

CANON INC
Form 6-K
January 29, 2009

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 **January**..... , **2009**
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.... **January 28, 2009**....

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 Fourth Quarter And The Fiscal Year Ended December 31, 2008

RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 31, 2008

January 28, 2009

CONSOLIDATED RESULTS

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

| | Actual | | | | Projected | | |
|---|------------------------------------|------------------------------------|-----------|---------------|------------------------------------|-------------------------------------|-----------|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | Change(%) | | Year ended December 31, 2008 | Year ending December 31, 2009 | Change(%) |
| Net sales | ¥ 4,094,161 | ¥ 4,481,346 | - 8.6 | \$ 44,990,780 | ¥ 3,500,000 | - 14.5 | |
| Operating profit | 496,074 | 756,673 | - 34.4 | 5,451,363 | 160,000 | - 67.7 | |
| Income before income taxes and minority interests | 481,147 | 768,388 | - 37.4 | 5,287,330 | 160,000 | - 66.7 | |
| Net income | ¥ 309,148 | ¥ 488,332 | - 36.7 | \$ 3,397,231 | ¥ 98,000 | - 68.3 | |
| Net income per share: | | | | | | | |
| - Basic | ¥ 246.21 | ¥ 377.59 | - 34.8 | \$ 2.71 | ¥ 79.39 | - 67.8 | |
| - Diluted | 246.20 | 377.53 | - 34.8 | 2.71 | - | - | |

| | Actual | | | | As of December 31, 2008 |
|---------------------|-------------------------------|-------------------------------|-----------|---------------|-------------------------------|
| | As of December 31, 2008 | As of December 31, 2007 | Change(%) | | |
| Total assets | ¥ 3,969,934 | ¥ 4,512,625 | - 12.0 | \$ 43,625,648 | |
| Stockholders equity | ¥ 2,659,792 | ¥ 2,922,336 | - 9.0 | \$ 29,228,484 | |

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 JPY91 = U.S.\$1, the approximate exchange rate on the Tokyo

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

NON-CONSOLIDATED RESULTS

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

| | Actual | | | |
|------------------|---------------------------------------|------------------------------------|-----------|---------------|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | Change(%) | |
| Net sales | ¥ 2,721,094 | ¥ 2,887,912 | - 5.8 | \$ 29,902,132 |
| Operating profit | 358,706 | 533,841 | - 32.8 | 3,941,824 |

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| | | | | | |
|------------------------|--------------------|---------|---|------|---------------------|
| Ordinary profit | 359,086 | 552,843 | - | 35.0 | 3,946,000 |
| Net income | ¥ 224,135 ¥ | 366,973 | - | 38.9 | \$ 2,463,022 |

Net income per share:

| | | | | | |
|---------------------------|-------------------|--------|---|------|----------------|
| - Basic | ¥ 178.50 ¥ | 283.75 | - | 37.1 | \$ 1.96 |
| - Diluted | 178.49 | 283.70 | - | 37.1 | 1.96 |
| Dividend per share | 110.00 | 110.00 | - | | 1.21 |

| | As of December 31, 2008 | As of December 31, 2007 | Actual Change(%) | As of December 31, 2008 |
|---------------------|--|--|-----------------------------|--|
| Total assets | ¥ 2,618,998 ¥ | 2,790,892 | - 6.2 | \$ 28,780,198 |
| Net assets | ¥ 1,865,005 ¥ | 1,890,566 | - 1.4 | \$ 20,494,560 |

Note: U.S. dollar amounts are translated from yen at the rate of JPY91 = U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 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 in Review

Looking back at the global economy in 2008, while the effects of the subprime loan crisis led to a slowdown that was felt in major countries from the beginning of the year, stock markets plunged and the real economy in these countries rapidly deteriorated, especially toward the end of the year, as a result of increasing financial uncertainty triggered by the failures of major financial institutions in the United States. Furthermore, growth in Asia and other emerging economies slowed down sharply due to a decline in exports, and the sense of a severe recession of global proportions has gradually spread. As for foreign exchange markets, the unilateral yen buying that began in early autumn drove up the value of the yen against all other foreign currencies.

As for the markets in which Canon operates amid these conditions, within the digital camera segment, demand for digital single-lens reflex (SLR) cameras continued to expand. While demand for compact digital cameras declined sharply toward the end of the year and prices continued to fall, the market staged healthy growth for the year. As for the office imaging products market, sales of color network digital multifunction devices (MFDs) showed robust growth amid the shift toward color models in each region, although demand for monochrome models remained low. As for computer peripherals, in addition to a drop in demand for monochrome laser beam printers, sales of color-model printers, which had enjoyed sustained healthy expansion, remained relatively unchanged from the previous year. With regard to inkjet printers, although demand continued to shift from single-function to multifunction models, demand overall for the segment declined. Within the optical equipment segment, while the market for aligners, used to produce liquid crystal display (LCD) panels, realized a rapid recovery thanks to an increase in capital spending by LCD panel manufacturers, demand for steppers, utilized in the production of semiconductors, fell significantly. The average value of the yen during the year was ¥103.23 to the U.S. dollar, a year-on-year appreciation of about 14%, and ¥151.46 to the euro, a year-on-year appreciation of approximately 7%.

Consolidated net sales for the period was ¥4,094.2 billion (U.S.\$44,991 million), a year-on-year decline of 8.6%, due to the effects of the substantial rise in value of the yen along with falling prices of such consumer products as digital cameras and inkjet printers, and reduced sales volumes due to decreased demand for network MFDs, laser beam printers, and other office equipments. Despite the continued launch of new products and ongoing cost-cutting efforts, such factors as the sharp appreciation of the yen, falling product prices accompanied by the rise in prices of materials led to a decline in the gross profit ratio of 2.8 points to 47.3%. As a result, gross profit decreased by 13.8% to ¥1,938.0 billion (U.S.\$21,297 million). While R&D expenditures increased slightly compared with the previous year, Group-wide cost reduction efforts contributed to a decline in total operating expenses of 3.2%. The sales-to-expense ratio rose by 2.0 points to 35.2% from the year before due to the reduction in sales. Consequently, operating profit dropped 34.4% compared with the previous year to a total of ¥496.1 billion (U.S.\$5,451 million). Other income (deductions) decreased by ¥26.6 billion (U.S.\$293 million) due to such factors as a reduction in interest income stemming from a decrease in cash surplus and a lower yield on investment, a decline in earnings on investments in affiliates accounted for by the equity method, and write-downs of non-current marketable securities. As a result, income before income taxes and minority interests totaled ¥481.1 billion (U.S.\$5,287 million), a decline of 37.4% from the year-ago period, while net income also recorded a decrease of 36.7% to ¥309.1 billion (U.S.\$3,397 million). Basic net income per share was ¥246.21 (U.S.\$2.71), a year-on-year decline of ¥131.38 (U.S.\$1.44).

Results by Product Segment

Looking at the consolidated results for the year by business sector, within the business machines segment, as demand for network MFDs in global markets continued to shift to color models for the office imaging products category, the appreciation of the yen along with restrained investment in office equipment due to concern over business performance led to flagging sales in major regions. Consequently, sales for the category declined by 13.3% year on year. In the field of computer peripherals, laser beam printer sales suffered the significant impact of the strong yen along with reduced demand, resulting in a decrease in sales volume for monochrome models and slight increase for color models. As such, sales of laser beam printers declined 5.6% from the year-ago period. As for inkjet printers, as sales volume for single-function models continued to drop, efforts focusing on expanded sales of multifunction business-use models resulted in an increase in sales volume overall. Additionally, although sales of related consumables also displayed growth, the impact of the yen's appreciation resulted in a sales decrease of 4.5% for inkjet printer products, and a decline in sales of 5.4% for the computer peripherals segment overall. As for business information products, reduced personal computer sales in the Japanese domestic market resulted in a sales decline of 20.1%. Collectively, sales of business machines overall for the year totaled ¥2,660.0 billion (U.S.\$29,231 million), a decline of 9.4% compared with the previous year, while operating profit totaled ¥544.6 billion (U.S.\$5,985 million), decreasing 16.2% mainly due to the reduction in sales.

Within the cameras segment, the high-resolution, competitively priced EOS Digital Rebel XSi (EOS 450D) and advanced-amateur model EOS 40D enjoyed healthy sales, contributing to growth in sales volume for digital SLR cameras. Sales volume also increased for compact digital cameras despite stagnant market conditions as the company bolstered its product lineup with the introduction of 16 new models, including 6 new ELPH (IXUS)-series models and 10 PowerShot-series models. Consequently, while unit sales of digital cameras increased by 4% year on year, sales value for the camera segment overall declined by 9.6% to ¥1,042.0 billion (U.S.\$11,450 million) due to falling prices and the appreciation of the yen. Additionally, operating profit for the sector decreased by 38.9% year on year to ¥187.8 billion (U.S.\$2,064 million) as a result of the drop in sales value, coupled with the significant decline in the gross profit ratio stemming from falling prices and the effects of the strong yen.

In the optical and other products segment, while sales of aligners, used to produce LCD panels, gained momentum owing to a recovery in demand, sales of steppers, used in the production of semiconductors, remained stagnant due to deteriorating market conditions. As a result, sales for the segment totaled ¥392.2 billion (U.S.\$4,310 million), approximately the same level as the previous year. Operating profit for the segment fell to negative ¥45.5 billion (U.S.\$500 million) as a result of a significant increase in cost of sales and outlays due to such factors as the disposal of inventories, which was carried out in response to rising concerns that weak market sentiment may continue, and the appreciation of the yen, along with the impairment of fixed assets equipped with current technologies.

Cash Flow

In 2008, Canon generated cash flow from operating activities of ¥616.7 billion (U.S.\$6,777 million), a decrease of ¥222.6 billion (U.S.\$2,446 million) compared with the previous year, mainly reflecting the decrease in net income. Although capital investments were concentrated to items relevant to reinforcing production and achieving cost reductions, cash flow from investing activities totaled ¥472.5 billion (U.S.\$5,192 million), a year-on-year increase of ¥40.0 billion (U.S.\$440 million), mainly due to the acquisition of shares of Hitachi Displays, Ltd. toward the launch of Canon's display business. As a result, free cash flow totaled ¥144.2 billion (U.S.\$1,585 million), a decline of ¥262.6 billion (U.S.\$2,885 million).

Cash flow from financing activities recorded an outlay of ¥277.6 billion (U.S.\$3,050 million), mainly resulting from the dividend payout of ¥145.0 billion (U.S.\$1,594 million) and the purchase of treasury stocks totaling ¥100.0 billion (U.S.\$1,100 million). Consequently, cash and cash equivalents decreased by ¥265.3 billion (U.S.\$2,915 million) to ¥679.2 billion (U.S.\$7,464 million) from the end of the previous year, including the ¥131.9 billion (U.S.\$1,450 million) negative impact of currency translation adjustments due to the appreciation of the yen.

Non-consolidated Results

Non-consolidated net sales totaled ¥2,721.1 billion (U.S.\$29,902 million), a year-on-year decrease of 5.8%, ordinary profit declined by 35.0% to ¥359.1 billion (U.S.\$3,946 million), and net income fell by 38.9% to ¥224.1 billion (U.S.\$2,463 million).

Outlook

As for the outlook for the global economy in fiscal 2009, prospects remain highly uncertain in the face of the serious situation posed by the concurrent recession in Japan, America and Europe, along with the rapid slowdown in the growth rates of emerging economies. Prices of crude oil and materials are expected to fluctuate for the time being mainly due to political insecurity in producing countries. Amid these conditions, although countries worldwide have been embarking on various economic stimulus packages and financial policies, many concerns remain and considerable time is expected before such measures will gradually render effects to lead the global economy toward gentle recovery.

In the businesses in which Canon is involved, the compact digital camera and inkjet printer markets are expected to remain stagnant owing to weak buyer sentiment amid the depressed economic environment. Demand for network digital MFDs and laser beam printers is projected to remain sluggish for both monochrome and color models due to reluctance in office equipment purchases. Demand for steppers and aligners is also expected to contract as device makers and LCD panel manufacturers reconsider their capital expenditure plans.

With regard to the currency exchange rates on which Canon's performance outlook for the full year is based, despite the highly unstable economic environment and uncertainty over future interest rate policies and economic prospects, Canon anticipates exchange rates of ¥90 to the U.S. dollar and ¥120 to the euro, representing year-on-year appreciation of approximately 15% against the U.S. dollar and about 26% against the euro, respectively. The company projects consolidated net sales of ¥3,500.0 billion (U.S.\$38,462 million), a year-on-year decrease of 14.5%; operating profit of ¥160.0 billion (U.S.\$1,758 million), a year-on-year decline of 67.7%; income before income taxes and minority interests of ¥160.0 billion (U.S.\$1,758 million), a year-on-year decline of 66.7%; and net income of ¥98.0 billion (U.S.\$1,077 million), a year-on-year decline of 68.3%.

Basic Policy Regarding Profit Distribution and Dividends for the Current Fiscal Year

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 reflecting the company's consolidated business performance. Specifically, Canon's basic policy is to continuously strive to raise its consolidated payout ratio to approximately 30% over the medium to long term.

The company recorded a decrease in profits amid extremely severe economic conditions but, prioritizing stable returns to shareholders, plans to distribute a full-year dividend totaling ¥110.00 (U.S.\$1.21) per share (interim dividend of ¥55.00 [U.S.\$0.60] per share [already distributed], and year-end dividend of ¥55.00 [U.S.\$0.60]), the same amount per share as 2007.

Based on the above, the consolidated payout ratio was 23.1% in 2005, 24.4% in 2006, 28.8% in 2007, and will be 44.4% in 2008.

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.

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

Canon is, however, currently facing an economic environment said to occur once in a century. Amid these harsh conditions, we are making a major change in course this year from sound growth to improved management quality, and pushing forward to overcome this crisis while preparing to burst ahead of other companies when the economic environment recovers.

(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**

| | Millions of yen | | | Change(%) | Thousands of |
|---|---|---|--------|-----------|---|
| | | | | | U.S. dollars |
| <u>Results for the fourth quarter</u> | Three months ended December 31, 2008 | Three months ended December 31, 2007 | | | Three months ended December 31, 2008 |
| Net sales | ¥ 994,740 | ¥ 1,263,799 | - 21.3 | \$ | 10,931,209 |
| Cost of sales | 573,343 | 652,724 | | | 6,300,473 |
| Gross profit | 421,397 | 611,075 | - 31.0 | | 4,630,736 |
| Operating expenses: | | | | | |
| Selling, general and administrative expenses | 273,681 | 309,519 | | | 3,007,484 |
| Research and development expenses | 111,891 | 107,980 | | | 1,229,571 |
| | 385,572 | 417,499 | | | 4,237,055 |
| Operating profit | 35,825 | 193,576 | - 81.5 | | 393,681 |
| Other income (deductions): | | | | | |
| Interest and dividend income | 3,849 | 7,319 | | | 42,297 |
| Interest expense | (164) | (326) | | | (1,802) |
| Other, net | (22,597) | (649) | | | (248,319) |
| | (18,912) | 6,344 | | | (207,824) |
| Income before income taxes and minority interests | 16,913 | 199,920 | - 91.5 | | 185,857 |
| Income taxes | 3,816 | 67,844 | | | 41,934 |
| Income before minority interests | 13,097 | 132,076 | | | 143,923 |
| Minority interests | 1,475 | 4,231 | | | 16,209 |
| Net income | ¥ 11,622 | ¥ 127,845 | - 90.9 | \$ | 127,714 |

Note: Comprehensive income for the three months ended December 31, 2008 and 2007 was JPY194,776 million (decrease) (U.S.\$2,140,396 thousand decrease) and JPY102,988 million (increase), respectively.

| | Millions of yen | | | Change(%) | Thousands of |
|---|-------------------|-------------------|--|-----------|-------------------|
| | | | | | U.S. dollars |
| <u>Results for the fiscal year</u> | Year ended | Year ended | | | Year ended |

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| | December 31, 2008 | December 31, 2007 | | December 31, 2008 |
|---|------------------------------|----------------------|--------|------------------------------|
| Net sales | ¥ 4,094,161 | ¥ 4,481,346 | - 8.6 | \$ 44,990,780 |
| Cost of sales | 2,156,153 | 2,234,365 | | 23,693,989 |
| Gross profit | 1,938,008 | 2,246,981 | - 13.8 | 21,296,791 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 1,067,909 | 1,122,047 | | 11,735,263 |
| Research and development expenses | 374,025 | 368,261 | | 4,110,165 |
| | 1,441,934 | 1,490,308 | | 15,845,428 |
| Operating profit | 496,074 | 756,673 | - 34.4 | 5,451,363 |
| Other income (deductions): | | | | |
| Interest and dividend income | 19,442 | 32,819 | | 213,648 |
| Interest expense | (837) | (1,471) | | (9,198) |
| Other, net | (33,532) | (19,633) | | (368,483) |
| | (14,927) | 11,715 | | (164,033) |
| Income before income taxes and minority interests | 481,147 | 768,388 | - 37.4 | 5,287,330 |
| Income taxes | 160,788 | 264,258 | | 1,766,901 |
| Income before minority interests | 320,359 | 504,130 | | 3,520,429 |
| Minority interests | 11,211 | 15,798 | | 123,198 |
| Net income | ¥ 309,148 | ¥ 488,332 | - 36.7 | \$ 3,397,231 |

Note: Comprehensive income for the year ended December 31, 2008 and 2007 was JPY18,342 million (decrease) (U.S.\$201,560 thousand decrease) and JPY520,284 million (increase), respectively.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. DETAILS OF SALES

| <u>Results for the fourth quarter</u> | Millions of yen | | | Change(%) | Thousands of |
|--|---|--------------------------------------|---|-----------|---|
| | Three months ended December 31, 2008 | Three months ended December 31, 2007 | | | U.S. dollars |
| Sales by product | | | | | Three months ended December 31, 2008 |
| Business machines: | | | | | |
| <i>Office imaging products</i> | ¥ 250,608 | ¥ 352,645 | - | 28.9 | \$ 2,753,934 |
| <i>Computer peripherals</i> | 350,958 | 420,862 | - | 16.6 | 3,856,682 |
| <i>Business information products</i> | 18,457 | 29,668 | - | 37.8 | 202,824 |
| | 620,023 | 803,175 | - | 22.8 | 6,813,440 |
| Cameras | 262,762 | 365,102 | - | 28.0 | 2,887,495 |
| Optical and other products | 111,955 | 95,522 | + | 17.2 | 1,230,274 |
| Total | ¥ 994,740 | ¥ 1,263,799 | - | 21.3 | \$ 10,931,209 |

| Sales by region | Millions of yen | | | Change(%) | Thousands of |
|------------------------|---|--------------------------------------|---|-----------|---------------|
| | Three months ended December 31, 2008 | Three months ended December 31, 2007 | | | U.S. dollars |
| Japan | ¥ 224,710 | ¥ 270,620 | - | 17.0 | \$ 2,469,341 |
| Overseas: | | | | | |
| <i>Americas</i> | 283,002 | 380,414 | - | 25.6 | 3,109,912 |
| <i>Europe</i> | 308,121 | 437,989 | - | 29.7 | 3,385,945 |
| <i>Other areas</i> | 178,907 | 174,776 | + | 2.4 | 1,966,011 |
| | 770,030 | 993,179 | - | 22.5 | 8,461,868 |
| Total | ¥ 994,740 | ¥ 1,263,799 | - | 21.3 | \$ 10,931,209 |

| <u>Results for the fiscal year</u> | Millions of yen | | | Change(%) | Thousands of |
|---|-------------------------------------|------------------------------|--|-----------|-------------------------------------|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | | | U.S. dollars |
| Sales by product | | | | | Year ended December 31, 2008 |

| | | | | | |
|--------------------------------------|-------------|-------------|---|------|---------------|
| Business machines: | | | | | |
| <i>Office imaging products</i> | ¥ 1,119,523 | ¥ 1,290,788 | - | 13.3 | \$ 12,302,451 |
| <i>Computer peripherals</i> | 1,454,768 | 1,537,511 | - | 5.4 | 15,986,462 |
| <i>Business information products</i> | 85,728 | 107,243 | - | 20.1 | 942,065 |
| | 2,660,019 | 2,935,542 | - | 9.4 | 29,230,978 |
| Cameras | 1,041,947 | 1,152,663 | - | 9.6 | 11,449,967 |
| Optical and other products | 392,195 | 393,141 | - | 0.2 | 4,309,835 |
| Total | ¥ 4,094,161 | ¥ 4,481,346 | - | 8.6 | \$ 44,990,780 |

| Sales by region | Millions of yen | | | Change(%) | Thousands of |
|--------------------|------------------------------------|------------------------------------|---|-----------|------------------------------------|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | | | U.S. dollars |
| | Year ended December 31, 2008 | Year ended December 31, 2007 | | | Year ended December 31, 2008 |
| Japan | ¥ 868,280 | ¥ 947,587 | - | 8.4 | \$ 9,541,538 |
| Overseas: | | | | | |
| <i>Americas</i> | 1,154,571 | 1,336,168 | - | 13.6 | 12,687,593 |
| <i>Europe</i> | 1,341,400 | 1,499,286 | - | 10.5 | 14,740,659 |
| <i>Other areas</i> | 729,910 | 698,305 | + | 4.5 | 8,020,990 |
| | 3,225,881 | 3,533,759 | - | 8.7 | 35,449,242 |
| Total | ¥ 4,094,161 | ¥ 4,481,346 | - | 8.6 | \$ 44,990,780 |

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 / Compact digital 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

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. SEGMENT INFORMATION BY PRODUCT**Results for the fourth quarter**

Millions of yen

Thousands of
U.S. dollars

| | Three months ended December 31, 2008 | Three months ended December 31, 2007 | Change(%) | Three months ended December 31, 2008 |
|-----------------------------------|---|---|-----------|---|
| Business machines | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 620,023 | ¥ 803,175 | - 22.8 | \$ 6,813,440 |
| Intersegment | - | - | - | - |
| Total | 620,023 | 803,175 | - 22.8 | 6,813,440 |
| Operating cost and expenses | 512,437 | 640,756 | - 20.0 | 5,631,176 |
| Operating profit | ¥ 107,586 | ¥ 162,419 | - 33.8 | \$ 1,182,264 |
| Cameras | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 262,762 | ¥ 365,102 | - 28.0 | \$ 2,887,495 |
| Intersegment | - | - | - | - |
| Total | 262,762 | 365,102 | - 28.0 | 2,887,495 |
| Operating cost and expenses | 232,648 | 271,835 | - 14.4 | 2,556,572 |
| Operating profit | ¥ 30,114 | ¥ 93,267 | - 67.7 | \$ 330,923 |
| Optical and other products | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 111,955 | ¥ 95,522 | + 17.2 | \$ 1,230,274 |
| Intersegment | 52,326 | 65,381 | - 20.0 | 575,011 |
| Total | 164,281 | 160,903 | + 2.1 | 1,805,285 |
| Operating cost and expenses | 218,742 | 163,558 | + 33.7 | 2,403,758 |
| Operating profit (loss) | ¥ (54,461) | ¥ (2,655) | - | \$ (598,473) |

Corporate and Eliminations

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| | | | | | |
|-----------------------------|---|----------|---|-----------|----------------------|
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | - | ¥ | - | \$ - |
| Intersegment | | (52,326) | | (65,381) | - (575,011) |
| Total | | (52,326) | | (65,381) | - (575,011) |
| Operating cost and expenses | | (4,912) | | (5,926) | - (53,978) |
| Operating profit (loss) | ¥ | (47,414) | ¥ | (59,455) | - \$ (521,033) |
| Consolidated | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | 994,740 | ¥ | 1,263,799 | - 21.3 \$ 10,931,209 |
| Intersegment | | - | | - | - - |
| Total | | 994,740 | | 1,263,799 | - 21.3 10,931,209 |
| Operating cost and expenses | | 958,915 | | 1,070,223 | - 10.4 10,537,528 |
| Operating profit | ¥ | 35,825 | ¥ | 193,576 | - 81.5 \$ 393,681 |

Note: General corporate expenses of JPY48,253 million (U.S.\$530,253 thousand) and JPY59,318 million in the three months ended December 31, 2008 and 2007, respectively, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

| <u>Results for the fiscal year</u> | Millions of yen | | | | CONSOLIDATED |
|---|------------------------------------|---------------------------------|-----------|------|---|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | Change(%) | | Thousands of U.S. dollars Year ended December 31, 2008 |
| Business Machines | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 2,660,019 | ¥ 2,935,542 | - | 9.4 | \$ 29,230,978 |
| Intersegment | - | - | - | - | - |
| Total | 2,660,019 | 2,935,542 | - | 9.4 | 29,230,978 |
| Operating cost and expenses | 2,115,375 | 2,285,281 | - | 7.4 | 23,245,879 |
| Operating profit | 544,644 | 650,261 | - | 16.2 | 5,985,099 |
| Assets | 1,487,885 | 1,762,167 | - | 15.6 | 16,350,385 |
| Depreciation and amortization | 163,920 | 159,309 | + | 2.9 | 1,801,319 |
| Increase in property, plant and equipment | ¥ 172,197 | ¥ 166,143 | + | 3.6 | \$ 1,892,275 |
| Cameras | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 1,041,947 | ¥ 1,152,663 | - | 9.6 | \$ 11,449,967 |
| Intersegment | - | - | - | - | - |
| Total | 1,041,947 | 1,152,663 | - | 9.6 | 11,449,967 |
| Operating cost and expenses | 854,160 | 845,237 | + | 1.1 | 9,386,374 |
| Operating profit | 187,787 | 307,426 | - | 38.9 | 2,063,593 |
| Assets | 499,287 | 561,504 | - | 11.1 | 5,486,670 |
| Depreciation and amortization | 39,412 | 37,180 | + | 6.0 | 433,099 |
| Increase in property, plant and equipment | ¥ 43,086 | ¥ 32,870 | + | 31.1 | \$ 473,472 |
| Optical and Other Products | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 392,195 | ¥ 393,141 | - | 0.2 | \$ 4,309,835 |
| Intersegment | 235,690 | 238,659 | - | 1.2 | 2,590,000 |
| Total | 627,885 | 631,800 | - | 0.6 | 6,899,835 |
| Operating cost and expenses | 673,375 | 610,720 | + | 10.3 | 7,399,725 |

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| | | | | | |
|---|-------------------|---------|---|------|-------------------|
| Operating profit (loss) | (45,490) | 21,080 | - | | (499,890) |
| Assets | 495,095 | 544,734 | - | 9.1 | 5,440,604 |
| Depreciation and amortization | 88,017 | 69,843 | + | 26.0 | 967,220 |
| Increase in property, plant and equipment | ¥ 68,542 ¥ | 78,449 | - | 12.6 | \$ 753,209 |

Corporate and Eliminations

Net sales:

| | | | | | |
|---|-------------------|-----------|---|------|--------------------|
| Unaffiliated customers | ¥ - ¥ | - | - | \$ - | - |
| Intersegment | (235,690) | (238,659) | - | | (2,590,000) |
| Total | (235,690) | (238,659) | - | | (2,590,000) |
| Operating cost and expenses | (44,823) | (16,565) | - | | (492,561) |
| Operating profit (loss) | (190,867) | (222,094) | - | | (2,097,439) |
| Assets | 1,487,667 | 1,644,220 | - | 9.5 | 16,347,989 |
| Depreciation and amortization | 49,988 | 75,362 | - | 33.7 | 549,318 |
| Increase in property, plant and equipment | ¥ 78,163 ¥ | 151,087 | - | 48.3 | \$ 858,934 |

Consolidated

Net sales:

| | | | | | |
|---|----------------------|-----------|---|------|----------------------|
| Unaffiliated customers | ¥ 4,094,161 ¥ | 4,481,346 | - | 8.6 | \$ 44,990,780 |
| Intersegment | - | - | - | | - |
| Total | 4,094,161 | 4,481,346 | - | 8.6 | 44,990,780 |
| Operating cost and expenses | 3,598,087 | 3,724,673 | - | 3.4 | 39,539,417 |
| Operating profit | 496,074 | 756,673 | - | 34.4 | 5,451,363 |
| Assets | 3,969,934 | 4,512,625 | - | 12.0 | 43,625,648 |
| Depreciation and amortization | 341,337 | 341,694 | - | 0.1 | 3,750,956 |
| Increase in property, plant and equipment | ¥ 361,988 ¥ | 428,549 | - | 15.5 | \$ 3,977,890 |

Notes: 1. General corporate expenses of JPY190,698 million (U.S.\$2,095,582 thousand) and JPY221,979 million in the years ended December 31, 2008 and 2007, respectively, are included in Corporate and Eliminations.

2. Corporate assets of JPY1,487,667 million (U.S.\$16,347,989 thousand) and JPY1,644,220 million as of December 31, 2008 and 2007, respectively, which mainly consist of cash and cash equivalents, short-term investments, investments and corporate properties, are included in Corporate and Eliminations.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. SEGMENT INFORMATION BY GEOGRAPHIC AREA

| <u>Results for the fiscal year</u> | Millions of yen | | | Change(%) | Thousands of |
|---|---|---|---|-----------|---|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | | | U.S. dollars Year ended December 31, 2008 |
| Japan | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 998,676 | ¥ 1,048,310 | - | 4.7 | \$ 10,974,462 |
| Intersegment | 2,318,521 | 2,494,251 | - | 7.0 | 25,478,252 |
| Total | 3,317,197 | 3,542,561 | - | 6.4 | 36,452,714 |
| Operating cost and expenses | 2,757,356 | 2,722,672 | + | 1.3 | 30,300,615 |
| Operating profit | 559,841 | 819,889 | - | 31.7 | 6,152,099 |
| Assets | ¥ 1,908,675 | ¥ 2,715,294 | - | 29.7 | \$ 20,974,451 |
| Americas | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 1,141,560 | ¥ 1,329,479 | - | 14.1 | \$ 12,544,615 |
| Intersegment | 3,758 | 4,608 | - | 18.4 | 41,297 |
| Total | 1,145,318 | 1,334,087 | - | 14.1 | 12,585,912 |
| Operating cost and expenses | 1,136,288 | 1,281,805 | - | 11.4 | 12,486,681 |
| Operating profit | 9,030 | 52,282 | - | 82.7 | 99,231 |
| Assets | ¥ 458,189 | ¥ 506,295 | - | 9.5 | \$ 5,035,044 |
| Europe | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 1,337,147 | ¥ 1,499,821 | - | 10.8 | \$ 14,693,923 |
| Intersegment | 4,329 | 3,496 | + | 23.8 | 47,572 |
| Total | 1,341,476 | 1,503,317 | - | 10.8 | 14,741,495 |
| Operating cost and expenses | 1,314,942 | 1,441,972 | - | 8.8 | 14,449,913 |
| Operating profit | 26,534 | 61,345 | - | 56.7 | 291,582 |
| Assets | ¥ 477,571 | ¥ 732,579 | - | 34.8 | \$ 5,248,033 |

Others

Net sales:

| | | | | | |
|------------------------|-----------|-----------|---|------|--------------|
| Unaffiliated customers | ¥ 616,778 | ¥ 603,736 | + | 2.2 | \$ 6,777,780 |
| Intersegment | 670,678 | 824,844 | - | 18.7 | 7,370,088 |

| | | | | | |
|-------|-----------|-----------|---|-----|------------|
| Total | 1,287,456 | 1,428,580 | - | 9.9 | 14,147,868 |
|-------|-----------|-----------|---|-----|------------|

| | | | | | |
|-----------------------------|-----------|-----------|---|-----|------------|
| Operating cost and expenses | 1,247,156 | 1,378,306 | - | 9.5 | 13,705,011 |
|-----------------------------|-----------|-----------|---|-----|------------|

| | | | | | |
|------------------|--------|--------|---|------|---------|
| Operating profit | 40,300 | 50,274 | - | 19.8 | 442,857 |
|------------------|--------|--------|---|------|---------|

| | | | | | |
|--------|-----------|-----------|---|------|--------------|
| Assets | ¥ 317,684 | ¥ 367,234 | - | 13.5 | \$ 3,491,033 |
|--------|-----------|-----------|---|------|--------------|

Corporate and Eliminations

Net sales:

| | | | | | |
|------------------------|-------------|-------------|---|---|--------------|
| Unaffiliated customers | ¥ - | ¥ - | - | - | \$ - |
| Intersegment | (2,997,286) | (3,327,199) | - | - | (32,937,209) |

| | | | | | |
|-------|-------------|-------------|---|---|--------------|
| Total | (2,997,286) | (3,327,199) | - | - | (32,937,209) |
|-------|-------------|-------------|---|---|--------------|

| | | | | | |
|-----------------------------|-------------|-------------|---|---|--------------|
| Operating cost and expenses | (2,857,655) | (3,100,082) | - | - | (31,402,803) |
|-----------------------------|-------------|-------------|---|---|--------------|

| | | | | | |
|-------------------------|-----------|-----------|---|---|-------------|
| Operating profit (loss) | (139,631) | (227,117) | - | - | (1,534,406) |
|-------------------------|-----------|-----------|---|---|-------------|

| | | | | | |
|--------|-----------|-----------|---|-------|--------------|
| Assets | ¥ 807,815 | ¥ 191,223 | + | 322.4 | \$ 8,877,087 |
|--------|-----------|-----------|---|-------|--------------|

Consolidated

Net sales:

| | | | | | |
|------------------------|-------------|-------------|---|-----|---------------|
| Unaffiliated customers | ¥ 4,094,161 | ¥ 4,481,346 | - | 8.6 | \$ 44,990,780 |
| Intersegment | - | - | - | - | - |

| | | | | | |
|-------|-----------|-----------|---|-----|------------|
| Total | 4,094,161 | 4,481,346 | - | 8.6 | 44,990,780 |
|-------|-----------|-----------|---|-----|------------|

| | | | | | |
|-----------------------------|-----------|-----------|---|-----|------------|
| Operating cost and expenses | 3,598,087 | 3,724,673 | - | 3.4 | 39,539,417 |
|-----------------------------|-----------|-----------|---|-----|------------|

| | | | | | |
|------------------|---------|---------|---|------|-----------|
| Operating profit | 496,074 | 756,673 | - | 34.4 | 5,451,363 |
|------------------|---------|---------|---|------|-----------|

| | | | | | |
|--------|-------------|-------------|---|------|---------------|
| Assets | ¥ 3,969,934 | ¥ 4,512,625 | - | 12.0 | \$ 43,625,648 |
|--------|-------------|-------------|---|------|---------------|

Notes: 1. General corporate expenses of JPY190,698 million (U.S.\$2,095,582 thousand) and JPY221,979 million in the years ended December 31, 2008 and 2007, respectively, are included in Corporate

and Eliminations.
2. Corporate assets of JPY1,487,667 million (U.S.\$16,347,989 thousand) and JPY1,644,220 million as of December 31, 2008 and 2007, respectively, which mainly consist of cash and cash equivalents, short-term investments, investments and corporate properties, are included in Corporate and Eliminations.

CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED BALANCE SHEETS

| | Millions of yen | | | Thousands of U.S. dollars |
|---|----------------------------------|----------------------------------|-------------|----------------------------------|
| | As of December 31, 2008 | As of December 31, 2007 | Change | As of December 31, 2008 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥ 679,196 | ¥ 944,463 | ¥ (265,267) | \$ 7,463,692 |
| Short-term investments | 7,651 | 20,499 | (12,848) | 84,077 |
| Trade receivables, net | 595,422 | 794,240 | (198,818) | 6,543,099 |
| Inventories | 506,919 | 563,474 | (56,555) | 5,570,538 |
| Prepaid expenses and other current assets | 275,660 | 286,111 | (10,451) | 3,029,231 |
| Total current assets | 2,064,848 | 2,608,787 | (543,939) | 22,690,637 |
| Noncurrent receivables | 14,752 | 15,239 | (487) | 162,110 |
| Investments | 88,825 | 90,086 | (1,261) | 976,099 |
| Property, plant and equipment, net | 1,357,186 | 1,364,702 | (7,516) | 14,914,132 |
| Intangible assets | 119,140 | 112,516 | 6,624 | 1,309,231 |
| Other assets | 325,183 | 321,295 | 3,888 | 3,573,439 |
| Total assets | ¥3,969,934 | ¥ 4,512,625 | ¥ (542,691) | \$ 43,625,648 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term loans and current portion of long-term debt | ¥ 5,540 | ¥ 18,317 | ¥ (12,777) | \$ 60,879 |
| Trade payables | 406,746 | 514,226 | (107,480) | 4,469,736 |
| Accrued income taxes | 69,961 | 150,726 | (80,765) | 768,802 |
| Accrued expenses | 277,117 | 357,525 | (80,408) | 3,045,242 |
| Other current liabilities | 184,636 | 215,911 | (31,275) | 2,028,967 |
| Total current liabilities | 944,000 | 1,256,705 | (312,705) | 10,373,626 |
| Long-term debt, excluding current installments | 8,423 | 8,680 | (257) | 92,560 |
| Accrued pension and severance cost | 110,784 | 44,710 | 66,074 | 1,217,407 |
| Other noncurrent liabilities | 55,745 | 57,324 | (1,579) | 612,583 |
| Total liabilities | 1,118,952 | 1,367,419 | (248,467) | 12,296,176 |
| Minority interests | 191,190 | 222,870 | (31,680) | 2,100,988 |

| | | | | |
|---|-------------------|-------------|-------------|----------------------|
| Stockholders' equity: | | | | |
| Common stock | 174,762 | 174,698 | 64 | 1,920,462 |
| Additional paid-in capital | 403,790 | 402,991 | 799 | 4,437,253 |
| Legal reserve | 53,706 | 46,017 | 7,689 | 590,176 |
| Retained earnings | 2,876,576 | 2,720,146 | 156,430 | 31,610,725 |
| Accumulated other comprehensive income (loss) | (292,820) | 34,670 | (327,490) | (3,217,802) |
| Treasury stock, at cost | (556,222) | (456,186) | (100,036) | (6,112,330) |
| Total stockholders' equity | 2,659,792 | 2,922,336 | (262,544) | 29,228,484 |
| Total liabilities and stockholders' equity | ¥3,969,934 | ¥ 4,512,625 | ¥ (542,691) | \$ 43,625,648 |

| | | | |
|--|-------------------------|-------------------------|---------------------------|
| | Millions of yen | | Thousands of U.S. dollars |
| | As of December 31, 2008 | As of December 31, 2007 | As of December 31, 2008 |

Notes:

| | | | |
|--|------------------|-----------|--------------------|
| 1.Allowance for doubtful receivables | ¥ 9,318 | ¥ 14,547 | \$ 102,396 |
| 2.Accumulated depreciation | 1,635,601 | 1,594,374 | 17,793,637 |
| 3.Accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (235,968) | 22,796 | (2,593,055) |
| Net unrealized gains and losses on securities | 1,135 | 6,287 | 12,473 |
| Net gains and losses on derivative instruments | 1,493 | (849) | 16,407 |
| Pension liability adjustments | (59,480) | 6,436 | (653,627) |

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. Intangible assets, which were previously included in Other assets, have been reclassified in the consolidated balance sheets 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, 2006 | ¥ 174,063 | ¥ 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 derivative | | | | | 814 | | 814 |

| | | | | | | | | |
|-------------------------|----|---------|-----|---------|-----------|-----------|---|-----------|
| 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 |
| Conversion of | | | | | | | | |
| convertible | 64 | | 824 | | | | | 888 |
| debt and other | | | | | | | | |
| Cash dividends | | | | | (145,024) | | | (145,024) |
| Transfers to | | | | | | | | |
| legal reserve | | | | 7,689 | (7,689) | | | - |
| Comprehensive | | | | | | | | |
| income: | | | | | | | | |
| Net income | | | | | 309,148 | | | 309,148 |
| Other | | | | | | | | |
| comprehensive | | | | | | | | |
| income (loss), | | | | | | | | |
| net of tax | | | | | | | | |
| Foreign | | | | | | | | |
| currency | | | | | | | | |
| translation | | | | | | | | |
| adjustments | | | | | | (258,764) | | (258,764) |
| Net unrealized | | | | | | | | |
| gains and losses | | | | | | | | |
| on securities | | | | | | (5,152) | | (5,152) |
| Net gains and | | | | | | | | |
| losses on | | | | | | | | |
| derivative | | | | | | | | |
| instruments | | | | | | 2,342 | | 2,342 |
| Pension | | | | | | | | |
| liability | | | | | | | | |
| adjustments | | | | | | (65,916) | | (65,916) |
| Total | | | | | | | | |
| comprehensive | | | | | | | | |
| income | | | | | | | | (18,342) |

| | | | | | | | | |
|--|--|------|--|-----|--|-----------|--|-----------|
| Repurchase of treasury stock, net | | | | | | | | |
| | | (25) | | (5) | | (100,036) | | (100,066) |

| | | | | | | | | | | | | | | |
|-------------------------------------|---|---------|---|---------|---|--------|---|-----------|---|-----------|---|-----------|---|-----------|
| Balance at December 31, 2008 | ¥ | 174,762 | ¥ | 403,790 | ¥ | 53,706 | ¥ | 2,876,576 | ¥ | (292,820) | ¥ | (556,222) | ¥ | 2,659,792 |
|-------------------------------------|---|---------|---|---------|---|--------|---|-----------|---|-----------|---|-----------|---|-----------|

Thousands of U.S. dollars

| | | | | | | | | | | | | | | |
|-------------------------------------|----|-----------|----|-----------|----|---------|----|------------|----|---------|----|-------------|----|------------|
| Balance at December 31, 2007 | \$ | 1,919,759 | \$ | 4,428,473 | \$ | 505,681 | \$ | 29,891,714 | \$ | 380,989 | \$ | (5,013,034) | \$ | 32,113,582 |
|-------------------------------------|----|-----------|----|-----------|----|---------|----|------------|----|---------|----|-------------|----|------------|

| | | | | | | | | | | | | | | |
|---|--|-----|--|-------|--|--------|--|-------------|--|--|--|--|--|-------|
| Conversion of convertible debt and other | | | | | | | | | | | | | | |
| Cash dividends | | 703 | | 9,055 | | | | (1,593,670) | | | | | | 9,758 |
| Transfers to legal reserve | | | | | | 84,495 | | (84,495) | | | | | | - |

| | | | | | | | | | | | | | | |
|---|--|--|--|--|--|--|--|-----------|--|-------------|--|--|--|-------------|
| Comprehensive income: | | | | | | | | | | | | | | |
| Net income | | | | | | | | 3,397,231 | | | | | | 3,397,231 |
| Other comprehensive income (loss), net of tax | | | | | | | | | | | | | | |
| Foreign currency translation adjustments | | | | | | | | | | (2,843,560) | | | | (2,843,560) |
| Net unrealized gains and losses on securities | | | | | | | | | | (56,615) | | | | (56,615) |
| Net gains and losses on derivative instruments | | | | | | | | | | 25,736 | | | | 25,736 |
| Pension liability adjustments | | | | | | | | | | (724,352) | | | | (724,352) |
| Total comprehensive income | | | | | | | | | | | | | | (201,560) |

**Repurchase of
treasury stock,
net**

(275)

(55)

(1,099,296)

(1,099,626)

**Balance at
December 31,
2008**

\$ 1,920,462

\$ 4,437,253

\$ 590,176

\$ 31,610,725

\$ (3,217,802)

\$ (6,112,330)

\$ 29,228,484

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars |
|--|---------------------------------------|------------------------------------|------------------------------------|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | Year ended December 31, 2008 |
| Cash flows from operating activities: | | | |
| Net income | ¥ 309,148 | ¥ 488,332 | \$ 3,397,231 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 341,337 | 341,694 | 3,750,956 |
| Loss on disposal of property, plant and equipment | 11,811 | 9,985 | 129,791 |
| Deferred income taxes | (32,497) | (35,021) | (357,110) |
| (Increase) decrease in trade receivables | 83,521 | (10,722) | 917,813 |
| (Increase) decrease in inventories | 49,547 | (26,643) | 544,473 |
| Increase (decrease) in trade payables | (36,719) | 21,136 | (403,505) |
| Increase (decrease) in accrued income taxes | (77,340) | 14,988 | (849,890) |
| Increase (decrease) in accrued expenses | (30,694) | 43,035 | (337,297) |
| Decrease in accrued (prepaid) pension and severance cost | (12,128) | (15,387) | (133,275) |
| Other, net | 10,698 | 7,872 | 117,560 |
| Net cash provided by operating activities | 616,684 | 839,269 | 6,776,747 |
| Cash flows from investing activities: | | | |
| Purchases of fixed assets | (428,168) | (474,285) | (4,705,143) |
| Proceeds from sale of fixed assets | 7,453 | 9,635 | 81,901 |
| Purchases of available-for-sale securities | (7,307) | (2,281) | (80,297) |
| Proceeds from sale and maturity of available-for-sale securities | 4,320 | 8,614 | 47,473 |
| Proceeds from maturity of held-to-maturity securities | 10,000 | 10,000 | 109,890 |
| Decrease in time deposits | 2,892 | 31,681 | 31,780 |
| Acquisitions of subsidiaries, net of cash acquired | (5,999) | (15,675) | (65,923) |
| Purchases of other investments | (45,473) | (2,432) | (499,703) |
| Other, net | (10,198) | 2,258 | (112,066) |
| Net cash used in investing activities | (472,480) | (432,485) | (5,192,088) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt | 6,841 | 2,635 | 75,176 |
| Repayments of long-term debt | (15,397) | (13,046) | (169,198) |
| Decrease in short-term loans | (2,643) | (358) | (29,044) |
| Dividends paid | (145,024) | (131,612) | (1,593,670) |
| Repurchases of treasury stock, net | (100,066) | (450,311) | (1,099,626) |

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| | | | |
|--|------------------|-----------|---------------------|
| Other, net | (21,276) | (11,691) | (233,803) |
| Net cash used in financing activities | (277,565) | (604,383) | (3,050,165) |
| Effect of exchange rate changes on cash and cash equivalents | (131,906) | (13,564) | (1,449,516) |
| Net decrease in cash and cash equivalents | (265,267) | (211,163) | (2,915,022) |
| Cash and cash equivalents at beginning of period | 944,463 | 1,155,626 | 10,378,714 |
| Cash and cash equivalents at end of period | ¥ 679,196 | ¥ 944,463 | \$ 7,463,692 |

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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

| | December 31, 2008 | December 31, 2007 | Change |
|--------------|----------------------|----------------------|--------|
| Subsidiaries | 245 | 239 | 6 |
| Affiliates | 18 | 15 | 3 |
| Total | 263 | 254 | 9 |

2. Change in Group of Entities

Subsidiaries

Addition: 21 Companies

Removal: 15 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, Asia Pacific System Research Co.,Ltd.

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 fiscal year | Millions of yen | | Thousands of |
|------------------------------------|----------------------|----------------------|---------------------------------------|
| | Year ended | Year ended | U.S. dollars |
| | December 31, 2008 | December 31, 2007 | Year ended December 31, 2008 |
| Net income: | | | |
| -Basic | ¥ 309,148 | ¥ 488,332 | \$ 3,397,231 |
| -Diluted | 309,150 | 488,336 | 3,397,253 |
| | Number of shares | | |
| Average common shares outstanding: | | | |
| -Basic | 1,255,626,490 | 1,293,295,680 | |
| -Diluted | 1,255,706,419 | 1,293,517,431 | |
| | Yen | | U.S. dollars |
| Net income per share: | | | |
| -Basic | ¥ 246.21 | ¥ 377.59 | \$ 2.71 |
| -Diluted | 246.20 | 377.53 | 2.71 |

(2) FINANCE RECEIVABLES AND OPERATING LEASES, ACQUISITIONS, MARKETABLE SECURITIES, DEFERRED TAX ACCOUNTING, EMPLOYEE RETIREMENT AND SEVERANCE BENEFITS, STOCK OPTIONS, DERIVATIVE CONTRACTS AND OTHERS

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 | | |
|--|---------------------------------------|------------------------------------|-----------|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | Change(%) |
| Net sales | ¥ 2,721,094 | ¥ 2,887,912 | - 5.8 |
| Cost of sales | 1,801,801 | 1,793,613 | |
| Gross profit | 919,293 | 1,094,299 | - 16.0 |
| Selling, general and administrative expenses | 560,587 | 560,458 | |
| Operating profit | 358,706 | 533,841 | - 32.8 |
| Other income (deductions): | | | |
| Interest and dividend income | 14,931 | 18,870 | |
| Interest expense | (3,844) | (1,285) | |
| Other, net | (10,707) | 1,417 | |
| | 380 | 19,002 | |
| Ordinary profit | 359,086 | 552,843 | - 35.0 |
| Non-ordinary gain(loss), net | (26,084) | (3,470) | |
| Income before income taxes | 333,002 | 549,373 | - 39.4 |
| Income taxes | 108,867 | 182,400 | |
| Net income | ¥ 224,135 | ¥ 366,973 | - 38.9 |

11. DETAILS OF SALES
(Parent company only)

| Sales by product | Millions of yen | | |
|-------------------------|---------------------------------------|------------------------------------|-----------|
| | Year ended December 31, 2008 | Year ended December 31, 2007 | Change(%) |
| Business machines: | | | |
| Office Imaging Products | ¥ 473,057 | ¥ 540,926 | - 12.5 |
| Computer peripherals | 1,245,295 | 1,331,983 | - 6.5 |
| | 1,718,352 | 1,872,909 | - 8.3 |
| Cameras | 808,168 | 851,522 | - 5.1 |

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| | | | | |
|----------------------------|-------------------|-------------|---|------|
| Optical and other products | 194,574 | 163,481 | + | 19.0 |
| Total | ¥2,721,094 | ¥ 2,887,912 | - | 5.8 |

Sales by region

Millions of yen

| | Year ended December 31, 2008 | Year ended December 31, 2007 | | Change(%) |
|--------------------|---|------------------------------------|---|-----------|
| Japan | ¥ 350,094 | ¥ 379,055 | - | 7.6 |
| Overseas: | | | | |
| <i>Americas</i> | 883,911 | 989,139 | - | 10.6 |
| <i>Europe</i> | 935,449 | 1,029,922 | - | 9.2 |
| <i>Other areas</i> | 551,640 | 489,796 | + | 12.6 |
| | 2,371,000 | 2,508,857 | - | 5.5 |
| Total | ¥2,721,094 | ¥ 2,887,912 | - | 5.8 |

CANON INC.

NON-CONSOLIDATED

12. NON-CONSOLIDATED BALANCE SHEETS**(Parent company only)**

| | Millions of yen | | |
|---|----------------------------------|-------------------------------|-------------|
| | As of December 31, 2008 | As of December 31, 2007 | Change |
| ASSETS | | | |
| Current assets: | | | |
| Cash | ¥ 10,674 | ¥ 5,676 | ¥ 4,998 |
| Trade receivables | 608,047 | 838,322 | (230,275) |
| Marketable securities | 93,899 | 75,920 | 17,979 |
| Inventories | 221,668 | 226,950 | (5,282) |
| Prepaid expenses and other current assets | 204,645 | 209,650 | (5,005) |
| Allowance for doubtful receivables | (1) | (8) | 7 |
| Total current assets | 1,138,932 | 1,356,510 | (217,578) |
| Fixed assets: | | | |
| Net property, plant and equipment | 929,217 | 912,986 | 16,231 |
| Intangibles | 40,431 | 42,497 | (2,066) |
| Investments and other fixed assets | 510,476 | 478,960 | 31,516 |
| Allowance for doubtful receivables-noncurrent | (58) | (61) | 3 |
| Total fixed assets | 1,480,066 | 1,434,382 | 45,684 |
| Total assets | ¥ 2,618,998 | ¥ 2,790,892 | ¥ (171,894) |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities: | | | |
| Trade payables | ¥ 323,980 | ¥ 421,884 | ¥ (97,904) |
| Short-term loans | 156,148 | 94,465 | 61,683 |
| Accrued income taxes | 47,825 | 115,668 | (67,843) |
| Accrued warranty expenses | 6,077 | 4,705 | 1,372 |
| Accrued bonuses for employees | 4,972 | 5,194 | (222) |
| Accrued bonuses for directors | 244 | 360 | (116) |
| Other current liabilities | 176,255 | 212,366 | (36,111) |
| Total current liabilities | 715,501 | 854,642 | (139,141) |
| Noncurrent liabilities: | | | |
| Convertible debentures | - | 128 | (128) |
| Accrued pension and severance cost | 34,456 | 41,713 | (7,257) |
| Accrued directors retirement benefits | 1,576 | 1,368 | 208 |

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| | | | |
|--|--------------------|-------------|------------|
| Reserve for environmental provision | 1,300 | 2,475 | (1,175) |
| Accrued long service rewards for employees | 1,160 | - | 1,160 |
| Total noncurrent liabilities | 38,492 | 45,684 | (7,192) |
| Total liabilities | 753,993 | 900,326 | (146,333) |
| Net assets: | | | |
| Stockholders equity | 1,865,955 | 1,886,784 | (20,829) |
| Difference of appreciation and conversion | (1,196) | 3,782 | (4,978) |
| Subscription right to shares | 246 | - | 246 |
| Total net assets | 1,865,005 | 1,890,566 | (25,561) |
| Total liabilities and net assets | ¥ 2,618,998 | ¥ 2,790,892 | ¥(171,894) |

| | As of December 31, 2008 | As of December 31, 2007 |
|---|--|-------------------------------|
| 1.Accumulated depreciation | ¥ 988,205 | ¥ 848,039 |
| Accumulated impairment loss | ¥ 10,197 | ¥ 993 |
| 2.Cautiounary obligation and other | | |
| Cautionary obligation contract | ¥ 19,323 | ¥ 22,721 |
| 3.Issuance of new stock | ¥ 127 | ¥ 190 |
| (Those capitalised) | ¥ 64 | ¥ 95 |
| Those due to conversion of convertible debentures | ¥ 127 | ¥ 190 |
| (Those capitalised) | ¥ 64 | ¥ 95 |
| 4.Number of stock newly issued(Thousand shares) | 127 | 190 |
| Those due to conversion of convertible debentures | | |
| (Thousand shares) | 127 | 190 |

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CANON INC.

NON-CONSOLIDATED

13. NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Parent company only)

December 31, 2008

| Common stock | Capital surplus | | | | Stockholders equity | | | | 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 | Treasury stock | | Net unrealized gains (losses) on securities | Net Deferred profits (losses) on hedges |
| 74,698 | ¥ 306,225 | ¥ 25 | ¥ 22,114 | ¥ 7,694 | ¥ 1,255 | ¥ 1,249,928 | ¥ 581,031 | ¥ (456,186) | ¥ 1,886,784 | ¥ 5,028 | ¥ (1,246) |
| 64 | 63 | | | | | | | | 127 | | |
| | | | | 632 | | | (632) | | - | | |
| | | | | (3,662) | | | 3,662 | | - | | |
| | | | | | 1,396 | | (1,396) | | - | | |
| | | | | | (73) | | 73 | | - | | |

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| | | | | | | | | | | | |
|--------|----------|------|---------|---------|--------|------------|-----------|------------|------------|----------|--------|
| | | | | | | | (145,024) | | (145,024) | | |
| | | | | | | | 224,135 | | 224,135 | | |
| | | | | | | | | (100,122) | (100,122) | | |
| | (25) | | | | | (5) | 86 | | 56 | | |
| | | | | | | | | | - | (6,076) | 1,098 |
| 64 | 63 | (25) | - | (3,030) | 1,323 | - | 80,812 | (100,036) | (20,829) | (6,076) | 1,098 |
| 74,762 | ¥306,288 | - | ¥22,114 | ¥4,664 | ¥2,578 | ¥1,249,928 | ¥661,843 | ¥(556,222) | ¥1,865,955 | ¥(1,048) | ¥(148) |

Number of issued shares as of December 31, 2008
 Classes and number of treasury stock

1,333,763,464

(Shares)

| Classes of stock | Balance as of December 31, 2007 | Increase | Decrease | Balance as of December 31, 2008 |
|------------------|---------------------------------|------------|----------|---------------------------------|
| common stock | 72,588,428 | 26,701,146 | 14,329 | 99,275,245 |

Dividends from surplus

| Decision | Classes of stock | Cash dividend (Millions of yen) | Dividend per share(yen) | Base date | Effective date |
|---|------------------|---------------------------------|-------------------------|-------------------|----------------|
| March 28, 2008 Annual meeting of stockholders | common stock | 75,663 | 60.00 | December 31, 2007 | March 28, 2008 |
| July 24, 2008 Board of directors meeting | common stock | 69,361 | 55.00 | June 30, 2008 | August 1, 2008 |

| Scheduled | Classes of stock | Cash dividend (Millions of yen) | A source of dividend | Dividend per share(yen) | Base date | Effective date |
|---|------------------|---------------------------------|----------------------|-------------------------|-------------------|----------------|
| March 27, 2009 Annual meeting of stockholders | common stock | 67,897 | Retained earnings | 55.00 | December 31, 2008 | March 27, 2009 |

CANON INC.

NON-CONSOLIDATED

September 30, 2007

| Stockholders equity | | | | | | | | | Difference of appreciation and conversion | | |
|---------------------|----------------------------|-----------------------|---------------|----------------------------------|--|------------------|-----------------------------------|----------------|---|---|---|
| Common stock | Capital surplus | | | Retained earnings | | | | Treasury stock | Total stockholders equity | Net unrealized gains (losses) on securities | Net Deferred profits (losses) on hedges |
| | Additional paid-in capital | Other capital surplus | Legal reserve | Reserve for special depreciation | Other retained earnings Reserve for deferral of capital gain on property | Special reserves | Retained earnings brought forward | | | | |
| ¥ 174,603 | ¥ 306,130 | ¥ 22 | ¥ 22,114 | ¥ 12,485 | ¥ 1,292 | ¥ 1,249,928 | ¥ 340,843 | ¥ (5,872) | ¥ 2,101,545 | ¥ 8,899 | ¥ (1,161) |
| 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 | ¥(1,246) |

1. Number of issued shares as 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 | 70,799,633 | 5,595 | 72,588,428 |

3. Dividends from surplus

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

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 accounting period, in order to calculate periodical profit and loss more appropriately.

As a result, operating profit, ordinary profit and income before income taxes have decreased by JPY 1,160million, and net income has decreased by JPY 696 million for the accounting period ended December 31, 2008.

NON-CONSOLIDATED

Directors

(Current titles are shown in the parentheses)

(1) Candidate for new Director

| | | |
|----------------------------------|----------------|---|
| Executive Vice President &CTO | Toshiaki Ikoma | (Advisor, Group Executive of Corporate R & D Headquarters) |
|----------------------------------|----------------|---|

(2) Candidates for Directors to be promoted

| | | |
|--------------------------|---------------|---|
| Senior Managing Director | Yoroku Adachi | (Managing Director, President & CEO of Canon U.S.A., Inc.) |
|--------------------------|---------------|---|

| | | |
|--------------------------|------------------|---|
| Senior Managing Director | Yasuo Mitsuhashi | (Managing Director, Chief Executive of Peripheral Products Operations) |
|--------------------------|------------------|---|

(3) Director to be retired

| | | |
|-------------------------|----------------|------------|
| Advisor to be appointed | Shunichi Uzawa | (Director) |
|-------------------------|----------------|------------|

Executive Officers

(1) Candidates for new Executive Officers

| | |
|-----------------|---|
| Seymour Liebman | Executive Vice President of Canon U.S.A., Inc. |
|-----------------|---|

| | |
|--------------|---|
| Masato Okada | Deputy Chief Executive of Image Communication Products Operations |
|--------------|---|

| | |
|------------------|---|
| Kazuhiro Akiyama | Deputy Group Executive of General Affairs Headquarters |
|------------------|---|

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CONSOLIDATED FINANCIAL RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 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 (2008)Canon Inc.
(Millions of yen)

| | 2008 | | 2007 | | Change year over year | |
|-------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Japan | | | | | | |
| Business machines | 159,133 | 607,015 | 186,527 | 636,534 | -14.7% | -4.6% |
| Office imaging products | 88,973 | 370,901 | 105,504 | 384,546 | -15.7% | -3.5% |
| Computer peripherals | 59,431 | 184,945 | 63,169 | 186,214 | -5.9% | -0.7% |
| Business information products | 10,729 | 51,169 | 17,854 | 65,774 | -39.9% | -22.2% |
| Cameras | 36,104 | 136,791 | 40,239 | 149,892 | -10.3% | -8.7% |
| Optical and other products | 29,473 | 124,474 | 43,854 | 161,161 | -32.8% | -22.8% |
| Total | 224,710 | 868,280 | 270,620 | 947,587 | -17.0% | -8.4% |
| Overseas | | | | | | |
| Business machines | 460,890 | 2,053,004 | 616,648 | 2,299,008 | -25.3% | -10.7% |
| Office imaging products | 161,635 | 748,622 | 247,141 | 906,242 | -34.6% | -17.4% |
| Computer peripherals | 291,527 | 1,269,823 | 357,693 | 1,351,297 | -18.5% | -6.0% |
| Business information products | 7,728 | 34,559 | 11,814 | 41,469 | -34.6% | -16.7% |
| Cameras | 226,658 | 905,156 | 324,863 | 1,002,771 | -30.2% | -9.7% |
| Optical and other products | 82,482 | 267,721 | 51,668 | 231,980 | +59.6% | +15.4% |
| Total | 770,030 | 3,225,881 | 993,179 | 3,533,759 | -22.5% | -8.7% |
| Americas | | | | | | |
| Business machines | 172,714 | 759,864 | 226,063 | 888,189 | -23.6% | -14.4% |
| Office imaging products | 62,617 | 287,319 | 96,735 | 373,093 | -35.3% | -23.0% |
| Computer peripherals | 107,310 | 457,816 | 124,368 | 495,676 | -13.7% | -7.6% |
| Business information products | 2,787 | 14,729 | 4,960 | 19,420 | -43.8% | -24.2% |
| Cameras | 96,656 | 339,141 | 140,465 | 390,768 | -31.2% | -13.2% |
| Optical and other products | 13,632 | 55,566 | 13,886 | 57,211 | -1.8% | -2.9% |
| Total | 283,002 | 1,154,571 | 380,414 | 1,336,168 | -25.6% | -13.6% |
| Europe | | | | | | |
| Business machines | 217,937 | 964,782 | 299,139 | 1,067,998 | -27.1% | -9.7% |
| Office imaging products | 79,107 | 364,288 | 122,303 | 423,925 | -35.3% | -14.1% |
| Computer peripherals | 134,603 | 584,247 | 171,114 | 626,236 | -21.3% | -6.7% |
| Business information products | 4,227 | 16,247 | 5,722 | 17,837 | -26.1% | -8.9% |
| Cameras | 78,209 | 333,069 | 126,689 | 388,651 | -38.3% | -14.3% |
| Optical and other products | 11,975 | 43,549 | 12,161 | 42,637 | -1.5% | +2.1% |
| Total | 308,121 | 1,341,400 | 437,989 | 1,499,286 | -29.7% | -10.5% |
| Other areas | | | | | | |
| Business machines | 70,239 | 328,358 | 91,446 | 342,821 | -23.2% | -4.2% |
| Office imaging products | 19,911 | 97,015 | 28,103 | 109,224 | -29.1% | -11.2% |
| Computer peripherals | 49,614 | 227,760 | 62,211 | 229,385 | -20.2% | -0.7% |
| Business information products | 714 | 3,583 | 1,132 | 4,212 | -36.9% | -14.9% |
| Cameras | 51,793 | 232,946 | 57,709 | 223,352 | -10.3% | +4.3% |

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| | | | | | | |
|-------------------------------|---------|-----------|-----------|-----------|---------|--------|
| Optical and other products | 56,875 | 168,606 | 25,621 | 132,132 | +122.0% | +27.6% |
| Total | 178,907 | 729,910 | 174,776 | 698,305 | +2.4% | +4.5% |
| Total | | | | | | |
| Business machines | 620,023 | 2,660,019 | 803,175 | 2,935,542 | -22.8% | -9.4% |
| Office imaging products | 250,608 | 1,119,523 | 352,645 | 1,290,788 | -28.9% | -13.3% |
| Computer peripherals | 350,958 | 1,454,768 | 420,862 | 1,537,511 | -16.6% | -5.4% |
| Business information products | 18,457 | 85,728 | 29,668 | 107,243 | -37.8% | -20.1% |
| Cameras | 262,762 | 1,041,947 | 365,102 | 1,152,663 | -28.0% | -9.6% |
| Optical and other products | 111,955 | 392,195 | 95,522 | 393,141 | +17.2% | -0.2% |
| Total | 994,740 | 4,094,161 | 1,263,799 | 4,481,346 | -21.3% | -8.6% |

- S1 -

**2. SALES BY REGION AND PRODUCT
(2009/Projection)**

Canon Inc.

(1) Sales by product

(Millions of yen)

| | 2009 (P) | 2008 | Change year over year |
|-------------------------------|-----------|-----------|--------------------------|
| | Year | Year | Year |
| Business machines | 2,294,900 | 2,660,019 | -13.7% |
| Office imaging products | 982,700 | 1,119,523 | -12.2% |
| Computer peripherals | 1,229,300 | 1,454,768 | -15.5% |
| Business information products | 82,900 | 85,728 | -3.3% |
| Cameras | 858,400 | 1,041,947 | -17.6% |
| Optical and other products | 346,700 | 392,195 | -11.6% |
| Total | 3,500,000 | 4,094,161 | -14.5% |

(P)=Projection

(2) Sales by region

(Millions of yen)

| | 2009 (P) | 2008 | Change year over year |
|-------------|-----------|-----------|--------------------------|
| | Year | Year | Year |
| Japan | 853,900 | 868,280 | -1.7% |
| Overseas | 2,646,100 | 3,225,881 | -18.0% |
| Americas | 932,600 | 1,154,571 | -19.2% |
| Europe | 1,089,300 | 1,341,400 | -18.8% |
| Other areas | 624,200 | 729,910 | -14.5% |
| Total | 3,500,000 | 4,094,161 | -14.5% |

(P)=Projection

**3. SEGMENT INFORMATION BY PRODUCT
(2008)**

 Canon Inc.
(Millions of yen)

| | 2008 | | 2007 | | Change year over year | |
|-----------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Business machines | | | | | | |
| Unaffiliated customers | 620,023 | 2,660,019 | 803,175 | 2,935,542 | -22.8% | -9.4% |
| Intersegment | - | - | - | - | - | - |
| Total sales | 620,023 | 2,660,019 | 803,175 | 2,935,542 | -22.8% | -9.4% |
| Operating profit | 107,586 | 544,644 | 162,419 | 650,261 | -33.8% | -16.2% |
| % of sales | 17.4% | 20.5% | 20.2% | 22.2% | - | - |
| Cameras | | | | | | |
| Unaffiliated customers | 262,762 | 1,041,947 | 365,102 | 1,152,663 | -28.0% | -9.6% |
| Intersegment | - | - | - | - | - | - |
| Total sales | 262,762 | 1,041,947 | 365,102 | 1,152,663 | -28.0% | -9.6% |
| Operating profit | 30,114 | 187,787 | 93,267 | 307,426 | -67.7% | -38.9% |
| % of sales | 11.5% | 18.0% | 25.5% | 26.7% | - | - |
| Optical and other products | | | | | | |
| Unaffiliated customers | 111,955 | 392,195 | 95,522 | 393,141 | +17.2% | -0.2% |
| Intersegment | 52,326 | 235,690 | 65,381 | 238,659 | -20.0% | -1.2% |
| Total sales | 164,281 | 627,885 | 160,903 | 631,800 | +2.1% | -0.6% |
| Operating profit | (54,461) | (45,490) | (2,655) | 21,080 | - | - |
| % of sales | -33.2% | -7.2% | -1.7% | 3.3% | - | - |
| Corporate and Eliminations | | | | | | |
| Unaffiliated customers | - | - | - | - | - | - |
| Intersegment | (52,326) | (235,690) | (65,381) | (238,659) | - | - |
| Total sales | (52,326) | (235,690) | (65,381) | (238,659) | - | - |
| Operating profit | (47,414) | (190,867) | (59,455) | (222,094) | - | - |
| Consolidated | | | | | | |
| Unaffiliated customers | 994,740 | 4,094,161 | 1,263,799 | 4,481,346 | -21.3% | -8.6% |
| Intersegment | - | - | - | - | - | - |
| Total sales | 994,740 | 4,094,161 | 1,263,799 | 4,481,346 | -21.3% | -8.6% |
| Operating profit | 35,825 | 496,074 | 193,576 | 756,673 | -81.5% | -34.4% |
| % of sales | 3.6% | 12.1% | 15.3% | 16.9% | - | - |

4. OTHER INCOME / DEDUCTIONS (2008)

(Millions of yen)

| | 2008 | | 2007 | | Change year over year | |
|----------------------------|-------------|----------|-------------|----------|-----------------------|----------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Interest and dividend, net | 3,685 | 18,605 | 6,993 | 31,348 | (3,308) | (12,743) |
| Forex gain / loss | 2,932 | (11,212) | (1,035) | (31,943) | +3,967 | +20,731 |
| | (18,485) | (20,047) | 149 | 5,634 | (18,634) | (25,681) |

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Equity earnings / loss of
affiliated companies

| | | | | | | |
|------------|----------|----------|-------|--------|----------|----------|
| Other, net | (7,044) | (2,273) | 237 | 6,676 | (7,281) | (8,949) |
| Total | (18,912) | (14,927) | 6,344 | 11,715 | (25,256) | (26,642) |

- S3 -

| 5. SEGMENT INFORMATION BY PRODUCT (2009/Projection) | (Millions of yen) | | |
|--|----------------------|--------------|----------------------------------|
| | 2009 (P) Year | 2008 Year | Change year over year Year |
| Business machines | | | |
| Unaffiliated customers | 2,294,900 | 2,660,019 | -13.7% |
| Intersegment | - | - | - |
| Total sales | 2,294,900 | 2,660,019 | -13.7% |
| Operating profit | 301,900 | 544,644 | -44.6% |
| % of sales | 13.2% | 20.5% | - |
| Cameras | | | |
| Unaffiliated customers | 858,400 | 1,041,947 | -17.6% |
| Intersegment | - | - | - |
| Total sales | 858,400 | 1,041,947 | -17.6% |
| Operating profit | 44,000 | 187,787 | -76.6% |
| % of sales | 5.1% | 18.0% | - |
| Optical and other products | | | |
| Unaffiliated customers | 346,700 | 392,195 | -11.6% |
| Intersegment | 211,300 | 235,690 | -10.3% |
| Total sales | 558,000 | 627,885 | -11.1% |
| Operating profit | (5,900) | (45,490) | - |
| % of sales | -1.1% | -7.2% | - |
| Corporate and Eliminations | | | |
| Unaffiliated customers | - | - | - |
| Intersegment | (211,300) | (235,690) | - |
| Total sales | (211,300) | (235,690) | - |
| Operating profit | (180,000) | (190,867) | - |
| Consolidated | | | |
| Unaffiliated customers | 3,500,000 | 4,094,161 | -14.5% |
| Intersegment | - | - | - |
| Total sales | 3,500,000 | 4,094,161 | -14.5% |

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| | | | |
|------------------|---------|---------|--------|
| Operating profit | 160,000 | 496,074 | -67.7% |
| % of sales | 4.6% | 12.1% | - |

(P)=Projection

6. OTHER INCOME / DEDUCTIONS

(2009/Projection)

(Millions of yen)

| | 2009 (P) Year | 2008 Year | Change year over year Year |
|---|------------------|--------------|----------------------------------|
| Interest and dividend, net | 6,300 | 18,605 | (12,305) |
| Forex gain / loss | (11,900) | (11,212) | (688) |
| Equity earnings / loss of affiliated companies | (5,800) | (20,047) | +14,247 |
| Other, net | 11,400 | (2,273) | +13,673 |
| Total | 0 | (14,927) | +14,927 |

(P)=Projection

- S4 -

7. SALES COMPOSITION BY PRODUCT

Canon Inc.

| | 2009 (P) | 2008 | | 2007 | |
|--------------------------------------|----------|----------------|------|----------------|------|
| | Year | 4th quarter | Year | 4th quarter | Year |
| Office imaging products | | | | | |
| Monochrome copying machines | 42% | 40% | 41% | 43% | 45% |
| Color copying machines | 35% | 38% | 37% | 36% | 35% |
| Others | 23% | 22% | 22% | 21% | 20% |
| Computer peripherals | | | | | |
| Laser beam printers | 71% | 69% | 73% | 69% | 73% |
| Inkjet printers | 28% | 30% | 26% | 30% | 26% |
| Others | 1% | 1% | 1% | 1% | 1% |
| Business information products | | | | | |
| Personal computers | 64% | 61% | 60% | 62% | 62% |
| Others | 36% | 39% | 40% | 38% | 38% |
| Cameras | | | | | |
| Digital cameras | 78% | 77% | 75% | 77% | 76% |
| Video cameras | 9% | 8% | 9% | 8% | 8% |
| Interchangeable lenses and others | 13% | 15% | 16% | 15% | 16% |
| Optical and other products | | | | | |
| Semiconductor production equipment | 38% | 52% | 46% | 43% | 46% |
| Others | 62% | 48% | 54% | 57% | 54% |

(P)=Projection

* From fiscal 2007, figures related to analog personal copying machines, which were included in Monochrome copying machines of Office imaging products were included in Others of Office imaging products. Past figures have been reclassified to conform with the current presentation.

* From fiscal 2007, the segment previously named Film cameras / Lenses was changed to Interchangeable lenses and others.

8. SALES GROWTH IN LOCAL CURRENCY

| | 2009 (P) | 2008 |
|--|----------|----------------|
| | Year | 4th quarter |
| | | Year |

Business machines

| | | | |
|----------|---|--------|-------|
| Japan | - | -14.7% | -4.6% |
| Overseas | - | -8.7% | -0.7% |

| | | | |
|-------|-------|--------|-------|
| Total | -1.5% | -10.1% | -1.6% |
|-------|-------|--------|-------|

Cameras

| | | | |
|----------|---|--------|-------|
| Japan | - | -10.3% | -8.7% |
| Overseas | - | -14.8% | +0.2% |

| | | | |
|-------|-------|--------|-------|
| Total | -4.1% | -14.3% | -1.0% |
|-------|-------|--------|-------|

Optical and other products

| | | | |
|----------|---|--------|--------|
| Japan | - | -32.8% | -22.8% |
| Overseas | - | +77.4% | +22.7% |

| | | | |
|-------|-------|--------|-------|
| Total | -6.7% | +26.8% | +4.0% |
|-------|-------|--------|-------|

Total

| | | | |
|-------------|-------|--------|--------|
| Japan | -1.7% | -17.0% | -8.4% |
| Overseas | -3.0% | -6.2% | +1.1% |
| Americas | -7.5% | -12.9% | -1.6% |
| Europe | +0.4% | -10.8% | -3.4% |
| Other areas | -2.0% | +19.8% | +15.7% |

| | | | |
|-------|-------|-------|-------|
| Total | -2.7% | -8.5% | -0.9% |
|-------|-------|-------|-------|

(P)=Projection

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9. PROFITABILITYCanon
Inc.

| | 2009 (P) Year | 2008 Year | 2007 Year |
|-----|------------------|--------------|--------------|
| ROE | 3.7% | 11.1% | 16.5% |
| ROA | 2.5% | 7.3% | 10.8% |

(P)=Projection

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

(Yen)

| | 2009 (P) Year | 2008 4th quarter | 2007 4th quarter | 2007 Year |
|----------|------------------|------------------------|------------------------|--------------|
| Yen/US\$ | 90.00 | 96.22 | 103.23 | 113.19 |
| Yen/Euro | 120.00 | 126.46 | 151.46 | 163.86 |

(P)=Projection

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

(Billions of yen)

| | 2009 (P) Year | 2008 4th quarter | 2008 Year |
|------------------|------------------|------------------------|--------------|
| US\$ | (169.4) | (69.5) | (218.7) |
| Euro | (204.7) | (68.7) | (66.4) |
| Other currencies | (28.7) | (11.8) | (14.4) |
| Total | (402.8) | (150.0) | (299.5) |

(P)=Projection

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

| | 2009 (P) Year |
|----------|------------------|
| On sales | |
| US\$ | 16.5 |
| Euro | 6.9 |

| | |
|---------------------|-----|
| On operating profit | |
| US\$ | 9.1 |
| Euro | 5.0 |

(P)=Projection

11. STATEMENTS OF CASH FLOWS

(Millions of yen)

| | 2009 (P) | 2008 | | 2007 | |
|--|-----------|----------------|-----------|----------------|-----------|
| | Year | 4th quarter | Year | 4th quarter | Year |
| Net cash provided by operating activities | | | | | |
| Net income | 98,000 | 11,622 | 309,148 | 127,845 | 488,332 |
| Depreciation and amortization | 350,000 | 88,426 | 341,337 | 106,248 | 341,694 |
| Other, net | (3,000) | 81,201 | (33,801) | 42,547 | 9,243 |
| Total | 445,000 | 181,249 | 616,684 | 276,640 | 839,269 |
| Net cash used in investing activities | (345,000) | (86,857) | (472,480) | (91,525) | (432,485) |
| Free cash flow | 100,000 | 94,392 | 144,204 | 185,115 | 406,784 |
| Net cash used in financing activities | (144,000) | (85,592) | (277,565) | (1,718) | (604,383) |
| Effect of exchange rate changes on cash and cash equivalents | (25,200) | (66,923) | (131,906) | (5,241) | (13,564) |
| Net change in cash and cash equivalents | (69,200) | (58,123) | (265,267) | (178,156) | (211,163) |
| Cash and cash equivalents at end of period | 610,000 | 679,196 | 679,196 | 944,463 | 944,463 |

(P)=Projection

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| 12. R&D EXPENDITURE | (Millions of yen) | | | Canon Inc. |
|----------------------------|-------------------|--------------|--------------|---------------|
| | 2009 (P) Year | 2008 Year | 2007 Year | |
| Business machines | - | 123,531 | 122,570 | |
| Cameras | - | 45,458 | 44,304 | |
| Optical and other products | - | 205,036 | 201,387 | |
| Total | 350,000 | 374,025 | 368,261 | |
| % of sales | 10.0% | 9.1% | 8.2% | |

(P)=Projection

13. INCREASE IN PP&E & DEPRECIATION AND AMORTIZATION

| | (Millions of yen) | | |
|--------------------------------------|-------------------|--------------|--------------|
| | 2009 (P) Year | 2008 Year | 2007 Year |
| Increase in PP&E | | | |
| Business machines | - | 172,197 | 166,143 |
| Cameras | - | 43,086 | 32,870 |
| Optical and other products | - | 68,542 | 78,449 |
| Corporate and eliminations | - | 78,163 | 151,087 |
| Total | 315,000 | 361,988 | 428,549 |
| Depreciation and amortization | | | |
| Business machines | - | 163,920 | 159,309 |
| Cameras | - | 39,412 | 37,180 |
| Optical and other products | - | 88,017 | 69,843 |
| Corporate and eliminations | - | 49,988 | 75,362 |
| Total | 350,000 | 341,337 | 341,694 |

(P)=Projection

14. INVENTORIES

(1) Inventories

| | (Millions of yen) | | |
|----------------------------|-------------------|----------------|------------|
| | 2008 Dec.31 | 2007 Dec.31 | Difference |
| Business machines | 234,958 | 277,444 |) |
| Cameras | 115,852 | 107,406 | (48,446) |
| Optical and other products | 156,109 | 178,624 | (22,515) |
| Total | 506,919 | 563,474 | (56,555) |

(2) Inventories/Sales*

| | (Day) | | |
|-------------------|----------------|----------------|------------|
| | 2008 Dec.31 | 2007 Dec.31 | Difference |
| Business machines | 34 | 34 | 0 |

| | | | |
|----------------------------|-----|-----|------|
| Cameras | 41 | 31 | +10 |
| Optical and other products | 144 | 169 | (25) |
| Total | 47 | 44 | +3 |

*Index based on the previous six months sales.

15. DEBT RATIO

| | 2008 Dec.31 | 2007 Dec.31 | Difference |
|---------------------------|----------------|----------------|------------|
| Total debt / Total assets | 0.4% | 0.6% | -0.2% |

16. OVERSEAS PRODUCTION RATIO

| | 2008 Year | 2007 Year |
|---------------------------|--------------|--------------|
| Overseas production ratio | 39% | 40% |

17. NUMBER OF EMPLOYEES

| | 2008 Dec.31 | 2007 Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan | 72,445 | 55,227 | |
| Overseas | 94,535 | 76,125 | +18,410 |
| Total | 166,980 | 131,352 | +35,628 |