease of 22.1%.

Within the Imaging System Business Unit, although the market of interchangeable lens digital cameras continued to shrink, for mirrorless cameras, unit sales were strong owing to the successive introduction of new models equipped with full-frame sensors after the second half of the previous year, which served to increase the company's presence in the market. For inkjet printers, although Canon has been working to increase sales by expanding its lineup of refillable ink tank models and through the development of business inkjet MFDs, unit sales decreased overall compared with the same period of the previous year mainly due to the shrinking market. As a result, sales for the business unit decreased by 18.5% to ¥204.7 billion year on year, while income before income taxes decreased by 63.7% year on year to ¥13.4 billion. Sales for the combined first six months of the year totaled ¥381.0 billion, a year-on-year decrease of 17.8%, while income before income taxes totaled ¥18.4 billion, a year-on-year decrease of 71.0%.

Within the Medical System Business Unit, sales of CT systems were strong in overseas market, mainly due to such newly launched products as the Aquilion Start and Aquilion Genesis, and sales for each product category including diagnostic X-ray systems increased in Japan due to the recovery of capital expenditure. As a result, sales for the business unit increased by 11.0% to ¥105.1 billion year on year, while income before income taxes increased ¥1.6 billion year on year to ¥3.5 billion. Sales for the combined first six months of the year totaled ¥214.6 billion, mainly due to a decrease in both sales and profit for the first quarter, a year-on-year increase of 1.3%, while income before income taxes totaled ¥10.0 billion, a year-on-year decrease of 19.6%.

For the Industry and Others Business Unit, although investments in semiconductor lithography equipment for image sensors and automotive devices were strong, investments in memory devices remained at a low level. Sales of OLED panel manufacturing equipment decreased compared with the same period of the previous year due to the continuing restraint of investments in the smartphone market. Sales of network cameras were strong amid increasing market demand due to diversifying market needs, particularly for Axis. Consequently, sales for the business unit decreased by 14.4% to ¥192.4 billion year on year, while income before income taxes decreased by 68.1% year on year to ¥6.8 billion. Sales for the combined first six months of the year totaled ¥368.8 billion, a year-on-year decrease of 15.7%, while income before income taxes totaled ¥12.1 billion, a year-on-year decrease of 67.6%.

Cash Flow

During the first half of 2019, cash flow from operating activities totaled ¥113.2 billion, a decrease of ¥51.7 billion compared with the same period of the previous year, owing mainly to a decrease of profit. Cash flow used in investing activities increased by ¥21.0 billion year on year to ¥110.8 billion mainly due to an increase of the investment in production equipment. Accordingly, free cash flow totaled positive ¥2.4 billion, a decrease of ¥72.7 billion compared with the corresponding year-ago period.

Cash flow used in financing activities recorded an outlay of ¥107.5 billion, mainly owing to the dividend payout and the repurchasing of treasury stock while an increase of ¥32.1 billion of short-term loan.

Owing to these factors, as well as the impact from foreign currency translation adjustments, cash and cash equivalents decreased by ¥113.2 billion to ¥407.5 billion from the end of the previous year.

Outlook

As for the outlook from the third quarter onwards, the U.S. economy is expected to grow, mainly thanks to improved consumer spending buoyed by favorable employment conditions, supported by changes in monetary policy. While uncertainty surrounding the U.K.'s exit of the EU is expected to endure, the modest recovery of the European economy is expected to continue amid a bottoming out in exports. The Chinese economy is expected to stave off a downturn in the face of fierce trade friction with the United States through consumer spending stimulus measures, while such emerging economies as India and Southeast Asia, where domestic demand remains steady, are expected to recover moderately. With regard to the Japanese economy, while consumer spending is expected to decline following an increase in the consumption tax rate, the outlook indicates a trend of steady growth supported by relief measures to reduce the impact of the tax increase and the improvement of employment conditions. Looking at the global economy, although the overall economy is expected to recover, there are concerns of further economic slowdown occurring due to such phenomena as long-drawn-out trade friction between China and the United States and other geopolitical risks.

In the businesses in which Canon is involved, for office MFDs, sales of color models are expected to grow steadily. Demand for laser printers is expected to remain below that of the previous year due to the impact of the economic slowdown. As for interchangeable-lens digital cameras, while demand for interchangeable-lens digital cameras equipped with full-frame sensors is expected to grow steadily, overall market is expected to continue to shrink, centered on entry-class models of single lens reflex cameras. Projections indicate the overall inkjet printers market will continue to shrink moderately. As for the medical equipment market, demand is expected to remain firm in response to replacement demand for medical equipment in developed countries and the improvement of medical infrastructure in emerging markets. For semiconductor lithography equipment, while demand for image sensors and automotive devices is expected to remain firm, capital investment for memory devices is expected to take time to recover. For FPD lithography equipment and OLED panel manufacturing equipment, capital investment in small- and medium-size display panels is expected to remain low. As for network cameras, the market is expected to continue expanding due to the increasing demand for high-resolution cameras and the video content analysis solutions that make use of them.

With regard to currency exchange rates for the third quarter onwards, on which Canon's performance outlook is based, Canon anticipates exchange rates of ¥105 to the U.S. dollar and ¥120 to the euro, representing appreciation of approximately ¥3 against the U.S. dollar and appreciation of approximately ¥8 against the euro as the annual average rates of the previous year.

Despite the harsh external environment, upon taking into consideration the introduction of new products in the latter half of the year and tapping into the growth of the new businesses, including medical equipment and network cameras, Canon projects full-year consolidated net sales in 2019 of ¥3,745.0 billion, a year-on-year decrease of 5.2%; operating profit of ¥215.0 billion, a year-on-year decrease of 37.3%; income before income taxes of ¥240.0 billion, a year-on-year decrease of 33.9%; and net income attributable to Canon Inc. of ¥160.0 billion, a year-on-year decrease of 36.7%.

Consolidated Outlook

Fiscal year

	Millions of yen				
	Year ending December 31, 2019		Change	Year ended December 31, 2018	Change (%)
	Previous Outlook (A)	Revised Outlook (B)	(B - A)	Results (C)	(B - C) / C
Net sales	3,850,000	3,745,000	(105,000)	3,951,937	-5.2%
Operating profit	274,000	215,000	(59,000)	342,952	-37.3%
Income before income taxes	295,000	240,000	(55,000)	362,892	-33.9%
Net income attributable to Canon Inc.	200,000	160,000	(40,000)	252,755	-36.7%

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," "plan," "project" 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. Financial Statements

1. CONSOLIDATED BALANCE SHEETS

	Millions of yen		
	As of June 30, 2019	As of December 31, 2018	Change
ASSETS			
Current assets:			
Cash and cash equivalents	**407,492**	520,645	(113,153)
Short-term investments	**3,920**	956	2,964
Trade receivables, net	**542,203**	612,953	(70,750)
Inventories	**631,063**	611,281	19,782
Prepaid expenses and other current assets	**299,687**	304,346	(4,659)
Total current assets	**1,884,365**	2,050,181	(165,816)
Noncurrent receivables	**17,860**	18,230	(370)
Investments	**43,353**	42,556	797
Property, plant and equipment, net	**1,093,134**	1,090,992	2,142
Operating lease right-of-use assets	**120,724**	-	120,724
Intangible assets, net	**363,701**	391,021	(27,320)
Goodwill	**891,563**	908,511	(16,948)
Other assets	**399,912**	397,974	1,938
Total assets	**4,814,612**	4,899,465	(84,853)
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term loans and current portion of long-term debt	**70,667**	38,527	32,140
Trade payables	**324,712**	352,489	(27,777)
Accrued income taxes	**33,666**	41,264	(7,598)
Accrued expenses	**290,661**	321,137	(30,476)
Current operating lease liabilities	**29,615**	-	29,615
Other current liabilities	**243,633**	276,237	(32,604)
Total current liabilities	**992,954**	1,029,654	(36,700)
Long-term debt, excluding current installments	**363,598**	361,962	1,636
Accrued pension and severance cost	**367,007**	382,789	(15,782)
Noncurrent operating lease liabilities	**91,049**	-	91,049
Other noncurrent liabilities	**100,138**	107,147	(7,009)
Total liabilities	**1,914,746**	1,881,552	33,194
Equity:			
Canon Inc. shareholders' equity:			
Common stock	**174,762**	174,762	-
Additional paid-in capital	**404,641**	404,389	252
Legal reserve	**67,477**	67,116	361
Retained earnings	**3,488,111**	3,508,908	(20,797)
Accumulated other comprehensive income (loss)	**(320,498)**	(269,071)	(51,427)
Treasury stock, at cost	**(1,108,490)**	(1,058,502)	(49,988)
Total Canon Inc. shareholders' equity	**2,706,003**	2,827,602	(121,599)
Noncontrolling interests	**193,863**	190,311	3,552
Total equity	**2,899,866**	3,017,913	(118,047)
Total liabilities and equity	**4,814,612**	4,899,465	(84,853)

	Millions of yen	
	As of June 30, 2019	As of December 31, 2018
Notes:		
1. Allowance for doubtful receivables	**10,115**	11,477
2. Accumulated depreciation	**2,687,522**	2,671,922
3. Accumulated other comprehensive income (loss):		
Foreign currency translation adjustments	**(117,658)**	(63,815)
Net unrealized gains and losses on securities	-	-
Net gains and losses on derivative instruments	**286**	308
Pension liability adjustments	**(203,126)**	(205,564)

2. CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Consolidated statements of income

Results for the second quarter

	Millions of yen		
	Three months ended June 30, 2019	Three months ended June 30, 2018	Change(%)
Net sales	**905,869**	1,006,387	- 10.0
Cost of sales	**499,462**	531,836	
Gross profit	**406,407**	474,551	- 14.4
Operating expenses:			
Selling, general and administrative expenses	**288,833**	300,354	
Research and development expenses	**74,447**	76,234	
	363,280	376,588	
Operating profit	**43,127**	97,963	- 56.0
Other income (deductions):			
Interest and dividend income	**1,357**	1,543	
Interest expense	**(252)**	(157)	
Other, net	**6,843**	10,772	
	7,948	12,158	
Income before income taxes	**51,075**	110,121	- 53.6
Income taxes	**13,908**	28,890	
Consolidated net income	**37,167**	81,231	
Less: Net income attributable to noncontrolling interests	**2,648**	3,561	
Net income attributable to Canon Inc.	**34,519**	77,670	- 55.6

Results for the first half

	Millions of yen		
	Six months ended June 30, 2019	Six months ended June 30, 2018	Change(%)
Net sales	**1,770,335**	1,967,099	- 10.0
Cost of sales	**973,573**	1,047,854	
Gross profit	**796,762**	919,245	- 13.3
Operating expenses:			
Selling, general and administrative expenses	**564,827**	589,045	
Research and development expenses	**148,382**	155,154	
	713,209	744,199	
Operating profit	**83,553**	175,046	- 52.3
Other income (deductions):			
Interest and dividend income	**2,917**	3,495	
Interest expense	**(536)**	(414)	
Other, net	**11,254**	17,753	
	13,635	20,834	
Income before income taxes	**97,188**	195,880	- 50.4
Income taxes	**25,130**	54,832	
Consolidated net income	**72,058**	141,048	
Less: Net income attributable to noncontrolling interests	**6,231**	6,265	
Net income attributable to Canon Inc.	**65,827**	134,783	- 51.2

Consolidated statements of comprehensive income

Results for the second quarter

	Millions of yen		
	Three months ended June 30, 2019	Three months ended June 30, 2018	Change(%)
Consolidated net income	**37,167**	81,231	- 54.2
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	**(42,741)**	7,773	
Net unrealized gains and losses on securities	**-**	(141)	
Net gains and losses on derivative instruments	**333**	(1,635)	
Pension liability adjustments	**854**	(464)	
	(41,554)	5,533	
Comprehensive income (loss)	**(4,387)**	86,764	-
Less: Comprehensive income (loss) attributable to noncontrolling interests	**2,455**	2,133	
Comprehensive income (loss) attributable to Canon Inc.	**(6,842)**	84,631	-

Results for the first half

	Millions of yen		
	Six months ended June 30, 2019	Six months ended June 30, 2018	Change(%)
Consolidated net income	**72,058**	141,048	- 48.9
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	**(54,171)**	(90,635)	
Net unrealized gains and losses on securities	**-**	(141)	
Net gains and losses on derivative instruments	**100**	(370)	
Pension liability adjustments	**2,677**	(219)	
	(51,394)	(91,365)	
Comprehensive income (loss)	**20,664**	49,683	- 58.4
Less: Comprehensive income (loss) attributable to noncontrolling interests	**6,142**	972	
Comprehensive income (loss) attributable to Canon Inc.	**14,522**	48,711	- 70.2

3. DETAILS OF SALES

Results for the second quarter

Millions of yen

Sales by business unit	**Three months ended June 30, 2019**	Three months ended June 30, 2018	Change(%)
Office	**427,881**	462,664	- 7.5
Imaging System	**204,687**	251,034	- 18.5
Medical System	**105,143**	94,688	+ 11.0
Industry and Others	**192,352**	224,719	- 14.4
Eliminations	**(24,194)**	(26,718)	-
Total	**905,869**	1,006,387	- 10.0

Millions of yen

Sales by region	**Three months ended June 30, 2019**	Three months ended June 30, 2018	Change(%)
Japan	**210,812**	203,514	+ 3.6
Overseas:			
Americas	**258,070**	271,950	- 5.1
Europe	**223,865**	258,758	- 13.5
Asia and Oceania	**213,122**	272,165	- 21.7
	695,057	802,873	- 13.4
Total	**905,869**	1,006,387	- 10.0

Results for the first half

Millions of yen

Sales by business unit	**Six months ended June 30, 2019**	Six months ended June 30, 2018	Change(%)
Office	**853,503**	905,376	- 5.7
Imaging System	**381,003**	463,546	- 17.8
Medical System	**214,563**	211,753	+ 1.3
Industry and Others	**368,807**	437,564	- 15.7
Eliminations	**(47,541)**	(51,140)	-
Total	**1,770,335**	1,967,099	- 10.0

Millions of yen

Sales by region	**Six months ended June 30, 2019**	Six months ended June 30, 2018	Change(%)
Japan	**430,106**	428,454	+ 0.4
Overseas:			
Americas	**496,436**	511,561	- 3.0
Europe	**438,748**	506,607	- 13.4
Asia and Oceania	**405,045**	520,477	- 22.2
	1,340,229	1,538,645	- 12.9
Total	**1,770,335**	1,967,099	- 10.0

*Based on the realignment of Canon's internal reporting and management structure, from the beginning of the third quarter of 2018, Canon has reclassified certain businesses from Office Business Unit to Industry and Others Business Unit. In addition, from the beginning of the first quarter of 2019, Canon has reclassified certain businesses from Imaging System Business Unit to Industry and Others Business Unit. Net sales for the three months ended June 30, 2018 and the six months ended June 30, 2018 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 / Interchangeable lenses / Compact photo printers / Inkjet printers / Large format inkjet printers / Commercial photo printers / Image scanners / 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 :
Semiconductor lithography equipment / FPD (Flat panel display) lithography equipment / Vacuum thin-film deposition equipment / Organic LED (OLED) panel manufacturing equipment / Die bonders / Network cameras / Digital camcorders / Digital cinema cameras / Multimedia projectors / Broadcast equipment / Micromotors / 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

CONSOLIDATED

4. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of yen	
	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities:		
Consolidated net income	**72,058**	141,048
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	**117,370**	121,542
Loss on disposal of fixed assets	**2,864**	1,978
Deferred income taxes	**(7,339)**	(9,328)
Decrease in trade receivables	**56,342**	9,751
Increase in inventories	**(31,097)**	(48,007)
Increase (decrease) in trade payables	**(21,809)**	9,951
Decrease in accrued income taxes	**(7,290)**	(23,906)
Decrease in accrued expenses	**(21,898)**	(6,950)
Decrease in accrued (prepaid) pension and severance cost	**(6,614)**	(12,623)
Other, net	**(39,414)**	(18,603)
Net cash provided by operating activities	**113,173**	164,853
Cash flows from investing activities:		
Purchases of fixed assets	**(104,877)**	(95,333)
Proceeds from sale of fixed assets	**78**	8,324
Purchases of securities	**(1,474)**	(835)
Proceeds from sale and maturity of securities	**692**	925
(Increase) decrease in time deposits, net	**(3,659)**	550
Acquisitions of businesses, net of cash acquired	**(1,716)**	(2,635)
Other, net	**181**	(741)
Net cash used in investing activities	**(110,775)**	(89,745)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	**-**	110
Repayments of long-term debt	**(642)**	(53,055)
Increase in short-term loans, net	**32,111**	2,106
Dividends paid	**(86,380)**	(91,779)
Repurchases and reissuance of treasury stock, net	**(50,006)**	(11)
Other, net	**(2,627)**	(1,847)
Net cash used in financing activities	**(107,544)**	(144,476)
Effect of exchange rate changes on cash and cash equivalents	**(8,007)**	(14,948)
Net change in cash and cash equivalents	**(113,153)**	(84,316)
Cash and cash equivalents at beginning of period	**520,645**	721,814
Cash and cash equivalents at end of period	**407,492**	637,498

5. NOTE FOR GOING CONCERN ASSUMPTION

Not applicable.

6. SIGNIFICANT CHANGES IN CANON INC. SHAREHOLDERS' EQUITY

None.

7. 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 February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842) Section A – Leases: Amendments to the FASB Accounting Standards Codification, which requires lessees to recognize most leases on their balance sheets but recognize expenses on their income statements in a manner similar to the previous guidance. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. The FASB also modified the definition of lease. Additionally, this guidance expands qualitative and quantitative disclosures related to lease. This guidance is effective for annual reporting periods beginning after December 15, 2018. Canon applied the guidance from the quarter beginning January 1, 2019. Canon applied the package of practical expedients that allows us not to reassess whether any existing contracts at or expired contracts prior to the adoption date are or contain leases, lease classification and whether initial direct costs qualify for capitalization, in addition to short term lease exception. Canon also adopted the transition method which no restatement of comparative periods and no reassessment of land easements not previously accounted for as a lease that exist at or expired prior to the adoption date are required. The right of use assets for operating leases recognized at January 1, 2019 was ¥125,649 million. The corresponding lease liabilities were also recognized. The adoption of this guidance did not have a material impact on its consolidated results of operation.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which amends existing guidance to simplify the application of the hedge accounting in certain situations and enables an entity to better portray the economic results of an entity's risk management activities in its financial statements. This guidance eliminates the requirement to separately measure and report hedge ineffectiveness, and requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. Canon adopted this guidance from the quarter beginning January 1, 2019 with the modified retrospective method through a cumulative effect adjustment directly to retained earnings as of the beginning of the period. Gains and losses resulting from derivative financial instruments designated as cash flow hedges associated with forecasted intercompany sales, which were previously included in other income (deductions) in the consolidated statements of income are included in net sales after the adoption of this guidance. The adoption of this guidance did not have a material impact on its consolidated results of operation and financial condition.