

CANON INC
Form 6-K
July 27, 2017

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 **July** **2017** ,

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 . **July 27, 2017**

By /s/ Eiji Shimizu
(Signature)*

Eiji Shimizu
General Manager
Consolidated Accounting Div.
Canon Inc.

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

The following materials are included.

1. RESULTS FOR THE SECOND QUARTER AND THE FIRST HALF ENDED JUNE 30, 2017

CONSOLIDATED RESULTS FOR THE SECOND QUARTER AND**THE FIRST HALF ENDED JUNE 30, 2017**

July 27, 2017

CONSOLIDATED RESULTS FOR THE SECOND QUARTER

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

| | Actual | | | |
|---|--------------|--------------|-----------|---------------|
| | Three months | Three months | Change(%) | Three months |
| | ended | ended | | ended |
| | June 30, | June 30, | | June 30, 2017 |
| | 2017 | 2016 | | |
| Net sales | ¥ 992,473 | ¥ 860,246 | + 15.4 | \$ 8,861,366 |
| Operating profit | 96,319 | 68,596 | + 40.4 | 859,991 |
| Income before income taxes | 99,556 | 80,992 | + 22.9 | 888,893 |
| Net income attributable | | | | |
| to Canon Inc. | ¥ 69,180 | ¥ 53,448 | + 29.4 | \$ 617,679 |
| Net income attributable to Canon Inc. shareholders per share: | | | | |
| - Basic | ¥ 63.53 | ¥ 48.94 | + 29.8 | \$ 0.57 |
| - Diluted | 63.53 | 48.94 | + 29.8 | 0.57 |

CONSOLIDATED RESULTS FOR THE FIRST HALF

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

| | Actual | | | Projected | | |
|----------------------------|---------------|---------------|-----------|---------------|--------------|-----------|
| | Six months | Six months | Change(%) | Six months | Year ending | Change(%) |
| | ended | ended | | ended | December 31, | |
| | June 30, 2017 | June 30, 2016 | | June 30, 2017 | 2017 | |
| Net sales | ¥ 1,965,234 | ¥ 1,657,476 | + 18.6 | \$ 17,546,732 | ¥ 4,050,000 | + 19.1 |
| Operating profit | 171,984 | 108,683 | + 58.2 | 1,535,571 | 330,000 | + 44.2 |
| Income before income taxes | 177,566 | 126,753 | + 40.1 | 1,585,411 | 340,000 | + 39.0 |
| Net income attributable | | | | | | |
| to Canon Inc. | ¥ 124,269 | ¥ 81,439 | + 52.6 | \$ 1,109,545 | ¥ 220,000 | + 46.0 |

Net income attributable to Canon Inc. shareholders per share:

| | | | | | | | | | | | | |
|------------------|---|---------------|---|-------|---|------|----|-------------|---|--------|---|------|
| - Basic | ¥ | 113.98 | ¥ | 74.57 | + | 52.8 | \$ | 1.02 | ¥ | 202.68 | + | 46.9 |
| - Diluted | | 113.98 | | 74.57 | + | 52.8 | | 1.02 | | - | | - |

| | As of June 30, 2017 | As of December 31, 2016 | Actual Change(%) | As of June 30, 2017 |
|---------------------------------------|------------------------------------|------------------------------------|-----------------------------|--------------------------------|
| Total assets | ¥ 5,209,750 | ¥ 5,138,529 | + 1.4 | \$ 46,515,625 |
| Canon Inc. shareholders equity | ¥ 2,775,142 | ¥ 2,783,129 | - 0.3 | \$ 24,778,054 |

- 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 JPY112=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2017, 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

2017 Second Quarter in Review

Looking back at the global economy in the second quarter of 2017, the U.S. economy continued to grow steadily as employment conditions and corporate earnings continued to improve. In Europe, the economy continued to recover moderately, centered on Germany and the U.K. The Chinese economy rallied due to public investments, and the economies of emerging countries realized moderate growth. In Japan, corporate earnings improved and consumer spending showed signs of recovery. As a result, the global economy overall continued to realize moderate growth.

As for the markets in which Canon operates amid these conditions, demand for office multifunction devices (MFDs) remained at around the same level as the previous year, while demand for laser printers continued to recover in emerging countries, centered on China. Demand for cameras shrank moderately while demand for inkjet printers remained at the same level as the previous year. Additionally, there was solid demand for medical equipment, mainly in developed countries. Within the Industry and Others sector, demand for semiconductor lithography equipment and manufacturing equipment for organic LED (OLED) displays enjoyed strong growth.

The average values of the yen during the second quarter and the first half of the year were ¥111.12 and ¥112.27 against the U.S. dollar, respectively, year-on-year depreciations of approximately ¥3 and ¥1, and ¥122.36 and ¥121.72 against the euro, respectively, year-on-year at the same level for the second quarter and a year-on-year appreciation of approximately ¥3 for the first half of the year.

During the second quarter, office MFDs enjoyed solid demand, mainly for color models. The total sales volume of laser printers increased compared with the same period of the previous year amid recovering demand in emerging countries, supported by the increased sales of new models. Although total unit sales of interchangeable-lens digital cameras and compact cameras decreased compared with the same period of the previous year amid the shrinking market, sales of compact-system cameras increased. Looking at inkjet printers, sales volume remained at approximately the same level as the previous year, thanks to such factors as increased sales of refillable ink tank models for emerging countries and new models launched in the previous year. Additionally, sales of semiconductor lithography equipment and manufacturing equipment for OLED displays exceeded those of the previous year, thanks to favorable market conditions. Under these conditions, along with the impact of acquiring Toshiba Medical Systems Corporation (TMSC), second-quarter net sales increased by 15.4% year on year to ¥992.5 billion. Net sales for the first half of the year increased by 18.6% year on year to ¥1,965.2 billion. Although the gross profit ratio dropped by 0.4 points to 49.9% due to the effect of the product mix, gross profit increased by 14.6% year on year to ¥495.6 billion, thanks to such factors as the increase in sales and continuous cost down efforts. Operating expenses increased by 9.7% year on year to ¥399.2 billion mainly due to the impact of acquiring TMSC. As a result, second-quarter operating profit increased by 40.4% to ¥96.3 billion and other income (deductions) decreased by ¥9.2 billion due to foreign currency exchange losses, while income before income taxes increased by 22.9% year on year to ¥99.6 billion and net income attributable to Canon Inc. increased by 29.4% to ¥69.2 billion. Operating profit for the first half of the year increased by 58.2% to ¥172.0 billion while income before income taxes increased by 40.1% to ¥177.6 billion and first-half net income attributable to Canon Inc. increased by 52.6% to ¥124.3 billion.

Basic net income attributable to Canon Inc. shareholders per share was ¥63.53 for the second quarter, a year-on-year increase of ¥14.59, and ¥113.98 for the first half, a year-on-year increase of ¥39.41.

Results by Segment

Looking at Canon's second-quarter performance by business unit, beginning with the Office Business Unit, unit sales of office MFDs increased from the same period of the previous year, supported by steady sales of newly launched small-office/home-office color A3 (12 x18) imageRUNNER ADVANCE C3500-series models and A3 (12 x18) imageRUNNER ADVANCE C5500-series models, launched in the previous year. Among high-speed continuous-feed printers, sales of the Océ-produced VarioPrint i300, a high-speed sheet-fed color inkjet press, increased year on year. As for laser printers, sales of both hardware and consumables increased from the same period of the previous year, supported by steady sales of new models which expand the product lineup. These factors resulted in total sales for the business unit of ¥470.7 billion, a year-on-year increase of 3.1%, while operating profit totaled ¥55.9 billion, a year-on-year increase of 17.4%. Sales for the combined first six months of the year totaled ¥928.4 billion, a year-on-year increase of 1.9%, while operating profit totaled ¥111.3 billion, a year-on-year increase of 20.6%.

Within the Imaging System Business Unit, although sales volume of interchangeable-lens digital cameras declined compared with the previous year, owing to the shrinking market, unit sales of compact-system cameras, including the newly launched EOS M6, increased from the same period of previous year, allowing Canon to maintain the top share in major countries in Europe, the U.S. and Japan. As for digital compact cameras, while sales volume declined amid the shrinking market, sales of high-value-added models enjoyed solid demand, supported by healthy demand for the newly launched G9 X Mark II, part of the high-image-quality PowerShot G-series lineup. As for inkjet printers, newly designed home-use models launched in the previous year and refillable ink tank models that target emerging countries enjoyed strong demand, resulting in unit sales remaining at approximately the same level as the corresponding period of the previous year. As a result, sales for the business unit decreased by 1.7% to ¥282.7 billion year on year, while operating profit totaled ¥48.5 billion, a year-on-year increase of 12.2%. Sales for the combined first six months of the year totaled ¥524.7 billion, a year-on-year increase of 0.5%, while operating profit totaled ¥77.7 billion, a year-on-year increase of 23.7%.

Within the Medical System Business Unit, a newly disclosed business unit as of this quarter, TMSC's computed tomography products maintained the top share in Japanese market and sales of such diagnostic imaging unit products as diagnostic ultrasound systems and magnetic resonance imaging remained firm. As a result, sales for the business unit totaled ¥88.6 billion year on year, while operating profit totaled ¥0.2 billion. Sales for the combined first six months of the year totaled ¥220.4 billion while operating profit totaled ¥10.1 billion.

In the Industry and Others Business Unit, unit sales of semiconductor lithography equipment increased from the same period of the previous year as a result of increasing demand for memory devices used in data centers. Additionally, sales of FPD lithography equipment and manufacturing equipment for OLED panel devices increased in response to growing demand for high-definition OLED displays used in mobile devices. As for network cameras, sales of network cameras increased considerably compared with the previous year thanks to efforts to strengthen the product lineup. Consequently, sales for the business unit increased by 25.0% year on year to ¥172.5 billion, while operating profit grew by ¥12.7 billion from the previous year to ¥13.2 billion. Sales for the combined first six months of the year totaled ¥334.9 billion, a year-on-year increase of 24.9%, while operating profit grew by ¥22.0 billion from the previous year to ¥21.9 billion.

Cash Flow

During the first half of 2017, cash flow from operating activities totaled ¥309.1 billion, an increase of ¥67.9 billion compared with the previous year, mainly owing to improvements in profitability. Cash flow from investing activities decreased by ¥668.3 billion year on year to ¥107.8 billion due to the payment made in the previous year for the right to acquire all of the shares of TMSC. Accordingly, free cash flow totaled ¥201.3 billion, an increase of ¥736.2 billion compared with the corresponding year-ago period.

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Cash flow from financing activities recorded an outlay of ¥135.1 billion, mainly owing to 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 increased by ¥63.6 billion to ¥693.8 billion from the end of the previous year.

Outlook

As for the outlook in the third quarter onward, the U.S. economy is expected to continue recovering as employment conditions and consumer spending steadily improve. The European economy is expected to recover slowly due to increasing uncertainty surrounding the U.K.'s decision to leave the EU. Looking at China, the economy is expected to stabilize through changes in fiscal policy, while emerging economies, such as those of Southeast Asia, Russia and Brazil, are expected to recover. With regard to the Japanese economy, the outlook indicates a trend of gradual recovery supported by improved employment conditions and corporate earnings. Overall, the global economy is expected to recover more firmly than the previous year, despite such concerns as increasing geopolitical risks.

In the businesses in which Canon is involved, for office MFDs, demand for color models is expected to grow moderately, despite the contraction of the market for monochrome models. Looking at the laser printer market, demand for printers is expected to improve as the economy recovers. For interchangeable-lens digital cameras, although demand continues to decrease primarily in developed countries, the pace of decline is gradually decelerating. Projections for digital compact cameras, despite solid demand for high-value-added models, indicate continued market contraction, centered mainly on low-priced models. With regard to inkjet printers, the trend of decreasing demand is expected to gradually bottom out. As for the medical equipment market, demand is expected to remain firm in response to replacement demand for medical equipment in developed countries and increasing medical needs associated with population growth in emerging countries.

Looking at industrial equipment, within the semiconductor lithography equipment segment, the market is expected to remain at the same level as the previous year, while the outlook for FPD lithography equipment and OLED display manufacturing equipment points to active capital investment by panel manufacturers, which is expected to increase demand. The network camera market is also expected to grow in response to the increasing use of network cameras for diverse applications in such area as marketing support in addition to crime prevention and disaster monitoring.

With regard to currency exchange rates for the third quarter onward, on which Canon's performance outlook is based, Canon anticipates exchange rates of ¥112 to the U.S. dollar and ¥125 to the euro, representing depreciations of approximately ¥4 against the U.S. dollar and approximately ¥3 against the euro as the annual average rates of the previous year.

Upon taking into consideration the impact of acquiring TMSM and the current economic forecast, Canon projects full-year consolidated net sales in 2017 of ¥4,050.0 billion, a year-on-year increase of 19.1%; operating profit of ¥330.0 billion, a year-on-year increase of 44.2%; income before income taxes of ¥340.0 billion, a year-on-year increase of 39.0%; and net income attributable to Canon Inc. of ¥220.0 billion, a year-on-year increase of 46.0%.

Consolidated Outlook

| Fiscal year | Millions of yen | | | | |
|--|----------------------------------|---------------------|-------------------|---------------------------------|---------------------------|
| | Year ending December 31, 2017 | Revised Outlook (B) | Change (B - A) | Year ended December 31, 2016 | Change (%) (B - C) / C |
| Net sales | 4,020,000 | 4,050,000 | 30,000 | 3,401,487 | +19.1% |
| Operating profit | 270,000 | 330,000 | 60,000 | 228,866 | +44.2% |
| Income before income taxes | 280,000 | 340,000 | 60,000 | 244,651 | +39.0% |
| Net income attributable to Canon Inc. | 180,000 | 220,000 | 40,000 | 150,650 | +46.0% |

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 ¥75.00 per share for the fiscal year 2017, half the amount of the annual dividend paid out in fiscal 2016, 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, 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 June 30, 2017 | Millions of yen As of December 31, 2016 | Change |
|--|-------------------------------|---|----------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 693,826 | 630,193 | 63,633 |
| Short-term investments | 17,529 | 3,206 | 14,323 |
| Trade receivables, net | 584,148 | 641,458 | (57,310) |
| Inventories | 596,837 | 560,736 | 36,101 |
| Prepaid expenses and other current assets | 268,894 | 264,155 | 4,739 |
| Total current assets | 2,161,234 | 2,099,748 | 61,486 |
| Noncurrent receivables | 34,105 | 29,297 | 4,808 |
| Investments | 70,612 | 73,680 | (3,068) |
| Property, plant and equipment, net | 1,160,042 | 1,194,976 | (34,934) |
| Intangible assets, net | 434,547 | 446,268 | (11,721) |
| Goodwill | 954,715 | 936,424 | 18,291 |
| Other assets | 394,495 | 358,136 | 36,359 |
| Total assets | 5,209,750 | 5,138,529 | 71,221 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Short-term loans and current portion of long-term debt | 36,906 | 1,850 | 35,056 |
| Trade payables | 393,075 | 372,269 | 20,806 |
| Accrued income taxes | 51,909 | 30,514 | 21,395 |
| Accrued expenses | 282,592 | 304,901 | (22,309) |
| Other current liabilities | 283,635 | 273,835 | 9,800 |
| Total current liabilities | 1,048,117 | 983,369 | 64,748 |
| Long-term debt, excluding current installments | 615,984 | 611,289 | 4,695 |
| Accrued pension and severance cost | 415,549 | 407,200 | 8,349 |
| Other noncurrent liabilities | 140,313 | 142,049 | (1,736) |
| Total liabilities | 2,219,963 | 2,143,907 | 76,056 |

Equity:

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| | | | |
|---|--------------------|-------------|----------|
| Canon Inc. shareholders equity: | | | |
| Common stock | 174,762 | 174,762 | - |
| Additional paid-in capital | 401,381 | 401,385 | (4) |
| Legal reserve | 66,776 | 66,558 | 218 |
| Retained earnings | 3,392,745 | 3,350,728 | 42,017 |
| Accumulated other comprehensive income (loss) | (202,064) | (199,881) | (2,183) |
| Treasury stock, at cost | (1,058,458) | (1,010,423) | (48,035) |
| | | | |
| Total Canon Inc. shareholders equity | 2,775,142 | 2,783,129 | (7,987) |
| Noncontrolling interests | 214,645 | 211,493 | 3,152 |
| | | | |
| Total equity | 2,989,787 | 2,994,622 | (4,835) |
| | | | |
| Total liabilities and equity | 5,209,750 | 5,138,529 | 71,221 |

Millions of yen
As of As of
June 30, 2017 December 31, 2016

| | | |
|---|------------------|-----------|
| Notes: | | |
| 1. Allowance for doubtful receivables | 11,584 | 11,075 |
| 2. Accumulated depreciation | 2,618,029 | 2,578,342 |
| 3. Accumulated other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (17,467) | (13,960) |
| Net unrealized gains and losses on securities | 14,631 | 15,251 |
| Net gains and losses on derivative instruments | (1,053) | (2,742) |
| Pension liability adjustments | (198,175) | (198,430) |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

| | Millions of yen | | |
|---|--|--|-----------|
| | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Change(%) |
| Net sales | 992,473 | 860,246 | + 15.4 |
| Cost of sales | 496,921 | 427,878 | |
| Gross profit | 495,552 | 432,368 | + 14.6 |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 318,741 | 287,208 | |
| Research and development expenses | 80,492 | 76,564 | |
| | 399,233 | 363,772 | |
| Operating profit | 96,319 | 68,596 | + 40.4 |
| Other income (deductions): | | | |
| Interest and dividend income | 1,686 | 1,425 | |
| Interest expense | (105) | (341) | |
| Other, net | 1,656 | 11,312 | |
| | 3,237 | 12,396 | |
| Income before income taxes | 99,556 | 80,992 | + 22.9 |
| Income taxes | 27,739 | 24,912 | |
| Consolidated net income | 71,817 | 56,080 | |
| Less: Net income attributable to noncontrolling interests | 2,637 | 2,632 | |
| Net income attributable to Canon Inc. | 69,180 | 53,448 | + 29.4 |

Results for the first half

| | Millions of yen | | Change(%) | |
|---|--------------------------------------|--------------------------------------|-----------|------|
| | Six months ended June 30, 2017 | Six months ended June 30, 2016 | | |
| Net sales | 1,965,234 | 1,657,476 | + | 18.6 |
| Cost of sales | 1,001,338 | 820,362 | | |
| Gross profit | 963,896 | 837,114 | + | 15.1 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 630,159 | 572,997 | | |
| Research and development expenses | 161,753 | 155,434 | | |
| | 791,912 | 728,431 | | |
| Operating profit | 171,984 | 108,683 | + | 58.2 |
| Other income (deductions): | | | | |
| Interest and dividend income | 2,965 | 2,532 | | |
| Interest expense | (353) | (521) | | |
| Other, net | 2,970 | 16,059 | | |
| | 5,582 | 18,070 | | |
| Income before income taxes | 177,566 | 126,753 | + | 40.1 |
| Income taxes | 48,048 | 41,457 | | |
| Consolidated net income | 129,518 | 85,296 | | |
| Less: Net income attributable to noncontrolling interests | 5,249 | 3,857 | | |
| Net income attributable to Canon Inc. | 124,269 | 81,439 | + | 52.6 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Consolidated statements of comprehensive income

Results for the second quarter

| | Millions of yen | | |
|--|---|--|-----------|
| | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Change(%) |
| Consolidated net income | 71,817 | 56,080 | + 28.1 |
| Other comprehensive income (loss), net of tax | | | |
| Foreign currency translation adjustments | 41,490 | (178,795) | |
| Net unrealized gains and losses on securities | (931) | (1,492) | |
| Net gains and losses on derivative instruments | (1,166) | 860 | |
| Pension liability adjustments | (511) | 41 | |
| | 38,882 | (179,386) | |
| Comprehensive income (loss) | 110,699 | (123,306) | - |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 4,779 | (3,923) | |
| Comprehensive income (loss) attributable to Canon Inc. | 105,920 | (119,383) | - |

Results for the first half

| | Millions of yen | | |
|--|---|--------------------------------------|-----------|
| | Six months ended June 30, 2017 | Six months ended June 30, 2016 | Change(%) |
| Consolidated net income | 129,518 | 85,296 | + 51.8 |
| Other comprehensive income (loss), net of tax | | | |
| Foreign currency translation adjustments | (2,604) | (270,258) | |
| Net unrealized gains and losses on securities | (591) | (6,334) | |
| Net gains and losses on derivative instruments | 1,707 | 2,372 | |
| Pension liability adjustments | 20 | 2,853 | |

| | | | |
|--|----------------|-----------|---|
| | (1,468) | (271,367) | |
| Comprehensive income (loss) | 128,050 | (186,071) | - |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 5,964 | (4,735) | |
| Comprehensive income (loss) attributable to Canon Inc. | 122,086 | (181,336) | - |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. DETAILS OF SALESResults for the second quarter

| Sales by business unit | Millions of yen | | Change(%) | |
|------------------------|--------------------|----------------------------------|-----------|------|
| | Three months ended | | | |
| | June 30, 2017 | Three months ended June 30, 2016 | | |
| Office | 470,657 | 456,396 | + | 3.1 |
| Imaging System | 282,688 | 287,543 | - | 1.7 |
| Medical System | 88,617 | - | - | - |
| Industry and Others | 172,483 | 137,971 | + | 25.0 |
| Eliminations | (21,972) | (21,664) | - | - |
| Total | 992,473 | 860,246 | + | 15.4 |

| Sales by region | Millions of yen | | Change(%) | |
|-------------------------|--------------------|----------------------------------|-----------|------|
| | Three months ended | | | |
| | June 30, 2017 | Three months ended June 30, 2016 | | |
| Japan | 210,897 | 168,535 | + | 25.1 |
| Overseas: | | | | |
| <i>Americas</i> | 274,273 | 247,072 | + | 11.0 |
| <i>Europe</i> | 253,983 | 236,774 | + | 7.3 |
| <i>Asia and Oceania</i> | 253,320 | 207,865 | + | 21.9 |
| | 781,576 | 691,711 | + | 13.0 |
| Total | 992,473 | 860,246 | + | 15.4 |

*Canon newly established Medical System Business Unit effective at the beginning of the second quarter of 2017, and certain businesses included in Industry and Others Business Unit have been reclassified. Net sales for the three months ended June 30, 2016 were not restated since they were not material.

Results for the first half

| Sales by business unit | Millions of yen | | Change(%) | |
|------------------------|------------------|--------------------------------|-----------|------|
| | Six months ended | | | |
| | June 30, 2017 | Six months ended June 30, 2016 | | |
| Office | 928,402 | 910,748 | + | 1.9 |
| Imaging System | 524,747 | 522,359 | + | 0.5 |
| Medical System | 220,372 | - | - | - |
| Industry and Others | 334,943 | 268,142 | + | 24.9 |
| Eliminations | (43,230) | (43,773) | - | - |
| Total | 1,965,234 | 1,657,476 | + | 18.6 |

| Sales by region | Millions of yen | | Change(%) | |
|-----------------|-----------------|--|-----------|--|
| | | | | |

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| | Six months ended June 30, 2017 | Six months ended June 30, 2016 | | |
|-------------------------|---|--------------------------------------|---|------|
| Japan | 441,464 | 337,076 | + | 31.0 |
| Overseas: | | | | |
| <i>Americas</i> | 530,146 | 471,320 | + | 12.5 |
| <i>Europe</i> | 495,555 | 456,659 | + | 8.5 |
| <i>Asia and Oceania</i> | 498,069 | 392,421 | + | 26.9 |
| | 1,523,770 | 1,320,400 | + | 15.4 |
| Total | 1,965,234 | 1,657,476 | + | 18.6 |

*Canon newly established Medical System Business Unit effective at the beginning of the second quarter of 2017, and certain businesses included in Industry and Others Business Unit have been reclassified. Net sales for the six months ended June 30, 2016 were not restated since they were not material.

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

Image scanners / Multimedia projectors / Broadcast equipment / Calculators

Medical System Business Unit :

Digital radiography systems / Diagnostic x-ray systems / Computed tomography / Magnetic resonance imaging /

Diagnostic ultrasound systems / Clinical chemistry analyzers / Ophthalmic equipment

Industry and Others Business Unit :

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

Organic LED (OLED) panel manufacturing equipment / Die bonders / 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 | |
|--|--------------------------------------|-----------------------------------|
| | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
| Cash flows from operating activities: | | |
| Consolidated net income | 129,518 | 85,296 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 126,615 | 122,372 |
| Loss on disposal of fixed assets | 1,670 | 3,163 |
| Deferred income taxes | (8,150) | (2,982) |
| Decrease in trade receivables | 58,105 | 67,738 |
| Increase in inventories | (36,543) | (31,050) |
| Increase in trade payables | 20,974 | 26,305 |
| Increase (decrease) in accrued income taxes | 21,164 | (12,178) |
| Decrease in accrued expenses | (22,227) | (24,148) |
| Increase in accrued (prepaid) pension and severance cost | 1,189 | 3,824 |
| Other, net | 16,791 | 2,867 |
| | | |
| Net cash provided by operating activities | 309,106 | 241,207 |
| Cash flows from investing activities: | | |
| Purchases of fixed assets | (94,835) | (100,700) |
| Proceeds from sale of fixed assets | 3,105 | 2,095 |
| Purchases of available-for-sale securities | - | (8) |
| Proceeds from sale and maturity of available-for-sale securities | 558 | 407 |
| Increase in time deposits, net | (13,959) | (4,057) |
| Acquisitions of businesses, net of cash acquired | (5,598) | (9,226) |
| Purchases of other investments | (250) | (665,676) |
| Other, net | 3,141 | 1,073 |
| | | |
| Net cash used in investing activities | (107,838) | (776,092) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 1,158 | 238 |
| Repayments of long-term debt | (2,819) | (473) |
| Increase in short-term loans, net | 2,278 | 610,000 |

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| | | |
|--|------------------|----------|
| Purchases of noncontrolling interests | - | (4,993) |
| Dividends paid | (81,905) | (81,905) |
| Repurchases and reissuance of treasury stock, net | (50,012) | (6) |
| Other, net | (3,815) | (2,978) |
| | | |
| Net cash provided by (used in) financing activities | (135,115) | 519,883 |
| Effect of exchange rate changes on cash and cash equivalents | (2,520) | (49,431) |
| Net change in cash and cash equivalents | 63,633 | (64,433) |
| Cash and cash equivalents at beginning of period | 630,193 | 633,613 |
| | | |
| Cash and cash equivalents at end of period | 693,826 | 569,180 |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. NOTE FOR GOING CONCERN ASSUMPTION

Not applicable.

6. SEGMENT INFORMATION

SEGMENT INFORMATION BY BUSINESS UNIT

| <u>Results for the second quarter</u> | Millions of yen | | | |
|---------------------------------------|-------------------------------------|-------------------------------------|-----------|------------|
| | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Change(%) | |
| Office | | | | |
| Net sales: | | | | |
| External customers | 470,178 | 455,858 | + | 3.1 |
| Intersegment | 479 | 538 | - | 11.0 |
| Total | 470,657 | 456,396 | + | 3.1 |
| Operating cost and expenses | 414,784 | 408,791 | + | 1.5 |
| Operating profit | 55,873 | 47,605 | + | 17.4 |
| Imaging System | | | | |
| Net sales: | | | | |
| External customers | 282,568 | 287,303 | - | 1.6 |
| Intersegment | 120 | 240 | - | 50.0 |
| Total | 282,688 | 287,543 | - | 1.7 |
| Operating cost and expenses | 234,198 | 244,320 | - | 4.1 |
| Operating profit | 48,490 | 43,223 | + | 12.2 |
| Medical System | | | | |
| Net sales: | | | | |
| External customers | 88,526 | - | - | - |
| Intersegment | 91 | - | - | - |
| Total | 88,617 | - | - | - |
| Operating cost and expenses | 88,445 | - | - | - |

| | | | |
|-----------------------------------|----------|----------|--------|
| Operating profit | 172 | - | - |
| Industry and Others | | | |
| Net sales: | | | |
| External customers | 151,201 | 117,085 | + 29.1 |
| Intersegment | 21,282 | 20,886 | + 1.9 |
| Total | 172,483 | 137,971 | + 25.0 |
| Operating cost and expenses | 159,332 | 137,472 | + 15.9 |
| Operating profit | 13,151 | 499 | - |
| Corporate and Eliminations | | | |
| Net sales: | | | |
| External customers | - | - | - |
| Intersegment | (21,972) | (21,664) | - |
| Total | (21,972) | (21,664) | - |
| Operating cost and expenses | (605) | 1,067 | - |
| Operating profit | (21,367) | (22,731) | - |
| Consolidated | | | |
| Net sales: | | | |
| External customers | 992,473 | 860,246 | + 15.4 |
| Intersegment | - | - | - |
| Total | 992,473 | 860,246 | + 15.4 |
| Operating cost and expenses | 896,154 | 791,650 | + 13.2 |
| Operating profit | 96,319 | 68,596 | + 40.4 |

*Canon newly established Medical System Business Unit effective at the beginning of the second quarter of 2017, and certain businesses included in Industry and Others Business Unit have been reclassified. Operating results for the three months ended June 30, 2016 were not restated since they were not material.

*Operating results pertaining to TMSC, a company acquired in December 2016, are included in Medical System for the second quarter of 2017. Amortization costs of identified intangible assets resulting from the purchase price allocation of TMSC are included in Corporate and Eliminations .

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Results for the first half

| | Millions of yen | | | |
|-----------------------------|------------------|-----------------------------------|-----------|------------|
| | Six months ended | | Change(%) | |
| | June 30, 2017 | Six months ended June 30, 2016 | | |
| Office | | | | |
| Net sales: | | | | |
| External customers | 927,315 | 909,498 | + | 2.0 |
| Intersegment | 1,087 | 1,250 | - | 13.0 |
| Total | 928,402 | 910,748 | + | 1.9 |
| Operating cost and expenses | 817,101 | 818,439 | - | 0.2 |
| Operating profit | 111,301 | 92,309 | + | 20.6 |
| Imaging System | | | | |
| Net sales: | | | | |
| External customers | 524,468 | 521,870 | + | 0.5 |
| Intersegment | 279 | 489 | - | 42.9 |
| Total | 524,747 | 522,359 | + | 0.5 |
| Operating cost and expenses | 447,021 | 459,518 | - | 2.7 |
| Operating profit | 77,726 | 62,841 | + | 23.7 |
| Medical System | | | | |
| Net sales: | | | | |
| External customers | 220,150 | - | - | - |
| Intersegment | 222 | - | - | - |
| Total | 220,372 | - | - | - |
| Operating cost and expenses | 210,304 | - | - | - |
| Operating profit | 10,068 | - | - | - |
| Industry and Others | | | | |
| Net sales: | | | | |
| External customers | 293,301 | 226,108 | + | 29.7 |
| Intersegment | 41,642 | 42,034 | - | 0.9 |

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| | | | | |
|-----------------------------------|------------------|-----------|---|------|
| Total | 334,943 | 268,142 | + | 24.9 |
| Operating cost and expenses | 313,085 | 268,265 | + | 16.7 |
| Operating profit | 21,858 | (123) | | - |
| Corporate and Eliminations | | | | |
| Net sales: | | | | |
| External customers | - | - | | - |
| Intersegment | (43,230) | (43,773) | | - |
| Total | (43,230) | (43,773) | | - |
| Operating cost and expenses | 5,739 | 2,571 | | - |
| Operating profit | (48,969) | (46,344) | | - |
| Consolidated | | | | |
| Net sales: | | | | |
| External customers | 1,965,234 | 1,657,476 | + | 18.6 |
| Intersegment | - | - | | - |
| Total | 1,965,234 | 1,657,476 | + | 18.6 |
| Operating cost and expenses | 1,793,250 | 1,548,793 | + | 15.8 |
| Operating profit | 171,984 | 108,683 | + | 58.2 |

*Canon newly established Medical System Business Unit effective at the beginning of the second quarter of 2017, and certain businesses included in Industry and Others Business Unit have been reclassified. Operating results for the six months ended June 30, 2016 were not restated since they were not material.

*Operating results pertaining to TMSC, a company acquired in December 2016, are included in Medical System for the first half of 2017. Amortization costs of identified intangible assets resulting from the purchase price allocation of TMSC are included in Corporate and Eliminations .

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

7. SIGNIFICANT CHANGES IN CANON INC. SHAREHOLDERS' EQUITY

None.

8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) GROUP POSITION

1. Number of Group Companies

| | June 30, 2017 | December 31, 2016 | Change |
|--------------|---------------|-------------------|--------|
| Subsidiaries | 373 | 367 | 6 |
| Affiliates | 7 | 9 | (2) |
| Total | 380 | 376 | 4 |

2. Change in Group Entities

Subsidiaries

| | |
|-----------|-------------|
| Addition: | 8 companies |
| Removal: | 2 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.

9. NOTE FOR NON-GAAP FINANCIAL MEASURES

We have reported our financial results in accordance with U.S. generally accepted accounting principles (U.S. GAAP). In addition, we have discussed our results using "Free cash flow" which is non-GAAP measure.

We believe this measure is beneficial to an investor's understanding on Canon's current liquidity and the alternatives of use in financing activities because it takes into consideration its operating and investing activities.

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A reconciliation of this non-GAAP financial measure and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following table.

| | Billions of yen Six months ended |
|---|-------------------------------------|
| | June 30, 2017 |
| Net cash provided by operating activities | 309.1 |
| Net cash used in investing activities | (107.8) |
| Free cash flow | 201.3 |

CONSOLIDATED RESULTS FOR THE SECOND QUARTER

AND THE FIRST HALF ENDED JUNE 30, 2017

SUPPLEMENTARY REPORT

TABLE OF CONTENTS

| | PAGE |
|--|------|
| 1. SALES BY GEOGRAPHIC AREA AND BUSINESS UNIT | S 1 |
| 2. SEGMENT INFORMATION BY BUSINESS UNIT | S 2 |
| 3. OTHER INCOME / DEDUCTIONS | S 2 |
| 4. BREAKDOWN OF PRODUCT SALES WITHIN BUSINESS UNIT | S 3 |
| 5. SALES GROWTH IN LOCAL CURRENCY (Year over year) | S 3 |
| 6. PROFITABILITY | S 4 |
| 7. IMPACT OF FOREIGN EXCHANGE RATES | S 4 |
| 8. STATEMENTS OF CASH FLOWS | S 4 |
| 9. R&D EXPENDITURE | S 5 |
| 10. INCREASE IN PP&E & DEPRECIATION AND AMORTIZATION | S 5 |
| 11. INVENTORIES | S 5 |
| 12. DEBT RATIO | S 5 |
| 13. OVERSEAS PRODUCTION RATIO | S 5 |
| 14. NUMBER OF EMPLOYEES | S 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.

1. SALES BY GEOGRAPHIC AREA AND BUSINESS UNIT(Millions of yen)
Change year over year

| | 2017 | | | 2016 | | | | | |
|-------------------------|-------------|-----------|-----------|-------------|-----------|-----------|-------------|----------|--------|
| | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year | 2nd quarter | 1st half | Year |
| Japan | | | | | | | | | |
| Office | 95,362 | 189,416 | - | 96,434 | 190,538 | 378,834 | -1.1% | -0.6% | - |
| Imaging System | 41,287 | 73,898 | - | 42,252 | 77,197 | 179,304 | -2.3% | -4.3% | - |
| Medical System | 40,249 | 110,390 | - | - | - | - | - | - | - |
| Industry and Others | 33,999 | 67,760 | - | 29,849 | 69,341 | 148,841 | +13.9% | -2.3% | - |
| Total | 210,897 | 441,464 | 879,300 | 168,535 | 337,076 | 706,979 | +25.1% | +31.0% | +24.4% |
| Overseas | | | | | | | | | |
| Office | 374,816 | 737,899 | - | 359,424 | 718,960 | 1,426,028 | +4.3% | +2.6% | - |
| Imaging System | 241,281 | 450,570 | - | 245,051 | 444,673 | 914,987 | -1.5% | +1.3% | - |
| Medical System | 48,277 | 109,760 | - | - | - | - | - | - | - |
| Industry and Others | 117,202 | 225,541 | - | 87,236 | 156,767 | 353,493 | +34.4% | +43.9% | - |
| Total | 781,576 | 1,523,770 | 3,170,700 | 691,711 | 1,320,400 | 2,694,508 | +13.0% | +15.4% | +17.7% |
| Americas | | | | | | | | | |
| Office | 151,391 | 297,730 | - | 145,589 | 292,512 | 582,297 | +4.0% | +1.8% | - |
| Imaging System | 81,150 | 147,261 | - | 80,936 | 139,332 | 297,403 | +0.3% | +5.7% | - |
| Medical System | 20,342 | 44,486 | - | - | - | - | - | - | - |
| Industry and Others | 21,390 | 40,669 | - | 20,547 | 39,476 | 83,844 | +4.1% | +3.0% | - |
| Total | 274,273 | 530,146 | 1,093,800 | 247,072 | 471,320 | 963,544 | +11.0% | +12.5% | +13.5% |
| Europe | | | | | | | | | |
| Office | 149,083 | 290,087 | - | 141,234 | 280,398 | 556,353 | +5.6% | +3.5% | - |
| Imaging System | 74,812 | 141,368 | - | 79,444 | 145,805 | 293,894 | -5.8% | -3.0% | - |
| Medical System | 15,830 | 34,119 | - | - | - | - | - | - | - |
| Industry and Others | 14,258 | 29,981 | - | 16,096 | 30,456 | 63,276 | -11.4% | -1.6% | - |
| Total | 253,983 | 495,555 | 1,009,500 | 236,774 | 456,659 | 913,523 | +7.3% | +8.5% | +10.5% |
| Asia and Oceania | | | | | | | | | |
| Office | 74,342 | 150,082 | - | 72,601 | 146,050 | 287,378 | +2.4% | +2.8% | - |

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| | | | | | | | | | |
|--|----------|-----------|-----------|----------|-----------|-----------|--------|--------|--------|
| Imaging System Medical System Industry and Others | 85,319 | 161,941 | - | 84,671 | 159,536 | 323,690 | +0.8% | +1.5% | - |
| Total | 253,320 | 498,069 | 1,067,400 | 207,865 | 392,421 | 817,441 | +21.9% | +26.9% | +30.6% |
| Intersegment | | | | | | | | | |
| Office Imaging System Medical System Industry and Others | 479 | 1,087 | - | 538 | 1,250 | 2,957 | -11.0% | -13.0% | - |
| Eliminations | (21,972) | (43,230) | - | (21,664) | (43,773) | (86,281) | - | - | - |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | - | - | - |
| Total | | | | | | | | | |
| Office Imaging System Medical System Industry and Others | 470,657 | 928,402 | 1,869,200 | 456,396 | 910,748 | 1,807,819 | +3.1% | +1.9% | +3.4% |
| Eliminations | (21,972) | (43,230) | (87,800) | (21,664) | (43,773) | (86,281) | - | - | - |
| Total | 992,473 | 1,965,234 | 4,050,000 | 860,246 | 1,657,476 | 3,401,487 | +15.4% | +18.6% | +19.1% |

(P)=Projection

*Canon newly established Medical System Business Unit effective at the beginning of the second quarter of 2017, and certain businesses included in Industry and Others Business Unit have been reclassified. Net sales for the six months ended June 30, 2016 were not restated since they were not material.

Canon Inc.

2. SEGMENT INFORMATION BY BUSINESS UNIT

(Millions of yen)

2017

2016

Change year over year

| 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year | 2nd quarter | 1st half |
|-------------|----------|-----------|-------------|----------|-----------|-------------|----------|
| 470,178 | 927,315 | 1,867,500 | 455,858 | 909,498 | 1,804,862 | +3.1% | +2.0% |
| 479 | 1,087 | 1,700 | 538 | 1,250 | 2,957 | -11.0% | -13.0% |
| 470,657 | 928,402 | 1,869,200 | 456,396 | 910,748 | 1,807,819 | +3.1% | +1.9% |
| 55,873 | 111,301 | 208,000 | 47,605 | 92,309 | 169,486 | +17.4% | +20.6% |
| 11.9% | 12.0% | 11.1% | 10.4% | 10.1% | 9.4% | - | - |
| 282,568 | 524,468 | 1,118,200 | 287,303 | 521,870 | 1,094,291 | -1.6% | +0.5% |
| 120 | 279 | 800 | 240 | 489 | 998 | -50.0% | -42.9% |
| 282,688 | 524,747 | 1,119,000 | 287,543 | 522,359 | 1,095,289 | -1.7% | +0.5% |
| 48,490 | 77,726 | 160,000 | 43,223 | 62,841 | 144,413 | +12.2% | +23.7% |
| 17.2% | 14.8% | 14.3% | 15.0% | 12.0% | 13.2% | - | - |
| 88,526 | 220,150 | 439,600 | - | - | - | - | - |
| 91 | 222 | 400 | - | - | - | - | - |
| 88,617 | 220,372 | 440,000 | - | - | - | - | - |
| 172 | 10,068 | 20,500 | - | - | - | - | - |
| 0.2% | 4.6% | 4.7% | - | - | - | - | - |
| 151,201 | 293,301 | 624,700 | 117,085 | 226,108 | 502,334 | +29.1% | +29.7% |
| 21,282 | 41,642 | 84,900 | 20,886 | 42,034 | 82,326 | +1.9% | -0.9% |
| 172,483 | 334,943 | 709,600 | 137,971 | 268,142 | 584,660 | +25.0% | +24.9% |
| 13,151 | 21,858 | 45,900 | 499 | (123) | 7,448 | - | - |
| 7.6% | 6.5% | 6.5% | 0.4% | -0.0% | 1.3% | - | - |
| - | - | - | - | - | - | - | - |
| (21,972) | (43,230) | (87,800) | (21,664) | (43,773) | (86,281) | - | - |
| (21,972) | (43,230) | (87,800) | (21,664) | (43,773) | (86,281) | - | - |

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| | | | | | | | |
|----------|-----------|-----------|----------|-----------|-----------|--------|--------|
| (21,367) | (48,969) | (104,400) | (22,731) | (46,344) | (92,481) | - | - |
| 992,473 | 1,965,234 | 4,050,000 | 860,246 | 1,657,476 | 3,401,487 | +15.4% | +18.6% |
| - | - | - | - | - | - | - | - |
| 992,473 | 1,965,234 | 4,050,000 | 860,246 | 1,657,476 | 3,401,487 | +15.4% | +18.6% |
| 96,319 | 171,984 | 330,000 | 68,596 | 108,683 | 228,866 | +40.4% | +58.2% |
| 9.7% | 8.8% | 8.1% | 8.0% | 6.6% | 6.7% | - | - |

| 2017 | | | 2016 | | | Change year over year | |
|-------------|----------|----------|-------------|----------|--------|-----------------------|----------|
| 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year | 2nd quarter | 1st half |
| 1,581 | 2,612 | 3,000 | 1,084 | 2,011 | 3,701 | +497 | +601 |
| (2,254) | (3,465) | (3,900) | 7,622 | 10,680 | (2) | (9,876) | (14,145) |
| 197 | 709 | 1,500 | 242 | 511 | 890 | (45) | +198 |
| 3,713 | 5,726 | 9,400 | 3,448 | 4,868 | 11,196 | +265 | +858 |
| 3,237 | 5,582 | 10,000 | 12,396 | 18,070 | 15,785 | (9,159) | (12,488) |

*Canon newly established Medical System Business Unit effective at the beginning of the second quarter of 2017, and certain businesses included in Industry and Others Business Unit have been reclassified. Operating results for the six months ended June 30, 2016 were not restated since they were not material.

*The actual and projected operating results pertaining to TMSC, a company acquired in December 2016, are included in Medical System for the second quarter, first half and fiscal year 2017.

Amortization costs of identified intangible assets resulting from the purchase price allocation of TMSC are included in Corporate and Eliminations.

4. BREAKDOWN OF PRODUCT SALES WITHIN BUSINESS UNIT

| | 2017 | | | 2016 | | |
|----------------------------|-------------|----------|----------|-------------|----------|------|
| | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year |
| Office | | | | | | |
| Monochrome copiers | 16% | 15% | 16% | 17% | 16% | 16% |
| Color copiers | 22% | 22% | 22% | 22% | 21% | 21% |
| Printers | 38% | 39% | 37% | 36% | 37% | 37% |
| Others | 24% | 24% | 25% | 25% | 26% | 26% |
| Imaging System | | | | | | |
| Cameras | 64% | 62% | 61% | 63% | 61% | 61% |
| Inkjet printers | 28% | 29% | 30% | 28% | 30% | 30% |
| Others | 8% | 9% | 9% | 9% | 9% | 9% |
| Industry and Others | | | | | | |
| Lithography equipment | 25% | 25% | 28% | 20% | 23% | 21% |
| Others | 75% | 75% | 72% | 80% | 77% | 79% |

(P)=Projection

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

| | 2017 | | |
|----------------------------|-------------|----------|----------|
| | 2nd quarter | 1st half | Year (P) |
| Office | | | |
| Japan | -1.1% | -0.6% | - |
| Overseas | +2.4% | +2.4% | - |
| Total | +1.6% | +1.8% | +1.3% |
| Imaging System | | | |
| Japan | -2.3% | -4.3% | - |
| Overseas | -2.5% | +2.2% | - |
| Total | -2.5% | +1.2% | 0.0% |
| Industry and Others | | | |
| Japan | +13.9% | -2.3% | - |
| Overseas | +33.1% | +43.8% | - |
| Total | +24.2% | +24.9% | +20.4% |
| Total | | | |

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| | | | |
|------------------|--------|--------|--------|
| Japan | +25.1% | +31.0% | +24.4% |
| Overseas | +11.5% | +15.6% | +15.2% |
| Americas | +8.3% | +11.5% | +11.0% |
| Europe | +6.6% | +9.9% | +7.7% |
| Asia and Oceania | +20.9% | +27.1% | +28.4% |
| Total | +14.2% | +18.7% | +17.1% |

(P)=Projection

- S3 -

6. PROFITABILITY

| | 2017 | | 2016 | |
|--------|----------|----------|----------|------|
| | 1st half | Year (P) | 1st half | Year |
| ROE *1 | 8.9% | 7.9% | 5.7% | 5.2% |
| ROA *2 | 4.8% | 4.3% | 3.6% | 3.1% |

*1 Return on Equity ; Based on Net Income attributable to Canon Inc. and Total Canon Inc. Shareholders 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)

| | 2017 | | | | 2016 | | |
|----------|-------------|----------|--------------|----------|-------------|----------|--------|
| | 2nd quarter | 1st half | 2nd half (P) | Year (P) | 2nd quarter | 1st half | Year |
| Yen/US\$ | 111.12 | 112.27 | 112.00 | 112.14 | 108.08 | 111.28 | 108.58 |
| Yen/Euro | 122.36 | 121.72 | 125.00 | 123.39 | 121.94 | 124.33 | 120.25 |

(P)=Projection

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

(Billions of yen)

2017

| | 2nd quarter | 1st half | Year (P) |
|------------|-------------|----------|----------|
| US\$ | +9.4 | +7.7 | +40.2 |
| Euro | +0.9 | (8.2) | +21.8 |
| Other | | | |
| currencies | +0.0 | (1.7) | +5.8 |
| Total | +10.3 | (2.2) | +67.8 |

(P)=Projection

(3)
Impact
o f
foreign
exchange
r a t e s
per yen (Billions of yen)

2017

2nd half (P)

| | |
|-----------|----------------|
| On | |
| sales | |
| US\$ | 7.2 |
| Euro | 3.5 |
| On | |
| operating | |
| profit | |
| US\$ | 2.3 |
| Euro | 1.6 |
| | (P)=Projection |

**8. STATEMENTS OF
CASH FLOWS**

(Millions of yen)

2017

2016

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| | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year |
|--|-------------|-----------|-----------|-------------|-----------|-----------|
| Net cash provided by operating activities | 141,685 | 309,106 | 550,000 | 126,585 | 241,207 | 500,283 |
| Net cash used in investing activities | (57,742) | (107,838) | (255,000) | (55,863) | (776,092) | (837,125) |
| Free cash flow | 83,943 | 201,268 | 295,000 | 70,722 | (534,885) | (336,842) |
| Net cash provided by (used in) financing activities | (51,669) | (135,115) | (318,200) | (50,835) | 519,883 | 355,692 |
| Effect of exchange rate changes on cash and cash equivalents | 6,898 | (2,520) | (7,000) | (31,661) | (49,431) | (22,270) |
| Net change in cash and cash equivalents | 39,172 | 63,633 | (30,200) | (11,774) | (64,433) | (3,420) |
| Cash and cash equivalents at end of period | 693,826 | 693,826 | 600,000 | 569,180 | 569,180 | 630,193 |

(P)=Projection

Canon Inc.

(Millions of yen)

9. R&D EXPENDITURE

| | 2017 | | | 2016 | | |
|----------------------------|-------------|----------|----------|-------------|----------|---------|
| | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year |
| Office | 22,808 | 45,056 | - | 23,987 | 49,956 | 94,440 |
| Imaging System | 23,054 | 44,892 | - | 23,092 | 46,706 | 91,752 |
| Medical System | 7,436 | 18,612 | - | - | - | - |
| Industry and Others | 15,835 | 32,012 | - | 18,065 | 33,798 | 67,887 |
| Corporate and Eliminations | 11,359 | 21,181 | - | 11,420 | 24,974 | 48,297 |
| Total | 80,492 | 161,753 | 335,000 | 76,564 | 155,434 | 302,376 |
| % of sales | 8.1% | 8.2% | 8.3% | 8.9% | 9.4% | 8.9% |

(P)=Projection

(Millions of yen)

10. INCREASE IN PP&E & DEPRECIATION AND AMORTIZATION

| | 2017 | | | 2016 | | |
|-------------------------------|-------------|----------|----------|-------------|----------|---------|
| | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year |
| Increase in PP&E | 37,191 | 68,829 | 190,000 | 40,526 | 90,990 | 171,597 |
| Depreciation and amortization | 64,476 | 126,615 | 260,000 | 62,162 | 122,372 | 250,096 |

(P)=Projection

11. INVENTORIES

(Millions of yen)

(1) Inventories

| | 2017 | 2016 | Difference |
|---------------------|---------|---------|------------|
| | Jun.30 | Dec.31 | |
| Office | 211,469 | 205,656 | +5,813 |
| Imaging System | 148,793 | 127,386 | +21,407 |
| Medical System | 80,477 | - | +80,477 |
| Industry and Others | 156,098 | 227,694 | (71,596) |
| Total | 596,837 | 560,736 | +36,101 |

(Days)

(2) Inventories/Sales*

| | 2017 | 2016 | Difference |
|--------|--------|--------|------------|
| | Jun.30 | Dec.31 | |
| Office | 42 | 42 | 0 |

| | | | |
|---------------------|----|-----|------|
| Imaging System | 52 | 41 | +11 |
| Medical System | 67 | - | - |
| Industry and Others | 98 | 152 | (54) |
| Total | 55 | 59 | (4) |

*Index based on the previous six months sales.

12. DEBT RATIO

| | 2017 Jun.30 | 2016 Dec.31 | Difference |
|---------------------------|----------------|----------------|------------|
| Total debt / Total assets | 12.5% | 11.9% | +0.6% |

13. OVERSEAS PRODUCTION RATIO

| | 2017 1st half | 2016 Year |
|---------------------------|------------------|--------------|
| Overseas production ratio | 37% | 44% |

14. NUMBER OF EMPLOYEES

| | 2017 Jun.30 | 2016 Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan | 74,464 | 72,913 | +1,551 |
| Overseas | 126,709 | 124,760 | +1,949 |
| Total | 201,173 | 197,673 | +3,500 |

*Canon newly established Medical System Business Unit effective at the beginning of the second quarter of 2017, and certain businesses included in Industry and Others Business Unit have been reclassified. Operating results for the six months ended June 30, 2016 were not restated since they were not material.