

CANON INC
Form 6-K
July 25, 2008

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**..... , **2008**
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 **X** 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 **X**

[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 24, 2008**....

By...../s/..... Masashiro Kobayashi.....
(Signature)*

Masashiro Kobayashi
General Manager
Global Finance Management Center
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, 2008

RESULTS FOR THE SECOND QUARTER
AND THE FIRST HALF ENDED JUNE 30, 2008

July 24, 2008

CONSOLIDATED RESULTS FOR THE FIRST HALF

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

| | Actual | | Change(%) | Projected | | | |
|---|--|--|-----------|--|------------------------------|-------------------------------|-----------|
| | Six months ended June 30, 2008 (Unaudited) | Six months ended June 30, 2007 (Unaudited) | | Six months ended June 30, 2008 (Unaudited) | Year ended December 31, 2007 | Year ending December 31, 2008 | Change(%) |
| Net sales | ¥ 2,113,432 | ¥ 2,166,724 | - 2.5 | \$ 19,938,038 | ¥ 4,481,346 | ¥ 4,590,000 | + 2.4 |
| Operating profit | 330,983 | 388,876 | - 14.9 | 3,122,481 | 756,673 | 770,000 | + 1.8 |
| Income before income taxes and minority interests | 339,245 | 406,141 | - 16.5 | 3,200,425 | 768,388 | 785,000 | + 2.2 |
| Net income | ¥ 214,485 | ¥ 255,183 | - 15.9 | \$ 2,023,443 | ¥ 488,332 | ¥ 500,000 | + 2.4 |
| Net income per share: | | | | | | | |
| - Basic | ¥ 170.08 | ¥ 194.38 | - 12.5 | \$ 1.60 | ¥ 377.59 | ¥ 396.47 | + 5.0 |
| - Diluted | 170.07 | 194.33 | - 12.5 | 1.60 | 377.53 | - | - |

| | Actual | | Change(%) | As of | |
|---------------------|---------------------------------|---------------------------------|-----------|---------------------------------|-------------------------|
| | As of June 30, 2008 (Unaudited) | As of June 30, 2007 (Unaudited) | | As of June 30, 2008 (Unaudited) | As of December 31, 2007 |
| Total assets | ¥ 4,458,196 | ¥ 4,608,514 | - 3.3 | \$ 42,058,453 | ¥ 4,512,625 |
| Stockholders equity | ¥ 3,007,929 | ¥ 3,074,367 | - 2.2 | \$ 28,376,689 | ¥ 2,922,336 |

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 JPY106= U.S.\$1, the approximate exchange rate on the Tokyo Foreign

Exchange Market as of June 30, 2008, solely for the convenience of the reader.

NON-CONSOLIDATED RESULTS FOR THE FIRST HALF

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

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| | Actual | | | | |
|----------------------|---|---|-----------|---|------------------------------|
| | Six months ended June 30, 2008 (Unaudited) | Six months ended June 30, 2007 (Unaudited) | Change(%) | Six months ended June 30, 2008 (Unaudited) | Year ended December 31, 2007 |
| Net sales | ¥ 1,395,347 | ¥ 1,370,988 | + 1.8 | \$ 13,163,651 | ¥ 2,887,912 |
| Operating profit | 235,890 | 280,363 | - 15.9 | 2,225,377 | 533,841 |
| Ordinary profit | 256,211 | 302,276 | - 15.2 | 2,417,085 | 552,843 |
| Net income | ¥ 168,439 | ¥ 200,925 | - 16.2 | \$ 1,589,047 | ¥ 366,973 |
| | | | | | |
| Net income per share | ¥ 133.57 | ¥ 153.05 | - 12.7 | \$ 1.26 | ¥ 283.75 |
| Dividend per share | 55.00 | 50.00 | + 10.0 | 0.52 | 110.00 |

| | Actual | | | | |
|--------------|------------------------------------|------------------------------------|-----------|------------------------------------|-------------------------|
| | As of June 30, 2008 (Unaudited) | As of June 30, 2007 (Unaudited) | Change(%) | As of June 30, 2008 (Unaudited) | As of December 31, 2007 |
| Total assets | ¥ 2,836,060 | ¥ 2,808,645 | + 1.0 | \$ 26,755,283 | ¥ 2,790,892 |
| Net assets | ¥ 1,981,996 | ¥ 2,042,600 | - 3.0 | \$ 18,698,075 | ¥ 1,890,566 |

Note: U.S. dollar amounts are translated from yen at the rate of JPY106 = U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2008, solely for the convenience of the reader.

Canon Inc.
Headquarter office

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Phone: +81-3-3758-2111

I. Operating Results and Financial Conditions

2008 First Half in Review

Looking back at the global economy in the first half of 2008, in the United States, housing investment remained lackluster during the period due to the subprime loan crisis while escalating crude oil prices led to slack consumer spending. In Europe, growth of consumer spending was sluggish due to a rise in prices, and exports suffered a slowdown due to the appreciation of the euro. Within Asia, although the effects of the U.S. and European economies resulted in a slight slowdown, the Asian economy, led by China, continued to realize a high rate of growth. In Japan, consumer spending floundered amid uncertainty over the future while export growth was limited due to the slowdown in the global economy and the appreciation of the yen.

As for the markets in which Canon operates, within the office imaging product market, amid the shift toward color models and advanced functionality, demand for network digital multifunction devices (MFDs) remained low primarily in the U.S. market due to the deterioration of the business climate. As for computer peripherals, including printers, demand for laser beam printers continued to display growth, mainly for color models. With regard to inkjet printers, demand continued to shift from single-function to multifunction models amid fierce price competition within the market. Within the digital camera segment, demand for digital single-lens reflex (SLR) cameras and digital compact cameras grew steadily during the term. In the optical equipment segment, while demand for steppers, utilized in the production of semiconductors, remained low due to restrained facility investment by device manufacturers, the market for aligners, used to produce liquid crystal display (LCD) panels, improved dramatically thanks to a recovery in capital spending by LCD panel manufacturers. The average value of the yen for the first half was ¥104.69 to the U.S. dollar, a year-on-year appreciation of about 13%, and ¥160.69 to the euro, approximately the same level as the year-ago period.

Amid these conditions, Canon has been working steadily to strengthen the company's management foundation by bolstering competitiveness in each business field through management innovations. During the first six months of the year, sales volumes of digital cameras, color network MFDs and other products increased supported by the enhancement of market share and recording sales increases on a local-currency basis. The negative effect, however, of the sharp and sudden appreciation of the yen against the U.S. dollar resulted in consolidated net sales for the first half of ¥2,113.4 billion (U.S.\$19,938 million), a year-on-year decrease of 2.5%. Despite the continued launch of new products and ongoing cost-cutting efforts, the gross profit ratio for the first half was 49.3%, a decline of 1.8 points due to such factors as the rapid appreciation of the yen against the U.S. dollar and escalating resource and materials costs. As such, first-half gross profit declined by 6.0% to ¥1,041.5 billion (U.S.\$9,825 million) from the year-ago period. While R&D expenditures grew by 3.1% compared with the same period for the previous year, group-wide expense-reduction efforts supported a decrease in operating expenses of 1.1% year on year. Consequently, operating profit in the first half totaled ¥331.0 billion (U.S.\$3,122 million), a decline of 14.9% compared with last year. Other income (deductions) decreased by ¥9.0 billion (U.S.\$85 million), mainly due to a reduced interest income and a drop in earnings on investments in affiliates accounted for by the equity method. As a result, while income before income taxes and minority interests for the first half totaled ¥339.2 billion (U.S.\$3,200 million), a decline of 16.5%, and first-half net income also recorded a decrease of 15.9% to ¥214.5 billion (U.S.\$2,023 million), the net income ratio, at 10.1%, remained at a double-digit level.

Basic net income per share for the first half was ¥170.08 (U.S.\$1.60), a year-on-year decline of ¥24.30 (U.S.\$0.23).

Results by Product Segment

Reviewing first-half consolidated results by business sector, within the business machine segment, despite sales growth for such products as the competitively priced iR C3580 series of color network digital MFDs, the appreciation of the yen along with restrained investment in office equipment as a result of concerns regarding business performance had a negative impact on sales led by the U.S. market. Consequently, business machine sales overall declined by 5.3% year on year. In the field of computer peripherals, despite a steady increase in sales of laser beam printers on a local-currency basis, the significant impact of the yen's appreciation against the U.S. dollar resulted in a decrease in sales of 3.9% from the year-ago period. As for inkjet printers, however, home-use multifunction models such as the PIXMA MP610, as well as business-use MFDs equipped with a facsimile function, recorded an increase in unit sales with sales of related consumables also expanding, which contributed to a sales increase of 2.8% despite the impact of the yen's appreciation. As a result, first-half profit for computer peripherals overall declined by 2.3%. As for business information products, a drop in demand for personal computer sales in the Japanese domestic market resulted in a reduction in sales of 12.6%. Collectively, sales of business machines overall during the term totaled ¥1,389.0 billion (U.S.\$13,104 million), dropping 4.0% from the year-ago period. Operating profit for the segment totaled ¥303.0 billion (U.S.\$2,859 million), a year-on-year decrease of 9.7%, as a result of lower gross profit ratio due to the appreciation of the yen.

Within the digital camera segment, the high-resolution, competitively priced EOS Digital Rebel XSi and advanced-amateur model EOS 40D contributed to robust sales while also boosting sales of interchangeable lenses and other accessories. Sales volume of digital compact cameras also maintained stable growth, bolstered by the launch of 7 new models, including 4 new stylish ELPH (IXUS)-series models and 3 new PowerShot-series models that cater to a range of photographic demands. As a result, while year-on-year sales volume for digital cameras rose by 16%, overall camera sales for the first half grew by only 1.9% from the year-ago period to ¥529.4 billion (U.S.\$4,994 million) due to the dramatic appreciation of the yen against the U.S. dollar along with fierce price competition. Additionally, operating profit for the camera segment decreased by 18.0% year on year to ¥112.6 billion (U.S.\$1,062 million) as a result of the significant decline in the gross profit ratio for the sector.

In the optical and other products segment, while sales of aligners, used to produce LCD panels, gained momentum owing to a recovery in demand by LCD panel manufacturers, sales of steppers, used in the production of semiconductors, remained stagnant throughout the period due to market shrinkage. As a result, sales for the segment totaled ¥195.0 billion (U.S.\$1,840 million), a year-on-year decrease of 2.8%, while operating profit for the segment fell by 74.2% to ¥5.5 billion (U.S.\$52 million).

Cash Flow

In the first half of 2008, Canon generated cash flow from operating activities of ¥335.6 billion (U.S.\$3,166 million), a decrease of ¥104.7 billion (U.S.\$988 million) compared with the corresponding period for last year, reflecting the decrease in net income. Cash flow from investing activities totaled ¥289.5 billion (U.S.\$2,732 million), a year-on-year increase of ¥80.2 billion (U.S.\$756 million), due to such factors as aggressive facility investment to reinforce production capabilities and the payment to acquire shares of Hitachi Displays, Ltd. toward the launch of Canon's display business. As a result, free cash flow totaled ¥46.1 billion (U.S.\$435 million), deteriorating by ¥184.9 billion (U.S.\$1,744 million).

Cash flow from financing activities recorded an outlay of ¥85.0 billion (U.S.\$802 million), mainly resulting from the dividend payout of ¥75.7 billion (U.S.\$714 million). Consequently, cash and cash equivalents decreased by ¥78.1 billion (U.S.\$736 million) to ¥866.4 billion (U.S.\$8,174 million) from the end of the previous year, including the ¥39.2 billion (U.S.\$369 million) negative impact of currency translation due to the appreciation of the yen against the U.S. dollar.

Non-consolidated Results

While first-half non-consolidated net sales totaled ¥1,395.3 billion (U.S.\$13,164 million), a year-on-year increase of 1.8%, ordinary profit declined by 15.2% to ¥256.2 billion (U.S.\$2,417 million) and net income fell by 16.2% to ¥168.4 billion (U.S.\$1,589 million) due to the impact of foreign currency exchange rates, which also had a similar impact on the company's consolidated financial results.

Outlook

As for the outlook for the global economy in the third quarter and thereafter, fallout from the subprime loan crisis, including financial instability and escalating prices of crude oil and raw materials, have led to rising anxiety over an economic slowdown and uncertainty about the future. Amid this environment, while the economic slowdown is likely to continue among developed countries for the time being, these economies are expected to gradually move toward recovery as the effects of financial policies and economic stimulus measures in the U.S. and other countries begin to materialize from the end of the year. As for emerging-market economies, including those of Asia and Russia, despite the negative economic influence of developed countries, these regions are expected to continue enjoying high rates of growth.

In the businesses in which the Canon is involved, the market for digital SLR and digital compact cameras is projected to continue achieving healthy expansion amid intensifying price competition. Demand for color network digital MFDs and color laser beam printers is also expected to remain solid amid continued price competition and shifting market demand toward lower priced models. While the market for steppers will likely remain depressed, the market for aligners is expected to stage a healthy recovery owing to large-scale facility investment by LCD panel manufacturers. As for currency exchange rates from the third quarter onward, on which Canon's performance outlook for the full year is based, while uncertainty over future interest rate policies and economic prospects for major countries is likely to continue, Canon anticipates exchange rates of ¥105 to the U.S. dollar and ¥165 to the euro, representing year-on-year appreciation of approximately 9% against the U.S. dollar and depreciation of about 1% against the euro. Upon taking into consideration first-half business results as well as the expected business climate based on these foreign exchange rate assumptions, the company has slightly revised its projected consolidated net sales upwards to ¥4,590.0 billion (U.S.\$43,302 million), while maintaining earlier announced projections for operating profit of ¥770.0 billion (U.S.\$7,264 million), income before income taxes and minority interests of ¥785.0 billion (U.S.\$7,406 million), and net income of ¥500.0 billion (U.S.\$4,717 million).

Fiscal year

| | Millions of yen | | | | |
|--|-------------------------|------------------------|---------|------------------------------------|---------------|
| | Year ending | | Change | Year ended December 31, 2007 | Change (%) |
| | December 31, 2008 | | | | |
| | Previous Outlook (A) | Revised Outlook (B) | (B - A) | Results (C) | (B - C) / C |
| Net sales | ¥4,570,000 | ¥4,590,000 | ¥20,000 | ¥4,481,346 | + 2.4% |
| Operating profit | 770,000 | 770,000 | - | 756,673 | + 1.8% |
| Income before income taxes and minority interests | 785,000 | 785,000 | - | 768,388 | + 2.2% |
| Net income | 500,000 | 500,000 | - | 488,332 | + 2.4% |

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 planned future investments, free cash flow, and the company's consolidated business performance. Specifically, Canon's medium- to long-term objective is to continuously strive to raise its consolidated payout ratio to approximately 30%.

The company plans to distribute a full-year dividend for fiscal 2008 totaling ¥110.00 (U.S.\$1.04), comprising an interim dividend of ¥55.00 (U.S.\$0.52) per share, and a year-end dividend of ¥55.00 (U.S.\$0.52) per share.

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.

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II. Management Policy

(1) Basic Policy

Under the corporate philosophy of *kyosei* living and working together for the common good Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporate group targeting continued growth and development.

(2) Management Goals

Based on this basic management policy, Canon launched two consecutive five-year management plans Phase I of its Excellent Global Corporation Plan in 1996, and Phase II in 2001 with the aim of becoming a truly excellent global corporation. Through these two management plans, the company promoted a range of management reforms, thoroughly strengthening its product competitiveness and financial base. Since 2006, under a new five-year management plan Phase III, which targets further growth and improved corporate value Canon is pursuing sound growth, making use of the solid management foundation achieved through the two preceding plans, and further expanding its corporate scale while maintaining a high level of profitability. In particular, the company is focusing on the following five important management objectives.

- 1) Achieving the overwhelming No. 1 position worldwide in all current core businesses
- 2) Expanding business operations through diversification
- 3) Identifying new business domains and accumulating required technologies
- 4) Establishing new production systems to sustain international competitiveness
- 5) Nurturing truly autonomous and strong individuals promoting everlasting corporate reforms

(3) Business Challenges and Countermeasures

At Canon, the creation of new businesses and maintaining a high profitability structure represent two very important management objectives to ensure continuous future growth.

As for new businesses, the company is promoting research based on leading-edge technologies in its areas of expertise, such as biotechnology, nanotechnology and life sciences. At the same time, Canon is also looking into M&A opportunities and business tie-ups toward launching such businesses. Additionally, the company aims to enter the display business, moving away from a focus on still images while strengthening the ability to deliver video images, which will play an increasingly important role in the broadband era.

With regard to maintaining the company's current high profitability structure, in order to effectively respond to the intensifying price competition centered on the consumer goods market and the investment burden that accompanies the launch of competitive new businesses, Canon believes that it is important to further improve the profit-earning ability of current businesses. To facilitate this, the company is promoting the development of new products and actively carrying out cost-reduction activities.

Canon also views its approach to the environment as an important management issue. From the product planning stage through to design, development, production, sales, use, recovery and recycling, the company focuses its energies on such areas as creating environmentally conscious products that realize energy efficiency, resource efficiency, and eliminate the use of hazardous substances. Additionally, Canon actively promotes the development of recycling systems, the expansion of green procurement policies, the disclosure of environmental information, and participation in environmental conservation activities at the community level.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

III. Financial Statements**1. CONSOLIDATED STATEMENTS OF INCOME**

| <u>Results for the second quarter</u> | Millions of yen | | | Thousands of |
|---|--|---|-----------|--|
| | Three months ended June 30, 2008 (Unaudited) | Three months ended June 30, 2007 (Unaudited) | Change(%) | Three months ended June 30, 2008 (Unaudited) |
| Net sales | ¥ 1,105,894 | ¥ 1,126,931 | - 1.9 | \$ 10,432,962 |
| Cost of sales | 564,304 | 553,054 | | 5,323,622 |
| Gross profit | 541,590 | 573,877 | - 5.6 | 5,109,340 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 285,529 | 295,067 | | 2,693,670 |
| Research and development expenses | 95,908 | 97,337 | | 904,793 |
| | 381,437 | 392,404 | | 3,598,463 |
| Operating profit | 160,153 | 181,473 | - 11.7 | 1,510,877 |
| Other income (deductions): | | | | |
| Interest and dividend income | 4,773 | 9,112 | | 45,028 |
| Interest expense | (251) | (402) | | (2,368) |
| Other, net | 7,928 | 8,114 | | 74,793 |
| | 12,450 | 16,824 | | 117,453 |
| Income before income taxes and minority interests | 172,603 | 198,297 | - 13.0 | 1,628,330 |
| Income taxes | 61,304 | 70,289 | | 578,339 |
| Income before minority interests | 111,299 | 128,008 | | 1,049,991 |
| Minority interests | 3,458 | 4,075 | | 32,623 |
| Net income | ¥ 107,841 | ¥ 123,933 | - 13.0 | \$ 1,017,368 |

Note: Comprehensive income for the three months ended June 30, 2008 and 2007 was JPY 160,962 million (U.S.\$ 1,518,509 thousand) and JPY 172,538 million, respectively.

| <u>Results for the first half</u> | Millions of yen | | Thousands of | Millions of |
|--|-------------------|------------|-------------------|-------------------|
| | Six months | Six months | Six months | Year ended |

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| | ended June 30, 2008 (Unaudited) | ended June 30, 2007 (Unaudited) | Change(%) | ended June 30, 2008 (Unaudited) | December 31, 2007 |
|---|--|--|-----------|--|----------------------|
| Net sales | ¥ 2,113,432 | ¥ 2,166,724 | - 2.5 | \$ 19,938,038 | ¥ 4,481,346 |
| Cost of sales | 1,071,977 | 1,059,170 | | 10,112,991 | 2,234,365 |
| Gross profit | 1,041,455 | 1,107,554 | - 6.0 | 9,825,047 | 2,246,981 |
| Operating expenses: | | | | | |
| Selling, general and administrative expenses | 535,009 | 548,411 | | 5,047,255 | 1,122,047 |
| Research and development expenses | 175,463 | 170,267 | | 1,655,311 | 368,261 |
| | 710,472 | 718,678 | | 6,702,566 | 1,490,308 |
| Operating profit | 330,983 | 388,876 | - 14.9 | 3,122,481 | 756,673 |
| Other income (deductions): | | | | | |
| Interest and dividend income | 10,966 | 17,367 | | 103,453 | 32,819 |
| Interest expense | (663) | (795) | | (6,255) | (1,471) |
| Other, net | (2,041) | 693 | | (19,254) | (19,633) |
| | 8,262 | 17,265 | | 77,944 | 11,715 |
| Income before income taxes and minority interests | 339,245 | 406,141 | - 16.5 | 3,200,425 | 768,388 |
| Income taxes | 117,338 | 142,836 | | 1,106,963 | 264,258 |
| Income before minority interests | 221,907 | 263,305 | | 2,093,462 | 504,130 |
| Minority interests | 7,422 | 8,122 | | 70,019 | 15,798 |
| Net income | ¥ 214,485 | ¥ 255,183 | - 15.9 | \$ 2,023,443 | ¥ 488,332 |

Note: Comprehensive income for the six months ended June 30, 2008 and 2007 was JPY 161,371 million (U.S.\$ 1,522,368 thousand) and JPY 356,634 million, respectively.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. DETAILS OF SALES

| <u>Results for the second quarter</u> | Millions of yen | | | Thousands of |
|--|---|----------------------------------|-----------|---|
| | Three months ended June 30, 2008 | Three months ended June 30, 2007 | Change(%) | U.S. dollars |
| Sales by product | (Unaudited) | (Unaudited) | | Three months ended June 30, 2008 |
| | | | | (Unaudited) |
| Business machines: | | | | |
| Office imaging products | ¥ 311,575 | ¥ 326,866 | - 4.7 | \$ 2,939,387 |
| Computer peripherals | 363,652 | 377,590 | - 3.7 | 3,430,679 |
| Business information products | 21,981 | 26,740 | - 17.8 | 207,368 |
| | 697,208 | 731,196 | - 4.6 | 6,577,434 |
| Cameras | 310,416 | 297,131 | + 4.5 | 2,928,453 |
| Optical and other products | 98,270 | 98,604 | - 0.3 | 927,075 |
| Total | ¥ 1,105,894 | ¥ 1,126,931 | - 1.9 | \$ 10,432,962 |

| Sales by region | Millions of yen | | | Thousands of |
|------------------------|---|----------------------------------|-----------|---|
| | Three months ended June 30, 2008 | Three months ended June 30, 2007 | Change(%) | U.S. dollars |
| | (Unaudited) | (Unaudited) | | Three months ended June 30, 2008 |
| | | | | (Unaudited) |
| Japan | ¥ 218,818 | ¥ 225,843 | - 3.1 | \$ 2,064,321 |
| Overseas: | | | | |
| Americas | 314,785 | 335,325 | - 6.1 | 2,969,670 |
| Europe | 379,508 | 384,588 | - 1.3 | 3,580,264 |
| Other areas | 192,783 | 181,175 | + 6.4 | 1,818,707 |
| | 887,076 | 901,088 | - 1.6 | 8,368,641 |
| Total | ¥ 1,105,894 | ¥ 1,126,931 | - 1.9 | \$ 10,432,962 |

| <u>Results for the first half</u> | Millions of yen | | | Thousands of | Millions of yen |
|--|-------------------------|------------------|-----------|-------------------------|-----------------|
| | Six months ended | Six months ended | Change(%) | U.S. dollars | |
| Sales by product | ended | ended | | Six months ended | Year ended |
| | | | | | December |
| | | | | | 31, |
| | | | | | 2007 |

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| | June 30, 2008 | June 30, 2007 | | June 30, 2008 | |
|-------------------------------|--------------------------|------------------|--------|--------------------------|-------------|
| | (Unaudited) | (Unaudited) | | (Unaudited) | |
| Business machines: | | | | | |
| Office imaging products | ¥ 599,099 | ¥ 632,428 | - 5.3 | \$ 5,651,877 | ¥ 1,290,788 |
| Computer peripherals | 743,161 | 760,687 | - 2.3 | 7,010,953 | 1,537,511 |
| Business information products | 46,734 | 53,472 | - 12.6 | 440,887 | 107,243 |
| | 1,388,994 | 1,446,587 | - 4.0 | 13,103,717 | 2,935,542 |
| Cameras | 529,411 | 519,574 | + 1.9 | 4,994,443 | 1,152,663 |
| Optical and other products | 195,027 | 200,563 | - 2.8 | 1,839,878 | 393,141 |
| Total | ¥ 2,113,432 | ¥ 2,166,724 | - 2.5 | \$ 19,938,038 | ¥ 4,481,346 |

| Sales by region | Millions of yen | | Change(%) | Thousands of U.S. dollars | Millions of yen |
|-----------------|--|--|-----------|--|---------------------------------------|
| | Six months ended June 30, 2008 (Unaudited) | Six months ended June 30, 2007 (Unaudited) | | Six months ended June 30, 2008 (Unaudited) | Year ended December 31, 2007 |
| Japan | ¥ 446,599 | ¥ 458,302 | - 2.6 | \$ 4,213,198 | ¥ 947,587 |
| Overseas: | | | | | |
| Americas | 585,449 | 641,949 | - 8.8 | 5,523,104 | 1,336,168 |
| Europe | 716,624 | 722,379 | - 0.8 | 6,760,604 | 1,499,286 |
| Other areas | 364,760 | 344,094 | + 6.0 | 3,441,132 | 698,305 |
| | 1,666,833 | 1,708,422 | - 2.4 | 15,724,840 | 3,533,759 |
| Total | ¥ 2,113,432 | ¥ 2,166,724 | - 2.5 | \$ 19,938,038 | ¥ 4,481,346 |

Notes: 1. The primary products included in each of the product segments are as follows:

Business machines:

Office imaging products : Office network digital multifunction devices (MFDs) / Color network digital MFDs / Office copying machines / Personal-use copying machines / Full-color copying machines

Computer peripherals : Laser beam printers / Inkjet multifunction peripherals / Single function inkjet printers / Image scanners

Business information products : Computer information systems / Document scanners / Personal information products

Cameras : Digital SLR cameras / Digital compact cameras / Interchangeable lenses / Digital video camcorders

Optical and other products : Semiconductor production equipment / Mirror projection mask aligners for LCD panels / Broadcasting equipment / Medical equipment / Large format printers / Components

2. The principal countries and regions included in each regional category are as follows:

Americas: United States of America, Canada, Latin America / Europe: England, Germany, France, Netherlands /

Other Areas: Asian regions, China, Oceania

- 7 -

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. SEGMENT INFORMATION BY PRODUCT

| <u>Results for the second quarter</u> | Millions of yen | | | Thousands of |
|--|---|---|------------------|--|
| | Three months ended June 30, 2008 (Unaudited) | Three months ended June 30, 2007 (Unaudited) | Change(%) | U.S. dollars Three months ended June 30, 2008 (Unaudited) |
| Business machines | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 697,208 | ¥ 731,196 | - 4.6 | \$ 6,577,434 |
| Intersegment | - | - | - | - |
| Total | 697,208 | 731,196 | - 4.6 | 6,577,434 |
| Operating cost and expenses | 557,349 | 572,236 | - 2.6 | 5,258,009 |
| Operating profit | 139,859 | 158,960 | - 12.0 | 1,319,425 |
| Cameras | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 310,416 | ¥ 297,131 | + 4.5 | \$ 2,928,453 |
| Intersegment | - | - | - | - |
| Total | 310,416 | 297,131 | + 4.5 | 2,928,453 |
| Operating cost and expenses | 243,557 | 220,358 | + 10.5 | 2,297,708 |
| Operating profit | 66,859 | 76,773 | - 12.9 | 630,745 |
| Optical and other products | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 98,270 | ¥ 98,604 | - 0.3 | \$ 927,075 |
| Intersegment | 65,702 | 56,258 | + 16.8 | 619,830 |
| Total | 163,972 | 154,862 | + 5.9 | 1,546,905 |
| Operating cost and expenses | 163,785 | 151,469 | + 8.1 | 1,545,141 |
| Operating profit | 187 | 3,393 | - 94.5 | 1,764 |

Corporate and Eliminations

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| | | | | |
|-----------------------------|---|----------|----------|-----------|
| Net sales: | | | | |
| Unaffiliated customers | ¥ | - | ¥ | - |
| Intersegment | | (65,702) | (56,258) | - |
| | | | | \$ |
| | | | | (619,830) |
| Total | | (65,702) | (56,258) | - |
| Operating cost and expenses | | (18,950) | 1,395 | - |
| Operating profit | | (46,752) | (57,653) | - |

Consolidated

| | | | | | |
|-----------------------------|---|-----------|-----------|-----------|------------|
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | 1,105,894 | ¥ | 1,126,931 | - |
| Intersegment | | - | | - | - |
| | | | | | 1.9 |
| | | | | | \$ |
| | | | | | 10,432,962 |
| Total | | 1,105,894 | 1,126,931 | - | 1.9 |
| Operating cost and expenses | | 945,741 | 945,458 | + | 0.0 |
| Operating profit | | 160,153 | 181,473 | - | 11.7 |

Note: General corporate expenses of JPY 46,542 million (U.S.\$439,075 thousand) and JPY 57,663 million in the three months ended June 30, 2008 and 2007, respectively, are included in Corporate and Eliminations.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Results for the first half

| | Millions of yen | | Change(%) | | Thousands of U.S. dollars | Millions of yen |
|-----------------------------------|--|---|-----------|------|---|------------------------------------|
| | Six months ended June 30, 2008 (Unaudited) | Six months ended June 30, 2007 (Unaudited) | | | Six months ended June 30, 2008 (Unaudited) | Year ended December 31, 2007 |
| Business machines | | | | | | |
| Net sales: | | | | | | |
| Unaffiliated customers | ¥1,388,994 | ¥ 1,446,587 | - | 4.0 | \$ 13,103,717 | ¥ 2,935,542 |
| Intersegment | - | - | - | - | - | - |
| Total | 1,388,994 | 1,446,587 | - | 4.0 | 13,103,717 | 2,935,542 |
| Operating cost and expenses | 1,085,956 | 1,111,116 | - | 2.3 | 10,244,868 | 2,285,281 |
| Operating profit | 303,038 | 335,471 | - | 9.7 | 2,858,849 | 650,261 |
| Cameras | | | | | | |
| Net sales: | | | | | | |
| Unaffiliated customers | ¥ 529,411 | ¥ 519,574 | + | 1.9 | \$ 4,994,443 | ¥ 1,152,663 |
| Intersegment | - | - | - | - | - | - |
| Total | 529,411 | 519,574 | + | 1.9 | 4,994,443 | 1,152,663 |
| Operating cost and expenses | 416,826 | 382,271 | + | 9.0 | 3,932,320 | 845,237 |
| Operating profit | 112,585 | 137,303 | - | 18.0 | 1,062,123 | 307,426 |
| Optical and other products | | | | | | |
| Net sales: | | | | | | |
| Unaffiliated customers | ¥ 195,027 | ¥ 200,563 | - | 2.8 | \$ 1,839,878 | ¥ 393,141 |
| Intersegment | 121,917 | 107,917 | + | 13.0 | 1,150,161 | 238,659 |
| Total | 316,944 | 308,480 | + | 2.7 | 2,990,039 | 631,800 |
| Operating cost and expenses | 311,427 | 287,095 | + | 8.5 | 2,937,992 | 610,720 |
| Operating profit | 5,517 | 21,385 | - | 74.2 | 52,047 | 21,080 |

Corporate and Eliminations

Net sales:

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| | | | | | | | | | |
|-----------------------------|---|------------|---|-------------|---|----|-------------|---|---------------|
| Unaffiliated customers | ¥ | - | ¥ | - | - | \$ | - | ¥ | - |
| Intersegment | | (121,917) | | (107,917) | | | (1,150,161) | | (238,659) |
| Total | | (121,917) | | (107,917) | | | (1,150,161) | | (238,659) |
| Operating cost and expenses | | (31,760) | | (2,634) | | | (299,623) | | (16,565) |
| Operating profit | | (90,157) | | (105,283) | | | (850,538) | | (222,094) |
| Consolidated | | | | | | | | | |
| Net sales: | | | | | | | | | |
| Unaffiliated customers | | ¥2,113,432 | | ¥ 2,166,724 | | - | 2.5 | | \$ 19,938,038 |
| Intersegment | | - | | - | | - | - | | ¥ 4,481,346 |
| Total | | 2,113,432 | | 2,166,724 | | - | 2.5 | | 19,938,038 |
| Operating cost and expenses | | 1,782,449 | | 1,777,848 | | + | 0.3 | | 16,815,557 |
| Operating profit | | 330,983 | | 388,876 | | - | 14.9 | | 3,122,481 |

Note: General corporate expenses of JPY 89,837 million (U.S.\$847,519 thousand) and JPY105,293 million in the six months ended June 30, 2008 and 2007, respectively, are included in Corporate and Eliminations.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. SEGMENT INFORMATION BY GEOGRAPHIC AREA

| <u>Results for the first half</u> | Millions of yen | | | Thousands of | Millions of |
|--|---|--|-----------|---|-------------------------------------|
| | Six months ended June 30, 2008 (Unaudited) | Six months ended June 30, 2007 (Unaudited) | Change(%) | U.S. dollars Six months ended June 30, 2008 (Unaudited) | yen Year ended December 31, 2007 |
| Japan | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 501,874 | ¥ 509,863 | - 1.6 | \$ 4,734,660 | ¥ 1,048,310 |
| Intersegment | 1,193,604 | 1,187,290 | + 0.5 | 11,260,415 | 2,494,251 |
| Total | 1,695,478 | 1,697,153 | - 0.1 | 15,995,075 | 3,542,561 |
| Operating cost and expenses | 1,330,652 | 1,279,891 | + 4.0 | 12,553,320 | 2,722,672 |
| Operating profit | 364,826 | 417,262 | - 12.6 | 3,441,755 | 819,889 |
| Americas | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 581,309 | ¥ 638,428 | - 8.9 | \$ 5,484,047 | ¥ 1,329,479 |
| Intersegment | 1,698 | 2,357 | - 28.0 | 16,019 | 4,608 |
| Total | 583,007 | 640,785 | - 9.0 | 5,500,066 | 1,334,087 |
| Operating cost and expenses | 570,535 | 616,935 | - 7.5 | 5,382,406 | 1,281,805 |
| Operating profit | 12,472 | 23,850 | - 47.7 | 117,660 | 52,282 |
| Europe | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 715,716 | ¥ 721,697 | - 0.8 | \$ 6,752,038 | ¥ 1,499,821 |
| Intersegment | 2,378 | 1,891 | + 25.8 | 22,434 | 3,496 |
| Total | 718,094 | 723,588 | - 0.8 | 6,774,472 | 1,503,317 |
| Operating cost and expenses | 700,913 | 693,929 | + 1.0 | 6,612,387 | 1,441,972 |
| Operating profit | 17,181 | 29,659 | - 42.1 | 162,085 | 61,345 |
| Others | | | | | |

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| | | | | | | |
|-----------------------------|-----------|-----------|--------|--------------|-----------|--|
| Net sales: | | | | | | |
| Unaffiliated customers | ¥ 314,533 | ¥ 296,736 | + 6.0 | \$ 2,967,293 | ¥ 603,736 | |
| Intersegment | 386,513 | 406,074 | - 4.8 | 3,646,349 | 824,844 | |
| Total | 701,046 | 702,810 | - 0.3 | 6,613,642 | 1,428,580 | |
| Operating cost and expenses | 674,447 | 678,757 | - 0.6 | 6,362,708 | 1,378,306 | |
| Operating profit | 26,599 | 24,053 | + 10.6 | 250,934 | 50,274 | |

Corporate and Eliminations

| | | | | | | |
|-----------------------------|-------------|-------------|---|--------------|-------------|--|
| Net sales: | | | | | | |
| Unaffiliated customers | ¥ - | ¥ - | - | \$ - | ¥ - | |
| Intersegment | (1,584,193) | (1,597,612) | - | (14,945,217) | (3,327,199) | |
| Total | (1,584,193) | (1,597,612) | - | (14,945,217) | (3,327,199) | |
| Operating cost and expenses | (1,494,098) | (1,491,664) | - | (14,095,264) | (3,100,082) | |
| Operating profit | (90,095) | (105,948) | - | (849,953) | (227,117) | |

Consolidated

| | | | | | | |
|-----------------------------|-------------|-------------|--------|---------------|-------------|--|
| Net sales: | | | | | | |
| Unaffiliated customers | ¥ 2,113,432 | ¥ 2,166,724 | - 2.5 | \$ 19,938,038 | ¥ 4,481,346 | |
| Intersegment | - | - | - | - | - | |
| Total | 2,113,432 | 2,166,724 | - 2.5 | 19,938,038 | 4,481,346 | |
| Operating cost and expenses | 1,782,449 | 1,777,848 | + 0.3 | 16,815,557 | 3,724,673 | |
| Operating profit | 330,983 | 388,876 | - 14.9 | 3,122,481 | 756,673 | |

Note: General corporate expenses of JPY 89,837 million (U.S.\$847,519 thousand) and JPY105,293 million in the six months ended June 30, 2008 and 2007, respectively, are included in Corporate and Eliminations.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED BALANCE SHEETS

| | Millions of yen | | | Thousands of U.S. dollars | Millions of yen |
|---|--|---------------------------|------------|---------------------------------------|---------------------------------------|
| | As of June 30, 2008 (Unaudited) | As of Dec. 31, 2007 | Change | As of June 30, 2008 (Unaudited) | As of June 30, 2007 (Unaudited) |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | ¥ 866,395 | ¥ 944,463 | ¥ (78,068) | \$ 8,173,538 | ¥ 1,108,728 |
| Short-term investments | 20,931 | 20,499 | 432 | 197,462 | 22,460 |
| Trade receivables, net | 703,690 | 794,240 | (90,550) | 6,638,585 | 729,298 |
| Inventories | 614,179 | 563,474 | 50,705 | 5,794,142 | 575,036 |
| Prepaid expenses and other current assets | 278,608 | 286,111 | (7,503) | 2,628,377 | 282,254 |
| Total current assets | 2,483,803 | 2,608,787 | (124,984) | 23,432,104 | 2,717,776 |
| Noncurrent receivables | 14,748 | 15,239 | (491) | 139,132 | 14,560 |
| Investments | 129,084 | 90,086 | 38,998 | 1,217,774 | 116,471 |
| Property, plant and equipment, net | 1,384,775 | 1,364,702 | 20,073 | 13,063,915 | 1,336,716 |
| Other assets | 445,786 | 433,811 | 11,975 | 4,205,528 | 422,991 |
| Total assets | ¥ 4,458,196 | ¥ 4,512,625 | ¥ (54,429) | \$ 42,058,453 | ¥ 4,608,514 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | |
| Current liabilities: | | | | | |
| Short-term loans and current portion of long-term debt | ¥ 16,114 | ¥ 18,317 | ¥ (2,203) | \$ 152,019 | ¥ 5,301 |
| Trade payables | 511,112 | 514,226 | (3,114) | 4,821,811 | 506,177 |
| Accrued income taxes | 106,407 | 150,726 | (44,319) | 1,003,840 | 135,090 |
| Accrued expenses | 316,407 | 357,525 | (41,118) | 2,984,972 | 318,330 |
| Other current liabilities | 182,574 | 215,911 | (33,337) | 1,722,396 | 215,850 |
| Total current liabilities | 1,132,614 | 1,256,705 | (124,091) | 10,685,038 | 1,180,748 |
| Long-term debt, excluding current installments | 10,138 | 8,680 | 1,458 | 95,642 | 16,290 |
| Accrued pension and severance cost | 42,979 | 44,710 | (1,731) | 405,462 | 49,210 |
| Other noncurrent liabilities | 53,268 | 57,324 | (4,056) | 502,528 | 63,198 |
| Total liabilities | 1,238,999 | 1,367,419 | (128,420) | 11,688,670 | 1,309,446 |

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| | | | | | |
|---|-------------------|-------------|------------|----------------------|-------------|
| Minority interests | 211,268 | 222,870 | (11,602) | 1,993,094 | 224,701 |
| Stockholders' equity: | | | | | |
| Common stock | 174,736 | 174,698 | 38 | 1,648,453 | 174,674 |
| Additional paid-in capital | 402,866 | 402,991 | (125) | 3,800,623 | 403,577 |
| Legal reserve | 52,500 | 46,017 | 6,483 | 495,283 | 45,730 |
| Retained earnings | 2,852,485 | 2,720,146 | 132,339 | 26,910,236 | 2,552,314 |
| Accumulated other comprehensive income (loss) | (18,444) | 34,670 | (53,114) | (174,000) | 104,169 |
| Treasury stock | (456,214) | (456,186) | (28) | (4,303,906) | (206,097) |
| Total stockholders' equity | 3,007,929 | 2,922,336 | 85,593 | 28,376,689 | 3,074,367 |
| Total liabilities and stockholders' equity | ¥4,458,196 | ¥ 4,512,625 | ¥ (54,429) | \$ 42,058,453 | ¥ 4,608,514 |

| | Millions of yen | | Thousands of U.S. dollars | Millions of yen |
|--|---------------------|---------------------|---------------------------|---------------------|
| | As of June 30, 2008 | As of Dec. 31, 2007 | As of June 30, 2008 | As of June 30, 2007 |
| Notes: | (Unaudited) | | (Unaudited) | (Unaudited) |
| 1.Allowance for doubtful receivables | ¥ 13,213 | ¥ 14,547 | \$ 124,651 | ¥ 16,553 |
| 2.Accumulated depreciation | 1,683,150 | 1,594,374 | 15,878,774 | 1,488,148 |
| 3.Accumulated other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (25,571) | 22,796 | (241,236) | 72,095 |
| Net unrealized gains and losses on securities | 4,686 | 6,287 | 44,208 | 9,503 |
| Net gains and losses on derivative instruments | (2,288) | (849) | (21,585) | (2,640) |
| Pension liability adjustments | 4,729 | 6,436 | 44,613 | 25,211 |

4.Time deposits and Marketable securities, which had been previously disclosed separately in the consolidated balance sheets, have been reclassified to Short-term investments to conform to the current year presentation.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

6. CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Millions of yen

| | Common Stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total stockholders equity |
|---|-----------------|----------------------------------|------------------|----------------------|---|-------------------|---------------------------------|
| Balance at December 31, 2007 | ¥ 174,698 | ¥ 402,991 | ¥ 46,017 | ¥ 2,720,146 | ¥ 34,670 | ¥ (456,186) | ¥ 2,922,336 |
| Conversion of convertible debt and other | 38 | (120) | | | | | (82) |
| Cash dividends | | | | (75,663) | | | (75,663) |
| Transfers to legal reserve | | | 6,483 | (6,483) | | | - |
| Comprehensive income: | | | | | | | |
| Net income | | | | 214,485 | | | 214,485 |
| Other comprehensive income (loss), net of tax | | | | | | | |
| Foreign currency translation adjustments | | | | | (48,367) | | (48,367) |
| Net unrealized gains and losses on securities | | | | | (1,601) | | (1,601) |
| Net gains and losses on derivative instruments | | | | | (1,439) | | (1,439) |
| Pension liability adjustments | | | | | (1,707) | | (1,707) |
| Total comprehensive income | | | | | | | 161,371 |

**Repurchase of
treasury stock,
net**

(5)

(28)

(33)

**Balance at
June 30, 2008
(Unaudited)**

¥ 174,736 ¥ 402,866 ¥ 52,500 ¥ 2,852,485 ¥ (18,444) ¥ (456,214) ¥ 3,007,929

Balance at
December 31,
2006

¥ 174,603 ¥ 403,510 ¥ 43,600 ¥ 2,368,047 ¥ 2,718 ¥ (5,872) ¥ 2,986,606

Cumulative
effect of a
change in
accounting
principle -
adoption of
EITF 06-2, net
of tax

(2,204)

(2,204)

Conversion of
convertible debt
and other

71

63

134

Cash dividends
Transfers to
legal reserve

(66,582)

(66,582)

2,130

(2,130)

-

Comprehensive
income:

Net income

255,183

255,183

Other
comprehensive
income (loss),
net of tax

Foreign

currency
translation
adjustments

49,237

49,237

Net unrealized
gains and losses
on securities

1,438

1,438

Net gains and
losses on
derivative
instruments

(977)

(977)

Pension liability
adjustments

51,753

51,753

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| | | | | | | | | |
|---|-----------|-----------|----------|-------------|-----------|-------------|-------------|-----------|
| Total comprehensive income | | | | | | | | 356,634 |
| Repurchase of treasury stock, net | | 4 | | | | | (200,225) | (200,221) |
| Balance at June 30, 2007 (Unaudited) | ¥ 174,674 | ¥ 403,577 | ¥ 45,730 | ¥ 2,552,314 | ¥ 104,169 | ¥ (206,097) | ¥ 3,074,367 | |
| Balance at December 31, 2006 | ¥ 174,603 | ¥ 403,510 | ¥ 43,600 | ¥ 2,368,047 | ¥ 2,718 | ¥ (5,872) | ¥ 2,986,606 | |
| Cumulative effect of a change in accounting principle - adoption of EITF 06-2, net of tax | | | | (2,204) | | | | (2,204) |
| Conversion of convertible debt and other | 95 | (522) | | | | | | (427) |
| Cash dividends | | | | (131,612) | | | | (131,612) |
| Transfers to legal reserve | | | 2,417 | (2,417) | | | | - |
| Comprehensive income: | | | | | | | | |
| Net income | | | | 488,332 | | | | 488,332 |
| Other comprehensive income (loss), net of tax | | | | | | | | |
| Foreign currency translation adjustments | | | | | | (62) | | (62) |
| Net unrealized gains and losses on securities | | | | | | (1,778) | | (1,778) |
| Net gains and losses on | | | | | | 814 | | 814 |

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| | | | | | | | |
|---|---------------------|---------------------|-------------------|----------------------|-------------------|-----------------------|---------------------------|
| derivative instruments | | | | | | | |
| Pension liability adjustments | | | | | 32,978 | | 32,978 |
| Total comprehensive income | | | | | | | 520,284 |
| Repurchase of treasury stock, net | | 3 | | | | (450,314) | (450,311) |
| Balance at December 31, 2007 | ¥ 174,698 | ¥ 402,991 | ¥ 46,017 | ¥ 2,720,146 | ¥ 34,670 | ¥ (456,186) | ¥ 2,922,336 |
| | | | | | | | Thousands of U.S. dollars |
| Balance at December 31, 2007 | \$ 1,648,095 | \$ 3,801,802 | \$ 434,123 | \$ 25,661,755 | \$ 327,075 | \$ (4,303,642) | \$ 27,569,208 |
| Conversion of convertible debt and other | 358 | (1,132) | | | | | (774) |
| Cash dividends | | | | (713,802) | | | (713,802) |
| Transfers to legal reserve | | | 61,160 | (61,160) | | | - |
| Comprehensive income: | | | | | | | |
| Net income | | | | 2,023,443 | | | 2,023,443 |
| Other comprehensive income (loss), net of tax | | | | | | | |
| Foreign currency translation adjustments | | | | | (456,292) | | (456,292) |
| Net unrealized gains and losses on securities | | | | | (15,104) | | (15,104) |
| Net gains and losses on | | | | | (13,575) | | (13,575) |

| | | | | | | | | |
|---|--------------|--------------|------------|---------------|--------------|----------------|---------------|-----------|
| derivative instruments | | | | | | | | |
| Pension liability adjustments | | | | | (16,104) | | | (16,104) |
| Total comprehensive income | | | | | | | | 1,522,368 |
| Repurchase of treasury stock, net | | | | (47) | | | (264) | (311) |
| Balance at June 30, 2008 (Unaudited) | \$ 1,648,453 | \$ 3,800,623 | \$ 495,283 | \$ 26,910,236 | \$ (174,000) | \$ (4,303,906) | \$ 28,376,689 | |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars | Millions of yen |
|---|---|--|---|---------------------------------------|
| | Six months ended June 30, 2008 (Unaudited) | Six months ended June 30, 2007 (Unaudited) | Six months ended June 30, 2008 (Unaudited) | Year ended December 31, 2007 |
| Cash flows from operating activities: | | | | |
| Net income | ¥ 214,485 | ¥ 255,183 | \$ 2,023,443 | ¥ 488,332 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 163,690 | 143,244 | 1,544,245 | 341,694 |
| Loss on disposal of property, plant and equipment | 4,452 | 3,571 | 42,000 | 9,985 |
| Deferred income taxes | 2,057 | (8,738) | 19,406 | (35,021) |
| (Increase) decrease in trade receivables | 75,641 | 65,822 | 713,594 | (10,722) |
| Increase in inventories | (55,714) | (28,859) | (525,604) | (26,643) |
| Increase in trade payables | 19,430 | 7,919 | 183,302 | 21,136 |
| Increase (decrease) in accrued income taxes | (43,889) | (428) | (414,047) | 14,988 |
| Increase (decrease) in accrued expenses | (33,727) | (185) | (318,179) | 43,035 |
| Decrease in accrued (prepaid) pension and severance cost | (4,811) | (5,674) | (45,387) | (15,387) |
| Other, net | (6,016) | 8,469 | (56,754) | 7,872 |
| Net cash provided by operating activities | 335,598 | 440,324 | 3,166,019 | 839,269 |
| Cash flows from investing activities: | | | | |
| Purchases of fixed assets | (236,641) | (236,321) | (2,232,462) | (474,285) |
| Proceeds from sale of fixed assets | 4,192 | 4,545 | 39,547 | 9,635 |
| Purchases of available-for-sale securities | (7,014) | (1,840) | (66,170) | (2,281) |
| Proceeds from sale of available-for-sale securities | 4,062 | 6,787 | 38,321 | 8,614 |
| Proceeds from maturity of held-to-maturity securities | - | 10,000 | - | 10,000 |
| (Increase) decrease in time deposits | (204) | 20,479 | (1,925) | 31,681 |
| Acquisitions of subsidiaries, net of cash acquired | (209) | (12,520) | (1,972) | (15,675) |
| Purchases of other investments | (44,509) | (2,137) | (419,896) | (2,432) |
| Other, net | (9,218) | 1,654 | (86,962) | 2,258 |

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| | | | | |
|--|------------------|-------------|---------------------|-----------|
| Net cash used in investing activities | (289,541) | (209,353) | (2,731,519) | (432,485) |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of long-term debt | 5,866 | 1,541 | 55,340 | 2,635 |
| Repayments of long-term debt | (3,646) | (11,883) | (34,396) | (13,046) |
| Decrease in short-term loans | (2,670) | (334) | (25,189) | (358) |
| Dividends paid | (75,663) | (66,582) | (713,802) | (131,612) |
| Repurchases of treasury stock, net | (33) | (200,221) | (311) | (450,311) |
| Other, net | (8,824) | (2,291) | (83,246) | (11,691) |
| Net cash used in financing activities | (84,970) | (279,770) | (801,604) | (604,383) |
| Effect of exchange rate changes on cash and cash equivalents | (39,155) | 1,901 | (369,386) | (13,564) |
| Net decrease in cash and cash equivalents | (78,068) | (46,898) | (736,490) | (211,163) |
| Cash and cash equivalents at beginning of period | 944,463 | 1,155,626 | 8,910,028 | 1,155,626 |
| Cash and cash equivalents at end of period | ¥ 866,395 | ¥ 1,108,728 | \$ 8,173,538 | ¥ 944,463 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) GROUP POSITION

1. Number of Group Companies

| | June 30, 2008 | December 31, 2007 | Change |
|--------------|------------------|----------------------|--------|
| Subsidiaries | 240 | 239 | 1 |
| Affiliates | 18 | 15 | 3 |
| Total | 258 | 254 | 4 |

2. Change in Group of Entities

Subsidiaries

Addition: 10 companies

Removal: 9 companies

Affiliates (Carried at Equity Basis)

Addition: 3 companies

3. Subsidiaries listed on domestic stock exchange

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

Tokyo Stock Exchange (2nd section): Canon Software Inc.

Osaka Stock Exchange (2nd section): Canon Machinery Inc.

JASDAQ: Tokki Corporation

Osaka Stock Exchange (Hercules): e-System Corporation

(2) SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the adjustments which management believes are necessary to conform them with U.S. generally accepted accounting principles, except for the segment information, as required by Statement of Financial Accounting Standards No.131, Disclosures about Segments of an Enterprise and Related Information.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

9. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS(1) NET INCOME PER SHARE

| Results for the first half | Millions of yen | | Thousands of U.S. dollars | Millions of yen |
|-----------------------------------|--------------------------------------|------------------------------|--|----------------------------|
| | Six months ended | Six months ended | Six months ended | Year ended December 31, |
| | June 30, 2008 (Unaudited) | June 30, 2007 (Unaudited) | June 30, 2008 (Unaudited) | 2007 |
| Net income | | | | |
| -Basic | ¥ 214,485 | ¥ 255,183 | \$ 2,023,443 | ¥ 488,332 |
| -Diluted | 214,486 | 255,186 | 2,023,453 | 488,336 |
| | | | | Number of shares |
| Average common shares outstanding | | | | |
| -Basic | 1,261,056,468 | 1,312,830,076 | | 1,293,295,680 |
| -Diluted | 1,261,173,988 | 1,313,128,387 | | 1,293,517,431 |
| | | Yen | U.S. dollars | Yen |
| Net income per share: | | | | |
| -Basic | ¥ 170.08 | ¥ 194.38 | \$ 1.60 | ¥ 377.59 |
| -Diluted | 170.07 | 194.33 | 1.60 | 377.53 |

(2) FINANCE RECEIVABLES AND OPERATING LEASES, ACQUISITIONS, MARKETABLE SECURITIES, STOCK OPTIONS, DERIVATIVE CONTRACTS AND OTHER

The disclosure is omitted as it is not considered significant in this report.

(3) SUBSEQUENT EVENT

There is no significant subsequent event.

CANON INC.

NON-CONSOLIDATED

10. NON-CONSOLIDATED STATEMENTS OF INCOME**(Parent company only)**

| | Millions of yen | | Change(%) | Millions of yen |
|--|--------------------------------|--------------------------------|-----------|------------------------------|
| | Six months ended June 30, 2008 | Six months ended June 30, 2007 | | Year ended December 31, 2007 |
| Net sales | ¥ 1,395,347 | ¥ 1,370,988 | + 1.8 | ¥ 2,887,912 |
| Cost of sales | 894,697 | 830,843 | | 1,793,613 |
| Gross profit | 500,650 | 540,145 | - 7.3 | 1,094,299 |
| Selling, general and administrative expenses | 264,760 | 259,782 | | 560,458 |
| Operating profit | 235,890 | 280,363 | - 15.9 | 533,841 |
| Other income (deductions): | | | | |
| Interest and dividend income | 10,149 | 15,654 | | 18,870 |
| Interest expense | (1,928) | (314) | | (1,285) |
| Other, net | 12,100 | 6,573 | | 1,417 |
| | 20,321 | 21,913 | | 19,002 |
| Ordinary profit | 256,211 | 302,276 | - 15.2 | 552,843 |
| Non-ordinary gain(loss), net | (1,579) | (939) | | (3,470) |
| Income before income taxes | 254,632 | 301,337 | | 549,373 |
| Income taxes | 86,193 | 100,412 | | 182,400 |
| Net income | ¥ 168,439 | ¥ 200,925 | - 16.2 | ¥ 366,973 |

11. DETAILS OF SALES**(Parent company only)**

| Sales by product | Millions of yen | | Change(%) | Millions of yen |
|-------------------------|--------------------------------|--------------------------------|-----------|------------------------------|
| | Six months ended June 30, 2008 | Six months ended June 30, 2007 | | Year ended December 31, 2007 |
| Business machines: | | | | |
| Office Imaging Products | ¥ 256,627 | ¥ 277,128 | - 7.4 | ¥ 540,926 |
| Computer peripherals | 631,824 | 647,416 | - 2.4 | 1,331,983 |

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| | | | | | |
|----------------------------|-------------------|-------------|---|------|-------------|
| | 888,451 | 924,544 | - | 3.9 | 1,872,909 |
| Cameras | 413,873 | 368,753 | + | 12.2 | 851,522 |
| Optical and other products | 93,023 | 77,691 | + | 19.7 | 163,481 |
| Total | ¥1,395,347 | ¥ 1,370,988 | + | 1.8 | ¥ 2,887,912 |

| Sales by region | Millions of yen | | | Change(%) | Millions of yen |
|--------------------|--------------------------------------|----------------------------------|---|-----------|------------------------------------|
| | Six months ended June 30, 2008 | Six months ended June 30,2007 | | | Year ended December 31, 2007 |
| Japan | ¥ 180,199 | ¥ 177,008 | + | 1.8 | ¥ 379,055 |
| Overseas: | | | | | |
| <i>Americas</i> | 449,519 | 471,551 | - | 4.7 | 989,139 |
| <i>Europe</i> | 492,465 | 488,284 | + | 0.9 | 1,029,922 |
| <i>Other areas</i> | 273,164 | 234,145 | + | 16.7 | 489,796 |
| | 1,215,148 | 1,193,980 | + | 1.8 | 2,508,857 |
| Total | ¥1,395,347 | ¥ 1,370,988 | + | 1.8 | ¥ 2,887,912 |

CANON INC.

NON-CONSOLIDATED

12. NON-CONSOLIDATED BALANCE SHEETS

(Parent company only)

Millions of yen

| | As of June 30, 2008 | As of December 31, 2007 | Change | As of June 30, 2007 |
|--|---------------------------|-------------------------------|----------|---------------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | ¥ 22,818 | ¥ 5,676 | ¥ 17,142 | ¥ 206,144 |
| Trade receivables | 811,661 | 838,322 | (26,661) | 833,828 |
| Marketable securities | 42,430 | 75,920 | (33,490) | - |
| Inventories | 260,594 | 226,950 | 33,644 | 231,673 |
| Prepaid expenses and other current assets | 206,854 | 209,650 | (2,796) | 159,629 |
| Allowance for doubtful receivables | (1) | (8) | 7 | (19) |
| Total current assets | 1,344,356 | 1,356,510 | (12,154) | 1,431,255 |
| Fixed assets: | | | | |
| Net property, plant and equipment | 927,128 | 912,986 | 14,142 | 866,142 |
| Intangibles | 43,125 | 42,497 | 628 | 37,810 |
| Investments and other fixed assets | 521,509 | 478,960 | 42,549 | 473,502 |
| Allowance for doubtful receivables-noncurrent | (58) | (61) | 3 | (64) |
| Total fixed assets | 1,491,704 | 1,434,382 | 57,322 | 1,377,390 |
| Total assets | ¥ 2,836,060 | ¥ 2,790,892 | ¥ 45,168 | ¥ 2,808,645 |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities: | | | | |
| Trade payables | ¥ 422,046 | ¥ 421,884 | ¥ 162 | ¥ 376,860 |
| Short-term loans | 139,914 | 94,465 | 45,449 | 34,657 |
| Accrued income taxes | 78,830 | 115,668 | (36,838) | 104,212 |
| Accrued warranty expenses | 3,269 | 4,705 | (1,436) | 3,131 |
| Accrued bonuses for employees | 5,197 | 5,194 | 3 | 4,935 |
| Accrued bonuses for directors | 198 | 360 | (162) | 148 |
| Other current liabilities | 162,425 | 212,366 | (49,941) | 189,792 |
| Total current liabilities | 811,879 | 854,642 | (42,763) | 713,735 |
| Noncurrent liabilities: | | | | |
| Convertible debenture | 53 | 128 | (75) | 176 |

| | | | | |
|--|--------------------|-------------|----------|-------------|
| Accrued pension and severance cost | 38,081 | 41,713 | (3,632) | 47,069 |
| Accrued directors' retirement benefits | 1,449 | 1,368 | 81 | 1,261 |
| Reserve for environmental provision | 1,370 | 2,475 | (1,105) | 3,804 |
| Accrued long service rewards for employees | 1,232 | - | 1,232 | - |
| Total noncurrent liabilities | 42,185 | 45,684 | (3,499) | 52,310 |
| Total liabilities | 854,064 | 900,326 | (46,262) | 766,045 |
| Net assets: | | | | |
| Stockholders' equity | 1,979,601 | 1,886,784 | 92,817 | 2,035,807 |
| Difference of appreciation and conversion | 2,333 | 3,782 | (1,449) | 6,793 |
| Subscription rights to shares | 62 | - | 62 | - |
| Total net assets | 1,981,996 | 1,890,566 | 91,430 | 2,042,600 |
| Total liabilities and net assets | ¥ 2,836,060 | ¥ 2,790,892 | ¥ 45,168 | ¥ 2,808,645 |

| | As of June 30, 2008 | As of December 31, 2007 | As of June 30, 2007 |
|---|--------------------------------|-------------------------------|------------------------|
| 1, Accumulated depreciation | ¥ 915,209 | ¥ 848,039 | ¥ 782,984 |
| Accumulated impairment loss | ¥ 564 | ¥ 993 | ¥ 494 |
| 2, Cautionary obligation and other Cautionary obligation contract | ¥ 20,786 | ¥ 22,721 | ¥ 24,231 |
| 3, Issuance of new stock capitalised those due to conversion of convertible bond (Those capitalised) | ¥ 75 (38) | ¥ 190 (95) | ¥ 142 (71) |
| Those due to conversion of convertible bond (Those capitalised) | ¥ 75 (38) | ¥ 190 (95) | ¥ 142 (71) |
| 4, Number of stock newly issued (Thousand shares) | 75 | 190 | 142 |
| Those due to conversion of convertible bond (Thousand shares) | 75 | 190 | 142 |

CANON INC.

NON-CONSOLIDATED

13. NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Parent company only)

Six months ended June 30, 2008

(Millions of yen)

| Common stock | Stockholders' equity | | | | | | | | Difference of appreciation and conversion | | |
|-----------------|----------------------------------|-----------------------------|------------------------------------|---|--|---------------------|--|-------------------|---|--|--|
| | Capital surplus | | | Retained earnings | | | | | Total stockholders' equity | Net unrealized gains (losses) on securities | Net Deferred profit/losses on hedges |
| | Additional paid-in capital | Other capital surplus | Reserve for Legal reserve | Reserve for special depreciation | Other retained earnings Reserve for deferral of capital gain on property | Special reserves | Retained earnings brought forward | Treasury stock | | | |
| 4,698 | ¥ 306,225 | ¥ 25 | ¥ 22,114 | ¥ 7,694 | ¥ 1,255 | ¥ 1,249,928 | ¥ 581,031 | ¥ (456,186) | ¥ 1,886,784 | ¥ 5,028 | ¥ (1,246) |
| 38 | 37 | | | | | | | | 75 | | |
| | | | | 116 | | | (116) | | - | | |
| | | | | (1,893) | | | 1,893 | | - | | |
| | | | | | 795 | | (795) | | - | | |

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| | | | | | | | | | | | |
|-------|-----------|------|----------|---------|---------|-------------|-----------|-------------|-------------|---------|---------|
| | | | | | (27) | | 27 | | - | | |
| | | | | | | | (75,663) | | (75,663) | | |
| | | | | | | | 168,439 | | 168,439 | | |
| | | | | | | | | (52) | (52) | | |
| | (5) | | | | | | | 24 | 19 | | |
| | | | | | | | | | - | (1,887) | 438 |
| 38 | 37 | (5) | - | (1,777) | 768 | - | 93,784 | (28) | 92,817 | (1,887) | 438 |
| 4,736 | ¥ 306,262 | ¥ 20 | ¥ 22,114 | ¥ 5,917 | ¥ 2,023 | ¥ 1,249,928 | ¥ 674,815 | ¥ (456,214) | ¥ 1,979,601 | ¥ 3,141 | ¥ (808) |

1. Number of issued shares of June 30, 2008 1,333,711,360
 2. Classes and number of treasury stock

(Shares)

| Classes of stock | Balance as of December 31, 2007 | Increase | Decrease | Balance as of June 30, 2008 |
|------------------|---------------------------------|----------|----------|-----------------------------|
| common stock | 72,588,428 | 10,315 | 3,869 | 72,594,874 |

3. Dividend from surplus

| Decision | Classes of stock | Cash dividend | Dividend per share(yen) | Base date | Effective date |
|----------|------------------|---------------|-------------------------|-----------|----------------|
|----------|------------------|---------------|-------------------------|-----------|----------------|

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| | | (Millions of yen) | | | |
|--|--------------|----------------------|-------|----------------------|--------------------|
| March 28, 2008 Annual meeting of stockholders | common stock | 75,663 | 60.00 | December 31, 2007 | March 31, 2008 |
| July 24, 2008 Board of directors meeting | common stock | 69,361 | 55.00 | June 30, 2008 | August 26, 2008 |

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CANON INC.

NON-CONSOLIDATED

Six months ended June 30, 2007

(Millions of yen)

| Common stock | Capital surplus | | | | Stockholders equity | | | Retained earnings brought forward | Treasury stock | Total stockholders equity | Difference of appreciation and conversion | |
|-----------------|----------------------------------|-----------------------------|------------------|---|---|---------------------|--|--|-------------------|---------------------------------|---|--|
| | Additional paid-in capital | Other capital surplus | Legal reserve | Reserve for special depreciation | Retained earnings Other retained earnings Reserve for deferral of capital gain on property | Special reserves | Net unrealized gains (losses) on securities | | | | Net Defer prof (loss or hedg | |
| 174,603 | ¥ 306,130 | ¥ 22 | ¥ 22,114 | ¥ 12,485 | ¥ 1,292 | ¥ 1,249,928 | ¥ 340,843 | ¥ (5,872) | ¥ 2,101,545 | ¥ 8,899 | ¥ (1, | |
| 71 | 71 | | | | | | | | 142 | | | |
| | | | | 536 | | | (536) | | - | | | |
| | | | | (2,829) | | | 2,829 | | - | | | |
| | | | | | (19) | | 19 | | - | | | |
| | | | | | | | (66,583) | | (66,583) | | | |

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| | | | | | | | | | | | |
|---------|----------|-----|---------|---------|--------|------------|----------|------------|------------|-----------|---------|
| | | | | | | | | 200,925 | | 200,925 | |
| | | | | | | | | | (200,239) | (200,239) | |
| | | 4 | | | | | | | 14 | 17 | |
| | | | | | | | | | | | - (992) |
| 71 | 71 | 4 | - | (2,294) | (19) | - | 136,654 | (200,225) | (65,738) | (992) | |
| 174,674 | ¥306,201 | ¥26 | ¥22,114 | ¥10,191 | ¥1,273 | ¥1,249,928 | ¥477,497 | ¥(206,097) | ¥2,035,807 | ¥7,907 | ¥(1, |

1. Number of issued shares of June 30, 2007 1,333,588,114

2. Classes and number of treasury stock

(Shares)

| Classes of stock | Balance as of December 31, 2006 | Increase | Decrease | Balance as of June 30, 2007 |
|------------------|---------------------------------|-----------|----------|-----------------------------|
| common stock | 1,794,390 | 1,201,445 | 2,643 | 2,993,191 |

3. Dividend from surplus

| Decision | Classes of stock | Cash dividend (Millions of yen) | Dividend per share(yen) | Base date | Effective date |
|--|------------------|---------------------------------|-------------------------|-------------------|-----------------|
| March 29, 2007 Annual meeting of stockholders | common stock | 66,583 | 50.00 | December 31, 2006 | March 30, 2007 |
| July 26, 2007 Board of directors meeting | common stock | 65,030 | 50.00 | June 30, 2007 | August 24, 2007 |

CANON INC.

NON-CONSOLIDATED

Year ended December 31, 2007

(Millions of yen)

| Common stock | Capital surplus | | | Stockholders equity | | | | Treasury stock | Total stockholders equity | Difference of appreciation and conversion | |
|--------------|----------------------------|-----------------------|---------------|----------------------------------|---|------------------|-----------------------------------|----------------|---------------------------|---|-----------------------------|
| | Additional paid-in capital | Other capital surplus | Legal reserve | Reserve for special depreciation | Retained earnings of other retained earnings Reserve for deferral of capital gain on property | Special reserves | Retained earnings brought forward | | | Net unrealized gains (losses) on securities | Net Deferr (losses) on hedg |
| 174,603 | ¥ 306,130 | ¥ 22 | ¥ 22,114 | ¥ 12,485 | ¥ 1,292 | ¥ 1,249,928 | ¥ 340,843 | ¥ (5,872) | ¥ 2,101,545 | ¥ 8,899 | ¥ (1,1 |
| 95 | 95 | | | | | | | | 190 | | |
| | | | | 609 | | | (609) | | - | | |
| | | | | (5,400) | | | 5,400 | | - | | |
| | | | | | (37) | | 37 | | - | | |
| | | | | | | | (131,612) | | (131,612) | | |
| | | | | | | | 366,973 | | 366,973 | | |

| | | | | | | | | | | | |
|---------|-----------|------|----------|---------|---------|-------------|-----------|-------------|-------------|---------|---------|
| | | | | | | | | (450,346) | (450,346) | | |
| | | 3 | | | | | | | 32 | 35 | |
| | | | | | | | | | | - | (3,871) |
| 95 | 95 | 3 | - | (4,791) | (37) | - | 240,188 | (450,314) | (214,761) | (3,871) | (|
| 174,698 | ¥ 306,225 | ¥ 25 | ¥ 22,114 | ¥ 7,694 | ¥ 1,255 | ¥ 1,249,928 | ¥ 581,031 | ¥ (456,186) | ¥ 1,886,784 | ¥ 5,028 | ¥ (1,2 |

1. Number of issued shares of December 31, 2007 1,333,636,210

2. Classes and number of treasury stock

(Shares)

| Classes of stock | Balance as of December 31, 2006 | Increase | Decrease | Balance as of December 31, 2007 |
|------------------|--|----------|----------|--|
| common stock | 1,794,390 | 799,633 | 5,595 | 72,588,428 |

3.Dividend from surplus

| Decision | Classes of stock | Cash dividend (Millions of yen) | Dividend per share(yen) | Base date | Effective date |
|--|------------------|--|-------------------------------|----------------------|--------------------|
| March 29, 2007 Annual meeting of stockholders | common stock | 66,583 | 50.00 | December 31, 2006 | March 30, 2007 |
| July 26, 2007 Board of directors meeting | common stock | 65,030 | 50.00 | June 30, 2007 | August 24, 2007 |

CANON INC.

NON-CONSOLIDATED

14. STANDARD FOR ALLOWANCES

(Parent company only)

Accrued long service rewards for employees

Accrued long service rewards is maintained based on expected amounts to cover the rewards payable under the byelaw applied to long-service employee.

15. CHANGES OF BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(Parent company only)

Note to change in Accounting Policy

The Company has a byelaw for Refresh Leave to grant long service reward and refresh leave at a regular period to the employees who have been serving the company for long years in order to refresh mind and body as well as generating new energy. As the significance of amounts rose due to the increase in numbers of employees, and reinforcement of attendance record systems enabled to estimate the rational amounts of reward payable, the company changed the accounting policy for long service reward from the expense of the term in which the reward was paid, to recognition of accrued long service reward based on expected amounts under the byelaw from this interim accounting period, in order to calculate periodical profit and loss more appropriately. As a result, operating profit, ordinary profit and income before taxes have decreased by JPY 1,232million, and net income has decreased by JPY 739 million for the interim accounting period ended June 30, 2008.

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Canon Inc.
July 24, 2008

CONSOLIDATED FINANCIAL RESULTS FOR THE SECOND QUARTER
AND THE FIRST HALF ENDED JUNE 30, 2008
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 REGION AND PRODUCTCanon Inc.
(Millions of yen)

| | 2nd quarter | 2008 1st half | Year (P) | 2nd quarter | 2007 1st half | Year | Change year over year | | |
|-------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|-----------------------|--------------|--------------|
| | | | | | | | 2nd quarter | 1st half | Year |
| Japan | | | | | | | | | |
| Business machines | 153,984 | 309,484 | - | 155,856 | 302,719 | 636,534 | -1.2% | +2.2% | - |
| Office imaging products | 95,927 | 194,330 | - | 92,853 | 183,500 | 384,546 | +3.3% | +5.9% | - |
| Computer peripherals | 45,175 | 86,585 | - | 47,007 | 86,009 | 186,214 | -3.9% | +0.7% | - |
| Business information products | 12,882 | 28,569 | - | 15,996 | 33,210 | 65,774 | -19.5% | -14.0% | - |
| Cameras | 34,284 | 67,632 | - | 33,243 | 72,887 | 149,892 | +3.1% | -7.2% | - |
| Optical and other products | 30,550 | 69,483 | - | 36,744 | 82,696 | 161,161 | -16.9% | -16.0% | - |
| Total | 218,818 | 446,599 | 944,700 | 225,843 | 458,302 | 947,587 | -3.1% | -2.6% | -0.3% |
| Overseas | | | | | | | | | |
| Business machines | 543,224 | 1,079,510 | - | 575,340 | 1,143,868 | 2,299,008 | -5.6% | -5.6% | - |
| Office imaging products | 215,648 | 404,769 | - | 234,013 | 448,928 | 906,242 | -7.8% | -9.8% | - |
| Computer peripherals | 318,477 | 656,576 | - | 330,583 | 674,678 | 1,351,297 | -3.7% | -2.7% | - |
| Business information products | 9,099 | 18,165 | - | 10,744 | 20,262 | 41,469 | -15.3% | -10.3% | - |
| Cameras | 276,132 | 461,779 | - | 263,888 | 446,687 | 1,002,771 | +4.6% | +3.4% | - |
| Optical and other products | 67,720 | 125,544 | - | 61,860 | 117,867 | 231,980 | +9.5% | +6.5% | - |
| Total | 887,076 | 1,666,833 | 3,645,300 | 901,088 | 1,708,422 | 3,533,759 | -1.6% | -2.4% | +3.2% |

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| | | | | | | | | | |
|-------------------------------|---------|---------|-----------|---------|---------|-----------|--------|--------|-------|
| Americas | | | | | | | | | |
| Business machines | 197,333 | 391,114 | - | 219,612 | 447,382 | 888,189 | -10.1% | -12.6% | - |
| Office imaging products | 81,019 | 151,898 | - | 95,793 | 186,908 | 373,093 | -15.4% | -18.7% | - |
| Computer peripherals | 112,461 | 231,146 | - | 118,510 | 250,765 | 495,676 | -5.1% | -7.8% | - |
| Business information products | 3,853 | 8,070 | - | 5,309 | 9,709 | 19,420 | -27.4% | -16.9% | - |
| Cameras | 103,248 | 167,514 | - | 101,197 | 165,340 | 390,768 | +2.0% | +1.3% | - |
| Optical and other products | 14,204 | 26,821 | - | 14,516 | 29,227 | 57,211 | -2.1% | -8.2% | - |
| Total | 314,785 | 585,449 | 1,261,700 | 335,325 | 641,949 | 1,336,168 | -6.1% | -8.8% | -5.6% |
| Europe | | | | | | | | | |
| Business machines | 257,620 | 515,385 | - | 267,833 | 524,656 | 1,067,998 | -3.8% | -1.8% | - |
| Office imaging products | 106,645 | 201,060 | - | 109,097 | 208,054 | 423,925 | -2.2% | -3.4% | - |
| Computer peripherals | 146,867 | 306,103 | - | 154,590 | 308,183 | 626,236 | -5.0% | -0.7% | - |
| Business information products | 4,108 | 8,222 | - | 4,146 | 8,419 | 17,837 | -0.9% | -2.3% | - |
| Cameras | 110,325 | 179,416 | - | 105,803 | 176,795 | 388,651 | +4.3% | +1.5% | - |
| Optical and other products | 11,563 | 21,823 | - | 10,952 | 20,928 | 42,637 | +5.6% | +4.3% | - |
| Total | 379,508 | 716,624 | 1,578,700 | 384,588 | 722,379 | 1,499,286 | -1.3% | -0.8% | +5.3% |
| Other areas | | | | | | | | | |
| Business machines | 88,271 | 173,011 | - | 87,895 | 171,830 | 342,821 | +0.4% | +0.7% | - |
| Office imaging products | 27,984 | 51,811 | - | 29,123 | 53,966 | 109,224 | -3.9% | -4.0% | - |
| | 59,149 | 119,327 | - | 57,483 | 115,730 | 229,385 | +2.9% | +3.1% | - |

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| | | | | | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|--------------|--------------|---------------|
| Computer peripherals Business information products | 1,138 | 1,873 | - | 1,289 | 2,134 | 4,212 | -11.7% | -12.2% | - |
| Cameras | 62,559 | 114,849 | - | 56,888 | 104,552 | 223,352 | +10.0% | +9.8% | - |
| Optical and other products | 41,953 | 76,900 | - | 36,392 | 67,712 | 132,132 | +15.3% | +13.6% | - |
| Total | 192,783 | 364,760 | 804,900 | 181,175 | 344,094 | 698,305 | +6.4% | +6.0% | +15.3% |
| Total Business machines | 697,208 | 1,388,994 | 2,930,400 | 731,196 | 1,446,587 | 2,935,542 | -4.6% | -4.0% | -0.2% |
| Office imaging products | 311,575 | 599,099 | 1,262,300 | 326,866 | 632,428 | 1,290,788 | -4.7% | -5.3% | -2.2% |
| Computer peripherals | 363,652 | 743,161 | 1,571,600 | 377,590 | 760,687 | 1,537,511 | -3.7% | -2.3% | +2.2% |
| Business information products | 21,981 | 46,734 | 96,500 | 26,740 | 53,472 | 107,243 | -17.8% | -12.6% | -10.0% |
| Cameras | 310,416 | 529,411 | 1,220,600 | 297,131 | 519,574 | 1,152,663 | +4.5% | +1.9% | +5.9% |
| Optical and other products | 98,270 | 195,027 | 439,000 | 98,604 | 200,563 | 393,141 | -0.3% | -2.8% | +11.7% |
| Total | 1,105,894 | 2,113,432 | 4,590,000 | 1,126,931 | 2,166,724 | 4,481,346 | -1.9% | -2.5% | +2.4% |

(P)=Projection

- S1 -

2. SEGMENT INFORMATION BY PRODUCTCanon Inc.
(Millions of yen)

| | 2008 | | | 2007 | | | Change year over year | | |
|--|-------------|-----------|-----------|-------------|-----------|-----------|-----------------------|----------|--------|
| | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year | 2nd quarter | 1st half | Year |
| Business Machines | | | | | | | | | |
| Affiliated | | | | | | | | | |
| Customers | 697,208 | 1,388,994 | 2,930,400 | 731,196 | 1,446,587 | 2,935,542 | -4.6% | -4.0% | -0.1% |
| Intersegment | - | - | - | - | - | - | - | - | - |
| Total sales | 697,208 | 1,388,994 | 2,930,400 | 731,196 | 1,446,587 | 2,935,542 | -4.6% | -4.0% | -0.1% |
| Operating | | | | | | | | | |
| Profit | 139,859 | 303,038 | 648,900 | 158,960 | 335,471 | 650,261 | -12.0% | -9.7% | -0.2% |
| of sales | 20.1% | 21.8% | 22.1% | 21.7% | 23.2% | 22.2% | - | - | - |
| Peripherals | | | | | | | | | |
| Affiliated | | | | | | | | | |
| Customers | 310,416 | 529,411 | 1,220,600 | 297,131 | 519,574 | 1,152,663 | +4.5% | +1.9% | +5.1% |
| Intersegment | - | - | - | - | - | - | - | - | - |
| Total sales | 310,416 | 529,411 | 1,220,600 | 297,131 | 519,574 | 1,152,663 | +4.5% | +1.9% | +5.1% |
| Operating | | | | | | | | | |
| Profit | 66,859 | 112,585 | 297,100 | 76,773 | 137,303 | 307,426 | -12.9% | -18.0% | -3.1% |
| of sales | 21.5% | 21.3% | 24.3% | 25.8% | 26.4% | 26.7% | - | - | - |
| Medical and Diagnostic Products | | | | | | | | | |
| Affiliated | | | | | | | | | |
| Customers | 98,270 | 195,027 | 439,000 | 98,604 | 200,563 | 393,141 | -0.3% | -2.8% | +11.1% |
| Intersegment | 65,702 | 121,917 | 263,500 | 56,258 | 107,917 | 238,659 | +16.8% | +13.0% | +10.1% |
| Total sales | 163,972 | 316,944 | 702,500 | 154,862 | 308,480 | 631,800 | +5.9% | +2.7% | +11.1% |
| Operating | | | | | | | | | |
| Profit | 187 | 5,517 | 31,400 | 3,393 | 21,385 | 21,080 | -94.5% | -74.2% | +49.1% |
| of sales | 0.1% | 1.7% | 4.5% | 2.2% | 6.9% | 3.3% | - | - | - |
| Corporate | | | | | | | | | |
| Eliminations | | | | | | | | | |
| Affiliated | | | | | | | | | |
| Customers | - | - | - | - | - | - | - | - | - |
| Intersegment | (65,702) | (121,917) | (263,500) | (56,258) | (107,917) | (238,659) | - | - | - |

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| | | | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|--------|--------|----|
| al sales | (65,702) | (121,917) | (263,500) | (56,258) | (107,917) | (238,659) | - | - | |
| rating fit | (46,752) | (90,157) | (207,400) | (57,653) | (105,283) | (222,094) | - | - | |
| Consolidated ffiliated omers rsegment | 1,105,894 | 2,113,432 | 4,590,000 | 1,126,931 | 2,166,724 | 4,481,346 | -1.9% | -2.5% | +2 |
| | - | - | - | - | - | - | - | - | |
| al sales | 1,105,894 | 2,113,432 | 4,590,000 | 1,126,931 | 2,166,724 | 4,481,346 | -1.9% | -2.5% | +2 |
| rating fit | 160,153 | 330,983 | 770,000 | 181,473 | 388,876 | 756,673 | -11.7% | -14.9% | +1 |
| f sales | 14.5% | 15.7% | 16.8% | 16.1% | 17.9% | 16.9% | - | - | |

(P)=Proje

OTHER INCOME / DEDUCTIONS

(Millions of

| | 2008 | | | 2007 | | | Change year over year | | |
|------------------------------------|----------------|----------|-------------|----------------|----------|----------|-----------------------|----------|---------|
| | 2nd quarter | 1st half | Year (P) | 2nd quarter | 1st half | Year | 2nd quarter | 1st half | Year |
| rest and dend, net ex gain / | 4,522 | 10,303 | 16,800 | 8,710 | 16,572 | 31,348 | (4,188) | (6,269) | (14,54) |
| ity ings / | 5,462 | (5,114) | (12,000) | 397 | (10,520) | (31,943) | +5,065 | +5,406 | +19,94 |
| ffiliated panies er, net | (1,217) | (1,053) | (1,200) | 2,631 | 5,285 | 5,634 | (3,848) | (6,338) | (6,83) |
| | 3,683 | 4,126 | 11,400 | 5,086 | 5,928 | 6,676 | (1,403) | (1,802) | +4,72 |
| al | 12,450 | 8,262 | 15,000 | 16,824 | 17,265 | 11,715 | (4,374) | (9,003) | +3,28 |

(P)=Projection

4. SALES COMPOSITION BY PRODUCT

| | 2nd quarter | 2008 1st half | Year (P) | 2nd quarter | 2007 1st half | Year |
|--------------------------------------|----------------|---------------------|-------------|----------------|---------------------|------|
| Office imaging products | | | | | | |
| Monochrome copying machines | 42% | 42% | 41% | 47% | 46% | 45% |
| Color copying machines | 37% | 37% | 37% | 34% | 35% | 35% |
| Others | 21% | 21% | 22% | 19% | 19% | 20% |
| Computer peripherals | | | | | | |
| Laser beam printers | 73% | 74% | 73% | 74% | 75% | 73% |
| Inkjet printers | 26% | 25% | 26% | 25% | 24% | 26% |
| Others | 1% | 1% | 1% | 1% | 1% | 1% |
| Business information products | | | | | | |
| Personal computers | 58% | 60% | 60% | 60% | 62% | 62% |
| Others | 42% | 40% | 40% | 40% | 38% | 38% |
| Cameras | | | | | | |
| Digital cameras | 75% | 75% | 76% | 77% | 76% | 76% |
| Video cameras | 9% | 8% | 8% | 8% | 8% | 8% |
| Interchangeable lenses and others | 16% | 17% | 16% | 15% | 16% | 16% |
| Optical and other products | | | | | | |
| Semiconductor production equipment | 47% | 47% | 47% | 49% | 50% | 46% |
| Others | 53% | 53% | 53% | 51% | 50% | 54% |

(P)=Projection

* Figures related to analog personal copying machines, which were included in Monochrome copying machines of Office imaging products, are now included in Others of Office imaging products. Past figures have been reclassified to conform with the new presentation.

* The segment previously named Film cameras / Lenses is now named Interchangeable lenses and others.

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

| | 2nd quarter | 2008 1st half | Year (P) |
|--|----------------|---------------------|-------------|
|--|----------------|---------------------|-------------|

| | | | |
|-----------------------------------|--------|--------|--------|
| Business machines | | | |
| Japan | -1.2% | +2.2% | - |
| Overseas | +3.1% | +2.6% | - |
| Total | +2.2% | +2.6% | +5.4% |
| Cameras | | | |
| Japan | +3.1% | -7.2% | - |
| Overseas | +13.3% | +11.6% | - |
| Total | +12.2% | +9.0% | +11.5% |
| Optical and other products | | | |
| Japan | -16.9% | -16.0% | - |
| Overseas | +14.2% | +11.7% | - |
| Total | +2.6% | +0.3% | +14.2% |
| Total | | | |
| Japan | -3.1% | -2.6% | -0.3% |
| Overseas | +6.9% | +5.6% | +9.9% |
| Americas | +8.2% | +4.5% | +5.8% |
| Europe | +1.0% | +1.5% | +7.0% |
| Other areas | +17.0% | +16.2% | +24.2% |
| Total | +4.9% | +3.9% | +7.8% |

(P)=Projection

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6. PROFITABILITY

Canon Inc.

| | 2008 | | 2007 | |
|-----|----------|----------|----------|-------|
| | 1st half | Year (P) | 1st half | Year |
| ROE | 14.5% | 16.4% | 16.8% | 16.5% |
| ROA | 9.6% | 10.8% | 11.2% | 10.8% |

(P)=Projection

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

(Yen)

| | 2008 | | | 2007 | |
|----------|----------|-----------------|----------|----------|--------|
| | 1st half | 2nd half (P) | Year (P) | 1st half | Year |
| Yen/US\$ | 104.69 | 105.00 | 104.86 | 120.07 | 117.50 |
| Yen/Euro | 160.69 | 165.00 | 163.03 | 159.77 | 161.41 |

(P)=Projection

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

(Billions of yen)

| | 2008 | |
|------------------|----------|----------|
| | 1st half | Year (P) |
| US\$ | (118.9) | (214.7) |
| Euro | +3.1 | +11.3 |
| Other currencies | (1.5) | (5.5) |
| Total | (117.3) | (208.9) |

(P)=Projection

(3) Impact of foreign exchange rates per yen

(Billions of yen)

| | 2008 |
|----------|-----------------|
| | 2nd half (P) |
| On sales | |
| US\$ | 9.4 |
| Euro | 4.0 |

| | |
|---------------------|-----|
| On operating profit | |
| US\$ | 5.5 |
| Euro | 3.1 |

(P)=Projection

8. STATEMENTS OF CASH FLOWS

(Millions of yen)

| | 2008 | | 2007 | |
|--|-----------|-----------|-----------|-----------|
| | 1st half | Year (P) | 1st half | Year |
| Net cash provided by operating activities | | | | |
| Net income | 214,485 | 500,000 | 255,183 | 488,332 |
| Depreciation and amortization | 163,690 | 365,000 | 143,244 | 341,694 |
| Other, net | (42,577) | (125,000) | 41,897 | 9,243 |
| Total | 335,598 | 740,000 | 440,324 | 839,269 |
| Net cash used in investing activities | (289,541) | (505,000) | (209,353) | (432,485) |
| Free cash flow | 46,057 | 235,000 | 230,971 | 406,784 |
| Net cash used in financing activities | (84,970) | (170,000) | (279,770) | (604,383) |
| Effect of exchange rate changes on cash and cash equivalents | (39,155) | (49,500) | 1,901 | (13,564) |
| Net change in cash and cash equivalents | (78,068) | 15,500 | (46,898) | (211,163) |
| Cash and cash equivalents at end of period | 866,395 | 960,000 | 1,108,728 | 944,463 |

(P)=Projection

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| 9. R&D EXPENDITURE | (Millions of yen) | | | | Canon Inc. |
|----------------------------|-------------------|----------|----------|---------|---------------|
| | 2008 | | 2007 | | |
| | 1st half | Year (P) | 1st half | Year | |
| Business machines | 60,838 | - | 57,496 | 122,570 | |
| Cameras | 23,628 | - | 22,184 | 44,304 | |
| Optical and other products | 90,997 | - | 90,587 | 201,387 | |
| Total | 175,463 | 375,000 | 170,267 | 368,261 | |
| % of sales | 8.3% | 8.2% | 7.9% | 8.2% | |

(P)=Projection

10. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION

| | (Millions of yen) | | | |
|-------------------------------|-------------------|----------|----------|---------|
| | 2008 | | 2007 | |
| | 1st half | Year (P) | 1st half | Year |
| Capital expenditure | 174,677 | 430,000 | 196,342 | 428,549 |
| Depreciation and amortization | 163,690 | 365,000 | 143,244 | 341,694 |

(P)=Projection

11. INVENTORIES

| (1) Inventories | (Millions of yen) | | |
|----------------------------|-------------------|---------|----------------|
| | 2008 | 2007 | Difference |
| | Jun.30 | Dec.31 | |
| Business machines | 291,745 | 277,444 | |
| Cameras | 128,813 | 107,406 | +21,407 |
| Optical and other products | 193,621 | 178,624 | +14,997 |
| Total | 614,179 | 563,474 | +50,705 |

(2) Inventories/Sales* (Days)

| | 2008 | 2007 | Difference |
|----------------------------|-------------------|--------|------------|
| | Jun.30 | Dec.31 | |
| | Business machines | 38 | |
| Cameras | 44 | 31 | +13 |
| Optical and other products | 181 | 169 | +12 |
| Total | 53 | 44 | +9 |

*Index based on the previous six months sales.

12. DEBT RATIO

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| | 2008 Jun.30 | 2007 Dec.31 | Difference |
|---------------------------|----------------|----------------|------------|
| Total debt / Total assets | 0.6% | 0.6% | 0.0% |

13. OVERSEAS PRODUCTION RATIO

| | 2008 1st half | 2007 Year |
|---------------------------|------------------|--------------|
| Overseas production ratio | 40% | 40% |

14. NUMBER OF EMPLOYEES

| | 2008 Jun.30 | 2007 Dec.31 | Difference |
|----------|----------------|----------------|---------------|
| Japan | 58,906 | 55,227 | |
| Overseas | 83,585 | 76,125 | +7,460 |
| Total | 142,491 | 131,352 | +11,139 |

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