

CANON INC
Form 6-K
April 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 **April**..... , **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 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.... **April 24, 2008**....

By/s/..... Hiroshi Kawashimo.

(Signature)*

Hiroshi Kawashimo
Deputy Senior General Manager
Global Finance Center
Canon Inc.

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

The following materials are included.

1. CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2008
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**CONSOLIDATED RESULTS FOR
THE FIRST QUARTER ENDED MARCH 31, 2008**

April 24, 2008

CONSOLIDATED RESULTS

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

| | Three months ended March 31, 2008 (Unaudited) | Actual | | | Three months Ended March 31, 2008 (Unaudited) | Projected | |
|---|---|---|-----------|---------------|---|-------------------------------|-----------|
| | | Three months ended March 31, 2007 (Unaudited) | Change(%) | | | Year ending December 31, 2008 | Change(%) |
| Net sales | ¥ 1,007,538 | ¥ 1,039,793 | - 3.1 | \$ 10,075,380 | ¥ 4,570,000 | + 2.0 | |
| Operating profit | 170,830 | 207,403 | - 17.6 | 1,708,300 | 770,000 | +1.8 | |
| Income before income taxes and minority interests | 166,642 | 207,844 | - 19.8 | 1,666,420 | 785,000 | +2.2 | |
| Net income | ¥ 106,644 | ¥ 131,250 | - 18.7 | \$ 1,066,440 | ¥ 500,000 | +2.4 | |
| Net income per share: | | | | | | | |
| - Basic | ¥ 84.57 | ¥ 99.28 | - 14.8 | \$ 0.85 | ¥ 396.50 | +5.0 | |
| - Diluted | 84.56 | 99.25 | - 14.8 | 0.85 | | | |

| | As of March 31, 2008 (Unaudited) | Actual | | | As of March 31, 2008 (Unaudited) |
|---------------------|----------------------------------|-------------------------|-----------|---------------|----------------------------------|
| | | As of December 31, 2007 | Change(%) | | |
| Total assets | ¥ 4,211,258 | ¥ 4,512,625 | - 6.7 | \$ 42,112,580 | |
| Stockholders equity | ¥ 2,846,767 | ¥ 2,922,336 | - 2.6 | \$ 28,467,670 | |

- 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 JPY100 = U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2008, 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

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I. Operating Results and Financial Conditions

2008 First Quarter in Review

Looking back at the global economy in the first quarter of 2008, an economic slowdown among developed countries has clearly taken hold as a result of increasing worldwide financial insecurity triggered by the subprime loan crisis in the United States along with the impact of the escalating price of crude oil and other resources. The U.S. economy remained stagnant during the period due to slack consumer spending, in addition to a drop in housing investment. In Europe, in addition to sluggish consumer spending due to the high rate of inflation, indications pointed to dwindling capital investment amid an increasing sense that the economy was gradually losing momentum. Within Asia, while the negative impact on exports accompanying the U.S. economic slowdown was reason for concern, the Chinese economy maintained a high rate of growth while other economies in the region also enjoyed generally favorable conditions and economic expansion. In Japan, export growth was limited due to the impact of the U.S. economy and the rapid appreciation of the yen against the U.S. dollar, while consumer spending remained at a low level, losing strength amid uncertainty over the future.

As for the markets in which the Canon Group operates, within the digital camera segment, demand for digital single-lens reflex (SLR) cameras and digital compact cameras sustained healthy growth during the term despite intensifying price competition. Within the office imaging product market, demand for network digital multifunction devices (MFDs) remained solid amid the shift toward color models and advanced functionality. As for computer peripherals, including printers, demand for laser beam printers continued to display growth for color models. For inkjet printers, demand continued to shift from single-function to multifunction models as competition within the market remained fierce, mainly with regard to pricing. In the optical equipment segment, while demand for steppers, utilized in the production of semiconductors, dropped, the market for aligners, used to produce liquid crystal display (LCD) panels, expanded moderately thanks to signs of a recovery in capital spending by LCD panel manufacturers. While the average value of the yen for the quarter was ¥104.78 to the U.S. dollar, a year-on-year appreciation of about 12%, it remained relatively unchanged from last year's average against the euro at ¥157.59.

Amid these conditions, sales volumes of digital cameras, color network MFDs and other products showed robust growth, recording increases in overall sales on a local-currency basis in all overseas regions. The effect, however, of the sharp appreciation of the yen against the U.S. dollar negatively affected Canon's consolidated net sales for the first quarter, resulting in a drop of 3.1% year on year to ¥1,007.5 billion (U.S.\$10,075 million). Despite the continued launch of new products and ongoing cost-reduction efforts, the gross profit ratio for the quarter was 49.6%, a year-on-year decline of 1.7 points due to such factors as the appreciation of the yen against the U.S. dollar, an increase in depreciation costs due to the change in the accounting method used to calculate depreciation of fixed assets which was introduced in April 2007, and escalating resource and materials costs. As such, first-quarter gross profit declined by 6.3% to ¥499.9 billion (U.S.\$4,999 million) from the year-ago period. While first-quarter R&D expenditures grew by 9.1% compared with the same period for the previous year, increases in other expenses were restrained, resulting in a slight rise in operating expenses of just 0.8% year on year. Consequently, operating profit in the first quarter totaled ¥170.8 billion (U.S.\$1,708 million), a year-on-year decrease of 17.6%. Other income (deductions) fell by ¥4.6 billion (U.S.\$46 million) year on year mainly due to a decrease in interest income and drop in earnings on investments in equity method affiliates. As a result, while income before income taxes and minority interests totaled ¥166.6 billion (U.S.\$1,666 million), a year-on-year decline of 19.8%, and first-quarter net income also recorded a decrease of 18.7% compared with last year to ¥106.6 billion (U.S.\$1,066 million), the net income ratio remained at a double-digit level, recording a rate of 10.6%.

Basic net income per share for the quarter was ¥84.57 (U.S.\$0.85), a year-on-year decline of ¥14.71 (U.S.\$0.15).

Results by Product Segment

Reviewing the consolidated results for the quarter by business sector, within the business machine segment, while demand for color network digital MFDs continued to expand, fueled by strong sales of the competitively priced iR C2880 series, sales declined 5.9% due to the deterioration of the economic environment, which led to a slowdown in sales overall in the U.S. market. In the field of computer peripherals, despite a steady year-on-year increase in sales on a local-currency basis for laser beam printers, the significant impact of the yen's appreciation against the U.S. dollar resulted in a decline in sales of 3.0% year on year. With regard to inkjet printers, however, despite an intensely competitive market, Canon's diverse product range, from home-use multifunction models such as the PIXMA MP610 to business-use MFDs equipped with a facsimile function, achieved expanded sales which, in addition to favorable sales growth for consumables, contributed to 6.1% growth. As a result, sales of computer peripherals overall for the quarter were approximately the same as for the previous year. Sales of business information products decreased by 7.4% year on year due to a drop in personal computer sales within the Japanese domestic market. Collectively, sales of business machines overall during the term totaled ¥691.8 billion (U.S.\$6,918 million), dropping 3.3% from the year-ago period. Operating profit for the segment totaled ¥163.2 billion (U.S.\$1,632 million), a year-on-year decrease of 7.6%, also as a result of such factors as the lower gross profit due to the drop in sales.

Within the digital camera segment, the compact and lightweight EOS DIGITAL REBEL XTi and the advanced-amateur model EOS 40D contributed to strong sales while also boosting sales of interchangeable lenses. Sales of digital compact cameras also achieved steady growth as the market expanded in emerging markets such as Asia and Russia. As a result, year-on-year sales volume for digital cameras rose by 18%, however, due to the appreciation of the yen against the dollar, overall camera sales for the first quarter decreased by 1.6% from the year-ago period to ¥219.0 billion (U.S.\$2,190 million). Operating profit for the camera segment decreased by 24.5% year on year to ¥45.7 billion (U.S.\$457 million) due to the decline of the gross profit ratio, negatively affected by the rapid appreciation of the yen along with intensifying price competition amid growing inventories of competitors within the camera market.

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 ¥96.7 billion (U.S.\$967 million), a year-on-year decrease of 5.1%, while operating profit for the segment fell by 70.4% year on year to ¥5.3 billion (U.S.\$53 million).

Cash Flow

In the first quarter of 2008, Canon generated cash flow from operating activities of ¥107.5 billion (U.S.\$1,075 million), a decrease of ¥45.3 billion (U.S.\$453 million) compared with last year, reflecting both the decreases in sales and net income, and increased payment of corporate taxes. Cash flow from investing activities totaled ¥189.5 billion (U.S.\$1,895 million), increasing by ¥65.3 billion (U.S.\$653 million) year-on-year, due to such factors as active facility investment to reinforce production capabilities and the payment of ¥43.2 billion (U.S.\$432 million) to acquire shares of Hitachi Displays, Ltd. toward the launch of Canon's display business. As a result, free cash flow totaled negative ¥82.0 billion (U.S.\$820 million), deteriorating by ¥110.6 billion (U.S.\$1,106 million) from positive ¥28.6 billion (U.S.\$286 million) for the year-ago period.

Cash flow from financing activities recorded an outlay of ¥84.9 billion (U.S.\$849 million), mainly resulting from the dividend payout of ¥75.7 billion (U.S.\$757 million) in accordance with basic policy regarding profit distribution. Consequently, cash and cash equivalents decreased by ¥236.8 billion (U.S.\$2,368 million) to ¥707.7 billion (U.S.\$7,077 million) from the previous year, including the negative effect of currency translation of ¥69.9 billion (U.S.\$699 million) in total, which stemmed from the appreciation of the yen against the U.S. dollar and euro.

Outlook

As for the outlook for the global economy in the second quarter and thereafter, uncertainty over the future continues to rise as the risk of an economic slowdown looms in the face of the financial credit crunch triggered by the subprime loan crisis along with escalating prices of crude oil and other natural resources. Amid this environment, while economic growth will likely continue to slow in developed countries for the time being, from the latter half of this year, these economies are expected to be on a path toward recovery as the effects of financial policies and economic stimulus measures in the U.S. and other countries begin to materialize. As for emerging-market economies such as Asia and Russia, although fallout from the lackluster performance of developed countries will have an impact, these regions are expected to continue enjoying high rates of growth.

In the businesses in which the Canon Group is involved, the market for digital SLR and digital compact cameras is projected to continue achieving healthy expansion. 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 shrink over the near term, 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 second quarter onward, on which Canon's performance outlook for the full year is based, while uncertainty over future interest rate policies and political developments with regard to major countries is likely to continue, Canon anticipates exchange rates of ¥100 to the U.S. dollar and ¥157 to the euro, representing year-on-year appreciation of approximately 15% against the U.S. dollar, and about 4% against the euro. Upon taking into consideration first-quarter business results as well as the expected business climate based on these foreign exchange rates, the company now anticipates consolidated net sales of ¥4,570.0 billion (U.S.\$45,700 million), operating profit of ¥770.0 billion (U.S.\$7,700 million), income before income taxes and minority interests of ¥785.0 billion (U.S.\$7,850 million), and net income of ¥500.0 billion (U.S.\$5,000 million), representing slight downward revisions for each item.

Consolidated Outlook**Semi-Annual**

| | Millions of yen | | | | | |
|--|------------------------------------|------------------------|-------------|-------------------|---|---------------------------------|
| | Six months ending June 30, 2008 | | | Change (B - A) | Six months ended June 30, 2007 Results (C) | Change (%) (B - C) / C |
| | Previous Outlook (A) | Revised Outlook (B) | | | | |
| | | | | | | |
| Net sales | ¥ 2,230,000 | ¥ 2,120,000 | ¥ (110,000) | ¥ 2,166,724 | - 2.2% | |
| Operating profit | 390,000 | 324,000 | (66,000) | 388,876 | - 16.7% | |
| Income before income taxes and minority interests | 408,000 | 328,000 | (80,000) | 406,141 | - 19.2% | |
| Net income | 256,000 | 209,000 | (47,000) | 255,183 | - 18.1% | |

Fiscal year

| | Millions of yen | | | | | |
|--|----------------------------------|------------------------|-------------|-------------------|---|---------------------------------|
| | Year ending December 31, 2008 | | | Change (B - A) | Year ended December 31, 2007 Results (C) | Change (%) (B - C) / C |
| | Previous Outlook (A) | Revised Outlook (B) | | | | |
| | | | | | | |
| Net sales | ¥ 4,720,000 | ¥ 4,570,000 | ¥ (150,000) | ¥ 4,481,346 | + 2.0% | |
| Operating profit | 800,000 | 770,000 | (30,000) | 756,673 | + 1.8% | |
| Income before income taxes and minority interests | 820,000 | 785,000 | (35,000) | 768,388 | + 2.2% | |
| Net income | 520,000 | 500,000 | (20,000) | 488,332 | + 2.4% | |

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 STATEMENTS OF INCOME**

| | Millions of yen | | Change(%) | Thousands of |
|---|---|---|-----------|--|
| | Three months ended March 31, 2008 (Unaudited) | Three months ended March 31, 2007 (Unaudited) | | U.S. dollars |
| | ¥ | ¥ | | Three months ended March 31, 2008 (Unaudited) |
| Net sales | 1,007,538 | 1,039,793 | - 3.1 | \$ 10,075,380 |
| Cost of sales | 507,673 | 506,116 | | 5,076,730 |
| Gross profit | 499,865 | 533,677 | - 6.3 | 4,998,650 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 249,480 | 253,344 | | 2,494,800 |
| Research and development expenses | 79,555 | 72,930 | | 795,550 |
| | 329,035 | 326,274 | | 3,290,350 |
| Operating profit | 170,830 | 207,403 | - 17.6 | 1,708,300 |
| Other income (deductions): | | | | |
| Interest and dividend income | 6,193 | 8,255 | | 61,930 |
| Interest expense | (412) | (393) | | (4,120) |
| Other, net | (9,969) | (7,421) | | (99,690) |
| | (4,188) | 441 | | (41,880) |
| Income before income taxes and minority interests | 166,642 | 207,844 | - 19.8 | 1,666,420 |
| Income taxes | 56,034 | 72,547 | | 560,340 |
| Income before minority interests | 110,608 | 135,297 | | 1,106,080 |
| Minority interests | 3,964 | 4,047 | | 39,640 |
| Net income | ¥ 106,644 | ¥ 131,250 | - 18.7 | \$ 1,066,440 |

Note: Comprehensive income for the three months ended March 31, 2008 and 2007 was JPY409 million (U.S.\$4,090 thousand) and JPY184,096 million, respectively.

2. DETAILS OF SALES

| Sales by product | Millions of yen | | Change(%) | Thousands of |
|------------------|-----------------------|-----------------------|-----------|-----------------------|
| | Three months ended | Three months ended | | U.S. dollars |
| | | | | Three months ended |

| | March 31, 2008 (Unaudited) | March 31, 2007 (Unaudited) | | March 31, 2008 (Unaudited) |
|--------------------------------------|---|-------------------------------|------|---------------------------------------|
| Business machines: | | | | |
| <i>Office imaging products</i> | ¥ 287,524 | ¥ 305,562 | -5.9 | \$ 2,875,240 |
| <i>Computer peripherals</i> | 379,509 | 383,097 | -0.9 | 3,795,090 |
| <i>Business information products</i> | 24,753 | 26,732 | -7.4 | 247,530 |
| | 691,786 | 715,391 | -3.3 | 6,917,860 |
| Cameras | 218,995 | 222,443 | -1.6 | 2,189,950 |
| Optical and other products | 96,757 | 101,959 | -5.1 | 967,570 |
| Total | ¥ 1,007,538 | ¥ 1,039,793 | -3.1 | \$ 10,075,380 |

| Sales by region | Millions of yen | | | Thousands of U.S. dollars |
|--------------------|--|--|-----------|--|
| | Three months ended March 31, 2008 (Unaudited) | Three months ended March 31, 2007 (Unaudited) | Change(%) | Three months ended March 31, 2008 (Unaudited) |
| Japan | ¥ 227,781 | ¥ 232,459 | - 2.0 | \$ 2,277,810 |
| Overseas: | | | | |
| <i>Americas</i> | 270,664 | 306,624 | -11.7 | 2,706,640 |
| <i>Europe</i> | 337,116 | 337,791 | -0.2 | 3,371,160 |
| <i>Other areas</i> | 171,977 | 162,919 | +5.6 | 1,719,770 |
| | 779,757 | 807,334 | -3.4 | 7,797,570 |
| Total | ¥ 1,007,538 | ¥ 1,039,793 | -3.1 | \$ 10,075,380 |

- 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

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. SEGMENT INFORMATION BY PRODUCT

| | Millions of yen | | | Change(%) | Thousands of |
|-----------------------------------|---|--|-------|-----------|--|
| | Three months ended March 31, 2008 (Unaudited) | Three months ended March 31, 2007 (Unaudited) | | | U.S. dollars Three months ended March 31, 2008 (Unaudited) |
| Business Machines | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 691,786 | ¥ 715,391 | -3.3 | \$ | 6,917,860 |
| Intersegment | | | | | |
| Total | 691,786 | 715,391 | -3.3 | | 6,917,860 |
| Operating cost and expenses | 528,607 | 538,880 | -1.9 | | 5,286,070 |
| Operating profit | 163,179 | 176,511 | -7.6 | | 1,631,790 |
| Cameras | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 218,995 | ¥ 222,443 | -1.6 | \$ | 2,189,950 |
| Intersegment | | | | | |
| Total | 218,995 | 222,443 | -1.6 | | 2,189,950 |
| Operating cost and expenses | 173,269 | 161,913 | +7.0 | | 1,732,690 |
| Operating profit | 45,726 | 60,530 | -24.5 | | 457,260 |
| Optical and other products | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 96,757 | ¥ 101,959 | -5.1 | \$ | 967,570 |
| Intersegment | 56,215 | 51,659 | +8.8 | | 562,150 |
| Total | 152,972 | 153,618 | -0.4 | | 1,529,720 |
| Operating cost and expenses | 147,642 | 135,626 | +8.9 | | 1,476,420 |
| Operating profit | 5,330 | 17,992 | -70.4 | | 53,300 |
| Corporate and Eliminations | | | | | |
| Net sales: | | | | | |

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| | | | | | | |
|-----------------------------|---|------------------|---|-----------|-------|----------------------|
| Unaffiliated customers | ¥ | | ¥ | | \$ | |
| Intersegment | | (56,215) | | (51,659) | | (562,150) |
| Total | | (56,215) | | (51,659) | | (562,150) |
| Operating cost and expenses | | (12,810) | | (4,029) | | (128,100) |
| Operating profit | | (43,405) | | (47,630) | | (434,050) |
| Consolidated | | | | | | |
| Net sales: | | | | | | |
| Unaffiliated customers | ¥ | 1,007,538 | ¥ | 1,039,793 | -3.1 | \$ 10,075,380 |
| Intersegment | | | | | | |
| Total | | 1,007,538 | | 1,039,793 | -3.1 | 10,075,380 |
| Operating cost and expenses | | 836,708 | | 832,390 | +0.5 | 8,367,080 |
| Operating profit | | 170,830 | | 207,403 | -17.6 | 1,708,300 |

Note: General corporate expenses of JPY43,295 million (U.S.\$432,950 thousand) and JPY47,630 million in the three months ended March 31, 2008 and 2007, respectively, are included in Corporate and Eliminations.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. CONSOLIDATED BALANCE SHEETS

| | As of March 31, 2008 (Unaudited) | Millions of yen As of December 31, 2007 | Change | Thousands of U.S. dollars As of March 31, 2008 (Unaudited) |
|--|---|---|--------------------|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥ 707,669 | ¥ 944,463 | ¥ (236,794) | \$ 7,076,690 |
| Short-term investments | 20,865 | 20,499 | 366 | 208,650 |
| Trade receivables, net | 679,630 | 794,240 | (114,610) | 6,796,300 |
| Inventories | 581,769 | 563,474 | 18,295 | 5,817,690 |
| Prepaid expenses and other current assets | 282,661 | 286,111 | (3,450) | 2,826,610 |
| Total current assets | 2,272,594 | 2,608,787 | (336,193) | 22,725,940 |
| Noncurrent receivables | 14,648 | 15,239 | (591) | 146,480 |
| Investments | 124,023 | 90,086 | 33,937 | 1,240,230 |
| Property, plant and equipment, net | 1,367,973 | 1,364,702 | 3,271 | 13,679,730 |
| Other assets | 432,020 | 433,811 | (1,791) | 4,320,200 |
| Total assets | ¥4,211,258 | ¥ 4,512,625 | ¥ (301,367) | \$ 42,112,580 |
| LIABILITIES AND STOCKHOLDERS | | | | |
| EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term loans and current portion of long-term debt | ¥ 16,517 | ¥ 18,317 | ¥ (1,800) | \$ 165,170 |
| Trade payables | 496,656 | 514,226 | (17,570) | 4,966,560 |
| Accrued income taxes | 70,850 | 150,726 | (79,876) | 708,500 |
| Accrued expenses | 303,209 | 357,525 | (54,316) | 3,032,090 |
| Other current liabilities | 166,872 | 215,911 | (49,039) | 1,668,720 |
| Total current liabilities | 1,054,104 | 1,256,705 | (202,601) | 10,541,040 |
| Long-term debt, excluding current installments | 10,368 | 8,680 | 1,688 | 103,680 |
| Accrued pension and severance cost | 41,901 | 44,710 | (2,809) | 419,010 |
| Other noncurrent liabilities | 50,757 | 57,324 | (6,567) | 507,570 |
| Total liabilities | 1,157,130 | 1,367,419 | (210,289) | 11,571,300 |

| | | | | |
|---|-------------------|-------------|-------------|----------------------|
| Minority interests | 207,361 | 222,870 | (15,509) | 2,073,610 |
| Stockholders' equity: | | | | |
| Common stock | 174,698 | 174,698 | | 1,746,980 |
| Additional paid-in capital | 402,675 | 402,991 | (316) | 4,026,750 |
| Legal reserve | 51,941 | 46,017 | 5,924 | 519,410 |
| Retained earnings | 2,745,203 | 2,720,146 | 25,057 | 27,452,030 |
| Accumulated other comprehensive income (loss) | (71,565) | 34,670 | (106,235) | (715,650) |
| Treasury stock | (456,185) | (456,186) | 1 | (4,561,850) |
| Total stockholders' equity | 2,846,767 | 2,922,336 | (75,569) | 28,467,670 |
| Total liabilities and stockholders' equity | ¥4,211,258 | ¥ 4,512,625 | ¥ (301,367) | \$ 42,112,580 |

| | Millions of yen | | Thousands of U.S. dollars |
|---|------------------|--------------|---------------------------|
| | As of | As of | As of |
| | March 31, | December 31, | March 31, |
| | 2008 | 2007 | 2008 |
| Notes: | (Unaudited) | | (Unaudited) |
| 1. Allowance for doubtful receivables | ¥ 12,938 | ¥ 14,547 | \$ 129,380 |
| 2. Accumulated depreciation | 1,617,247 | 1,594,374 | 16,172,470 |
| 3. Accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (83,670) | 22,796 | (836,700) |
| Net unrealized gains and losses on securities | 4,090 | 6,287 | 40,900 |
| Net gains and losses on derivative instruments | 2,434 | (849) | 24,340 |
| Pension liability adjustments | 5,581 | 6,436 | 55,810 |

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

5. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Million | | | | | | |
|--|-----------------|----------------------------------|------------------|----------------------|---|-------------------|-------------|
| | Common Stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total |
| at December 31, 2007 | ¥ 174,698 | ¥ 402,991 | ¥ 46,017 | ¥ 2,720,146 | ¥ 34,670 | ¥ (456,186) | ¥ 2,922,136 |
| Transaction by consolidated subsidiaries | | (312) | | | | | |
| Dividends | | | | (75,663) | | | |
| Transfers to legal reserve | | | 5,924 | (5,924) | | | |
| Comprehensive income: | | | | | | | |
| Income | | | | 106,644 | | | |
| Comprehensive income (loss), net of tax | | | | | | | |
| Currency translation adjustments | | | | | (106,466) | | |
| Realized gains and losses on securities | | | | | (2,197) | | |
| Gains and losses on derivative instruments | | | | | 3,283 | | |
| Liability adjustments | | | | | (855) | | |
| Comprehensive income | | | | | | | |
| Change of treasury stock, net | | (4) | | | | 1 | |
| at March 31, 2008 (Unaudited) | ¥ 174,698 | ¥ 402,675 | ¥ 51,941 | ¥ 2,745,203 | ¥ (71,565) | ¥ (456,185) | ¥ 2,947,067 |
| at December 31, 2006 | ¥ 174,603 | ¥ 403,510 | ¥ 43,600 | ¥ 2,368,047 | ¥ 2,718 | ¥ (5,872) | ¥ 2,987,606 |
| Positive effect of a change in accounting adoption of EITF 06-2, net of tax | | | | (2,204) | | | |
| Transaction by consolidated subsidiaries | | (4) | | | | | |
| Dividends | | | | (66,582) | | | |
| Transfers to legal reserve | | | 1,680 | (1,680) | | | |
| Comprehensive income: | | | | | | | |
| Income | | | | 131,250 | | | |

| | | | | | | | | |
|--|--------------|--------------|------------|---------------|--------------|----------------|-----------|-------------------|
| Comprehensive income (loss), net of tax | | | | | | | | |
| currency translation adjustments | | | | | | (127) | | |
| Realized gains and losses on securities | | | | | | (2,209) | | |
| gains and losses on derivative instruments | | | | | | 2,274 | | |
| liability adjustments | | | | | | 52,908 | | |
| Comprehensive income | | | | | | | | |
| Change of treasury stock, net | | | 3 | | | | (200,104) | |
| at March 31, 2007 (Unaudited) | ¥ 174,603 | ¥ 403,509 | ¥ 45,280 | ¥ 2,428,831 | ¥ 55,564 | ¥ (205,976) | ¥ 2, | |
| | | | | | | | | Thousands of U.S. |
| at December 31, 2007 | \$ 1,746,980 | \$ 4,029,910 | \$ 460,170 | \$ 27,201,460 | \$ 346,700 | \$ (4,561,860) | \$ 29, | |
| Transaction by consolidated | | | | | | | | |
| series | | (3,120) | | | | | | |
| Dividends | | | | (756,630) | | | | |
| Contributions to legal reserve | | | 59,240 | (59,240) | | | | |
| Comprehensive income: | | | | | | | | |
| Comprehensive income | | | | 1,066,440 | | | | 1, |
| Comprehensive income (loss), net of tax | | | | | | (1,064,660) | | (1, |
| currency translation adjustments | | | | | | (21,970) | | |
| Realized gains and losses on securities | | | | | | 32,830 | | |
| gains and losses on derivative instruments | | | | | | (8,550) | | |
| liability adjustments | | | | | | | | |
| Comprehensive income | | | | | | | | |
| Change of treasury stock, net | | | (40) | | | | 10 | |
| at March 31, 2008 (Unaudited) | \$ 1,746,980 | \$ 4,026,750 | \$ 519,410 | \$ 27,452,030 | \$ (715,650) | \$ (4,561,850) | \$ 28, | |

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

6. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars |
|---|--|--|--|
| | Three months ended March 31, 2008 (Unaudited) | Three months ended March 31, 2007 (Unaudited) | Three months ended March 31, 2008 (Unaudited) |
| Cash flows from operating activities: | | | |
| Net income | ¥ 106,644 | ¥ 131,250 | \$ 1,066,440 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 82,201 | 64,433 | 822,010 |
| Loss on disposal of property, plant and equipment | 3,685 | 1,338 | 36,850 |
| Deferred income taxes | (7,591) | (528) | (75,910) |
| Decrease in trade receivables | 71,298 | 82,451 | 712,980 |
| Increase in inventories | (24,585) | (29,776) | (245,850) |
| Increase (decrease) in trade payables | 4,732 | (2,999) | 47,320 |
| Decrease in accrued income taxes | (78,470) | (54,284) | (784,700) |
| Decrease in accrued expenses | (36,112) | (18,579) | (361,120) |
| Decrease in accrued (prepaid) pension and severance cost | (2,783) | (4,209) | (27,830) |
| Other, net | (11,530) | (16,287) | (115,300) |
| Net cash provided by operating activities | 107,489 | 152,810 | 1,074,890 |
| Cash flows from investing activities: | | | |
| Purchases of fixed assets | (136,165) | (118,912) | (1,361,650) |
| Proceeds from sale of fixed assets | 710 | 1,546 | 7,100 |
| Purchases of available-for-sale securities | (3,833) | (1,744) | (38,330) |
| Proceeds from sale of available-for-sale securities | 4,011 | 1,069 | 40,110 |
| Increase in time deposits | (204) | (2,241) | (2,040) |
| Acquisitions of subsidiaries, net of cash acquired | (209) | (3,082) | (2,090) |
| Purchases of other investments | (44,111) | (1,474) | (441,110) |
| Other, net | (9,682) | 645 | (96,820) |
| Net cash used in investing activities | (189,483) | (124,193) | (1,894,830) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt | 3,400 | 742 | 34,000 |
| Repayments of long-term debt | (1,175) | (1,462) | (11,750) |
| Increase (decrease) in short-term loans | (2,632) | 86 | (26,320) |
| Dividends paid | (75,663) | (66,582) | (756,630) |
| Purchases of treasury stock, net | (3) | (200,101) | (30) |
| Other, net | (8,804) | (2,277) | (88,040) |

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| | | | |
|--|------------------|-----------|---------------------|
| Net cash used in financing activities | (84,877) | (269,594) | (848,770) |
| Effect of exchange rate changes on cash and cash equivalents | (69,923) | 323 | (699,230) |
| Net decrease in cash and cash equivalents | (236,794) | (240,654) | (2,367,940) |
| Cash and cash equivalents at beginning of period | 944,463 | 1,155,626 | 9,444,630 |
| Cash and cash equivalents at end of period | ¥ 707,669 | ¥ 914,972 | \$ 7,076,690 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

7. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) GROUP POSITION

1. Number of Group Companies

| | March 31, 2008 | December 31, 2007 | Change |
|--------------|-------------------|----------------------|--------|
| Subsidiaries | 240 | 239 | 1 |
| Affiliates | 17 | 15 | 2 |
| Total | 257 | 254 | 3 |

2. Change in Group of Entities

Subsidiaries

| | |
|-----------|-------------|
| Addition: | 6 companies |
| Removal: | 5 companies |

Affiliates (Carried at Equity Basis)

| | |
|-----------|-------------|
| Addition: | 2 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: Nisca Corporation, 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.

8. OTHER

We have engaged Ernst & Young ShinNihon to perform a review of the consolidated statements of income, the consolidated balance sheets, the consolidated statements of stockholders' equity and the consolidated statements of cash flows as of and for the three months ended March 31, 2008. This review engagement was performed in accordance with certain provisions of Statement of Auditing Standards No.100, Interim Financial Information (SAS 100), established by the American Institute of Certified Public Accountants. Additionally the consolidated interim financial information does not include certain disclosures, such as notes to financial statements, that are required under U.S. generally accepted accounting principles and by the United States Securities and Exchange Commission.

Canon Inc.
April 24,2008

CONSOLIDATED FINANCIAL RESULTS FOR
THE FIRST QUARTER ENDED MARCH 31, 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 PRODUCT

Canon Inc. (Millions of yen)

| | 1st quarter | 2008 1st half (P) | Year (P) | 1st quarter | 2007 1st half | Year | Change year over year | | |
|-------------------------------|----------------|-------------------------|------------------|----------------|------------------|------------------|-----------------------|--------------|--------------|
| | | | | | | | 1st quarter | 1st half | Year |
| Japan | | | | | | | | | |
| Business machines | 155,500 | | | 146,863 | 302,719 | 636,534 | +5.9% | | |
| Office imaging products | 98,403 | | | 90,647 | 183,500 | 384,546 | +8.6% | | |
| Computer peripherals | 41,410 | | | 39,002 | 86,009 | 186,214 | +6.2% | | |
| Business information products | 15,687 | | | 17,214 | 33,210 | 65,774 | -8.9% | | |
| Cameras | 33,348 | | | 39,644 | 72,887 | 149,892 | -15.9% | | |
| Optical and other products | 38,933 | | | 45,952 | 82,696 | 161,161 | -15.3% | | |
| Total | 227,781 | 468,300 | 989,400 | 232,459 | 458,302 | 947,587 | -2.0% | +2.2% | +4.4% |
| Overseas | | | | | | | | | |
| Business machines | 536,286 | | | 568,528 | 1,143,868 | 2,299,008 | -5.7% | | |
| Office imaging products | 189,121 | | | 214,915 | 448,928 | 906,242 | -12.0% | | |
| Computer peripherals | 338,099 | | | 344,095 | 674,678 | 1,351,297 | -1.7% | | |
| Business information products | 9,066 | | | 9,518 | 20,262 | 41,469 | -4.7% | | |
| Cameras | 185,647 | | | 182,799 | 446,687 | 1,002,771 | +1.6% | | |
| Optical and other products | 57,824 | | | 56,007 | 117,867 | 231,980 | +3.2% | | |
| Total | 779,757 | 1,651,700 | 3,580,600 | 807,334 | 1,708,422 | 3,533,759 | -3.4% | -3.3% | +1.3% |

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| | | | | | | | | | |
|-------------------------------|---------|---------|-----------|---------|---------|-----------|--------|--------|-------|
| Americas | | | | | | | | | |
| Business machines | 193,781 | | | 227,770 | 447,382 | 888,189 | -14.9% | | |
| Office imaging products | 70,879 | | | 91,115 | 186,908 | 373,093 | -22.2% | | |
| Computer peripherals | 118,685 | | | 132,255 | 250,765 | 495,676 | -10.3% | | |
| Business information products | 4,217 | | | 4,400 | 9,709 | 19,420 | -4.2% | | |
| Cameras | 64,266 | | | 64,143 | 165,340 | 390,768 | +0.2% | | |
| Optical and other products | 12,617 | | | 14,711 | 29,227 | 57,211 | -14.2% | | |
| Total | 270,664 | 570,500 | 1,239,200 | 306,624 | 641,949 | 1,336,168 | -11.7% | -11.1% | -7.3% |
| Europe | | | | | | | | | |
| Business machines | 257,765 | | | 256,823 | 524,656 | 1,067,998 | +0.4% | | |
| Office imaging products | 94,415 | | | 98,957 | 208,054 | 423,925 | -4.6% | | |
| Computer peripherals | 159,236 | | | 153,593 | 308,183 | 626,236 | +3.7% | | |
| Business information products | 4,114 | | | 4,273 | 8,419 | 17,837 | -3.7% | | |
| Cameras | 69,091 | | | 70,992 | 176,795 | 388,651 | -2.7% | | |
| Optical and other products | 10,260 | | | 9,976 | 20,928 | 42,637 | +2.8% | | |
| Total | 337,116 | 725,900 | 1,557,800 | 337,791 | 722,379 | 1,499,286 | -0.2% | +0.5% | +3.9% |
| Other areas | | | | | | | | | |
| Business machines | 84,740 | | | 83,935 | 171,830 | 342,821 | +1.0% | | |
| Office imaging products | 23,827 | | | 24,843 | 53,966 | 109,224 | -4.1% | | |

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| | | | | | | | | | |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------|--------------|---------------|
| Computer peripherals | 60,178 | | | 58,247 | 115,730 | 229,385 | +3.3% | | |
| Business information products | 735 | | | 845 | 2,134 | 4,212 | -13.0% | | |
| Cameras | 52,290 | | | 47,664 | 104,552 | 223,352 | +9.7% | | |
| Optical and other products | 34,947 | | | 31,320 | 67,712 | 132,132 | +11.6% | | |
| Total | 171,977 | 355,300 | 783,600 | 162,919 | 344,094 | 698,305 | +5.6% | +3.3% | +12.2% |
| Total Business machines | 691,786 | 1,397,800 | 2,933,500 | 715,391 | 1,446,587 | 2,935,542 | -3.3% | -3.4% | -0.1% |
| Office imaging products | 287,524 | 617,900 | 1,290,000 | 305,562 | 632,428 | 1,290,788 | -5.9% | -2.3% | -0.1% |
| Computer peripherals | 379,509 | 729,900 | 1,543,700 | 383,097 | 760,687 | 1,537,511 | -0.9% | -4.0% | +0.4% |
| Business information products | 24,753 | 50,000 | 99,800 | 26,732 | 53,472 | 107,243 | -7.4% | -6.5% | -6.9% |
| Cameras | 218,995 | 523,000 | 1,179,300 | 222,443 | 519,574 | 1,152,663 | -1.6% | +0.7% | +2.3% |
| Optical and other products | 96,757 | 199,200 | 457,200 | 101,959 | 200,563 | 393,141 | -5.1% | -0.7% | +16.3% |
| Total | 1,007,538 | 2,120,000 | 4,570,000 | 1,039,793 | 2,166,724 | 4,481,346 | -3.1% | -2.2% | +2.0% |

(P)=Projection

- S1 -

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

| | 1st quarter | 2008 | Year (P) | 1st quarter | 2007 | Year | Change year over | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------|
| | | 1st half (P) | | | 1st half | | 1st quarter | 1st half |
| Imaging machines | | | | | | | | |
| Sales to customers | 691,786 | 1,397,800 | 2,933,500 | 715,391 | 1,446,587 | 2,935,542 | -3.3% | -3.4% |
| Operating profit | 691,786 | 1,397,800 | 2,933,500 | 715,391 | 1,446,587 | 2,935,542 | -3.3% | -3.4% |
| | 163,179 23.6% | 309,400 22.1% | 659,200 22.5% | 176,511 24.7% | 335,471 23.2% | 650,261 22.2% | -7.6% | -7.8% |
| Business Process Management | | | | | | | | |
| Sales to customers | 218,995 | 523,000 | 1,179,300 | 222,443 | 519,574 | 1,152,663 | -1.6% | +0.7% |
| Operating profit | 218,995 | 523,000 | 1,179,300 | 222,443 | 519,574 | 1,152,663 | -1.6% | +0.7% |
| | 45,726 20.9% | 113,300 21.7% | 308,100 26.1% | 60,530 27.2% | 137,303 26.4% | 307,426 26.7% | -24.5% | -17.5% |
| Other products | | | | | | | | |
| Sales to customers | 96,757 | 199,200 | 457,200 | 101,959 | 200,563 | 393,141 | -5.1% | -0.7% |
| Operating profit | 56,215 | 114,500 | 271,100 | 51,659 | 107,917 | 238,659 | +8.8% | +6.1% |
| | 152,972 | 313,700 | 728,300 | 153,618 | 308,480 | 631,800 | -0.4% | +1.7% |
| | 5,330 3.5% | 11,900 3.8% | 45,800 6.3% | 17,992 11.7% | 21,385 6.9% | 21,080 3.3% | -70.4% | -44.4% |
| Inter-segment and Eliminations | | | | | | | | |
| Sales to customers | (56,215) | (114,500) | (271,100) | (51,659) | (107,917) | (238,659) | | |
| Operating profit | (56,215) | (114,500) | (271,100) | (51,659) | (107,917) | (238,659) | | |
| | (43,405) | (110,600) | (243,100) | (47,630) | (105,283) | (222,094) | | |
| Consolidated | | | | | | | | |
| Sales to customers | 1,007,538 | 2,120,000 | 4,570,000 | 1,039,793 | 2,166,724 | 4,481,346 | -3.1% | -2.2% |
| Operating profit | 1,007,538 | 2,120,000 | 4,570,000 | 1,039,793 | 2,166,724 | 4,481,346 | -3.1% | -2.2% |

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| | | | | | | | | |
|--------|---------|---------|---------|---------|---------|---------|--------|--------|
| profit | 170,830 | 324,000 | 770,000 | 207,403 | 388,876 | 756,673 | -17.6% | -16.7% |
| | 17.0% | 15.3% | 16.8% | 19.9% | 17.9% | 16.9% | | |

(P)=Projection

3. OTHER INCOME / DEDUCTIONS

(Millions of yen)

| | 1st quarter | 2008 1st half (P) | Year (P) | 1st quarter | 2007 1st half | Year | Change 1st quarter |
|------------------------|-------------|----------------------|----------|-------------|------------------|----------|-----------------------|
| et | 5,781 | 9,200 | 16,500 | 7,862 | 16,572 | 31,348 | (2,081) |
| | (10,576) | (9,000) | (15,400) | (10,917) | (10,520) | (31,943) | +341 |
| F affiliated companies | 164 | (100) | 1,000 | 2,654 | 5,285 | 5,634 | (2,490) |
| | 443 | 3,900 | 12,900 | 842 | 5,928 | 6,676 | (399) |
| | (4,188) | 4,000 | 15,000 | 441 | 17,265 | 11,715 | (4,629) |

(P)=Projection

- S2 -

4. SALES COMPOSITION BY PRODUCT

Canon Inc.

| | 1st quarter | 2008 1st half (P) | Year (P) | 1st quarter | 2007 1st half | Year |
|--------------------------------------|----------------|----------------------------|-------------|----------------|---------------------|------|
| Office imaging products | | | | | | |
| Monochrome copying machines | 42% | 41% | 41% | 46% | 46% | 45% |
| Color copying machines | 36% | 37% | 37% | 35% | 35% | 35% |
| Others | 22% | 22% | 22% | 19% | 19% | 20% |
| Computer peripherals | | | | | | |
| Laser beam printers | 75% | 74% | 73% | 77% | 75% | 73% |
| Inkjet printers | 24% | 25% | 26% | 22% | 24% | 26% |
| Others | 1% | 1% | 1% | 1% | 1% | 1% |
| Business information products | | | | | | |
| Personal computers | 63% | 62% | 61% | 63% | 62% | 62% |
| Others | 37% | 38% | 39% | 37% | 38% | 38% |
| Cameras | | | | | | |
| Digital cameras | 75% | 76% | 77% | 75% | 76% | 76% |
| Video cameras | 7% | 8% | 8% | 8% | 8% | 8% |
| Interchangeable lenses and others | 18% | 16% | 15% | 17% | 16% | 16% |
| Optical and other products | | | | | | |
| Semiconductor production equipment | 46% | 47% | 49% | 51% | 50% | 46% |
| Others | 54% | 53% | 51% | 49% | 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)

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

Business machines

| | | | |
|----------|-------|-------|-------|
| Japan | +5.9% | | |
| Overseas | +2.1% | | |
| Total | +2.9% | +4.8% | +8.2% |

Cameras

| | | | |
|----------|--------|-------|--------|
| Japan | -15.9% | | |
| Overseas | +9.2% | | |
| Total | +4.7% | +9.5% | +11.1% |

Optical and other products

| | | | |
|----------|--------|-------|--------|
| Japan | -15.3% | | |
| Overseas | +8.8% | | |
| Total | -2.0% | +2.7% | +19.8% |

Total

| | | | |
|-------------|--------|--------|--------|
| Japan | -2.0% | +2.2% | +4.4% |
| Overseas | +4.2% | +6.7% | +11.5% |
| Americas | +0.5% | +4.3% | +7.6% |
| Europe | +2.2% | +5.1% | +9.3% |
| Other areas | +15.4% | +14.7% | +23.6% |
| Total | +2.8% | +5.7% | +10.0% |

(P)=Projection

6. PROFITABILITY

Canon Inc.

| | 2008 | | 2007 | |
|-----|-------------|----------|-------------|-------|
| | 1st quarter | Year (P) | 1st quarter | Year |
| ROE | 14.8 % | 16.4% | 17.8% | 16.5% |
| ROA | 9.8% | 10.8% | 11.9% | 10.8% |

(P)=Projection

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

(Yen)

| | 2008 | | | 2007 | |
|----------|-------------|---------------------|----------|-------------|--------|
| | 1st quarter | 2nd-4th quarter (P) | Year (P) | 1st quarter | Year |
| Yen/US\$ | 104.78 | 100.00 | 101.05 | 119.33 | 117.50 |
| Yen/Euro | 157.59 | 157.00 | 157.13 | 156.45 | 161.41 |

(P)=Projection

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

(Billions of yen)

| | 2008 | |
|------------------|-------------|----------|
| | 1st quarter | Year (P) |
| US\$ | (57.3) | (291.1) |
| Euro | +1.2 | (31.4) |
| Other currencies | (0.3) | (2.3) |
| Total | (56.4) | (324.8) |

(P)=Projection

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

2008
2nd-4th quarter
(P)

On sales

| | |
|------|------|
| US\$ | 13.8 |
| Euro | 6.0 |

| | |
|---------------------|-----|
| On operating profit | |
| US\$ | 7.9 |
| Euro | 4.4 |

8. STATEMENTS OF CASH FLOWS (P)=Projection
(Millions of yen)

| | 2008 | | 2007 | |
|---|----------------|-----------|----------------|-----------|
| | 1st quarter | Year (P) | 1st quarter | Year |
| Net cash provided by operating activities | | | | |
| Net income | 106,644 | 500,000 | 131,250 | 488,332 |
| Depreciation and amortization | 82,201 | 370,000 | 64,433 | 341,694 |
| Other, net | (81,356) | (125,000) | (42,873) | 9,243 |
| Total | 107,489 | 745,000 | 152,810 | 839,269 |
| Net cash used in investing activities | (189,483) | (490,000) | (124,193) | (432,485) |
| Free cash flow | (81,994) | 255,000 | 28,617 | 406,784 |
| Net cash used in financing activities | (84,877) | (169,500) | (269,594) | (604,383) |
| Effect of exchange rate changes on cash and cash equivalents | (69,923) | (70,000) | 323 | (13,564) |
| Net change in cash and cash equivalents | (236,794) | 15,500 | (240,654) | (211,163) |
| Cash and cash equivalents at end of period | 707,669 | 960,000 | 914,972 | 944,463 |

(P)=Projection

Canon Inc.

9. R&D EXPENSES

(Millions of yen)

| | 2008 | | 2007 | |
|----------------------------|----------------|----------|----------------|---------|
| | 1st quarter | Year (P) | 1st quarter | Year |
| Business machines | 25,884 | | 24,136 | 122,570 |
| Cameras | 11,904 | | 11,260 | 44,304 |
| Optical and other products | 41,767 | | 37,534 | 201,387 |
| Total | 79,555 | 387,000 | 72,930 | 368,261 |
| % of sales | 7.9% | 8.5% | 7.0% | 8.2% |

(P)=Projection

10. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION

(Millions of yen)

| | 2008 | | 2007 | |
|-------------------------------|----------------|----------|----------------|---------|
| | 1st quarter | Year (P) | 1st quarter | Year |
| Capital expenditure | 89,435 | 435,000 | 93,652 | 428,549 |
| Depreciation and amortization | 82,201 | 370,000 | 64,433 | 341,694 |

(P)=Projection

11. INVENTORIES**(1) Inventories**

(Millions of yen)

| | 2008 | 2007 | Difference |
|----------------------------|---------|---------|------------|
| | Mar.31 | Dec.31 | |
| Business machines | 277,874 | 277,444 | +430 |
| Cameras | 121,474 | 107,406 | +14,068 |
| Optical and other products | 182,421 | 178,624 | +3,797 |
| Total | 581,769 | 563,474 | +18,295 |

(2) Inventories/Sales*

(Days)

| | 2008 | 2007 | Difference |
|--|--------|--------|------------|
| | Mar.31 | Dec.31 | |

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| | | | |
|----------------------------|-----|-----|----|
| Business machines | 34 | 34 | 0 |
| Cameras | 38 | 31 | +7 |
| Optical and other products | 173 | 169 | +4 |
| Total | 47 | 44 | +3 |

*Index based on the previous six months sales.

12. DEBT RATIO

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

13. OVERSEAS PRODUCTION RATIO

| | 2008 1st quarter | 2007 Year |
|---------------------------|---------------------|--------------|
| Overseas production ratio | 41% | 40% |

14. NUMBER OF EMPLOYEES

| | 2008 Mar.31 | 2007 Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan | 55,641 | 55,227 | +414 |
| Overseas | 76,543 | 76,125 | +418 |
| Total | 132,184 | 131,352 | +832 |

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