



## CONSOLIDATED RESULTS FOR THE SECOND QUARTER AND THE FIRST HALF ENDED JUNE 30, 2014

July 24, 2014

### CONSOLIDATED RESULTS FOR THE SECOND QUARTER

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

|  | Actual                |                       |           |                       |
|--|-----------------------|-----------------------|-----------|-----------------------|
|  | Three months<br>ended | Three months<br>ended | Change(%) | Three months<br>ended |
|  | June 30, 2014         | June 30, 2013         |           | June 30, 2014         |
| Net sales  | ¥ 926,796             | ¥ 966,880             | - 4.1     | \$ 9,176,198          |
| Operating profit   | 110,549               | 98,354                | + 12.4    | 1,094,545             |
| Income before income taxes   | 116,975               | 98,868                | + 18.3    | 1,158,168             |
| Net income attributable<br>to Canon Inc.                             | ¥ 80,848              | ¥ 66,496              | + 21.6    | \$ 800,475            |
| <b>Net income attributable to Canon Inc. stockholders per share:</b> |                       |                       |           |                       |
| - Basic  | ¥ 72.61               | ¥ 57.68               | + 25.9    | \$ 0.72               |
| - Diluted  | 72.61                 | 57.68                 | + 25.9    | 0.72                  |

### CONSOLIDATED RESULTS FOR THE FIRST HALF

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

|  | Actual              |                     |           | Projected           |                                     |
|--|---------------------|---------------------|-----------|---------------------|-------------------------------------|
|  | Six months<br>ended | Six months<br>ended | Change(%) | Six months<br>ended | Year ending<br>December 31,<br>2014 |
|  | June 30, 2014       | June 30, 2013       |           | June 30, 2014       | Change(%)                           |
| Net sales  | ¥ 1,795,108         | ¥ 1,783,533         | + 0.6     | \$ 17,773,347       | ¥ 3,780,000 + 1.3                   |
| Operating profit   | 193,188             | 153,127             | + 26.2    | 1,912,752           | 365,000 + 8.2                       |
| Income before income taxes   | 196,166             | 159,123             | + 23.3    | 1,942,238           | 370,000 + 6.4                       |
| Net income attributable<br>to Canon Inc.                             | ¥ 128,458           | ¥ 107,409           | + 19.6    | \$ 1,271,861        | ¥ 240,000 + 4.1                     |
| <b>Net income attributable to Canon Inc. stockholders per share:</b> |                     |                     |           |                     |                                     |
| - Basic  | ¥ 114.47            | ¥ 93.17             | + 22.9    | \$ 1.13             | ¥ 215.31 + 7.2                      |
| - Diluted  | 114.47              | 93.17               | + 22.9    | 1.13                | - -                                 |

|                                 | Actual        |                   |           |
|---------------------------------|---------------|-------------------|-----------|
|                                 | As of         | As of             | Change(%) |
|                                 | June 30, 2014 | December 31, 2013 |           |
| Total assets                    | ¥ 4,093,780   | ¥ 4,242,710       | - 3.5     |
| Canon Inc. stockholders' equity | ¥ 2,827,052   | ¥ 2,910,262       | - 2.9     |

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 JPY101=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2014, solely for the convenience of the reader.

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# I. Operating Results and Financial Conditions

## 2014 Second Quarter in Review

Looking back at the global economy in the second quarter of 2014, in the United States, although the economy has recovered steadily from the impact of the major cold wave that struck the country at the beginning of the year, the improvement has yet to stimulate consumer spending. In Europe, although uncertainty remained due to the political unrest in Ukraine, Germany and the U.K. have realized moderate economic recoveries. China and other emerging countries faced modest economic growth. As for Japan, the economy experienced a rebound following the rush in demand leading up to the hike in the country's consumption tax. As a result, the growth of global economy overall during the second quarter continued to be sluggish.

As for the markets in which Canon operates amid these conditions, demand for office multifunction devices (MFDs) and laser printers maintained steady growth. Demand for interchangeable-lens digital cameras decreased in Japan as a result of the rebound in the wake of the rush in demand prior to the consumption tax increase, while demand overseas showed signs of recovery in China. As for digital compact cameras, demand continued to shrink in both developed countries as well as emerging markets. Looking at the overall market for inkjet printers, demand decreased from the previous year. In the industry and others sector, a rebound in capital investment for both image sensors and memory devices led to a pickup in demand for semiconductor lithography equipment, while demand for lithography equipment used in the production of FPD recovered for large-size panels.

The average values of the yen during the second quarter and first half of the year were ¥102.13 and ¥102.40 to the U.S. dollar, respectively, year-on-year depreciations of approximately ¥3 and ¥6, and ¥139.94 and ¥140.35 to the euro, respectively, year-on-year depreciations of approximately ¥11 and ¥14.

During the second quarter, sales of MFDs remained firm while sales in the industrial equipment increased significantly. Conversely, demand for digital compact cameras continued to shrink while net sales of inkjet printers decreased owing to the increase in consumption tax in Japan. Consequently, second-quarter net sales decreased 4.1% year on year to ¥926.8 billion (U.S.\$9,176 million), while net sales for the six months ended June 30, 2014 totaled ¥1,795.1 billion (U.S.\$17,773 million), a year-on-year increase of 0.6% owing to the sales increase in the first quarter. The gross profit ratio for the second quarter rose 2.8 points year on year to 52.2% thanks to the production shift to highly profitable high-added-value products and improvement of factory utilization by optimizing production along with the depreciation of the yen. The gross profit ratio for the first half of the year also increased by 2.6 points to 51.0%. Despite an increase in foreign-currency-denominated operating expenses due to the depreciation of the yen, Group-wide efforts to thoroughly reduce spending contributed to reduce operating expenses to ¥373.0 billion (U.S.\$3,693 million), a decrease of 1.6% year on year. As a result, operating profit increased by 12.4% to ¥110.5 billion (U.S.\$1,095 million). Other income increased by ¥5.9 billion (U.S.\$59 million) due to foreign currency exchange gains while income before income taxes increased by 18.3% year on year to ¥117.0 billion (U.S.\$1,158 million). Net income attributable to Canon Inc. increased by 21.6% to ¥80.8 billion (U.S.\$800 million). Operating profit for the first half of the year increased by 26.2% to ¥193.2 billion (U.S.\$1,913 million) while income before income taxes increased 23.3% year on year to ¥196.2 billion (U.S.\$1,942 million). First-half net income attributable to Canon Inc. increased by 19.6% to ¥128.5 billion (U.S.\$1,272 million).

Basic net income attributable to Canon Inc. stockholders per share for the second quarter was ¥72.61 (U.S.\$0.72), an increase of ¥14.93 (U.S.\$0.15) compared with the corresponding quarter of the previous year, and ¥114.47 (U.S.\$1.13) for the first half, a year-on-year increase of ¥21.30 (U.S.\$0.21).

## Results by Segment

Looking at Canon's quarterly performance by business unit, within the Office Business Unit, sales of the color office MFDs, remained the same level as the year-ago period led by the healthy growth of imageRUNNER ADVANCE C5200 series. As for high-speed continuous-feed printers and wide-format printers, sales of the Océ ColorStream 3000 series showed solid growth. Among laser printers, although the sales of monochrome model remained sluggish, color multifunction models recorded growth. As a result, sales for the business unit totaled ¥522.5 billion (U.S.\$5,173 million), a year-on-year increase of 0.5%, while operating profit totaled ¥88.1 billion (U.S.\$872 million), increasing 15.7%. Sales for the combined first six months of the year totaled ¥1,031.7 billion (U.S.\$10,215 million), growing 4.8% year on year, while operating profit increased by 17.8% to ¥160.6 billion (U.S.\$1,590 million).

Within the Imaging System Business Unit, although sales volume of interchangeable-lens digital cameras declined owing to the shrinking market in Japan and other markets—in Japan as a result of the rebound following the rush in demand prior to the consumption tax increase—the advanced-amateur-model EOS 70D realized healthy growth, enabling Canon to maintain the top share in major markets such as Europe, the U.S. and Japan. As for digital compact cameras, despite a decline in total sales volume due to the contraction of the market and the increasing popularity of smartphones, sales of high-added-value models featuring high image quality and high-magnification zoom capabilities recorded solid growth, maintaining high market shares. As for inkjet printers, while sales volume declined from the same period of the previous year owing to the market contraction in Japan caused by the rebound in the wake of the rush in demand leading up to the consumption tax hike, sales of consumables remained at the same level as the previous year. As a result, sales for the business unit decreased by 13.9% to ¥332.4 billion (U.S.\$3,291 million) year on year, while operating profit totaled ¥51.0 billion (U.S.\$505 million), a decrease of 9.4%. Sales for the first six months totaled ¥ 625.2 billion (U.S.\$6,190 million), decreasing 8.6% year on year, while operating profit totaled ¥93.0 billion (U.S.\$921 million), an increase of 9.7% year on year.

In the Industry and Others Business Unit, with regard to the semiconductor lithography equipment, ongoing investment by memory device manufactures in response to healthy growing demand for smartphones and tablets led to increased second-quarter unit sales of lithography equipment while a recovery in investment for large-size panels, which had been restricted until now, boosted unit sales of FPD lithography equipment. Consequently, second-quarter sales for the business unit totaled ¥95.3 billion (U.S.\$944 million), an increase of 10.9% year on year, while operating profit recorded a loss of ¥2.5 billion (U.S.\$25 million) owing to the upfront investment, a improvement of ¥3.3 billion (U.S.\$33 million) from the year-ago period. Sales for the first half of the year totaled ¥185.1 billion (U.S.\$1,833 million), growing 15.0% year on year, while operating profit posted a loss of ¥10.1 billion (U.S.\$100 million).

## Cash Flow

During the first half of 2014, cash flow from operating activities totaled ¥294.5 billion (U.S.\$2,916 million), an increase of ¥76.6 billion (U.S.\$758 million) compared with the previous year owing to the increase in profit. Although capital investment focused on new products, cash flow from investing activities increased ¥2.8 billion (U.S.\$28 million) year on year to ¥142.1 billion (U.S.\$1,407 million) as a result of an increase in the amount of time deposits included in short-term investments. Accordingly, free cash flow totaled ¥152.4 billion (U.S.\$1,509 million), an increase of ¥73.8 billion (U.S.\$730 million) compared with the corresponding year-ago period.

Cash flow from financing activities recorded an outlay of ¥176.4 billion (U.S.\$1,746 million), mainly arising from the dividend payout and the repurchasing of treasury stock.

Owing to these factors, as well as the impact of foreign currency translation adjustments, cash and cash equivalents decreased by ¥44.2 billion (U.S.\$438 million) to ¥744.7 billion (U.S.\$7,373 million) from the end of the previous year.

## Outlook

As for the outlook in the third quarter onward, there are signs of brightness among developed countries with the U.S. projected to realize steady economic growth and the European economy centering on Germany and the U.K. expected to continue its moderate recovery. Although uncertainties remain in China and other emerging countries, they are expected to continue to realize economic expansion. As for Japan, the economy has been recovering from the rebound following the increase in the consumption tax, and is projected to continue to realize healthy growth for the full year. The global economy is also expected to continue its moderate recovery.

In the businesses in which Canon is involved, demand for MFDs is projected to expand moderately, mainly for color models. Likewise, demand in the laser printer market is also expected to continue growing moderately, centered on multifunction models. As for interchangeable-lens digital cameras, while the demand remains unstable in Europe and Southeast Asia owing to the delayed economic recovery and political uncertainty, recovery is expected in the U.S. and Chinese market. Within the digital compact camera market, although projections point to market contraction, mainly among low-end models due to the popularity of smartphones, demand for high-added-value models featuring high image quality and high-magnification zoom capabilities, is expected to grow steadily. As for inkjet printers, the gradual recovery of the global economy is expected to bring an end to dwindling demand, with sales leveling off to remain in line with the previous year. As for the industrial equipment market, although the demand is expected to increase for semiconductor lithography equipment with manufacturers expected to continue making capital outlays amid growing demand projected for memory devices and sensors, as well as for FPDs owing to a stable supply-and-demand balance for panels, uncertainties remain in installment of certain equipment resulting from cautious forecast.

With regard to currency exchange rates for the third quarter onward, on which Canon's performance outlook is based, taking into account the uncertainties in the future, Canon anticipates exchange rates of ¥100 to the U.S. dollar and ¥135 to the euro, representing depreciations of approximately ¥3 against the U.S. dollar, and approximately ¥8 against the euro compared with the annual average rates of the previous year.

Upon taking into consideration these foreign exchange rate assumptions and delay in the installment of semiconductor lithography equipment along with sluggish overseas camera market, Canon projects full-year consolidated net sales in 2014 of ¥3,780.0 billion (U.S.\$37,426 million), a year on year increase of 1.3%; operating profit of ¥365.0 billion (U.S.\$3,614 million), a year-on-year increase of 8.2%; income before income taxes of ¥370.0 billion (U.S.\$3,663 million), a year-on-year increase of 6.4%; and net income attributable to Canon Inc. of ¥240.0 billion (U.S.\$2,376 million), a year-on-year increase of 4.1%.

### Consolidated Outlook

#### Fiscal year

Millions of yen

|  | Year ending<br>December 31, 2014 |                     | Change<br>(B - A) | Year ended<br>December 31, 2013<br>Results (C) | Change (%)<br>(B - C) / C |
|--|----------------------------------|---------------------|-------------------|--|---------------------------|
|  | Previous Outlook (A)             | Revised Outlook (B) |                   |  |                           |
| Net sales                                | ¥ 3,860,000                      | ¥ 3,780,000         | ¥ (80,000)        | ¥ 3,731,380                                    | +1.3%                     |
| Operating profit                         | 365,000                          | 365,000             | -                 | 337,277  | +8.2%                     |
| Income before income taxes               | 370,000                          | 370,000             | -                 | 347,604  | +6.4%                     |
| Net income attributable to<br>Canon Inc. | ¥ 240,000                        | ¥ 240,000           | ¥ -               | ¥ 230,483                                      | +4.1%                     |

## **Basic Policy Regarding Profit Distribution**

Canon is being more proactive in returning profits to shareholders, mainly in the form of a dividend, taking into consideration medium-term profit forecasts along with planned future investments, cash flow and other factors.

Canon Inc. plans to distribute an interim dividend of ¥65.00 (U.S.\$0.64) per share for the fiscal year 2014, half the amount of the annual dividend paid out in fiscal 2013, to provide a stable return to shareholders. The year-end dividend, however, has yet to be decided.

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           |                               |             | Thousands of<br>U.S. dollars |
|--|---------------------------|-------------------------------|-------------|------------------------------|
|  | As of<br>June 30,<br>2014 | As of<br>December 31,<br>2013 | Change      | As of<br>June 30,<br>2014    |
| <b>ASSETS</b>  |                           |                               |             |                              |
| Current assets:  |                           |                               |             |                              |
| Cash and cash equivalents                              | ¥ 744,684                 | ¥ 788,909                     | ¥ (44,225)  | \$ 7,373,109                 |
| Short-term investments                                 | 77,007                    | 47,914                        | 29,093      | 762,446                      |
| Trade receivables, net                                 | 533,770                   | 608,741                       | (74,971)    | 5,284,851                    |
| Inventories  | 533,445                   | 553,773                       | (20,328)    | 5,281,634                    |
| Prepaid expenses and other current assets              | 288,154                   | 286,605                       | 1,549       | 2,853,010                    |
| Total current assets                                   | 2,177,060                 | 2,285,942                     | (108,882)   | 21,555,050                   |
| Noncurrent receivables                                 | 29,533                    | 19,276                        | 10,257      | 292,406                      |
| Investments  | 57,795                    | 70,358                        | (12,563)    | 572,228                      |
| Property, plant and equipment, net                     | 1,243,881                 | 1,278,730                     | (34,849)    | 12,315,653                   |
| Intangible assets, net                                 | 141,855                   | 145,075                       | (3,220)     | 1,404,505                    |
| Other assets   | 443,656                   | 443,329                       | 327         | 4,392,633                    |
| Total assets   | ¥ 4,093,780               | ¥ 4,242,710                   | ¥ (148,930) | \$ 40,532,475                |
| <b>LIABILITIES AND EQUITY</b>                          |                           |                               |             |                              |
| Current liabilities:                                   |                           |                               |             |                              |
| Short-term loans and current portion of long-term debt | ¥ 993                     | ¥ 1,299                       | ¥ (306)     | \$ 9,832                     |
| Trade payables   | 300,572                   | 307,157                       | (6,585)     | 2,975,960                    |
| Accrued income taxes                                   | 61,601                    | 53,196                        | 8,405       | 609,911                      |
| Accrued expenses                                       | 284,242                   | 315,536                       | (31,294)    | 2,814,277                    |
| Other current liabilities                              | 163,528                   | 171,119                       | (7,591)     | 1,619,089                    |
| Total current liabilities                              | 810,936                   | 848,307                       | (37,371)    | 8,029,069                    |
| Long-term debt, excluding current installments         | 1,164                     | 1,448                         | (284)       | 11,525                       |
| Accrued pension and severance cost                     | 203,463                   | 229,664                       | (26,201)    | 2,014,485                    |
| Other noncurrent liabilities                           | 92,358                    | 96,514                        | (4,156)     | 914,436                      |
| Total liabilities                                      | 1,107,921                 | 1,175,933                     | (68,012)    | 10,969,515                   |
| Equity:  |                           |                               |             |                              |
| Canon Inc. stockholders' equity:                       |                           |                               |             |                              |
| Common stock   | 174,762                   | 174,762                       | -           | 1,730,317                    |
| Additional paid-in capital                             | 401,970                   | 402,029                       | (59)        | 3,979,901                    |
| Legal reserve  | 63,837                    | 63,091                        | 746         | 632,050                      |
| Retained earnings                                      | 3,266,514                 | 3,212,692                     | 53,822      | 32,341,723                   |
| Accumulated other comprehensive income (loss)          | (118,368)                 | (80,646)                      | (37,722)    | (1,171,960)                  |
| Treasury stock, at cost                                | (961,663)                 | (861,666)                     | (99,997)    | (9,521,417)                  |
| Total Canon Inc. stockholders' equity                  | 2,827,052                 | 2,910,262                     | (83,210)    | 27,990,614                   |
| Noncontrolling interests                               | 158,807                   | 156,515                       | 2,292       | 1,572,346                    |
| Total equity   | 2,985,859                 | 3,066,777                     | (80,918)    | 29,562,960                   |
| Total liabilities and equity                           | ¥ 4,093,780               | ¥ 4,242,710                   | ¥ (148,930) | \$ 40,532,475                |
| Notes:   |                           |                               |             |                              |
| 1. Allowance for doubtful receivables                  | ¥ 12,304                  | ¥ 12,730                      |             | \$ 121,822                   |
| 2. Accumulated depreciation                            | 2,407,898                 | 2,383,530                     |             | 23,840,574                   |
| 3. Accumulated other comprehensive income (loss):      |                           |                               |             |                              |
| Foreign currency translation adjustments               | (50,951)                  | 1,734                         |             | (504,465)                    |
| Net unrealized gains and losses on securities          | 8,841                     | 10,242                        |             | 87,535                       |
| Net gains and losses on derivative instruments         | 609                       | (2,408)                       |             | 6,030                        |
| Pension liability adjustments                          | (76,867)                  | (90,214)                      |             | (761,060)                    |

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

|   | Millions of yen               |                       |           | Thousands of<br>U.S. dollars  |
|---|-------------------------------|-----------------------|-----------|-------------------------------|
|   | <b>Three months<br/>ended</b> | Three months<br>ended | Change(%) | <b>Three months<br/>ended</b> |
|   | <b>June 30, 2014</b>          | June 30, 2013         |           | <b>June 30, 2014</b>          |
| Net sales   | ¥ 926,796                     | ¥ 966,880             | - 4.1     | \$ 9,176,198                  |
| Cost of sales   | 443,286                       | 489,522               |           | 4,388,970                     |
| Gross profit  | 483,510                       | 477,358               | + 1.3     | 4,787,228                     |
| Operating expenses:                                       |                               |                       |           |                               |
| Selling, general and administrative expenses              | 296,074                       | 301,359               |           | 2,931,426                     |
| Research and development expenses                         | 76,887                        | 77,645                |           | 761,257                       |
|   | 372,961                       | 379,004               |           | 3,692,683                     |
| Operating profit  | 110,549                       | 98,354                | + 12.4    | 1,094,545                     |
| Other income (deductions):                                |                               |                       |           |                               |
| Interest and dividend income                              | 2,313                         | 1,705                 |           | 22,901                        |
| Interest expense  | (131)                         | (146)                 |           | (1,297)                       |
| Other, net  | 4,244                         | (1,045)               |           | 42,019                        |
|   | 6,426                         | 514                   |           | 63,623                        |
| Income before income taxes                                | 116,975                       | 98,868                | + 18.3    | 1,158,168                     |
| Income taxes  | 34,567                        | 30,242                |           | 342,247                       |
| Consolidated net income                                   | 82,408                        | 68,626                |           | 815,921                       |
| Less: Net income attributable to noncontrolling interests | 1,560                         | 2,130                 |           | 15,446                        |
| Net income attributable to Canon Inc.                     | ¥ 80,848                      | ¥ 66,496              | + 21.6    | \$ 800,475                    |

**Results for the first half**

|   | Millions of yen             |                     |           | Thousands of<br>U.S. dollars |
|---|-----------------------------|---------------------|-----------|------------------------------|
|   | <b>Six months<br/>ended</b> | Six months<br>ended | Change(%) | <b>Six months<br/>ended</b>  |
|   | <b>June 30, 2014</b>        | June 30, 2013       |           | <b>June 30, 2014</b>         |
| Net sales   | ¥ 1,795,108                 | ¥ 1,783,533         | + 0.6     | \$ 17,773,347                |
| Cost of sales   | 880,116                     | 920,262             |           | 8,714,020                    |
| Gross profit  | 914,992                     | 863,271             | + 6.0     | 9,059,327                    |
| Operating expenses:                                       |                             |                     |           |                              |
| Selling, general and administrative expenses              | 570,099                     | 558,983             |           | 5,644,545                    |
| Research and development expenses                         | 151,705                     | 151,161             |           | 1,502,030                    |
|   | 721,804                     | 710,144             |           | 7,146,575                    |
| Operating profit  | 193,188                     | 153,127             | + 26.2    | 1,912,752                    |
| Other income (deductions):                                |                             |                     |           |                              |
| Interest and dividend income                              | 3,917                       | 2,741               |           | 38,782                       |
| Interest expense  | (234)                       | (251)               |           | (2,317)                      |
| Other, net  | (705)                       | 3,506               |           | (6,979)                      |
|   | 2,978                       | 5,996               |           | 29,486                       |
| Income before income taxes                                | 196,166                     | 159,123             | + 23.3    | 1,942,238                    |
| Income taxes  | 63,180                      | 48,770              |           | 625,545                      |
| Consolidated net income                                   | 132,986                     | 110,353             |           | 1,316,693                    |
| Less: Net income attributable to noncontrolling interests | 4,528                       | 2,944               |           | 44,832                       |
| Net income attributable to Canon Inc.                     | ¥ 128,458                   | ¥ 107,409           | + 19.6    | \$ 1,271,861                 |

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

|   | Millions of yen        |                        |           | Thousands of                           |
|---|------------------------|------------------------|-----------|--|
|   | Three months           | Three months           | Change(%) | U.S. dollars                           |
|   | ended<br>June 30, 2014 | ended<br>June 30, 2013 |           | Three months<br>ended<br>June 30, 2014 |
| Consolidated net income   | ¥ 82,408               | ¥ 68,626               | + 20.1    | \$ 815,921                             |
| Other comprehensive income (loss), net of tax                       |                        |                        |           |  |
| Foreign currency translation adjustments                            | (20,254)               | 51,534                 |           | (200,535)                              |
| Net unrealized gains and losses on securities                       | (69)                   | 1,029                  |           | (683)                                  |
| Net gains and losses on derivative instruments                      | 639                    | 2,672                  |           | 6,327                                  |
| Pension liability adjustments                                       | (576)                  | 935                    |           | (5,703)                                |
|   | (20,260)               | 56,170                 |           | (200,594)                              |
| Comprehensive income  | 62,148                 | 124,796                | - 50.2    | 615,327                                |
| Less: Comprehensive income attributable to noncontrolling interests | 1,509                  | 2,769                  |           | 14,941                                 |
| Comprehensive income attributable to Canon Inc.                     | ¥ 60,639               | ¥ 122,027              | - 50.3    | \$ 600,386                             |

**Results for the first half**

|   | Millions of yen        |                        |           | Thousands of                         |
|---|------------------------|------------------------|-----------|--------------------------------------|
|   | Six months             | Six months             | Change(%) | U.S. dollars                         |
|   | ended<br>June 30, 2014 | ended<br>June 30, 2013 |           | Six months<br>ended<br>June 30, 2014 |
| Consolidated net income   | ¥ 132,986              | ¥ 110,353              | + 20.5    | \$ 1,316,693                         |
| Other comprehensive income (loss), net of tax                       |                        |                        |           |                                      |
| Foreign currency translation adjustments                            | (52,990)               | 137,134                |           | (524,653)                            |
| Net unrealized gains and losses on securities                       | (1,388)                | 2,155                  |           | (13,743)                             |
| Net gains and losses on derivative instruments                      | 3,017                  | 3,607                  |           | 29,871                               |
| Pension liability adjustments                                       | 13,361                 | (81)                   |           | 132,287                              |
|   | (38,000)               | 142,815                |           | (376,238)                            |
| Comprehensive income  | 94,986                 | 253,168                | - 62.5    | 940,455                              |
| Less: Comprehensive income attributable to noncontrolling interests | 4,242                  | 4,397                  |           | 42,000                               |
| Comprehensive income attributable to Canon Inc.                     | ¥ 90,744               | ¥ 248,771              | - 63.5    | \$ 898,455                           |



3. DETAILS OF SALESResults for the second quarter

| Sales by business unit | Millions of yen       |                       |           | Thousands of<br>U.S. dollars |
|------------------------|-----------------------|-----------------------|-----------|------------------------------|
|                        | Three months<br>ended | Three months<br>ended | Change(%) | Three months<br>ended        |
|                        | June 30, 2014         | June 30, 2013         |           | June 30, 2014                |
| Office                 | ¥ 522,493             | ¥ 520,032             | + 0.5     | \$ 5,173,198                 |
| Imaging System         | 332,387               | 386,013               | - 13.9    | 3,290,960                    |
| Industry and Others    | 95,317                | 85,948                | + 10.9    | 943,733                      |
| Eliminations           | (23,401)              | (25,113)              | -         | (231,693)                    |
| Total                  | ¥ 926,796             | ¥ 966,880             | - 4.1     | \$ 9,176,198                 |

| Sales by region         | Millions of yen       |                       |           | Thousands of<br>U.S. dollars |
|-------------------------|-----------------------|-----------------------|-----------|------------------------------|
|                         | Three months<br>ended | Three months<br>ended | Change(%) | Three months<br>ended        |
|                         | June 30, 2014         | June 30, 2013         |           | June 30, 2014                |
| Japan                   | ¥ 164,554             | ¥ 175,654             | - 6.3     | \$ 1,629,248                 |
| Overseas:               |                       |                       |           |                              |
| <i>Americas</i>         | 253,170               | 282,082               | - 10.2    | 2,506,634                    |
| <i>Europe</i>           | 272,348               | 295,944               | - 8.0     | 2,696,515                    |
| <i>Asia and Oceania</i> | 236,724               | 213,200               | + 11.0    | 2,343,801                    |
|                         | 762,242               | 791,226               | - 3.7     | 7,546,950                    |
| Total                   | ¥ 926,796             | ¥ 966,880             | - 4.1     | \$ 9,176,198                 |

Results for the first half

| Sales by business unit | Millions of yen     |                     |           | Thousands of<br>U.S. dollars |
|------------------------|---------------------|---------------------|-----------|------------------------------|
|                        | Six months<br>ended | Six months<br>ended | Change(%) | Six months<br>ended          |
|                        | June 30, 2014       | June 30, 2013       |           | June 30, 2014                |
| Office                 | ¥ 1,031,669         | ¥ 984,238           | + 4.8     | \$ 10,214,545                |
| Imaging System         | 625,196             | 684,120             | - 8.6     | 6,190,059                    |
| Industry and Others    | 185,087             | 161,015             | + 15.0    | 1,832,545                    |
| Eliminations           | (46,844)            | (45,840)            | -         | (463,802)                    |
| Total                  | ¥ 1,795,108         | ¥ 1,783,533         | + 0.6     | \$ 17,773,347                |

| Sales by region         | Millions of yen     |                     |           | Thousands of<br>U.S. dollars |
|-------------------------|---------------------|---------------------|-----------|------------------------------|
|                         | Six months<br>ended | Six months<br>ended | Change(%) | Six months<br>ended          |
|                         | June 30, 2014       | June 30, 2013       |           | June 30, 2014                |
| Japan                   | ¥ 356,267           | ¥ 335,372           | + 6.2     | \$ 3,527,396                 |
| Overseas:               |                     |                     |           |                              |
| <i>Americas</i>         | 481,701             | 514,084             | - 6.3     | 4,769,317                    |
| <i>Europe</i>           | 534,259             | 542,309             | - 1.5     | 5,289,693                    |
| <i>Asia and Oceania</i> | 422,881             | 391,768             | + 7.9     | 4,186,941                    |
|                         | 1,438,841           | 1,448,161           | - 0.6     | 14,245,951                   |
| Total                   | ¥ 1,795,108         | ¥ 1,783,533         | + 0.6     | \$ 17,773,347                |

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 production printing systems / High speed continuous feed printers / Wide-format printers / Document solutions

Imaging System Business Unit :

Interchangeable lens digital cameras / Digital compact cameras / Digital camcorders / Digital cinema cameras / Interchangeable lenses / Inkjet printers / Large-format inkjet printers / Commercial photo printers / Image scanners / Multimedia projectors / Broadcast equipment / Calculators

Industry and Others Business Unit :

Semiconductor lithography equipment / FPD (Flat panel display) lithography equipment / Digital radiography systems / Ophthalmic 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

4. CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Millions of yen |               | Thousands of  |
|--|-----------------|---------------|---------------|
|  | Six months      | Six months    | U.S. dollars  |
|  | ended           | ended         | Six months    |
|  | June 30, 2014   | June 30, 2013 | ended         |
|  |                 |               | June 30, 2014 |
| Cash flows from operating activities:  |                 |               |               |
| Consolidated net income  | ¥ 132,986       | ¥ 110,353     | \$ 1,316,693  |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: |                 |               |               |
| Depreciation and amortization  | 123,515         | 131,653       | 1,222,921     |
| Loss on disposal of fixed assets   | 5,442           | 4,386         | 53,881        |
| Deferred income taxes  | (316)           | (339)         | (3,129)       |
| Decrease in trade receivables  | 60,413          | 71,357        | 598,149       |
| Decrease in inventories  | 2,603           | 18,269        | 25,772        |
| Increase (decrease) in trade payables  | 11,141          | (55,633)      | 110,307       |
| Increase (decrease) in accrued income taxes  | 8,851           | (7,416)       | 87,634        |
| Decrease in accrued expenses   | (23,657)        | (38,616)      | (234,228)     |
| Decrease in accrued (prepaid) pension and severance cost                                       | (6,827)         | (874)         | (67,594)      |
| Other, net   | (19,664)        | (15,251)      | (194,693)     |
| Net cash provided by operating activities  | 294,487         | 217,889       | 2,915,713     |
| Cash flows from investing activities:  |                 |               |               |
| Purchases of fixed assets  | (112,613)       | (119,809)     | (1,114,980)   |
| Proceeds from sale of fixed assets   | 2,487           | 1,062         | 24,624        |
| Purchases of available-for-sale securities   | (226)           | (2,654)       | (2,238)       |
| Proceeds from sale and maturity of available-for-sale securities                               | 51              | 3,141         | 505           |
| Increase in time deposits, net   | (31,044)        | (15,745)      | (307,366)     |
| Acquisitions of subsidiaries, net of cash acquired   | (11,301)        | (4,914)       | (111,891)     |
| Purchases of other investments   | -               | (209)         | -             |
| Other, net   | 10,579          | (138)         | 104,742       |
| Net cash used in investing activities  | (142,067)       | (139,266)     | (1,406,604)   |
| Cash flows from financing activities:  |                 |               |               |
| Proceeds from issuance of long-term debt   | 700             | 1,101         | 6,931         |
| Repayments of long-term debt   | (1,126)         | (1,345)       | (11,149)      |
| Decrease in short-term loans, net  | (48)            | (563)         | (475)         |
| Dividends paid   | (73,905)        | (80,695)      | (731,733)     |
| Repurchases of treasury stock, net   | (100,001)       | 13            | (990,109)     |
| Other, net   | (2,007)         | (3,865)       | (19,871)      |
| Net cash used in financing activities  | (176,387)       | (85,354)      | (1,746,406)   |
| Effect of exchange rate changes on cash and cash equivalents                                   | (20,258)        | 47,827        | (200,574)     |
| Net change in cash and cash equivalents  | (44,225)        | 41,096        | (437,871)     |
| Cash and cash equivalents at beginning of period   | 788,909         | 666,678       | 7,810,980     |
| Cash and cash equivalents at end of period   | ¥ 744,684       | ¥ 707,774     | \$ 7,373,109  |

**5. NOTE FOR GOING CONCERN ASSUMPTION**

Not applicable.

**6. SEGMENT INFORMATION****(1) SEGMENT INFORMATION BY BUSINESS UNIT**

| <b>Results for the second quarter</b> | Millions of yen                     |                                     |           | Thousands of U.S. dollars           |  |
|---------------------------------------|-------------------------------------|-------------------------------------|-----------|-------------------------------------|--|
|                                       | Three months ended<br>June 30, 2014 | Three months ended<br>June 30, 2013 | Change(%) | Three months ended<br>June 30, 2014 |  |
| <b>Office</b>                         |                                     |                                     |           |                                     |  |
| Net sales:                            |                                     |                                     |           |                                     |  |
| External customers                    | ¥ 521,719                           | ¥ 517,455                           | + 0.8     | \$ 5,165,535                        |  |
| Intersegment                          | 774                                 | 2,577                               | - 70.0    | 7,663                               |  |
| Total                                 | 522,493                             | 520,032                             | + 0.5     | 5,173,198                           |  |
| Operating cost and expenses           | 434,374                             | 443,840                             | - 2.1     | 4,300,733                           |  |
| Operating profit                      | ¥ 88,119                            | ¥ 76,192                            | + 15.7    | \$ 872,465                          |  |
| <b>Imaging System</b>                 |                                     |                                     |           |                                     |  |
| Net sales:                            |                                     |                                     |           |                                     |  |
| External customers                    | ¥ 332,272                           | ¥ 385,833                           | - 13.9    | \$ 3,289,822                        |  |
| Intersegment                          | 115                                 | 180                                 | - 36.1    | 1,138                               |  |
| Total                                 | 332,387                             | 386,013                             | - 13.9    | 3,290,960                           |  |
| Operating cost and expenses           | 281,425                             | 329,735                             | - 14.7    | 2,786,386                           |  |
| Operating profit                      | ¥ 50,962                            | ¥ 56,278                            | - 9.4     | \$ 504,574                          |  |
| <b>Industry and Others</b>            |                                     |                                     |           |                                     |  |
| Net sales:                            |                                     |                                     |           |                                     |  |
| External customers                    | ¥ 72,805                            | ¥ 63,592                            | + 14.5    | \$ 720,841                          |  |
| Intersegment                          | 22,512                              | 22,356                              | + 0.7     | 222,892                             |  |
| Total                                 | 95,317                              | 85,948                              | + 10.9    | 943,733                             |  |
| Operating cost and expenses           | 97,804                              | 91,778                              | + 6.6     | 968,357                             |  |
| Operating profit                      | ¥ (2,487)                           | ¥ (5,830)                           | -         | \$ (24,624)                         |  |
| <b>Corporate and Eliminations</b>     |                                     |                                     |           |                                     |  |
| Net sales:                            |                                     |                                     |           |                                     |  |
| External customers                    | ¥ -                                 | ¥ -                                 | -         | \$ -                                |  |
| Intersegment                          | (23,401)                            | (25,113)                            | -         | (231,693)                           |  |
| Total                                 | (23,401)                            | (25,113)                            | -         | (231,693)                           |  |
| Operating cost and expenses           | 2,644                               | 3,173                               | -         | 26,177                              |  |
| Operating profit                      | ¥ (26,045)                          | ¥ (28,286)                          | -         | \$ (257,870)                        |  |
| <b>Consolidated</b>                   |                                     |                                     |           |                                     |  |
| Net sales:                            |                                     |                                     |           |                                     |  |
| External customers                    | ¥ 926,796                           | ¥ 966,880                           | - 4.1     | \$ 9,176,198                        |  |
| Intersegment                          | -                                   | -                                   | -         | -                                   |  |
| Total                                 | 926,796                             | 966,880                             | - 4.1     | 9,176,198                           |  |
| Operating cost and expenses           | 816,247                             | 868,526                             | - 6.0     | 8,081,653                           |  |
| Operating profit                      | ¥ 110,549                           | ¥ 98,354                            | + 12.4    | \$ 1,094,545                        |  |

**Results for the first half**

|                                   | Millions of yen                      |                                      |                                      | Change(%)     | Thousands of<br>U.S. dollars |
|-----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---------------|------------------------------|
|                                   | Six months<br>ended<br>June 30, 2014 | Six months<br>ended<br>June 30, 2013 | Six months<br>ended<br>June 30, 2014 |               |                              |
| <b>Office</b>                     |                                      |                                      |                                      |               |                              |
| Net sales:                        |                                      |                                      |                                      |               |                              |
| External customers                | ¥ 1,029,818                          | ¥ 979,585                            | + 5.1                                | \$ 10,196,218 |                              |
| Intersegment                      | 1,851                                | 4,653                                | - 60.2                               | 18,327        |                              |
| Total                             | 1,031,669                            | 984,238                              | + 4.8                                | 10,214,545    |                              |
| Operating cost and expenses       | 871,093                              | 847,975                              | + 2.7                                | 8,624,684     |                              |
| Operating profit                  | ¥ 160,576                            | ¥ 136,263                            | + 17.8                               | \$ 1,589,861  |                              |
| <b>Imaging System</b>             |                                      |                                      |                                      |               |                              |
| Net sales:                        |                                      |                                      |                                      |               |                              |
| External customers                | ¥ 624,885                            | ¥ 683,760                            | - 8.6                                | \$ 6,186,980  |                              |
| Intersegment                      | 311                                  | 360                                  | - 13.6                               | 3,079         |                              |
| Total                             | 625,196                              | 684,120                              | - 8.6                                | 6,190,059     |                              |
| Operating cost and expenses       | 532,208                              | 599,361                              | - 11.2                               | 5,269,386     |                              |
| Operating profit                  | ¥ 92,988                             | ¥ 84,759                             | + 9.7                                | \$ 920,673    |                              |
| <b>Industry and Others</b>        |                                      |                                      |                                      |               |                              |
| Net sales:                        |                                      |                                      |                                      |               |                              |
| External customers                | ¥ 140,405                            | ¥ 120,188                            | + 16.8                               | \$ 1,390,149  |                              |
| Intersegment                      | 44,682                               | 40,827                               | + 9.4                                | 442,396       |                              |
| Total                             | 185,087                              | 161,015                              | + 15.0                               | 1,832,545     |                              |
| Operating cost and expenses       | 195,195                              | 174,381                              | + 11.9                               | 1,932,624     |                              |
| Operating profit                  | ¥ (10,108)                           | ¥ (13,366)                           | -                                    | \$ (100,079)  |                              |
| <b>Corporate and Eliminations</b> |                                      |                                      |                                      |               |                              |
| Net sales:                        |                                      |                                      |                                      |               |                              |
| External customers                | ¥ -                                  | ¥ -                                  | -                                    | \$ -          |                              |
| Intersegment                      | (46,844)                             | (45,840)                             | -                                    | (463,802)     |                              |
| Total                             | (46,844)                             | (45,840)                             | -                                    | (463,802)     |                              |
| Operating cost and expenses       | 3,424                                | 8,689                                | -                                    | 33,901        |                              |
| Operating profit                  | ¥ (50,268)                           | ¥ (54,529)                           | -                                    | \$ (497,703)  |                              |
| <b>Consolidated</b>               |                                      |                                      |                                      |               |                              |
| Net sales:                        |                                      |                                      |                                      |               |                              |
| External customers                | ¥ 1,795,108                          | ¥ 1,783,533                          | + 0.6                                | \$ 17,773,347 |                              |
| Intersegment                      | -                                    | -                                    | -                                    | -             |                              |
| Total                             | 1,795,108                            | 1,783,533                            | + 0.6                                | 17,773,347    |                              |
| Operating cost and expenses       | 1,601,920                            | 1,630,406                            | - 1.7                                | 15,860,595    |                              |
| Operating profit                  | ¥ 193,188                            | ¥ 153,127                            | + 26.2                               | \$ 1,912,752  |                              |

## (2) SEGMENT INFORMATION BY GEOGRAPHIC AREA

| <b>Results for the second quarter</b> | Millions of yen                        |  |           | Thousands of<br>U.S. dollars           |
|---------------------------------------|--|--|-----------|--|
|                                       | Three months<br>ended<br>June 30, 2014 | Three months<br>ended<br>June 30, 2013 | Change(%) | Three months<br>ended<br>June 30, 2014 |
| <b>Japan</b>                          |  |  |           |  |
| Net sales:                            |  |  |           |  |
| External customers                    | ¥ 212,549                              | ¥ 187,085                              | + 13.6    | \$ 2,104,446                           |
| Intersegment                          | 430,486                                | 473,150                                | - 9.0     | 4,262,237                              |
| Total                                 | 643,035                                | 660,235                                | - 2.6     | 6,366,683                              |
| Operating cost and expenses           | 531,906                                | 563,567                                | - 5.6     | 5,266,396                              |
| Operating profit                      | ¥ 111,129                              | ¥ 96,668                               | + 15.0    | \$ 1,100,287                           |
| <b>Americas</b>                       |  |  |           |  |
| Net sales:                            |  |  |           |  |
| External customers                    | ¥ 252,634                              | ¥ 281,609                              | - 10.3    | \$ 2,501,327                           |
| Intersegment                          | 1,808                                  | 4,067                                  | - 55.5    | 17,901                                 |
| Total                                 | 254,442                                | 285,676                                | - 10.9    | 2,519,228                              |
| Operating cost and expenses           | 250,214                                | 277,724                                | - 9.9     | 2,477,367                              |
| Operating profit                      | ¥ 4,228                                | ¥ 7,952                                | - 46.8    | \$ 41,861                              |
| <b>Europe</b>                         |  |  |           |  |
| Net sales:                            |  |  |           |  |
| External customers                    | ¥ 272,004                              | ¥ 296,132                              | - 8.1     | \$ 2,693,109                           |
| Intersegment                          | 14,517                                 | 14,370                                 | + 1.0     | 143,733                                |
| Total                                 | 286,521                                | 310,502                                | - 7.7     | 2,836,842                              |
| Operating cost and expenses           | 286,152                                | 311,449                                | - 8.1     | 2,833,188                              |
| Operating profit                      | ¥ 369                                  | ¥ (947)                                | -         | \$ 3,654                               |
| <b>Asia and Oceania</b>               |  |  |           |  |
| Net sales:                            |  |  |           |  |
| External customers                    | ¥ 189,609                              | ¥ 202,054                              | - 6.2     | \$ 1,877,316                           |
| Intersegment                          | 196,288                                | 227,645                                | - 13.8    | 1,943,446                              |
| Total                                 | 385,897                                | 429,699                                | - 10.2    | 3,820,762                              |
| Operating cost and expenses           | 369,843                                | 414,334                                | - 10.7    | 3,661,812                              |
| Operating profit                      | ¥ 16,054                               | ¥ 15,365                               | + 4.5     | \$ 158,950                             |
| <b>Corporate and Eliminations</b>     |  |  |           |  |
| Net sales:                            |  |  |           |  |
| External customers                    | ¥ -                                    | ¥ -                                    | -         | \$ -                                   |
| Intersegment                          | (643,099)                              | (719,232)                              | -         | (6,367,317)                            |
| Total                                 | (643,099)                              | (719,232)                              | -         | (6,367,317)                            |
| Operating cost and expenses           | (621,868)                              | (698,548)                              | -         | (6,157,110)                            |
| Operating profit                      | ¥ (21,231)                             | ¥ (20,684)                             | -         | \$ (210,207)                           |
| <b>Consolidated</b>                   |  |  |           |  |
| Net sales:                            |  |  |           |  |
| External customers                    | ¥ 926,796                              | ¥ 966,880                              | - 4.1     | \$ 9,176,198                           |
| Intersegment                          | -                                      | -                                      | -         | -                                      |
| Total                                 | 926,796                                | 966,880                                | - 4.1     | 9,176,198                              |
| Operating cost and expenses           | 816,247                                | 868,526                                | - 6.0     | 8,081,653                              |
| Operating profit                      | ¥ 110,549                              | ¥ 98,354                               | + 12.4    | \$ 1,094,545                           |

**Results for the first half**

Millions of yen

Thousands of  
U.S. dollars

|                                   | Six months ended |               | Change(%) | Six months ended |
|-----------------------------------|------------------|---------------|-----------|------------------|
|                                   | June 30, 2014    | June 30, 2013 |           | June 30, 2014    |
| <b>Japan</b>                      |                  |               |           |                  |
| Net sales:                        |                  |               |           |                  |
| External customers                | ¥ 421,194        | ¥ 358,959     | + 17.3    | \$ 4,170,238     |
| Intersegment                      | 837,577          | 898,876       | - 6.8     | 8,292,841        |
| Total                             | 1,258,771        | 1,257,835     | + 0.1     | 12,463,079       |
| Operating cost and expenses       | 1,070,703        | 1,097,394     | - 2.4     | 10,601,020       |
| Operating profit                  | ¥ 188,068        | ¥ 160,441     | + 17.2    | \$ 1,862,059     |
| <b>Americas</b>                   |                  |               |           |                  |
| Net sales:                        |                  |               |           |                  |
| External customers                | ¥ 480,834        | ¥ 510,984     | - 5.9     | \$ 4,760,733     |
| Intersegment                      | 2,501            | 6,645         | - 62.4    | 24,762           |
| Total                             | 483,335          | 517,629       | - 6.6     | 4,785,495        |
| Operating cost and expenses       | 474,539          | 506,351       | - 6.3     | 4,698,406        |
| Operating profit                  | ¥ 8,796          | ¥ 11,278      | - 22.0    | \$ 87,089        |
| <b>Europe</b>                     |                  |               |           |                  |
| Net sales:                        |                  |               |           |                  |
| External customers                | ¥ 533,577        | ¥ 542,861     | - 1.7     | \$ 5,282,941     |
| Intersegment                      | 25,993           | 26,101        | - 0.4     | 257,356          |
| Total                             | 559,570          | 568,962       | - 1.7     | 5,540,297        |
| Operating cost and expenses       | 554,170          | 575,923       | - 3.8     | 5,486,832        |
| Operating profit                  | ¥ 5,400          | ¥ (6,961)     | -         | \$ 53,465        |
| <b>Asia and Oceania</b>           |                  |               |           |                  |
| Net sales:                        |                  |               |           |                  |
| External customers                | ¥ 359,503        | ¥ 370,729     | - 3.0     | \$ 3,559,435     |
| Intersegment                      | 387,922          | 418,173       | - 7.2     | 3,840,813        |
| Total                             | 747,425          | 788,902       | - 5.3     | 7,400,248        |
| Operating cost and expenses       | 714,483          | 759,348       | - 5.9     | 7,074,090        |
| Operating profit                  | ¥ 32,942         | ¥ 29,554      | + 11.5    | \$ 326,158       |
| <b>Corporate and Eliminations</b> |                  |               |           |                  |
| Net sales:                        |                  |               |           |                  |
| External customers                | ¥ -              | ¥ -           | -         | \$ -             |
| Intersegment                      | (1,253,993)      | (1,349,795)   | -         | (12,415,772)     |
| Total                             | (1,253,993)      | (1,349,795)   | -         | (12,415,772)     |
| Operating cost and expenses       | (1,211,975)      | (1,308,610)   | -         | (11,999,753)     |
| Operating profit                  | ¥ (42,018)       | ¥ (41,185)    | -         | \$ (416,019)     |
| <b>Consolidated</b>               |                  |               |           |                  |
| Net sales:                        |                  |               |           |                  |
| External customers                | ¥ 1,795,108      | ¥ 1,783,533   | + 0.6     | \$ 17,773,347    |
| Intersegment                      | -                | -             | -         | -                |
| Total                             | 1,795,108        | 1,783,533     | + 0.6     | 17,773,347       |
| Operating cost and expenses       | 1,601,920        | 1,630,406     | - 1.7     | 15,860,595       |
| Operating profit                  | ¥ 193,188        | ¥ 153,127     | + 26.2    | \$ 1,912,752     |

7. SIGNIFICANT CHANGES IN CANON INC. STOCKHOLDERS' EQUITY

None.

8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

## (1) GROUP POSITION

## 1. Number of Group Companies

|              | June 30, 2014 | December 31, 2013 | Change |
|--------------|---------------|-------------------|--------|
| Subsidiaries | 253           | 257               | (4)    |
| Affiliates   | 10            | 11                | (1)    |
| Total        | 263           | 268               | (5)    |

## 2. Change in Group Entities

## Subsidiaries

Addition: 5 companies  
Removal: 9 companies

## Affiliates (Carried at Equity Basis)

Removal: 1 company

## 3. Subsidiaries Listed on Domestic Stock Exchange

Tokyo Stock Exchange (1st section): Canon Marketing Japan Inc., Canon Electronics Inc.

## (2) SIGNIFICANT ACCOUNTING POLICIES

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

**CONSOLIDATED FINANCIAL RESULTS FOR THE SECOND QUARTER  
AND THE FIRST HALF ENDED JUNE 30, 2014**

**SUPPLEMENTARY REPORT**

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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.



## 1. SALES BY GEOGRAPHIC AREA AND BUSINESS UNIT

(Millions of yen)

|                         | 2014        |           |           | 2013        |           |           | Change year over year |          |       |
|-------------------------|-------------|-----------|-----------|-------------|-----------|-----------|-----------------------|----------|-------|
|                         | 2nd quarter | 1st half  | Year (P)  | 2nd quarter | 1st half  | Year      | 2nd quarter           | 1st half | Year  |
| <b>Japan</b>            |             |           |           |             |           |           |                       |          |       |
| Office                  | 94,670      | 196,690   | -         | 95,105      | 185,639   | 368,308   | -0.5%                 | +6.0%    | -     |
| Imaging System          | 39,913      | 93,256    | -         | 47,590      | 87,684    | 215,970   | -16.1%                | +6.4%    | -     |
| Industry and Others     | 29,971      | 66,321    | -         | 32,959      | 62,049    | 131,585   | -9.1%                 | +6.9%    | -     |
| Total                   | 164,554     | 356,267   | 761,500   | 175,654     | 335,372   | 715,863   | -6.3%                 | +6.2%    | +6.4% |
| <b>Overseas</b>         |             |           |           |             |           |           |                       |          |       |
| Office                  | 427,049     | 833,128   | -         | 422,350     | 793,946   | 1,625,590 | +1.1%                 | +4.9%    | -     |
| Imaging System          | 292,359     | 531,629   | -         | 338,243     | 596,076   | 1,232,216 | -13.6%                | -10.8%   | -     |
| Industry and Others     | 42,834      | 74,084    | -         | 30,633      | 58,139    | 157,711   | +39.8%                | +27.4%   | -     |
| Total                   | 762,242     | 1,438,841 | 3,018,500 | 791,226     | 1,448,161 | 3,015,517 | -3.7%                 | -0.6%    | +0.1% |
| <b>Americas</b>         |             |           |           |             |           |           |                       |          |       |
| Office                  | 155,822     | 311,988   | -         | 163,280     | 306,263   | 629,472   | -4.6%                 | +1.9%    | -     |
| Imaging System          | 90,473      | 156,370   | -         | 109,143     | 188,617   | 392,373   | -17.1%                | -17.1%   | -     |
| Industry and Others     | 6,875       | 13,343    | -         | 9,659       | 19,204    | 37,656    | -28.8%                | -30.5%   | -     |
| Total                   | 253,170     | 481,701   | 1,031,000 | 282,082     | 514,084   | 1,059,501 | -10.2%                | -6.3%    | -2.7% |
| <b>Europe</b>           |             |           |           |             |           |           |                       |          |       |
| Office                  | 170,435     | 343,967   | -         | 178,318     | 342,127   | 694,563   | -4.4%                 | +0.5%    | -     |
| Imaging System          | 94,597      | 176,148   | -         | 111,750     | 189,320   | 404,390   | -15.3%                | -7.0%    | -     |
| Industry and Others     | 7,316       | 14,144    | -         | 5,876       | 10,862    | 25,976    | +24.5%                | +30.2%   | -     |
| Total                   | 272,348     | 534,259   | 1,114,100 | 295,944     | 542,309   | 1,124,929 | -8.0%                 | -1.5%    | -1.0% |
| <b>Asia and Oceania</b> |             |           |           |             |           |           |                       |          |       |
| Office                  | 100,792     | 177,173   | -         | 80,752      | 145,556   | 301,555   | +24.8%                | +21.7%   | -     |
| Imaging System          | 107,289     | 199,111   | -         | 117,350     | 218,139   | 435,453   | -8.6%                 | -8.7%    | -     |
| Industry and Others     | 28,643      | 46,597    | -         | 15,098      | 28,073    | 94,079    | +89.7%                | +66.0%   | -     |
| Total                   | 236,724     | 422,881   | 873,400   | 213,200     | 391,768   | 831,087   | +11.0%                | +7.9%    | +5.1% |
| <b>Intersegment</b>     |             |           |           |             |           |           |                       |          |       |
| Office                  | 774         | 1,851     | -         | 2,577       | 4,653     | 6,175     | -70.0%                | -60.2%   | -     |
| Imaging System          | 115         | 311       | -         | 180         | 360       | 752       | -36.1%                | -13.6%   | -     |
| Industry and Others     | 22,512      | 44,682    | -         | 22,356      | 40,827    | 85,574    | +0.7%                 | +9.4%    | -     |
| Eliminations            | (23,401)    | (46,844)  | -         | (25,113)    | (45,840)  | (92,501)  | -                     | -        | -     |
| Total                   | 0           | 0         | 0         | 0           | 0         | 0         | -                     | -        | -     |
| <b>Total</b>            |             |           |           |             |           |           |                       |          |       |
| Office                  | 522,493     | 1,031,669 | 2,099,400 | 520,032     | 984,238   | 2,000,073 | +0.5%                 | +4.8%    | +5.0% |
| Imaging System          | 332,387     | 625,196   | 1,368,000 | 386,013     | 684,120   | 1,448,938 | -13.9%                | -8.6%    | -5.6% |
| Industry and Others     | 95,317      | 185,087   | 404,400   | 85,948      | 161,015   | 374,870   | +10.9%                | +15.0%   | +7.9% |
| Eliminations            | (23,401)    | (46,844)  | (91,800)  | (25,113)    | (45,840)  | (92,501)  | -                     | -        | -     |
| Total                   | 926,796     | 1,795,108 | 3,780,000 | 966,880     | 1,783,533 | 3,731,380 | -4.1%                 | +0.6%    | +1.3% |

(P)=Projection

**2. SEGMENT INFORMATION BY BUSINESS UNIT**

(Millions of yen)

|                                   | 2014        |           |           | 2013        |           |           | Change year over year |          |        |
|-----------------------------------|-------------|-----------|-----------|-------------|-----------|-----------|-----------------------|----------|--------|
|                                   | 2nd quarter | 1st half  | Year (P)  | 2nd quarter | 1st half  | Year      | 2nd quarter           | 1st half | Year   |
| <b>Office</b>                     |             |           |           |             |           |           |                       |          |        |
| External customers                | 521,719     | 1,029,818 | 2,095,400 | 517,455     | 979,585   | 1,993,898 | +0.8%                 | +5.1%    | +5.1%  |
| Intersegment                      | 774         | 1,851     | 4,000     | 2,577       | 4,653     | 6,175     | -70.0%                | -60.2%   | -35.2% |
| Total sales                       | 522,493     | 1,031,669 | 2,099,400 | 520,032     | 984,238   | 2,000,073 | +0.5%                 | +4.8%    | +5.0%  |
| Operating profit                  | 88,119      | 160,576   | 289,600   | 76,192      | 136,263   | 266,908   | +15.7%                | +17.8%   | +8.5%  |
| % of sales                        | 16.9%       | 15.6%     | 13.8%     | 14.7%       | 13.8%     | 13.3%     | -                     | -        | -      |
| <b>Imaging System</b>             |             |           |           |             |           |           |                       |          |        |
| External customers                | 332,272     | 624,885   | 1,367,200 | 385,833     | 683,760   | 1,448,186 | -13.9%                | -8.6%    | -5.6%  |
| Intersegment                      | 115         | 311       | 800       | 180         | 360       | 752       | -36.1%                | -13.6%   | +6.4%  |
| Total sales                       | 332,387     | 625,196   | 1,368,000 | 386,013     | 684,120   | 1,448,938 | -13.9%                | -8.6%    | -5.6%  |
| Operating profit                  | 50,962      | 92,988    | 207,900   | 56,278      | 84,759    | 203,794   | -9.4%                 | +9.7%    | +2.0%  |
| % of sales                        | 15.3%       | 14.9%     | 15.2%     | 14.6%       | 12.4%     | 14.1%     | -                     | -        | -      |
| <b>Industry and Others</b>        |             |           |           |             |           |           |                       |          |        |
| External customers                | 72,805      | 140,405   | 317,400   | 63,592      | 120,188   | 289,296   | +14.5%                | +16.8%   | +9.7%  |
| Intersegment                      | 22,512      | 44,682    | 87,000    | 22,356      | 40,827    | 85,574    | +0.7%                 | +9.4%    | +1.7%  |
| Total sales                       | 95,317      | 185,087   | 404,400   | 85,948      | 161,015   | 374,870   | +10.9%                | +15.0%   | +7.9%  |
| Operating profit                  | (2,487)     | (10,108)  | (28,800)  | (5,830)     | (13,366)  | (25,331)  | -                     | -        | -      |
| % of sales                        | -2.6%       | -5.5%     | -7.1%     | -6.8%       | -8.3%     | -6.8%     | -                     | -        | -      |
| <b>Corporate and Eliminations</b> |             |           |           |             |           |           |                       |          |        |
| External customers                | -           | -         | -         | -           | -         | -         | -                     | -        | -      |
| Intersegment                      | (23,401)    | (46,844)  | (91,800)  | (25,113)    | (45,840)  | (92,501)  | -                     | -        | -      |
| Total sales                       | (23,401)    | (46,844)  | (91,800)  | (25,113)    | (45,840)  | (92,501)  | -                     | -        | -      |
| Operating profit                  | (26,045)    | (50,268)  | (103,700) | (28,286)    | (54,529)  | (108,094) | -                     | -        | -      |
| <b>Consolidated</b>               |             |           |           |             |           |           |                       |          |        |
| External customers                | 926,796     | 1,795,108 | 3,780,000 | 966,880     | 1,783,533 | 3,731,380 | -4.1%                 | +0.6%    | +1.3%  |
| Intersegment                      | -           | -         | -         | -           | -         | -         | -                     | -        | -      |
| Total sales                       | 926,796     | 1,795,108 | 3,780,000 | 966,880     | 1,783,533 | 3,731,380 | -4.1%                 | +0.6%    | +1.3%  |
| Operating profit                  | 110,549     | 193,188   | 365,000   | 98,354      | 153,127   | 337,277   | +12.4%                | +26.2%   | +8.2%  |
| % of sales                        | 11.9%       | 10.8%     | 9.7%      | 10.2%       | 8.6%      | 9.0%      | -                     | -        | -      |

(P)=Projection

**3. OTHER INCOME / DEDUCTIONS**

(Millions of yen)

|   | 2014        |          |          | 2013        |          |         | Change year over year |          |         |
|---|-------------|----------|----------|-------------|----------|---------|-----------------------|----------|---------|
|   | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year    | 2nd quarter           | 1st half | Year    |
| Interest and dividend, net                        | 2,182       | 3,683    | 5,700    | 1,559       | 2,490    | 6,029   | +623                  | +1,193   | (329)   |
| Forex gain (loss)                                 | (1,848)     | (7,655)  | (10,300) | (5,326)     | (2,144)  | (1,992) | +3,478                | (5,511)  | (8,308) |
| Equity earnings (loss)<br>of affiliated companies | 119         | 212      | 400      | 211         | 125      | (664)   | (92)                  | +87      | +1,064  |
| Other, net  | 5,973       | 6,738    | 9,200    | 4,070       | 5,525    | 6,954   | +1,903                | +1,213   | +2,246  |
| Total   | 6,426       | 2,978    | 5,000    | 514         | 5,996    | 10,327  | +5,912                | (3,018)  | (5,327) |

(P)=Projection

**4. BREAKDOWN OF PRODUCT SALES WITHIN BUSINESS UNIT**

|                            | 2014        |          |          | 2013        |          |      |
|----------------------------|-------------|----------|----------|-------------|----------|------|
|                            | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year |
| <b>Office</b>              |             |          |          |             |          |      |
| Monochrome copiers         | 16%         | 15%      | 16%      | 15%         | 16%      | 16%  |
| Color copiers              | 19%         | 19%      | 20%      | 20%         | 19%      | 19%  |
| Printers                   | 43%         | 43%      | 41%      | 43%         | 43%      | 42%  |
| Others                     | 22%         | 23%      | 23%      | 22%         | 22%      | 23%  |
| <b>Imaging System</b>      |             |          |          |             |          |      |
| Cameras                    | 67%         | 64%      | 64%      | 70%         | 68%      | 67%  |
| Inkjet printers            | 25%         | 27%      | 28%      | 23%         | 24%      | 25%  |
| Others                     | 8%          | 9%       | 8%       | 7%          | 8%       | 8%   |
| <b>Industry and Others</b> |             |          |          |             |          |      |
| Lithography equipment      | 28%         | 22%      | 22%      | 13%         | 11%      | 17%  |
| Others                     | 72%         | 78%      | 78%      | 87%         | 89%      | 83%  |

(P)=Projection

**5. SALES GROWTH IN LOCAL CURRENCY (Year over year)**

|                            | 2014        |          |          |
|----------------------------|-------------|----------|----------|
|                            | 2nd quarter | 1st half | Year (P) |
| <b>Office</b>              |             |          |          |
| Japan                      | -0.5%       | +6.0%    | -        |
| Overseas                   | -3.3%       | -2.8%    | -        |
| Total                      | -3.1%       | -1.4%    | +1.8%    |
| <b>Imaging System</b>      |             |          |          |
| Japan                      | -16.1%      | +6.4%    | -        |
| Overseas                   | -17.5%      | -17.4%   | -        |
| Total                      | -17.4%      | -14.4%   | -8.4%    |
| <b>Industry and Others</b> |             |          |          |
| Japan                      | -9.1%       | +6.9%    | -        |
| Overseas                   | +37.1%      | +23.0%   | -        |
| Total                      | +9.9%       | +13.3%   | +7.2%    |
| <b>Total</b>               |             |          |          |
| Japan                      | -6.3%       | +6.2%    | +6.4%    |
| Overseas                   | -7.8%       | -7.8%    | -3.4%    |
| Americas                   | -13.3%      | -12.3%   | -5.7%    |
| Europe                     | -14.5%      | -11.1%   | -5.9%    |
| Asia and Oceania           | +8.7%       | +2.8%    | +2.8%    |
| Total                      | -7.5%       | -5.1%    | -1.5%    |

(P)=Projection

**6. PROFITABILITY**

|        | 2014     |          | 2013     |      |
|--------|----------|----------|----------|------|
|        | 1st half | Year (P) | 1st half | Year |
| ROE *1 | 9.0%     | 8.3%     | 8.1%     | 8.4% |
| ROA *2 | 6.2%     | 5.7%     | 5.3%     | 5.6% |

\*1 Return on Equity ; Based on Net Income attributable to Canon Inc. and Total Canon Inc. Stockholders' Equity (P)=Projection

\*2 Return on Assets ; Based on Net Income attributable to Canon Inc.

**7. IMPACT OF FOREIGN EXCHANGE RATES****(1) Exchange rates**

(Yen)

|          | 2014        |          |              |          | 2013        |          |        |
|----------|-------------|----------|--------------|----------|-------------|----------|--------|
|          | 2nd quarter | 1st half | 2nd half (P) | Year (P) | 2nd quarter | 1st half | Year   |
| Yen/US\$ | 102.13      | 102.40   | 100.00       | 101.14   | 98.80       | 95.96    | 97.84  |
| Yen/Euro | 139.94      | 140.35   | 135.00       | 137.57   | 129.02      | 125.90   | 130.01 |

(P)=Projection

**(2) Impact of foreign exchange rates on sales (Year over year)**

(Billions of yen)

|                  | 2014        |          |          |
|------------------|-------------|----------|----------|
|                  | 2nd quarter | 1st half | Year (P) |
| US\$             | +7.2        | +30.4    | +28.5    |
| Euro             | +17.7       | +45.4    | +47.8    |
| Other currencies | +1.8        | +7.4     | +6.2     |
| Total            | +26.7       | +83.2    | +82.5    |

(P)=Projection

**(3) Impact of foreign exchange rates per yen**

(Billions of yen)

|                     | 2014         |
|---------------------|--------------|
|                     | 2nd half (P) |
| On sales            |              |
| US\$                | 8.4          |
| Euro                | 3.5          |
| On operating profit |              |
| US\$                | 3.1          |
| Euro                | 1.7          |

(P)=Projection

**8. STATEMENTS OF CASH FLOWS**

(Millions of yen)

|  | 2014        |           |           | 2013        |           |           |
|--|-------------|-----------|-----------|-------------|-----------|-----------|
|  | 2nd quarter | 1st half  | Year (P)  | 2nd quarter | 1st half  | Year      |
| Net cash provided by operating activities                    | 162,233     | 294,487   | 525,000   | 162,475     | 217,889   | 507,642   |
| Net cash used in investing activities                        | (85,592)    | (142,067) | (290,000) | (65,863)    | (139,266) | (250,212) |
| Free cash flow   | 76,641      | 152,420   | 235,000   | 96,612      | 78,623    | 257,430   |
| Net cash used in financing activities                        | (50,643)    | (176,387) | (245,300) | (1,293)     | (85,354)  | (222,181) |
| Effect of exchange rate changes on cash and cash equivalents | (8,405)     | (20,258)  | (28,600)  | 19,463      | 47,827    | 86,982    |
| Net change in cash and cash equivalents                      | 17,593      | (44,225)  | (38,900)  | 114,782     | 41,096    | 122,231   |
| Cash and cash equivalents at end of period                   | 744,684     | 744,684   | 750,000   | 707,774     | 707,774   | 788,909   |

(P)=Projection

**9. R&D EXPENDITURE**

(Millions of yen)

|                            | 2014        |          |          | 2013        |          |         |
|----------------------------|-------------|----------|----------|-------------|----------|---------|
|                            | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year    |
| Office                     | 26,013      | 50,699   | -        | 26,852      | 51,510   | 105,246 |
| Imaging System             | 21,026      | 41,966   | -        | 21,549      | 41,586   | 84,377  |
| Industry and Others        | 6,549       | 12,743   | -        | 6,335       | 12,149   | 25,701  |
| Corporate and Eliminations | 23,299      | 46,297   | -        | 22,909      | 45,916   | 91,000  |
| Total                      | 76,887      | 151,705  | 305,000  | 77,645      | 151,161  | 306,324 |
| % of sales                 | 8.3%        | 8.5%     | 8.1%     | 8.0%        | 8.5%     | 8.2%    |

(P)=Projection

**10. INCREASE IN PP&E & DEPRECIATION AND AMORTIZATION**

(Millions of yen)

|                               | 2014        |          |          | 2013        |          |         |
|-------------------------------|-------------|----------|----------|-------------|----------|---------|
|                               | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year    |
| Increase in PP&E              | 46,963      | 85,017   | 205,000  | 45,015      | 95,808   | 188,826 |
| Depreciation and amortization | 62,163      | 123,515  | 265,000  | 67,313      | 131,653  | 275,173 |

(P)=Projection

**11. INVENTORIES****(1) Inventories**

(Millions of yen)

|                     | 2014    | 2013    | Difference |
|---------------------|---------|---------|------------|
|                     | Jun.30  | Dec.31  |            |
| Office              | 216,919 | 227,413 | (10,494)   |
| Imaging System      | 208,439 | 221,368 | (12,929)   |
| Industry and Others | 108,087 | 104,992 | +3,095     |
| Total               | 533,445 | 553,773 | (20,328)   |

**(2) Inventories/Sales\***

(Days)

|                     | 2014   | 2013   | Difference |
|---------------------|--------|--------|------------|
|                     | Jun.30 | Dec.31 |            |
| Office              | 38     | 41     | (3)        |
| Imaging System      | 61     | 53     | +8         |
| Industry and Others | 143    | 115    | +28        |
| Total               | 54     | 52     | +2         |

\*Index based on the previous six months sales.

**12. DEBT RATIO**

|                           | 2014   | 2013   | Difference |
|---------------------------|--------|--------|------------|
|                           | Jun.30 | Dec.31 |            |
| Total debt / Total assets | 0.1%   | 0.1%   | 0.0%       |

**13. OVERSEAS PRODUCTION RATIO**

|                           | 2014     | 2013 |
|---------------------------|----------|------|
|                           | 1st half | Year |
| Overseas production ratio | 60%      | 57%  |

**14. NUMBER OF EMPLOYEES**

|          | 2014    | 2013    | Difference |
|----------|---------|---------|------------|
|          | Jun.30  | Dec.31  |            |
| Japan    | 70,005  | 69,825  | +180       |
| Overseas | 124,123 | 124,326 | (203)      |
| Total    | 194,128 | 194,151 | (23)       |