

CANON INC
Form 6-K
October 28, 2014

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

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

For the month of **.October**

2014

CANON INC.

(Translation of registrant's name into English)

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

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

SIGNATURES

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

CANON INC.
(Registrant)

Date . **October 28, 2014**

By /s/ Shinichi Aoyama
(Signature)*

Shinichi Aoyama
General Manager
Consolidated Accounting Div.
Canon Inc.

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

The following materials are included.

1. CONSOLIDATED RESULTS FOR THE THIRD QUARTER AND THE NINE MONTHS ENDED SEPTEMBER 30, 2014

CONSOLIDATED RESULTS FOR THE THIRD QUARTER AND**THE NINE MONTHS ENDED SEPTEMBER 30, 2014**

October 27, 2014

CONSOLIDATED RESULTS FOR THE THIRD QUARTER

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

| | Actual | | Change(%) | | |
|---|---------------------------------------|---------------------------------------|-----------|------|---------------------------------------|
| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | | | Three months ended September 30, 2014 |
| Net sales | ¥ 872,208 | ¥ 913,149 | - | 4.5 | \$ 8,001,908 |
| Operating profit | 71,832 | 90,610 | - | 20.7 | 659,009 |
| Income before income taxes | 80,164 | 88,056 | - | 9.0 | 735,450 |
| Net income attributable to Canon Inc. | ¥ 58,249 | ¥ 58,822 | - | 1.0 | \$ 534,394 |
| Net income attributable to Canon Inc. stockholders per share: | | | | | |
| Basic | ¥ 52.67 | ¥ 51.20 | + | 2.9 | \$ 0.48 |
| Diluted | 52.67 | 51.20 | + | 2.9 | 0.48 |

CONSOLIDATED RESULTS FOR THE NINE MONTHS

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

| | Actual | | | | Projected | | |
|---------------------------------------|--------------------------------------|--------------------------------------|-----------|------|--------------------------------------|-------------------------------|-----------|
| | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | Change(%) | | Nine months ended September 30, 2014 | Year ending December 31, 2014 | Change(%) |
| Net sales | ¥ 2,667,316 | ¥ 2,696,682 | - | 1.1 | \$ 24,470,789 | ¥ 3,740,000 | + 0.2 |
| Operating profit | 265,020 | 243,737 | + | 8.7 | 2,431,376 | 370,000 | + 9.7 |
| Income before income taxes | 276,330 | 247,179 | + | 11.8 | 2,535,138 | 380,000 | + 9.3 |
| Net income attributable to Canon Inc. | ¥ 186,707 | ¥ 166,231 | + | 12.3 | \$ 1,712,908 | ¥ 250,000 | + 8.5 |

Net income attributable to Canon Inc. stockholders per share:

| | | | | | | | | | | | | |
|----------------|---|---------------|---|--------|---|------|----|-------------|---|--------|---|------|
| Basic | ¥ | 167.10 | ¥ | 144.40 | + | 15.7 | \$ | 1.53 | ¥ | 224.28 | + | 11.7 |
| Diluted | | 167.10 | | 144.39 | + | 15.7 | | 1.53 | | - | | - |

| | As of September 30, 2014 | Actual As of December 31, 2013 | Change(%) | As of September 30, 2014 |
|---------------------------------------|-----------------------------|--------------------------------------|-----------|-----------------------------|
| Total assets | ¥ 4,172,718 | ¥ 4,242,710 | - 1.6 | \$ 38,281,817 |
| Canon Inc. stockholders equity | ¥ 2,888,720 | ¥ 2,910,262 | - 0.7 | \$ 26,502,018 |

- 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 JPY109=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of September 30, 2014, solely for the convenience of the reader.

Canon Inc.
Headquarter office

30-2, Shimomaruko 3-chome, Ohta-ku,
Tokyo 146-8501, Japan
Phone: +81-3-3758-2111

I. Operating Results and Financial Conditions

2014 Third Quarter in Review

Looking back at the global economy in the third quarter of 2014, the U.S. economy, buoyed by strong consumer spending, recovered steadily. In Europe, the economy remained sluggish, with deteriorating conditions in Russia potentially having a negative effect on the recovery in neighboring euro area countries. The pace of economic expansion in China was modest while other emerging countries in Southeast Asia and South America faced slowdowns in market growth due to economic stagnation. As for Japan, with the economy yet to recover from the decline following the rush in demand leading up to the hike in the country's consumption tax, growth fell short of the rate recorded in the same period of the previous year. As global growth projections get revised downward with each passing quarter, the outlook for the global economy grows increasingly uncertain.

Looking at 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 remained sluggish due to the delayed economic recovery in Europe and the still depressed demand in Japan following the rush in demand prior to the consumption tax increase, while in China demand showed hearty signs of recovery. As for digital compact cameras, demand continued to shrink in both developed countries and emerging markets. Looking at the market for inkjet printers, demand decreased slightly 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 flat panel displays (FPDs) for tablets and TV screens increased, fueling continued customer investment.

The average values of the yen during the third quarter and first nine months of the year were ¥104.22 and ¥103.01 to the U.S. dollar, respectively, year-on-year depreciations of approximately ¥5 and ¥6, and ¥137.78 and ¥139.53 to the euro, respectively, year-on-year depreciations of approximately ¥7 and ¥12.

During the third quarter, although MFDs enjoyed hearty demand and industrial equipment sales increased, the delayed recovery in demand for interchangeable-lens digital cameras and the continued shrinking of the market for digital compact cameras led to reduced net sales. As a result, third-quarter net sales decreased 4.5% year on year to ¥872.2 billion (U.S.\$8,002 million). Net sales for the nine months ended September 30, 2014, totaled ¥2,667.3 billion (U.S.\$24,471 million), a year-on-year decline of 1.1%. The gross profit ratio for the third quarter rose 0.5 points year on year to 49.5% thanks to a production shift to highly profitable high-added-value products and ongoing cost-cutting activities at production sites along with the depreciation of the yen. The gross profit ratio for the first nine months of the year also increased by 1.9 points to 50.5%. 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 limiting the increase in operating expenses to just ¥359.6 billion (U.S.\$3,299 million), an increase of 0.9% year on year. As a result, third-quarter operating profit decreased by 20.7% year on year to ¥71.8 billion (U.S.\$659 million). Other income for the quarter increased by ¥10.9 billion (U.S.\$100 million) due to foreign currency exchange gains while income before income taxes decreased by 9.0% to ¥80.2 billion (U.S.\$735 million). Net income attributable to Canon Inc. decreased by 1.0% to ¥58.2 billion (U.S.\$534 million). Operating profit for the first nine months of the year increased by 8.7% to ¥265.0 billion (U.S.\$2,431 million) owing to the increased profit in the first half while income before income taxes increased 11.8% year on year to ¥276.3 billion (U.S.\$2,535 million). Net income attributable to Canon Inc. for the first nine months increased by 12.3% to ¥186.7 billion (U.S.\$1,713 million).

Basic net income attributable to Canon Inc. stockholders per share for the third quarter was ¥52.67 (U.S.\$0.48), an increase of ¥1.47 (U.S.\$0.01) compared with the corresponding quarter of the previous year, and ¥167.10 (U.S.\$1.53) for the first nine months of 2014, a year-on-year increase of ¥22.70 (U.S.\$0.21).

Results by Segment

Looking at Canon's quarterly performance by business unit, within the Office Business Unit, although sales of color office MFDs increased significantly from the year-ago period, led by healthy growth of the imageRUNNER ADVANCE C5200 series along with well-received new models, total sales volume remained at the same level as the previous year due to sluggish demand for monochrome models. As for high-speed continuous-feed printers, the Océ ColorStream 3000 series enjoyed solid sales. Among laser printers, although color multifunction models recorded sales growth, total sales volume decreased slightly from the year-ago period owing to the decrease in demand for monochrome models. Sales of consumables declined from the year-ago period, which had recorded strong sales. As a result, sales for the business unit totaled ¥482.3 billion (U.S.\$4,424 million), a year-on-year decline of 2.4%, while operating profit totaled ¥57.9 billion (U.S.\$531 million), decreasing 13.7%. Sales for the combined first nine months of the year totaled ¥1,513.9 billion (U.S.\$13,889 million), growing 2.4% year on year, while operating profit increased by 7.4% to ¥218.5 billion (U.S.\$2,004 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 regional markets due to the delayed economic recovery, the advanced-amateur-model EOS 70D realized healthy growth, enabling Canon to maintain the top share in such major markets as Europe, the U.S. and Japan. As for digital compact cameras, despite a decline in total sales volume, sales of high-added-value models featuring high image quality and high-magnification zoom capabilities recorded solid growth, enabling the maintaining of a high market share. Looking at inkjet printers, amid the market contraction due to the delay in economic recovery, especially in Europe and Asia, sales volume for the quarter remained at the same level as the previous year while sales of consumable supplies increased from the year-ago period. As a result, third-quarter sales for the business unit decreased by 9.4% to ¥315.8 billion (U.S.\$2,898 million) year on year, while operating profit declined 23.9% to ¥43.3 billion (U.S.\$398 million). Sales for the first nine months totaled ¥941.0 billion (U.S.\$8,633 million), decreasing 8.9% year on year, while operating profit totaled ¥136.3 billion (U.S.\$1,251 million), a decrease of 3.8% year on year.

In the Industry and Others Business Unit, ongoing investment by memory device manufacturers in response to the healthy growth in demand for smartphones and tablets led to increased third-quarter unit sales of semiconductor lithography equipment while a recovery in investment for panels used for tablets and TV screens, boosted unit sales of FPD lithography equipment. Consequently, third-quarter sales for the business unit totaled ¥97.0 billion (U.S.\$890 million), an increase of 2.0% year on year, while operating profit recorded a loss of ¥5.0 billion (U.S.\$45 million) owing to investment into next-generation technologies, an improvement of ¥3.2 billion (U.S.\$29 million) from the year-ago period. Sales for the first nine months of the year grew 10.1% year on year to ¥282.1 billion (U.S.\$2,588 million), while operating profit posted a loss of ¥15.1 billion (U.S.\$138 million).

Cash Flow

During the first nine months of 2014, cash flow from operating activities totaled ¥398.6 billion (U.S.\$3,656 million), an increase of ¥55.2 billion (U.S.\$507 million) compared with the previous year owing to the increase in profit as well as an improvement in working capital. Although capital investment was focused on new products, cash flow from investing activities increased ¥23.8 billion (U.S.\$218 million) year on year to ¥231.4 billion (U.S.\$2,123 million) as a result of an outlay for the acquisition of Milestone Systems aimed at enhancing the network camera business. Accordingly, free cash flow totaled ¥167.2 billion (U.S.\$1,533 million), an increase of ¥31.4 billion (U.S.\$289 million) compared with the corresponding year-ago period.

Cash flow from financing activities recorded an outlay of ¥250.7 billion (U.S.\$2,300 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 ¥81.6 billion (U.S.\$748 million) to ¥707.3 billion (U.S.\$6,489 million) from the end of the previous year.

Outlook

As for the outlook in the fourth quarter, with the economies of Europe and emerging countries appearing to be at a standstill, prospects for the future remain uncertain. As for the Japanese economy, projections indicate that more time will be needed to recover fully from the decline that followed the raising of the country's consumption tax. Looking at the U.S. economy, however, improved employment conditions and a steady recovery in consumer spending, offer a promising outlook for the year-end shopping season.

In the businesses in which Canon operates, demand for MFDs is projected to continue to expand moderately, mainly for color models, while demand in the laser printer market is expected to remain at the same level as the previous year. As for interchangeable-lens digital cameras, while Europe and Japan still await a market recovery, an upturn in demand is expected in the U.S. and Chinese markets. Within the digital compact camera market, although projections point to continued market contraction for low-end models, demand is expected to grow steadily for high-added-value models featuring high image quality and high-magnification zoom capabilities. Looking at inkjet printers, demand is expected to contract from last year's level due to the delayed recovery of the global economy. As for the industrial equipment market, manufacturers are expected to continue making capital outlays for semiconductor lithography equipment amid growing demand projected for memory devices and image sensors, as well as for FPD lithography equipment owing to a stable supply-and-demand balance for panels.

With regard to currency exchange rates for the fourth quarter, on which Canon's performance outlook is based, Canon anticipates exchange rates of ¥108 to the U.S. dollar and ¥137 to the euro, representing depreciations of approximately ¥7 against the U.S. dollar, and approximately ¥9 against the euro compared with the annual average rates of the previous year.

Upon taking into consideration these foreign exchange rate assumptions, Canon projects full-year consolidated net sales in 2014 of ¥3,740.0 billion (U.S.\$34,312 million), a year on year increase of 0.2%; operating profit of ¥370.0 billion (U.S.\$3,394 million), a year-on-year increase of 9.7%; income before income taxes of ¥380.0 billion (U.S.\$3,486 million), a year-on-year increase of 9.3%; and net income attributable to Canon Inc. of ¥250.0 billion (U.S.\$2,294 million), a year-on-year increase of 8.5%.

Consolidated Outlook

Millions of yen

Fiscal year

| | Year ending December 31, 2014 | Change | Year ended December 31, 2013 | Change (%) | |
|--|----------------------------------|---------------------|---------------------------------|-------------|-------------|
| | Previous Outlook (A) | Revised Outlook (B) | (B - A) | Results (C) | (B - C) / C |
| Net sales | ¥ 3,780,000 | ¥ 3,740,000 | ¥ (40,000) | ¥ 3,731,380 | +0.2% |
| Operating profit | 365,000 | 370,000 | 5,000 | 337,277 | +9.7% |
| Income before income taxes | 370,000 | 380,000 | 10,000 | 347,604 | +9.3% |
| Net income attributable to Canon Inc. | ¥ 240,000 | ¥ 250,000 | ¥ 10,000 | ¥ 230,483 | +8.5% |

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

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

| | As of September 30, 2014 | Millions of yen As of December 31, 2013 | Change | Thousands of U.S. dollars As of September 30, 2014 |
|--|--------------------------------|--|------------|--|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥ 707,326 | ¥ 788,909 | ¥ (81,583) | \$ 6,489,229 |
| Short-term investments | 84,483 | 47,914 | 36,569 | 775,073 |
| Trade receivables, net | 531,571 | 608,741 | (77,170) | 4,876,798 |
| Inventories | 568,800 | 553,773 | 15,027 | 5,218,349 |
| Prepaid expenses and other current assets | 300,505 | 286,605 | 13,900 | 2,756,927 |
| Total current assets | 2,192,685 | 2,285,942 | (93,257) | 20,116,376 |
| Noncurrent receivables | 30,071 | 19,276 | 10,795 | 275,881 |
| Investments | 61,608 | 70,358 | (8,750) | 565,211 |
| Property, plant and equipment, net | 1,247,839 | 1,278,730 | (30,891) | 11,448,064 |
| Intangible assets, net | 144,015 | 145,075 | (1,060) | 1,321,239 |
| Other assets | 496,500 | 443,329 | 53,171 | 4,555,046 |
| Total assets | ¥ 4,172,718 | ¥ 4,242,710 | ¥ (69,992) | \$ 38,281,817 |
| LIABILITIES AND EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term loans and current portion of long-term debt | ¥ 1,333 | ¥ 1,299 | ¥ 34 | \$ 12,229 |
| Trade payables | 306,060 | 307,157 | (1,097) | 2,807,890 |
| Accrued income taxes | 42,399 | 53,196 | (10,797) | 388,982 |
| Accrued expenses | 316,061 | 315,536 | 525 | 2,899,642 |
| Other current liabilities | 156,613 | 171,119 | (14,506) | 1,436,817 |
| Total current liabilities | 822,466 | 848,307 | (25,841) | 7,545,560 |
| Long-term debt, excluding current installments | 1,365 | 1,448 | (83) | 12,523 |
| Accrued pension and severance cost | 206,352 | 229,664 | (23,312) | 1,893,138 |
| Other noncurrent liabilities | 94,832 | 96,514 | (1,682) | 870,018 |
| Total liabilities | 1,125,015 | 1,175,933 | (50,918) | 10,321,239 |

Equity:

Canon Inc. stockholders' equity:

| | | | | |
|---|--------------------|-------------|------------|----------------------|
| Common stock | 174,762 | 174,762 | - | 1,603,321 |
| Additional paid-in capital | 401,631 | 402,029 | (398) | 3,684,688 |
| Legal reserve | 64,095 | 63,091 | 1,004 | 588,028 |
| Retained earnings | 3,252,817 | 3,212,692 | 40,125 | 29,842,358 |
| Accumulated other comprehensive income (loss) | (42,927) | (80,646) | 37,719 | (393,826) |
| Treasury stock, at cost | (961,658) | (861,666) | (99,992) | (8,822,551) |
| Total Canon Inc. stockholders' equity | 2,888,720 | 2,910,262 | (21,542) | 26,502,018 |
| Noncontrolling interests | 158,983 | 156,515 | 2,468 | 1,458,560 |
| Total equity | 3,047,703 | 3,066,777 | (19,074) | 27,960,578 |
| Total liabilities and equity | ¥ 4,172,718 | ¥ 4,242,710 | ¥ (69,992) | \$ 38,281,817 |

Millions of yen

Thousands of U.S. dollars

| | | | |
|--|---|--|---|
| | As of September 30, 2014 | As of December 31, 2013 | As of September 30, 2014 |
|--|---|--|---|

Notes:

| | | | |
|---|------------------|-----------|-------------------|
| 1. Allowance for doubtful receivables | ¥ 12,040 | ¥ 12,730 | \$ 110,459 |
| 2. Accumulated depreciation | 2,461,832 | 2,383,530 | 22,585,615 |
| 3. Accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | 24,752 | 1,734 | 227,083 |
| Net unrealized gains and losses on securities | 10,827 | 10,242 | 99,330 |
| Net gains and losses on derivative instruments | (1,037) | (2,408) | (9,514) |
| Pension liability adjustments | (77,469) | (90,214) | (710,725) |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**Consolidated statements of income**

Millions of yen

Results for the third quarter

| | Millions of yen | | Change(%) | | Thousands of U.S. dollars |
|---|---|---|-----------|------|---|
| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | | | Three months ended September 30, 2014 |
| Net sales | ¥ 872,208 | ¥ 913,149 | - | 4.5 | \$ 8,001,908 |
| Cost of sales | 440,742 | 466,017 | | | 4,043,504 |
| Gross profit | 431,466 | 447,132 | - | 3.5 | 3,958,404 |
| Operating expenses: | | | | | |
| Selling, general and administrative expenses | 284,507 | 279,124 | | | 2,610,156 |
| Research and development expenses | 75,127 | 77,398 | | | 689,239 |
| | 359,634 | 356,522 | | | 3,299,395 |
| Operating profit | 71,832 | 90,610 | - | 20.7 | 659,009 |
| Other income (deductions): | | | | | |
| Interest and dividend income | 1,832 | 1,498 | | | 16,807 |
| Interest expense | (126) | (106) | | | (1,156) |
| Other, net | 6,626 | (3,946) | | | 60,790 |
| | 8,332 | (2,554) | | | 76,441 |
| Income before income taxes | 80,164 | 88,056 | - | 9.0 | 735,450 |
| Income taxes | 20,226 | 27,215 | | | 185,560 |
| Consolidated net income | 59,938 | 60,841 | | | 549,890 |
| Less: Net income attributable to noncontrolling interests | 1,689 | 2,019 | | | 15,496 |
| Net income attributable to Canon Inc. | ¥ 58,249 | ¥ 58,822 | - | 1.0 | \$ 534,394 |

Millions of yen

Results for the nine months

Thousands of
U.S. dollars

Change(%)

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| | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | | | Nine months ended September 30, 2014 |
|---|---|--|---|------|---|
| Net sales | ¥2,667,316 | ¥ 2,696,682 | - | 1.1 | \$ 24,470,789 |
| Cost of sales | 1,320,858 | 1,386,279 | | | 12,117,963 |
| Gross profit | 1,346,458 | 1,310,403 | + | 2.8 | 12,352,826 |
| Operating expenses: | | | | | |
| Selling, general and administrative expenses | 854,606 | 838,107 | | | 7,840,422 |
| Research and development expenses | 226,832 | 228,559 | | | 2,081,028 |
| | 1,081,438 | 1,066,666 | | | 9,921,450 |
| Operating profit | 265,020 | 243,737 | + | 8.7 | 2,431,376 |
| Other income (deductions): | | | | | |
| Interest and dividend income | 5,749 | 4,239 | | | 52,743 |
| Interest expense | (360) | (357) | | | (3,303) |
| Other, net | 5,921 | (440) | | | 54,322 |
| | 11,310 | 3,442 | | | 103,762 |
| Income before income taxes | 276,330 | 247,179 | + | 11.8 | 2,535,138 |
| Income taxes | 83,406 | 75,985 | | | 765,193 |
| Consolidated net income | 192,924 | 171,194 | | | 1,769,945 |
| Less: Net income attributable to noncontrolling interests | 6,217 | 4,963 | | | 57,037 |
| Net income attributable to Canon Inc. | ¥ 186,707 | ¥ 166,231 | + | 12.3 | \$ 1,712,908 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**Consolidated statements of
comprehensive income**

Millions of yen

Results for the third quarter

| | Millions of yen | | Change(%) | Thousands of U.S. dollars |
|--|---|---|-----------|---|
| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | | Three months ended September 30, 2014 |
| Consolidated net income | ¥ 59,938 | ¥ 60,841 | - 1.5 | \$ 549,890 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustments | 76,251 | 5,145 | | 699,550 |
| Net unrealized gains and losses on securities | 2,033 | 1,757 | | 18,651 |
| Net gains and losses on derivative instruments | (1,643) | 833 | | (15,073) |
| Pension liability adjustments | (581) | 2,900 | | (5,330) |
| | 76,060 | 10,635 | | 697,798 |
| Comprehensive income | 135,998 | 71,476 | + 90.3 | 1,247,688 |
| Less: Comprehensive income attributable to noncontrolling interests | 2,297 | 2,399 | | 21,073 |
| Comprehensive income attributable to Canon Inc. | ¥ 133,701 | ¥ 69,077 | + 93.6 | \$ 1,226,615 |

Millions of yen

Results for the nine months

| | Millions of yen | | Change(%) | Thousands of U.S. dollars |
|--|---|--|-----------|--|
| | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | | Nine months ended September 30, 2014 |
| Consolidated net income | ¥ 192,924 | ¥ 171,194 | + 12.7 | \$ 1,769,945 |
| Other comprehensive income, net of tax | | | | |
| Foreign currency translation adjustments | 23,261 | 142,279 | | 213,404 |
| Net unrealized gains and losses on securities | 645 | 3,912 | | 5,917 |

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| | | | | | |
|---|------------------|-----------|---|------|---------------------|
| Net gains and losses on derivative instruments | 1,374 | 4,440 | | | 12,606 |
| Pension liability adjustments | 12,780 | 2,819 | | | 117,247 |
| | 38,060 | 153,450 | | | 349,174 |
| Comprehensive income | 230,984 | 324,644 | - | 28.9 | 2,119,119 |
| Less: Comprehensive income attributable to noncontrolling interests | 6,539 | 6,796 | | | 59,991 |
| Comprehensive income attributable to Canon Inc. | ¥ 224,445 | ¥ 317,848 | - | 29.4 | \$ 2,059,128 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. DETAILS OF SALES

| <u>Results for the third quarter</u> | Millions of yen | | | Thousands of U.S. dollars | |
|--------------------------------------|------------------------|--|--|---------------------------|--|
| | Sales by business unit | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Change(%) | Three months ended September 30, 2014 |
| Office | ¥ 482,250 | ¥ 493,865 | - 2.4 | \$ 4,424,312 | |
| Imaging System | 315,833 | 348,637 | - 9.4 | 2,897,550 | |
| Industry and Others | 96,983 | 95,074 | + 2.0 | 889,752 | |
| Eliminations | (22,858) | (24,427) | - | (209,706) | |
| Total | ¥ 872,208 | ¥ 913,149 | - 4.5 | \$ 8,001,908 | |

| Sales by region | Millions of yen | | | Thousands of U.S. dollars | |
|-------------------------|--|--|-----------|--|--|
| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Change(%) | Three months ended September 30, 2014 | |
| Japan | ¥ 160,296 | ¥ 167,968 | - 4.6 | \$ 1,470,606 | |
| Overseas: | | | | | |
| <i>Americas</i> | 244,944 | 257,677 | - 4.9 | 2,247,193 | |
| <i>Europe</i> | 243,850 | 262,953 | - 7.3 | 2,237,156 | |
| <i>Asia and Oceania</i> | 223,118 | 224,551 | - 0.6 | 2,046,953 | |
| | 711,912 | 745,181 | - 4.5 | 6,531,302 | |
| Total | ¥ 872,208 | ¥ 913,149 | - 4.5 | \$ 8,001,908 | |

| <u>Results for the nine months</u> | Millions of yen | | | Thousands of U.S. dollars | |
|------------------------------------|------------------------|---|---|---------------------------|---|
| | Sales by business unit | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | Change(%) | Nine months ended September 30, 2014 |
| Office | ¥ 1,513,919 | ¥ 1,478,103 | + 2.4 | \$ 13,889,165 | |
| Imaging System | 941,029 | 1,032,757 | - 8.9 | 8,633,294 | |
| Industry and Others | 282,070 | 256,089 | + 10.1 | 2,587,798 | |
| Eliminations | (69,702) | (70,267) | - | (639,468) | |

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| | ¥2,667,316 | ¥ 2,696,682 | - | 1.1 | \$ 24,470,789 |
|-------------------------|--------------------------------------|--------------------------------------|-----------|-----|--------------------------------------|
| | Millions of yen | | | | Thousands of U.S. dollars |
| Sales by region | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | Change(%) | | Nine months ended September 30, 2014 |
| Japan | ¥ 516,563 | ¥ 503,340 | + | 2.6 | \$ 4,739,110 |
| Overseas: | | | | | |
| <i>Americas</i> | 726,645 | 771,761 | - | 5.8 | 6,666,468 |
| <i>Europe</i> | 778,109 | 805,262 | - | 3.4 | 7,138,615 |
| <i>Asia and Oceania</i> | 645,999 | 616,319 | + | 4.8 | 5,926,596 |
| | 2,150,753 | 2,193,342 | - | 1.9 | 19,731,679 |
| Total | ¥2,667,316 | ¥ 2,696,682 | - | 1.1 | \$ 24,470,789 |

- 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

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars |
|--|--|--|--|
| | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | Nine months ended September 30, 2014 |
| Cash flows from operating activities: | | | |
| Consolidated net income | ¥ 192,924 | ¥ 171,194 | \$ 1,769,945 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 190,089 | 201,052 | 1,743,936 |
| Loss on disposal of fixed assets | 7,936 | 7,409 | 72,807 |
| Deferred income taxes | (2,802) | (1,998) | (25,706) |
| Decrease in trade receivables | 76,748 | 100,044 | 704,110 |
| Increase in inventories | (14,179) | (4,746) | (130,083) |
| Increase (decrease) in trade payables | 3,196 | (59,605) | 29,321 |
| Decrease in accrued income taxes | (10,722) | (22,683) | (98,367) |
| Decrease in accrued expenses | (120) | (13,799) | (1,101) |
| Decrease in accrued (prepaid) pension and severance cost | (6,618) | (11,254) | (60,716) |
| Other, net | (37,902) | (22,288) | (347,724) |
| Net cash provided by operating activities | 398,550 | 343,326 | 3,656,422 |
| Cash flows from investing activities: | | | |
| Purchases of fixed assets | (160,629) | (180,932) | (1,473,661) |
| Proceeds from sale of fixed assets | 3,096 | 1,378 | 28,404 |
| Purchases of available-for-sale securities | (266) | (3,198) | (2,440) |
| Proceeds from sale and maturity of available-for-sale securities | 2,572 | 3,220 | 23,596 |
| Increase in time deposits, net | (33,542) | (22,888) | (307,725) |
| Acquisitions of subsidiaries, net of cash acquired | (53,285) | (4,914) | (488,853) |
| Purchases of other investments | - | (244) | - |
| Other, net | 10,664 | (31) | 97,835 |
| Net cash used in investing activities | (231,390) | (207,609) | (2,122,844) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt | 848 | 1,248 | 7,780 |
| Repayments of long-term debt | (1,430) | (1,989) | (13,119) |
| Increase (decrease) in short-term loans, net | (50) | 176 | (459) |
| Dividends paid | (145,790) | (155,627) | (1,337,523) |
| Repurchases of treasury stock, net | (100,000) | (49,992) | (917,431) |

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| | | | |
|--|------------------|-----------|---------------------|
| Other, net | (4,279) | (5,883) | (39,257) |
| Net cash used in financing activities | (250,701) | (212,067) | (2,300,009) |
| Effect of exchange rate changes on cash and cash equivalents | 1,958 | 50,193 | 17,963 |
| Net change in cash and cash equivalents | (81,583) | (26,157) | (748,468) |
| Cash and cash equivalents at beginning of period | 788,909 | 666,678 | 7,237,697 |
| Cash and cash equivalents at end of period | ¥ 707,326 | ¥ 640,521 | \$ 6,489,229 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. NOTE FOR GOING CONCERN ASSUMPTION

Not applicable.

6. SEGMENT INFORMATION

(1) SEGMENT INFORMATION BY BUSINESS UNIT

| <u>Results for the third quarter</u> | Millions of yen | | | Change(%) | Thousands of |
|---|--|--|---|-----------|--|
| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | | | U.S. dollars Three months ended September 30, 2014 |
| Office | | | | | |
| Net sales: | | | | | |
| External customers | ¥ 481,621 | ¥ 493,030 | - | 2.3 | \$ 4,418,541 |
| Intersegment | 629 | 835 | - | 24.7 | 5,771 |
| Total | 482,250 | 493,865 | - | 2.4 | 4,424,312 |
| Operating cost and expenses | 424,358 | 426,771 | - | 0.6 | 3,893,193 |
| Operating profit | ¥ 57,892 | ¥ 67,094 | - | 13.7 | \$ 531,119 |
| Imaging System | | | | | |
| Net sales: | | | | | |
| External customers | ¥ 315,658 | ¥ 348,423 | - | 9.4 | \$ 2,895,945 |
| Intersegment | 175 | 214 | - | 18.2 | 1,605 |
| Total | 315,833 | 348,637 | - | 9.4 | 2,897,550 |
| Operating cost and expenses | 272,487 | 291,698 | - | 6.6 | 2,499,880 |
| Operating profit | ¥ 43,346 | ¥ 56,939 | - | 23.9 | \$ 397,670 |
| Industry and Others | | | | | |
| Net sales: | | | | | |
| External customers | ¥ 74,929 | ¥ 71,696 | + | 4.5 | \$ 687,422 |
| Intersegment | 22,054 | 23,378 | - | 5.7 | 202,330 |
| Total | 96,983 | 95,074 | + | 2.0 | 889,752 |

| | | | | | |
|-----------------------------------|-------------------|------------|---|------|---------------------|
| Operating cost and expenses | 101,935 | 103,212 | - | 1.2 | 935,183 |
| Operating profit | ¥ (4,952) | ¥ (8,138) | - | \$ | (45,431) |
| Corporate and Eliminations | | | | | |
| Net sales: | | | | | |
| External customers | ¥ - | ¥ - | - | \$ | - |
| Intersegment | (22,858) | (24,427) | - | | (209,706) |
| Total | (22,858) | (24,427) | - | | (209,706) |
| Operating cost and expenses | 1,596 | 858 | - | | 14,643 |
| Operating profit | ¥ (24,454) | ¥ (25,285) | - | \$ | (224,349) |
| Consolidated | | | | | |
| Net sales: | | | | | |
| External customers | ¥ 872,208 | ¥ 913,149 | - | 4.5 | \$ 8,001,908 |
| Intersegment | - | - | - | - | - |
| Total | 872,208 | 913,149 | - | 4.5 | 8,001,908 |
| Operating cost and expenses | 800,376 | 822,539 | - | 2.7 | 7,342,899 |
| Operating profit | ¥ 71,832 | ¥ 90,610 | - | 20.7 | \$ 659,009 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Millions of yen

Results for the nine months

| | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | Change(%) | Thousands of U.S. dollars Nine months ended September 30, 2014 |
|-----------------------------|---|--|-----------|---|
| Office | | | | |
| Net sales: | | | | |
| External customers | ¥ 1,511,439 | ¥ 1,472,615 | + 2.6 | \$ 13,866,413 |
| Intersegment | 2,480 | 5,488 | - 54.8 | 22,752 |
| Total | 1,513,919 | 1,478,103 | + 2.4 | 13,889,165 |
| Operating cost and expenses | 1,295,451 | 1,274,746 | + 1.6 | 11,884,871 |
| Operating profit | ¥ 218,468 | ¥ 203,357 | + 7.4 | \$ 2,004,294 |
| Imaging System | | | | |
| Net sales: | | | | |
| External customers | ¥ 940,543 | ¥ 1,032,183 | - 8.9 | \$ 8,628,835 |
| Intersegment | 486 | 574 | - 15.3 | 4,459 |
| Total | 941,029 | 1,032,757 | - 8.9 | 8,633,294 |
| Operating cost and expenses | 804,695 | 891,059 | - 9.7 | 7,382,523 |
| Operating profit | ¥ 136,334 | ¥ 141,698 | - 3.8 | \$ 1,250,771 |
| Industry and Others | | | | |
| Net sales: | | | | |
| External customers | ¥ 215,334 | ¥ 191,884 | + 12.2 | \$ 1,975,541 |
| Intersegment | 66,736 | 64,205 | + 3.9 | 612,257 |
| Total | 282,070 | 256,089 | + 10.1 | 2,587,798 |
| Operating cost and expenses | 297,130 | 277,593 | + 7.0 | 2,725,963 |
| Operating profit | ¥ (15,060) | ¥ (21,504) | - | \$ (138,165) |

Corporate and Eliminations

Net sales:

| | | | | | | | |
|-----------------------------|---|----------|---|----------|---|----|-----------|
| External customers | ¥ | - | ¥ | - | - | \$ | - |
| Intersegment | | (69,702) | | (70,267) | - | | (639,468) |
| Total | | (69,702) | | (70,267) | - | | (639,468) |
| Operating cost and expenses | | 5,020 | | 9,547 | - | | 46,056 |
| Operating profit | ¥ | (74,722) | ¥ | (79,814) | - | \$ | (685,524) |

Consolidated

Net sales:

| | | | | | | | | |
|-----------------------------|---|-----------|---|-----------|---|-----|----|------------|
| External customers | ¥ | 2,667,316 | ¥ | 2,696,682 | - | 1.1 | \$ | 24,470,789 |
| Intersegment | | - | | - | - | - | | - |
| Total | | 2,667,316 | | 2,696,682 | - | 1.1 | | 24,470,789 |
| Operating cost and expenses | | 2,402,296 | | 2,452,945 | - | 2.1 | | 22,039,413 |
| Operating profit | ¥ | 265,020 | ¥ | 243,737 | + | 8.7 | \$ | 2,431,376 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

(2) SEGMENT INFORMATION BY GEOGRAPHIC AREA

| <u>Results for the third quarter</u> | Millions of yen | | | Change(%) | Thousands of |
|---|--|--|--------|-----------|--|
| | Three months ended September 30, 2014 | Three months ended September 30, 2013 | | | U.S. dollars Three months ended September 30, 2014 |
| Japan | | | | | |
| Net sales: | | | | | |
| External customers | ¥ 183,294 | ¥ 192,300 | - 4.7 | | \$ 1,681,596 |
| Intersegment | 442,120 | 498,894 | - 11.4 | | 4,056,147 |
| Total | 625,414 | 691,194 | - 9.5 | | 5,737,743 |
| Operating cost and expenses | 561,124 | 614,605 | - 8.7 | | 5,147,926 |
| Operating profit | ¥ 64,290 | ¥ 76,589 | - 16.1 | | \$ 589,817 |
| Americas | | | | | |
| Net sales: | | | | | |
| External customers | ¥ 244,427 | ¥ 257,536 | - 5.1 | | \$ 2,242,450 |
| Intersegment | 2,696 | 1,938 | + 39.1 | | 24,733 |
| Total | 247,123 | 259,474 | - 4.8 | | 2,267,183 |
| Operating cost and expenses | 240,467 | 250,210 | - 3.9 | | 2,206,119 |
| Operating profit | ¥ 6,656 | ¥ 9,264 | - 28.2 | | \$ 61,064 |
| Europe | | | | | |
| Net sales: | | | | | |
| External customers | ¥ 243,446 | ¥ 262,358 | - 7.2 | | \$ 2,233,450 |
| Intersegment | 14,909 | 13,749 | + 8.4 | | 136,779 |
| Total | 258,355 | 276,107 | - 6.4 | | 2,370,229 |
| Operating cost and expenses | 260,574 | 273,939 | - 4.9 | | 2,390,587 |
| Operating profit | ¥ (2,219) | ¥ 2,168 | - | | \$ (20,358) |

Asia and Oceania

Net sales:

| | | | | | |
|-----------------------------|-----------|-----------|---|------|--------------|
| External customers | ¥ 201,041 | ¥ 200,955 | + | 0.0 | \$ 1,844,412 |
| Intersegment | 213,361 | 244,411 | - | 12.7 | 1,957,441 |
| Total | 414,402 | 445,366 | - | 7.0 | 3,801,853 |
| Operating cost and expenses | 391,324 | 421,239 | - | 7.1 | 3,590,128 |
| Operating profit | ¥ 23,078 | ¥ 24,127 | - | 4.3 | \$ 211,725 |

Corporate and Eliminations

Net sales:

| | | | | | |
|-----------------------------|------------|------------|---|---|--------------|
| External customers | ¥ - | ¥ - | - | - | \$ - |
| Intersegment | (673,086) | (758,992) | - | - | (6,175,100) |
| Total | (673,086) | (758,992) | - | - | (6,175,100) |
| Operating cost and expenses | (653,113) | (737,454) | - | - | (5,991,861) |
| Operating profit | ¥ (19,973) | ¥ (21,538) | - | - | \$ (183,239) |

Consolidated

Net sales:

| | | | | | |
|-----------------------------|-----------|-----------|---|------|--------------|
| External customers | ¥ 872,208 | ¥ 913,149 | - | 4.5 | \$ 8,001,908 |
| Intersegment | - | - | - | - | - |
| Total | 872,208 | 913,149 | - | 4.5 | 8,001,908 |
| Operating cost and expenses | 800,376 | 822,539 | - | 2.7 | 7,342,899 |
| Operating profit | ¥ 71,832 | ¥ 90,610 | - | 20.7 | \$ 659,009 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Millions of yen

Results for the nine months

| | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 | Change(%) | Thousands of U.S. dollars Nine months ended September 30, 2014 |
|-----------------------------|--|--|-----------|--|
| Japan | | | | |
| Net sales: | | | | |
| External customers | ¥ 604,488 | ¥ 551,259 | + 9.7 | \$ 5,545,761 |
| Intersegment | 1,279,697 | 1,397,770 | - 8.4 | 11,740,340 |
| Total | 1,884,185 | 1,949,029 | - 3.3 | 17,286,101 |
| Operating cost and expenses | 1,631,827 | 1,711,999 | - 4.7 | 14,970,890 |
| Operating profit | ¥ 252,358 | ¥ 237,030 | + 6.5 | \$ 2,315,211 |
| Americas | | | | |
| Net sales: | | | | |
| External customers | ¥ 725,261 | ¥ 768,520 | - 5.6 | \$ 6,653,771 |
| Intersegment | 5,197 | 8,583 | - 39.5 | 47,679 |
| Total | 730,458 | 777,103 | - 6.0 | 6,701,450 |
| Operating cost and expenses | 715,006 | 756,561 | - 5.5 | 6,559,689 |
| Operating profit | ¥ 15,452 | ¥ 20,542 | - 24.8 | \$ 141,761 |
| Europe | | | | |
| Net sales: | | | | |
| External customers | ¥ 777,023 | ¥ 805,219 | - 3.5 | \$ 7,128,651 |
| Intersegment | 40,902 | 39,850 | + 2.6 | 375,248 |
| Total | 817,925 | 845,069 | - 3.2 | 7,503,899 |
| Operating cost and expenses | 814,744 | 849,862 | - 4.1 | 7,474,716 |
| Operating profit | ¥ 3,181 | ¥ (4,793) | - | \$ 29,183 |

Asia and Oceania

| | | | | | |
|-----------------------------|-----------|-----------|---|-----|--------------|
| Net sales: | | | | | |
| External customers | ¥ 560,544 | ¥ 571,684 | - | 1.9 | \$ 5,142,606 |
| Intersegment | 601,283 | 662,584 | - | 9.3 | 5,516,357 |
| Total | 1,161,827 | 1,234,268 | - | 5.9 | 10,658,963 |
| Operating cost and expenses | 1,105,807 | 1,180,587 | - | 6.3 | 10,145,018 |
| Operating profit | ¥ 56,020 | ¥ 53,681 | + | 4.4 | \$ 513,945 |

Corporate and Eliminations

| | | | | | |
|-----------------------------|-------------|-------------|---|---|--------------|
| Net sales: | | | | | |
| External customers | ¥ - | ¥ - | - | - | \$ - |
| Intersegment | (1,927,079) | (2,108,787) | - | - | (17,679,624) |
| Total | (1,927,079) | (2,108,787) | - | - | (17,679,624) |
| Operating cost and expenses | (1,865,088) | (2,046,064) | - | - | (17,110,900) |
| Operating profit | ¥ (61,991) | ¥ (62,723) | - | - | \$ (568,724) |

Consolidated

| | | | | | |
|-----------------------------|-------------|-------------|---|-----|---------------|
| Net sales: | | | | | |
| External customers | ¥ 2,667,316 | ¥ 2,696,682 | - | 1.1 | \$ 24,470,789 |
| Intersegment | - | - | - | - | - |
| Total | 2,667,316 | 2,696,682 | - | 1.1 | 24,470,789 |
| Operating cost and expenses | 2,402,296 | 2,452,945 | - | 2.1 | 22,039,413 |
| Operating profit | ¥ 265,020 | ¥ 243,737 | + | 8.7 | \$ 2,431,376 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

| | September 30, 2014 | December 31, 2013 | Change |
|--------------|--------------------|-------------------|--------|
| Subsidiaries | 261 | 257 | 4 |
| Affiliates | 9 | 11 | (2) |
| Total | 270 | 268 | 2 |

2. Change in Group Entities

| | |
|--------------|--------------|
| Subsidiaries | |
| Addition: | 18 companies |
| Removal: | 14 companies |

| | |
|--------------------------------------|-------------|
| Affiliates (Carried at Equity Basis) | |
| Removal: | 2 companies |

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 THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 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, 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)

Change year over year

| | 2014 | | Year (P) | 2013 | | Year | Change year over year | | |
|-------------------------|-------------|-----------|-----------|-------------|-----------|-----------|-----------------------|--------|-------|
| | 3rd quarter | YTD | | 3rd quarter | YTD | | 3rd quarter | YTD | Year |
| Japan | | | | | | | | | |
| Office | 86,568 | 283,258 | - | 85,181 | 270,820 | 368,308 | +1.6% | +4.6% | - |
| Imaging System | 43,210 | 136,466 | - | 52,183 | 139,867 | 215,970 | -17.2% | -2.4% | - |
| Industry and Others | 30,518 | 96,839 | - | 30,604 | 92,653 | 131,585 | -0.3% | +4.5% | - |
| Total | 160,296 | 516,563 | 738,600 | 167,968 | 503,340 | 715,863 | -4.6% | +2.6% | +3.2% |
| Overseas | | | | | | | | | |
| Office | 395,053 | 1,228,181 | - | 407,849 | 1,201,795 | 1,625,590 | -3.1% | +2.2% | - |
| Imaging System | 272,448 | 804,077 | - | 296,240 | 892,316 | 1,232,216 | -8.0% | -9.9% | - |
| Industry and Others | 44,411 | 118,495 | - | 41,092 | 99,231 | 157,711 | +8.1% | +19.4% | - |
| Total | 711,912 | 2,150,753 | 3,001,400 | 745,181 | 2,193,342 | 3,015,517 | -4.5% | -1.9% | -0.5% |
| Americas | | | | | | | | | |
| Office | 160,979 | 472,967 | - | 164,728 | 470,991 | 629,472 | -2.3% | +0.4% | - |
| Imaging System | 76,181 | 232,551 | - | 85,563 | 274,180 | 392,373 | -11.0% | -15.2% | - |
| Industry and Others | 7,784 | 21,127 | - | 7,386 | 26,590 | 37,656 | +5.4% | -20.5% | - |
| Total | 244,944 | 726,645 | 1,036,400 | 257,677 | 771,761 | 1,059,501 | -4.9% | -5.8% | -2.2% |
| Europe | | | | | | | | | |
| Office | 153,735 | 497,702 | - | 163,676 | 505,803 | 694,563 | -6.1% | -1.6% | - |
| Imaging System | 81,462 | 257,610 | - | 92,779 | 282,099 | 404,390 | -12.2% | -8.7% | - |
| Industry and Others | 8,653 | 22,797 | - | 6,498 | 17,360 | 25,976 | +33.2% | +31.3% | - |
| Total | 243,850 | 778,109 | 1,083,000 | 262,953 | 805,262 | 1,124,929 | -7.3% | -3.4% | -3.7% |
| Asia and Oceania | | | | | | | | | |
| Office | 80,339 | 257,512 | - | 79,445 | 225,001 | 301,555 | +1.1% | +14.4% | - |
| Imaging System | 114,805 | 313,916 | - | 117,898 | 336,037 | 435,453 | -2.6% | -6.6% | - |
| Industry and Others | 27,974 | 74,571 | - | 27,208 | 55,281 | 94,079 | +2.8% | +34.9% | - |
| Total | 223,118 | 645,999 | 882,000 | 224,551 | 616,319 | 831,087 | -0.6% | +4.8% | +6.1% |
| Intersegment | | | | | | | | | |
| Office | 629 | 2,480 | - | 835 | 5,488 | 6,175 | -24.7% | -54.8% | - |
| Imaging System | 175 | 486 | - | 214 | 574 | 752 | -18.2% | -15.3% | - |
| Industry and Others | 22,054 | 66,736 | - | 23,378 | 64,205 | 85,574 | -5.7% | +3.9% | - |
| Eliminations | (22,858) | (69,702) | - | (24,427) | (70,267) | (92,501) | - | - | - |

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| | | | | | | | | | |
|--------------|----------|-----------|-----------|----------|-----------|-----------|-------|--------|-------|
| Total | 0 | 0 | 0 | 0 | 0 | 0 | - | - | - |
| Total | | | | | | | | | |
| Office | 482,250 | 1,513,919 | 2,071,700 | 493,865 | 1,478,103 | 2,000,073 | -2.4% | +2.4% | +3.6% |
| Imaging | | | | | | | | | |
| System | 315,833 | 941,029 | 1,360,000 | 348,637 | 1,032,757 | 1,448,938 | -9.4% | -8.9% | -6.1% |
| Industry and | | | | | | | | | |
| Others | 96,983 | 282,070 | 398,500 | 95,074 | 256,089 | 374,870 | +2.0% | +10.1% | +6.3% |
| Eliminations | (22,858) | (69,702) | (90,200) | (24,427) | (70,267) | (92,501) | - | - | - |
| Total | 872,208 | 2,667,316 | 3,740,000 | 913,149 | 2,696,682 | 3,731,380 | -4.5% | -1.1% | +0.2% |

(P)=Projection

- S1 -

2. SEGMENT INFORMATION BY BUSINESS UNIT

| | 2014 | | | 2013 | | | (Millions of yen) Change year over year | | |
|-----------------------------------|-------------|-----------|-----------|-------------|-----------|-----------|--|--------|--------|
| | 3rd quarter | YTD | Year (P) | 3rd quarter | YTD | Year | 3rd quarter | YTD | Year |
| Office | | | | | | | | | |
| External customers | 481,621 | 1,511,439 | 2,068,400 | 493,030 | 1,472,615 | 1,993,898 | -2.3% | +2.6% | +3.7% |
| Intersegment | 629 | 2,480 | 3,300 | 835 | 5,488 | 6,175 | -24.7% | -54.8% | -46.6% |
| Total sales | 482,250 | 1,513,919 | 2,071,700 | 493,865 | 1,478,103 | 2,000,073 | -2.4% | +2.4% | +3.6% |
| Operating profit | 57,892 | 218,468 | 293,200 | 67,094 | 203,357 | 266,908 | -13.7% | +7.4% | +9.9% |
| % of sales | 12.0% | 14.4% | 14.2% | 13.6% | 13.8% | 13.3% | - | - | - |
| Imaging | | | | | | | | | |
| External customers | 315,658 | 940,543 | 1,359,300 | 348,423 | 1,032,183 | 1,448,186 | -9.4% | -8.9% | -6.1% |
| Intersegment | 175 | 486 | 700 | 214 | 574 | 752 | -18.2% | -15.3% | -6.9% |
| Total sales | 315,833 | 941,029 | 1,360,000 | 348,637 | 1,032,757 | 1,448,938 | -9.4% | -8.9% | -6.1% |
| Operating profit | 43,346 | 136,334 | 204,600 | 56,939 | 141,698 | 203,794 | -23.9% | -3.8% | +0.4% |
| % of sales | 13.7% | 14.5% | 15.0% | 16.3% | 13.7% | 14.1% | - | - | - |
| Industry and Others | | | | | | | | | |
| External customers | 74,929 | 215,334 | 312,300 | 71,696 | 191,884 | 289,296 | +4.5% | +12.2% | +8.0% |
| Intersegment | 22,054 | 66,736 | 86,200 | 23,378 | 64,205 | 85,574 | -5.7% | +3.9% | +0.7% |
| Total sales | 96,983 | 282,070 | 398,500 | 95,074 | 256,089 | 374,870 | +2.0% | +10.1% | +6.3% |
| Operating profit | (4,952) | (15,060) | (26,200) | (8,138) | (21,504) | (25,331) | - | - | - |
| % of sales | -5.1% | -5.3% | -6.6% | -8.6% | -8.4% | -6.8% | - | - | - |
| Corporate and eliminations | | | | | | | | | |
| External customers | - | - | - | - | - | - | - | - | - |
| Intersegment | (22,858) | (69,702) | (90,200) | (24,427) | (70,267) | (92,501) | - | - | - |
| Total sales | (22,858) | (69,702) | (90,200) | (24,427) | (70,267) | (92,501) | - | - | - |
| Operating profit | (24,454) | (74,722) | (101,600) | (25,285) | (79,814) | (108,094) | - | - | - |
| Consolidated | | | | | | | | | |
| External customers | 872,208 | 2,667,316 | 3,740,000 | 913,149 | 2,696,682 | 3,731,380 | -4.5% | -1.1% | +0.2% |
| Intersegment | - | - | - | - | - | - | - | - | - |
| Total sales | 872,208 | 2,667,316 | 3,740,000 | 913,149 | 2,696,682 | 3,731,380 | -4.5% | -1.1% | +0.2% |
| Operating profit | 71,832 | 265,020 | 370,000 | 90,610 | 243,737 | 337,277 | -20.7% | +8.7% | +9.7% |
| % of sales | 8.2% | 9.9% | 9.9% | 9.9% | 9.0% | 9.0% | - | - | - |

| | | | | | | | (P)=Projecti | | |
|--|-------------|-------------|----------|-------------|-------------|---------|-----------------------|--------|-------|
| OTHER INCOME / DEDUCTIONS | | | | | | | (Millions of ye | | |
| | 3rd quarter | 2014 YTD | Year (P) | 3rd quarter | 2013 YTD | Year | Change year over year | | |
| | | | | | | | 3rd quarter | YTD | Year |
| Interest and dividend, net | 1,706 | 5,389 | 6,600 | 1,392 | 3,882 | 6,029 | +314 | +1,507 | +57 |
| Forex gain (loss) | 5,684 | (1,971) | (2,300) | (3,939) | (6,083) | (1,992) | +9,623 | +4,112 | (30 |
| Equity earnings (loss) of affiliated companies | 98 | 310 | 400 | (481) | (356) | (664) | +579 | +666 | +1,06 |
| Other, net | 844 | 7,582 | 5,300 | 474 | 5,999 | 6,954 | +370 | +1,583 | (1,65 |
| Total | 8,332 | 11,310 | 10,000 | (2,554) | 3,442 | 10,327 | +10,886 | +7,868 | (32 |
| | | | | | | | (P)=Projecti | | |

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4. BREAKDOWN OF PRODUCT SALES WITHIN BUSINESS UNIT

| | 2014 | | | 2013 | | |
|----------------------------|-------------|-----|----------|-------------|-----|------|
| | 3rd quarter | YTD | Year (P) | 3rd quarter | YTD | Year |
| Office | | | | | | |
| Monochrome copiers | 16% | 16% | 16% | 16% | 16% | 16% |
| Color copiers | 19% | 19% | 20% | 18% | 19% | 19% |
| Printers | 42% | 42% | 41% | 44% | 44% | 42% |
| Others | 23% | 23% | 23% | 22% | 21% | 23% |
| Imaging System | | | | | | |
| Cameras | 65% | 65% | 64% | 68% | 68% | 67% |
| Inkjet printers | 27% | 27% | 27% | 24% | 24% | 25% |
| Others | 8% | 8% | 9% | 8% | 8% | 8% |
| Industry and Others | | | | | | |
| Lithography equipment | 25% | 23% | 22% | 9% | 10% | 17% |
| Others | 75% | 77% | 78% | 91% | 90% | 83% |

(P)=Projection

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

| | 2014 | | |
|----------------------------|-------------|--------|----------|
| | 3rd quarter | YTD | Year (P) |
| Office | | | |
| Japan | +1.6% | +4.6% | - |
| Overseas | -8.0% | -4.6% | - |
| Total | -6.4% | -3.1% | -1.5% |
| Imaging System | | | |
| Japan | -17.2% | -2.4% | - |
| Overseas | -12.6% | -15.8% | - |
| Total | -13.3% | -14.0% | -10.8% |
| Industry and Others | | | |
| Japan | -0.3% | +4.5% | - |
| Overseas | +5.5% | +15.7% | - |
| Total | +0.9% | +8.7% | +5.0% |
| Total | | | |
| Japan | -4.6% | +2.6% | +3.2% |
| Overseas | -9.1% | -8.2% | -6.2% |
| Americas | -9.9% | -11.5% | -8.3% |
| Europe | -11.8% | -11.4% | -9.7% |
| Asia and Oceania | -5.0% | -0.0% | +1.1% |
| Total | -8.3% | -6.2% | -4.4% |

(P)=Projection

6. PROFITABILITY

| | 2014 | | 2013 | |
|--------|------|----------|------|------|
| | YTD | Year (P) | YTD | Year |
| ROE *1 | 8.6% | 8.5% | 8.4% | 8.4% |
| ROA *2 | 5.9% | 5.9% | 5.5% | 5.6% |

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

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

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

| | 2014 | | 2013 | | |
|----------|-------------|--------|-----------------|----------|-------------|
| | 3rd quarter | YTD | 4th quarter (P) | Year (P) | 3rd quarter |
| Yen/US\$ | 104.22 | 103.01 | 108.00 | 104.39 | 98.9 |
| Yen/Euro | 137.78 | 139.53 | 137.00 | 138.83 | 131.0 |

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

(Billions of yen)

| | 2014 | | Year (P) |
|------------------|-------------|--------|----------|
| | 3rd quarter | YTD | |
| US\$ | +16.0 | +46.4 | +74.0 |
| Euro | +9.6 | +55.0 | +53.5 |
| Other currencies | +4.9 | +12.3 | +17.7 |
| Total | +30.5 | +113.7 | +145.2 |

(P)=Projection

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

| | 2014 | |
|---------------------|-----------------|--|
| | 4th quarter (P) | |
| On sales | | |
| US\$ | 4.3 | |
| Euro | 1.9 | |
| On operating profit | | |
| US\$ | 1.6 | |
| Euro | 1.0 | |

(P)=Projection

8. STATEMENTS OF CASH FLOWS

| | 2014 | | | 2013 | |
|--|-------------|-----------|-----------|-------------|-----------|
| | 3rd quarter | YTD | Year (P) | 3rd quarter | YTD |
| Net cash provided by operating activities | 104,063 | 398,550 | 545,000 | 125,437 | 343,326 |
| Net cash used in investing activities | (89,323) | (231,390) | (290,000) | (68,343) | (207,600) |
| Free cash flow | 14,740 | 167,160 | 255,000 | 57,094 | 135,716 |
| Net cash used in financing activities | (74,314) | (250,701) | (249,600) | (126,713) | (212,060) |
| Effect of exchange rate changes on cash and cash equivalents | 22,216 | 1,958 | (4,300) | 2,366 | 50,190 |
| Net change in cash and cash equivalents | (37,358) | (81,583) | 1,100 | (67,253) | (26,154) |
| Cash and cash equivalents at end of period | 707,326 | 707,326 | 790,000 | 640,521 | 640,521 |

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9. R&D EXPENDITURE

(Millions of yen)

| | 2014 | | | 2013 | | |
|----------------------------|-------------|---------|----------|-------------|---------|---------|
| | 3rd quarter | YTD | Year (P) | 3rd quarter | YTD | Year |
| Office | 23,758 | 74,457 | - | 26,117 | 77,627 | 105,246 |
| Imaging System | 20,262 | 62,228 | - | 20,638 | 62,224 | 84,377 |
| Industry and Others | 6,402 | 19,145 | - | 6,703 | 18,852 | 25,701 |
| Corporate and Eliminations | 24,705 | 71,002 | - | 23,940 | 69,856 | 91,000 |
| Total | 75,127 | 226,832 | 305,000 | 77,398 | 228,559 | 306,324 |
| % of sales | 8.6% | 8.5% | 8.2% | 8.5% | 8.5% | 8.2% |

(P)=Projection

10. INCREASE IN PP&E & DEPRECIATION AND AMORTIZATION

(Millions of yen)

| | 2014 | | | 2013 | | |
|-------------------------------|-------------|---------|----------|-------------|---------|---------|
| | 3rd quarter | YTD | Year (P) | 3rd quarter | YTD | Year |
| Increase in PP&E | 42,277 | 127,294 | 195,000 | 47,076 | 142,884 | 188,826 |
| Depreciation and amortization | 66,574 | 190,089 | 265,000 | 69,399 | 201,052 | 275,173 |

(P)=Projection

11. INVENTORIES**(1) Inventories**

(Millions of yen)

| | 2014 | 2013 | Difference |
|---------------------|---------|---------|------------|
| | Sep.30 | Dec.31 | |
| Office | 235,814 | 227,413 | +8,401 |
| Imaging System | 214,146 | 221,368 | (7,222) |
| Industry and Others | 118,840 | 104,992 | +13,848 |
| Total | 568,800 | 553,773 | +15,027 |

(2) Inventories/Sales*

(Days)

| | 2014 | 2013 | Difference |
|---------------------|--------|--------|------------|
| | Sep.30 | Dec.31 | |
| Office | 43 | 41 | +2 |
| Imaging System | 60 | 53 | +7 |
| Industry and Others | 149 | 115 | +34 |
| Total | 58 | 52 | +6 |

*Index based on the previous six months sales.

12. DEBT RATIO

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

13. OVERSEAS PRODUCTION RATIO

| 2014 | 2013 |
|------|------|
| YTD | Year |

Overseas production ratio 61% 57%

14. NUMBER OF EMPLOYEES

| | 2014 Sep.30 | 2013 Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan | 69,549 | 69,825 | (276) |
| Overseas | 122,388 | 124,326 | (1,938) |
| Total | 191,937 | 194,151 | (2,214) |

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