# Canon

## **CANON ELECTRONICS INC.**

# **ANNUAL REPORT 2014(Unaudited)**

## CONSOLIDATED FINANCIAL HIGHLIGHTS

|                                  |        | Millions of yen<br>(except per share amounts) |         |         |  |
|----------------------------------|--------|---|---------|---------|--|
|                                  | 2014   | 2013  | 2014    | 2013    |  |
|                                  | ¥      | ¥   | \$      | \$      |  |
| Net sales                        |        |   |         |         |  |
| Component                        | 51,537 | 54,362  | 425,929 | 449,280 |  |
| Electronic Information Appliance | 34,033 | 33,014  | 281,269 | 272,849 |  |
| Other                            | 9,911  | 10,638  | 81,913  | 87,921  |  |
| Total                            | 95,482 | 98,016  | 789,112 | 810,051 |  |
| Net Income                       | 7,377  | 7,249   | 60,971  | 59,910  |  |
| Net income per common share      |        |   |         |         |  |
| assuming no dilution             | 178.77 | 174.26  | 1.48    | 1.44    |  |
| assuming full dilution           | -      | -   | -       |         |  |

|              | Million | ns of yen | Thousands | Thousands of U.S. dollars |  |  |  |
|--------------|---------|-----------|-----------|---------------------------|--|--|--|
|              | 2014    | 2013      | 2014      | 2013                      |  |  |  |
|              | ¥       | ¥         | \$        | \$                        |  |  |  |
| Total assets | 101,542 | 96,013    | 839,195   | 793,497                   |  |  |  |
| Net assets   | 75,996  | 73,953    | 628,073   | 611,183                   |  |  |  |

## CONSOLIDATED STATEMENTS OF INCOME

|  | Millions of yen |        |   |        |    | Thousands of U.S. dollars |    |         |  |
|--|-----------------|--------|---|--------|----|---------------------------|----|---------|--|
|  | _               | 2014   |   | 2013   | _  | 2014                      |    | 2013    |  |
|  | ¥               |        | ¥ |        | \$ |                           | \$ |         |  |
| Net sales  |                 | 95,482 |   | 98,016 |    | 789,112                   |    | 810,051 |  |
| Cost of sales                                      |                 | 75,523 |   | 77,046 |    | 624,157                   |    | 636,749 |  |
| Gross profit                                       |                 | 19,959 |   | 20,969 |    | 164,954                   |    | 173,302 |  |
| Selling, general and administrative expenses       |                 | 11,162 |   | 11,098 |    | 92,249                    |    | 91,724  |  |
| Operating profit                                   |                 | 8,797  |   | 9,870  |    | 72,704                    |    | 81,577  |  |
| Other income                                       |                 |        |   |        |    |                           |    |         |  |
| Foreign exchange gains                             |                 | 1,585  |   | 1,574  |    | 13,102                    |    | 13,010  |  |
| Gain on sales of investment securities             |                 | -      |   | 913    |    | -                         |    | 7,550   |  |
| Gain on reversal of subscription rights to shares  |                 | 225    |   | 9      |    | 1,864                     |    | 74      |  |
| Gain on bargain purchase                           |                 | -      |   | 14     |    | -                         |    | 122     |  |
| Other  |                 | 179    |   | 239    |    | 1,482                     |    | 1,975   |  |
|  |                 | 1,990  |   | 2,750  |    | 16,449                    |    | 22,732  |  |
| Other expenses                                     |                 |        |   |        |    |                           |    |         |  |
| Provision of allowance for doubtful receivables    |                 | -      |   | 734    |    | -                         |    | 6,069   |  |
| Loss on sales and retirement of non-current assets |                 | 14     |   | 4      |    | 120                       |    | 36      |  |
| Loss on valuation of investment securities         |                 | 47     |   | 1      |    | 394                       |    | 15      |  |
| Other  |                 | 36     |   | 32     |    | 305                       |    | 265     |  |
|  |                 | 99     |   | 772    |    | 819                       |    | 6,387   |  |
| Income before income taxes and minority interests  |                 | 10,688 |   | 11,848 |    | 88,333                    |    | 97,922  |  |
| Income taxes                                       |                 | 3,310  |   | 4,590  |    | 27,357                    |    | 37,938  |  |
| Minority interests                                 |                 | 0      |   | 8      |    | 5                         |    | 73      |  |
| Net income   | ¥               | 7,377  | ¥ | 7,249  | \$ | 60,971                    | \$ | 59,910  |  |

### CONSOLIDATED STATEMENTS OF CASH FLOW

|  | Millions of yen |         |          | Thousands of U.S. dollars |  |  |
|--|-----------------|---------|----------|---------------------------|--|--|
| -  | 2014            | 2013    | 2014     | 2013                      |  |  |
| ¥  |                 | ¥       | \$       | \$                        |  |  |
| Net income   | 7,377           | 7,249   | 60,971   | 59,910                    |  |  |
| Adjustment to reconcile net income to net cash   |                 |         |          |                           |  |  |
| provided by operating activities   |                 |         |          |                           |  |  |
| Depreciation   | 3,995           | 4,412   | 33,019   | 36,467                    |  |  |
| Amortization of goodwill   | -               | 185     | -        | 1,530                     |  |  |
| Increase (decrease) in provision for bonuses   | (2)             | 9       | (19)     | 76                        |  |  |
| Increase (decrease) in provision for directors' bonuses  | (6)             | (10)    | (52)     | (86)                      |  |  |
| Increase (decrease) in provision for loss on order received                                      | (8)             | (12)    | (66)     | (100)                     |  |  |
| Increase (decrease) in provision for retirement benefits   | (309)           | (198)   | (2,558)  | (1,644)                   |  |  |
| Interest and dividends income  | (51)            | (48)    | (425)    | (396)                     |  |  |
| Loss (gain) on sales and retirement of property, plant and equipmen                              | 14              | 3       | 120      | 31                        |  |  |
| Loss (gain) on sales and valuation of investments in securities                                  | 47              | (911)   | 394      | (7,534)                   |  |  |
| Decrease (increase) in notes and accounts receivable   | (1,701)         | (6,807) | (14,062) | (56,256)                  |  |  |
| Decrease (increase) in inventories   | 447             | 429     | 3,695    | 3,550                     |  |  |
| Increase (decrease) in notes and accounts payable  | 1,123           | (1,550) | 9,281    | (12,817)                  |  |  |
| Other, net   | (766)           | 1,696   | (6,333)  | 14,019                    |  |  |
| Net cash provided by operating activities  | 10,159          | 4,446   | 83,962   | 36,747                    |  |  |
| Cash flows from investing activities   |                 |         |          |                           |  |  |
| Purchase of property, plant and equipment  | (3,811)         | (4,398) | (31,500) | (36,352)                  |  |  |
| Proceeds from sales of property, plant and equipment   | 1               | 12      | 16       | 106                       |  |  |
| Purchase of intangible assets  | (222)           | (129)   | (1,835)  | (1,067)                   |  |  |
| Purchase of investment securities  | (86)            | (76)    | (714)    | (632)                     |  |  |
| Proceeds from sales of investment securities   | -               | 1,854   | (*)      | 15,329                    |  |  |
| Payments of loans receivable   |                 | (200)   |          | (1,652)                   |  |  |
| Collection of loans receivable   |                 | 0       |          | (1,552)                   |  |  |
| Other,net  | (98)            | (163)   | (816)    | (1,354)                   |  |  |
| Net cash used in investing activities  | (4,217)         | (3,100) | (34,851) | (25,623)                  |  |  |
| Cash flows from financing activities   |                 | (-,,    | (- / /   | ( - 7, - 7,               |  |  |
| Cash none non-manong doubles   |                 |         |          |                           |  |  |
| Cash dividends paid  | (2,486)         | (2,491) | (20,550) | (20,589)                  |  |  |
| Purchase of treasury shares  | (1,499)         | -       | (12,395) | -                         |  |  |
| Other,net  | (3)             | (1)     | (25)     | (13)                      |  |  |
| Net cash used in financing activities  | (3,989)         | (2,492) | (32,971) | (20,603)                  |  |  |
| Effect of exchange rate changes on cash and cash equivalents                                     | 301             | (16)    | 2,494    | (137)                     |  |  |
| Net change in cash and cash equivalents  | 2,254           | (1,163) | 18,634   | (9,616)                   |  |  |
|  |                 |         | •        | <u> </u>                  |  |  |
| Cash and cash equivalents at beginning of period   | 27,326          | 28,489  | 225,835  | 235,451                   |  |  |
| Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation | (104)           | -       | (860)    | -                         |  |  |
| Cash and cash equivalents at end of period   | 29,476          | 27,326  | 243,609  | 225,835                   |  |  |

### CONSOLIDATED BALANCE SHEETS

| Assets                                  | Millio    | Thousands of U.S. dollars |            |            |  |
|---|-----------|---------------------------|------------|------------|--|
|   | 2014      | 2013                      | 2014       | 2013       |  |
| Current assets                          | ¥         | ¥                         | \$         | \$         |  |
| Cash and cash equivalents               | 29,716    | 27,426                    | 245,593    | 226,662    |  |
| Notes and accounts receivable           | 25,592    | 23.883                    | 211,505    | 197,386    |  |
| Lease receivables and investment assets | 270       | 207                       | 2.238      | 1.715      |  |
| Merchandise and finished goods          | 1.258     | 1.166                     | 10,401     | 9,638      |  |
| Work in process                         | 2,339     | 2.887                     | 19,331     | 23,867     |  |
| Raw materials and supplies              | 92        | 98                        | 767        | 810        |  |
| Deferred tax assets                     | 398       | 447                       | 3,289      | 3,695      |  |
| Others                                  | 1,500     |                           |            |            |  |
|   | ,         | 2,068                     | 12,403     | 17,098     |  |
| Less allowance for doubtful receivables | (0)       | (739)                     | (7)        | (6,110)    |  |
| Total current assets                    | 61,168    | 57,446                    | 505,521    | 474,764    |  |
| Property, plant and equipment           |           |                           |            |            |  |
| Buildings and structures                | 31,359    | 30,429                    | 259,170    | 251,483    |  |
| Accumulated depreciation                | (17,543)  | (16,181)                  | (144,989)  | (133,729)  |  |
| Buildings and structures, net           | 13,815    | 14,248                    | 114,181    | 117,754    |  |
| Machinery, equipment and vehicles       | 20,370    | 18.931                    | 168.352    | 156,461    |  |
| Accumulated depreciation                | (17,328)  | (16,474)                  | (143,207)  | (136,153)  |  |
| Machinery and equipment, net            | 3,042     | 2,457                     | 25,145     | 20,307     |  |
| Tools, furniture and fixtures           | 19,911    | 20,414                    | 164,554    | 168,718    |  |
| Accumulated depreciation                | (17,043)  | (16,799)                  | (140,851)  | (138,834)  |  |
| Tools, furniture and fixtures, net      | 2,868     | 3,615                     | 23,702     | 29,883     |  |
| Land                                    | 14,486    | 13,784                    | 119,720    | 113,919    |  |
| Construction in progress                | 1,334     | 694                       | 11,025     | 5,742      |  |
| Total property, plant and equipment     | 35,546    | 34,800                    | 293,775    | 287,607    |  |
|   |           |                           |            |            |  |
| Intangible assets                       | 4.005     |                           | 0.550      | =          |  |
| Other intangible assets                 | 1,035     | 891                       | 8,556      | 7,363      |  |
| Total intangible assets                 | 1,035     | 891                       | 8,556      | 7,363      |  |
| Investment and other assets             |           |                           |            |            |  |
| Investment securities                   | 734       | 735                       | 6,073      | 6,081      |  |
| Deferred tax assets                     | 2,260     | 1,257                     | 18,685     | 10,390     |  |
| Others                                  | 796       | 882                       | 6,582      | 7,291      |  |
| Less allowance for doubtful receivables | (0)       | (0)                       | (0)        | (1)        |  |
| Total investments and other assets      | 3,792     | 2,875                     | 31,341     | 23,761     |  |
| Total assets                            | ¥ 101,542 | ¥ 96,013                  | \$ 839,195 | \$ 793,497 |  |

| Liabilities and Net assets                            | Millio    | ns of yen | Thousands of U.S. dollars |    |         |  |
|---|-----------|-----------|---------------------------|----|---------|--|
|   | 2014      | 2013      | 2014                      |    | 2013    |  |
| Current liabilities                                   | ¥         | ¥         | \$                        | \$ |         |  |
| Notes and accounts payable                            | 14,504    | 13,329    | 119,870                   | *  | 110,158 |  |
| Lease obligations                                     | 74        | 82        | 617                       |    | 679     |  |
| Accrued expenses                                      | 1,434     | 1,476     | 11,856                    |    | 12,204  |  |
| Income taxes payable                                  | 2.335     | 2,649     | 19,303                    |    | 21,896  |  |
| Notes payable-facilities                              | _,        | 54        | -                         |    | 446     |  |
| Provision for bonuses                                 | 367       | 366       | 3,037                     |    | 3,029   |  |
| Provision for directors' bonuses                      | 33        | 40        | 277                       |    | 330     |  |
| Provision for loss on order received                  | 25        | 33        | 211                       |    | 277     |  |
| Others  | 1,632     | 1,582     | 13,494                    |    | 13,081  |  |
| Total current liabilities                             | 20,409    | 19,614    | 168,669                   |    | 162,104 |  |
| Long-term liabilities                                 |           |           |                           |    |         |  |
| Provision for retirement benefits                     | -         | 2,056     | -                         |    | 16,999  |  |
| Net defined benefit liability                         | 4,659     | -         | 38,505                    |    | -       |  |
| Provision for directors' retirement benefits          | 247       | 252       | 2,044                     |    | 2.085   |  |
| Deferred tax liabilities                              | 27        | 10        | 230                       |    | 89      |  |
| Others  | 202       | 125       | 1,671                     |    | 1,034   |  |
| Total long-term liabilities                           | 5,136     | 2,445     | 42,452                    |    | 20,208  |  |
| Total liabilities                                     | 25,545    | 22,059    | 211,122                   |    | 182,313 |  |
| Net assets  |           |           |                           |    |         |  |
| Stockholders' equity                                  |           |           |                           |    |         |  |
| Capital stock   | 4,969     | 4,969     | 41,067                    |    | 41,067  |  |
| Additional paid-in capital                            | 9.595     | 9.595     | 79,300                    |    | 79,300  |  |
| Retained earnings                                     | 64,450    | 59,561    | 532,645                   |    | 492,242 |  |
| Treasury stock  | (2,574)   | (1.071)   | (21,279)                  |    | (8,857  |  |
| Total shareholders' equity                            | 76,439    | 73,054    | 631,734                   |    | 603,752 |  |
| Accumulated other comprehensive income                |           |           |                           |    |         |  |
| Valuation difference on available-for-sale securities | 195       | 221       | 1,618                     |    | 1,827   |  |
| Adjustment of exchange conversion                     | 1,206     | 403       | 9,971                     |    | 3,330   |  |
| Remeasurements of defined benefit plans               | (1,895)   | -         | (15,663)                  |    |         |  |
| Total accumulated other comprehensive income          | (492)     | 624       | (4,074)                   |    | 5,158   |  |
| Subscription rights to shares                         | -         | 225       | -                         |    | 1,864   |  |
| Minority interest                                     | 49        | 49        | 412                       |    | 407     |  |
| Total net assets                                      | 75,996    | 73,953    | 628,073                   |    | 611,183 |  |
| Total liabilities and net assets                      | ¥ 101,542 | ¥ 96,013  | \$ 839,195                | \$ | 793,497 |  |

### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

|                               |                      |                    |                   |                   |                                  |   | Millions of yen     |   |         |                                     |                    |                  |
|-------------------------------|----------------------|--------------------|-------------------|-------------------|----------------------------------|---|---------------------|---|---------|-------------------------------------|--------------------|------------------|
|                               | Shareholders' equity |                    |                   |                   |                                  | Ac  | cumulated other cor | mprehensive incom                             | e       |                                     |                    |                  |
|                               | Capital<br>stock     | Capital<br>surplus | Retained earnings | Treasury<br>stock | Total<br>Shareholders'<br>equity | Valuation difference<br>on available-for-sale<br>securities |                     | Remeasurements<br>of defined benefit<br>plans | other   | Subscription<br>rights<br>to shares | Minority interests | Total net assets |
| Balance at December 31, 2013  | ¥ 4,96               | ¥ 9,595            | ¥ 59,561          | ¥ (1,071)         | ¥ 73,054                         | ¥ 221   | ¥ 403               |   | ¥ 624   | ¥ 225                               | ¥ 49               | ¥ 73,953         |
| Cash dividends                |                      |                    | (2,488)           |                   | (2,488)                          |   |                     |   | -       | -                                   | -                  | (2,488)          |
| Net income                    |                      |                    | 7,377             |                   | 7,377                            |   |                     |   | -       | -                                   | -                  | 7,377            |
| Purchases of treasury stock   |                      | (                  |                   | (1,503)           | (1,503)                          |   |                     |   | -       | -                                   | -                  | (1,503)          |
| Disposition of treasury stock |                      |                    |                   | 0                 | 0                                |   |                     |   | -       | -                                   | -                  | 0                |
| Other, net                    |                      |                    |                   |                   | -                                | (25)  | 803                 | (1,895)                                       | (1,117) | (225)                               | 0                  | (1,342)          |
| Balance at December 31, 2014  | ¥ 4,96               | 9,595              | ¥ 64,450          | ¥ (2,574)         | ¥ 76,439                         | ¥ 195   | ¥ 1,206             | ¥ (1,895)                                     | ¥ (492) | -                                   | ¥ 49               | ¥ 75,996         |

|                               |   | Thousands of U.S. dollars |                   |                   |                                  |   |   |   |            |                               |                    |                  |
|-------------------------------|---|---------------------------|-------------------|-------------------|----------------------------------|---|---|---|------------|-------------------------------|--------------------|------------------|
|                               | Shareholders' equity Accumulated other comprehensive income |                           |                   |                   |                                  |   |   | 9   |            |                               |                    |                  |
|                               | Capital<br>stock  | Capital<br>surplus        | Retained earnings | Treasury<br>stock | Total<br>Shareholders'<br>equity | Valuation difference<br>on available-for-sale<br>securities | Foreign currency<br>translation<br>adjustment | Remeasurements<br>of defined benefit<br>plans |            | Subscription rights to shares | Minority interests | Total net assets |
| Balance at December 31, 2013  | \$ 41,067   | \$ 79,300                 | \$492,242         | \$ (8,857)        | \$ 603,752                       | \$ 1,827  | \$ 3,330                                      |   | \$ 5,157   | \$ 1,864                      | \$ 407             | \$ 611,180       |
| Cash dividends                |   |                           | (20,568)          |                   | (20,568)                         |   |   |   | -          | -                             | -                  | (20,568)         |
| Net income                    |   |                           | 60,971            |                   | 60,971                           |   |   |   | -          | -                             | -                  | 60,971           |
| Purchases of treasury stock   |   | 0                         |                   | (12,423)          | (12,423)                         |   |   |   | -          | -                             | -                  | (12,423)         |
| Disposition of treasury stock |   |                           |                   | 2                 | 2                                |   |   |   | -          | -                             | -                  | 2                |
| Other, net                    |   |                           |                   |                   | -                                | (209)   | 6,640   | (15,663)                                      | (9,232)    | (1,864)                       | 4                  | (11,092)         |
| Balance at December 31, 2014  | \$ 41,067   | \$ 79,300                 | \$532,645         | \$ (21,279)       | \$ 631,734                       | \$ 1,618  | \$ 9,971                                      | \$ (15,663)                                   | \$ (4,074) | -                             | \$ 412             | \$ 628,073       |