

CANON INC  
Form 6-K  
January 31, 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 .... **January** ..... , **2008**.....  
**CANON INC.**

(Translation of registrant's name into English)  
30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, Japan

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F            **X**            Form 40-F

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes            No            **X**

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-

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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 30, 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 material is included.

1. Results For The Fourth Quarter And The Fiscal Year Ended December 31, 2007
  2. Notice Concerning Change of Representative Director
  3. Notice Regarding Introduction of Executive Officer System
  4. Notice Regarding Issuance of Stock Options (Share Options)
-

**RESULTS FOR THE FOURTH QUARTER**  
**AND THE FISCAL YEAR ENDED DECEMBER 31, 2007**

January 30, 2008

**CONSOLIDATED RESULTS**

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

|   | Actual                             |                                    |           | Projected                          |  |           |
|---|------------------------------------|------------------------------------|-----------|------------------------------------|--|-----------|
|   | Year ended<br>December<br>31, 2007 | Year ended<br>December 31,<br>2006 | Change(%) | Year ended<br>December 31,<br>2007 | Year<br>ending<br>December<br>31, 2008 | Change(%) |
| Net sales   | ¥ 4,481,346                        | ¥ 4,156,759                        | + 7.8     | \$ 39,310,053                      | ¥ 4,720,000                            | + 5.3     |
| Operating profit  | 756,673                            | 707,033                            | + 7.0     | 6,637,482                          | 800,000                                | + 5.7     |
| Income before income<br>taxes<br>and minority interests | 768,388                            | 719,143                            | + 6.8     | 6,740,246                          | 820,000                                | + 6.7     |
| Net income  | ¥ 488,332                          | ¥ 455,325                          | + 7.2     | \$ 4,283,614                       | ¥ 520,000                              | + 6.5     |
| Net income per share:                                   |                                    |                                    |           |                                    |  |           |
| - Basic   | ¥ 377.59                           | ¥ 341.95                           | + 10.4    | \$ 3.31                            | ¥ 412.36                               | + 9.2     |
| - Diluted   | 377.53                             | 341.84                             | + 10.4    | 3.31                               |  |           |

|                     | Actual                        |                               |           |
|---------------------|-------------------------------|-------------------------------|-----------|
|                     | As of<br>December<br>31, 2007 | As of<br>December 31,<br>2006 | Change(%) |
| Total assets        | ¥ 4,512,625                   | ¥ 4,521,915                   | - 0.2     |
| Stockholders equity | ¥ 2,922,336                   | ¥ 2,986,606                   | - 2.2     |

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 JPY114 = U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 28, 2007, solely for the convenience of the reader.

**NON-CONSOLIDATED RESULTS**

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

| Year ended<br>December<br>31, | Actual                     |           | Year ended<br>December 31, |
|-------------------------------|----------------------------|-----------|----------------------------|
|                               | Year ended<br>December 31, | Change(%) |                            |
|                               |                            |           |                            |

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|                  | 2007        |   | 2006      |   |     | 2007          |
|------------------|-------------|---|-----------|---|-----|---------------|
| Net sales        | ¥ 2,887,912 | ¥ | 2,729,657 | + | 5.8 | \$ 25,332,561 |
| Operating profit | 533,841     |   | 511,157   | + | 4.4 | 4,682,816     |
| Ordinary profit  | 552,843     |   | 523,996   | + | 5.5 | 4,849,500     |
| Net income       | ¥ 366,973   | ¥ | 337,520   | + | 8.7 | \$ 3,219,061  |

Net income per share:

|                    |          |   |        |   |      |         |
|--------------------|----------|---|--------|---|------|---------|
| - Basic            | ¥ 283.75 | ¥ | 253.48 | + | 11.9 | \$ 2.49 |
| - Diluted          | 283.70   |   | 253.39 | + | 12.0 | 2.49    |
| Dividend per share | 110.00   |   | 83.33  | + | 32.0 | 0.96    |

|              | As of       |   | Actual       |           |      | As of         |
|--------------|-------------|---|--------------|-----------|------|---------------|
|              | December    |   | As of        | Change(%) |      | December 31,  |
|              | 31, 2007    |   | December 31, |           |      | 2007          |
|              |             |   | 2006         |           |      |               |
| Total assets | ¥ 2,790,892 | ¥ | 2,938,072    | -         | 5.0  | \$ 24,481,509 |
| Net assets   | ¥ 1,890,566 | ¥ | 2,109,283    | -         | 10.4 | \$ 16,583,912 |

- Notes: 1. U.S. dollar amounts are translated from yen at the rate of JPY114 = U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 28, 2007, solely for the convenience of the reader.
2. Canon made a three-for-two stock split on July 1, 2006, though per share information for the fiscal year ended December 31, 2006 has been adjusted to reflect the stock split.

Canon Inc.  
Headquarter office

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Tokyo 146-8501, Japan  
Phone: +81-3-3758-2111

## **I. Operating Results and Financial Conditions**

### **2007 in Review**

Looking back at the global economy in 2007, the U.S. economy proved sluggish in the second half of the year as the fallout from the subprime loan crisis resulted in a decline not only in housing investment, but also in consumer spending. In Europe, the region moved toward moderate recovery as domestic demand expanded in major European countries, boosted by such factors as increased consumer spending owing to continued improvements in the employment environment. Within Asia, the Chinese economy maintained a high growth rate while other economies in the region also enjoyed generally favorable conditions, primarily due to export growth. In Japan, the economy maintained a trend toward recovery, buoyed by an improvement in consumer spending along with increased capital spending fueled by strong corporate earnings.

As for the markets in which the Canon Group operates, within the camera segment, demand for digital single-lens reflex (SLR) cameras and compact digital cameras continued to realize healthy growth during the year. Within the office imaging products market, demand for network digital multifunction devices (MFDs) remained solid as the office market shifted toward color models in all regions. As for computer peripherals, including printers, demand for laser beam printers continued to grow for both color and monochrome low-end models. Within the inkjet printer market, as the shift in demand from single-function to multifunction machines gained momentum, price competition for multifunction models increased in severity. In the optical equipment segment, while demand for projection aligners, which are used to produce liquid crystal display (LCD) panels, remained at a low level due to restrained investment by LCD manufacturers, demand for steppers, used in the production of semiconductors, remained at approximately the same level as the previous year. The average value of the yen for the year was ¥117.50 to the U.S. dollar and ¥161.41 to the euro, representing a slight year-on-year decrease against the U.S. dollar, and about a 10% decline against the euro.

Amid these conditions, Canon's consolidated net sales in 2007 increased by 7.8% from the year-ago period to ¥4,481.3 billion (U.S.\$39,310 million), boosted by a solid rise in sales of digital cameras, color network MFDs, and laser beam printers, along with the positive effect of favorable currency exchange rates. The gross profit ratio improved 0.5 points year on year to reach 50.1%. The improved gross profit ratio was mainly the result of such factors as the launch of new products and the in-house manufacturing of key components and key devices, in addition to cost-reduction efforts realized through ongoing production-reform and procurement-reform activities, which absorbed the effects of escalating raw material costs and severe price competition in the consumer products market. Owing to the improved gross profit ratio, gross profit increased by 9.1% year on year to ¥2,247.0 billion (U.S.\$19,710 million). As for operating expenses, although the growth in selling, general and administrative expenses which increased 7.4% year on year remained less than revenue growth, R&D expenditures grew by 19.4% from the year-ago period to ¥368.3 billion (U.S.\$3,230 million) due to active R&D investment, resulting in an increase in the operating expense to net sales ratio of 0.6 points year on year to 33.2%. In addition, the company implemented a change in the accounting method used to calculate depreciation of fixed assets at the start of the second quarter of the year, which resulted in an increase of ¥63.8 billion (U.S.\$559 million) compared with the previously used method. Consequently, operating profit in 2007 totaled ¥756.7 billion (U.S.\$6,637 million), a year-on-year increase of 7.0% and an all-time high for the company. Other income (deductions) stayed at almost the same level as the previous year. Income before income taxes and minority interests in 2007 totaled ¥768.4 billion (U.S.\$6,740 million), a year-on-year increase of 6.8%, while net income for the year totaled ¥488.3 billion (U.S.\$4,284 million), both marking all-time highs.

Basic net income per share for the year was ¥377.59 (U.S.\$3.31), a year-on-year increase of ¥35.64 (U.S.\$0.31).

### **Results by Product Segment**

In the business machine segment, as demand for network digital MFDs shifted toward color models in both the domestic Japanese and overseas markets, the competitively priced iR C2880 series and the high-end iR C5185 series continued to enjoy strong sales. And among monochrome network digital MFDs, the iR5055 series and the new energy-saving iR3025 series contributed to expanded sales. Additionally, the company marked its entry into the commercial print market with the launch of the new imagePRESS C7000VP. Overall, sales of office imaging products in 2007 realized a year-on-year increase of 8.8%. In the field of computer peripherals, while laser beam printers enjoyed a year-on-year increase of over 20% in unit sales,



with strong demand for both color and monochrome low-end models, and consumables also growing favorably, resulting in an increase of 10.5% in sales in value terms. As for inkjet printers, despite a continuing decline in unit sales for single-function models and severe price competition in the market, sales in value terms increased by 9.2% in 2007, boosted by such factors as increased unit sales of multifunction models, including the PIXMA MP600/610, and healthy sales growth for consumables. As a result, sales of computer peripherals for 2007 realized a year-on-year increase of 9.9%. With regard to business information products, sales increased by 0.5%, roughly matching the level achieved in the previous year. Collectively, sales of business machines for 2007 totaled ¥2,935.5 billion (U.S.\$25,750 million), a year-on-year increase of 9.1%. Operating profit for the business machines segment totaled ¥650.3 billion (U.S.\$5,704 million), an increase of 8.5% year on year, lifted by increased unit sales, as well as efforts to curtail expenses.

Within the camera segment, growth was fueled by demand for digital SLR cameras, with particularly strong sales for the compact, lightweight-body EOS DIGITAL REBEL XT<sub>i</sub> and the advanced-amateur-model EOS 30D/40D which, in turn, led to expanded sales of interchangeable lenses for SLR cameras. As for compact digital cameras, the company strengthened its lineup with the launch of 16 new models 5 stylish ELPH-series models and 11 PowerShot-series models catering to a diverse range of shooting styles. As a result, unit sales of digital cameras for 2007 increased by approximately 17% from the year-ago period. Consequently, camera sales overall increased by 10.6% year on year to ¥1,152.7 billion (U.S.\$10,111 million). Operating profit for the camera segment totaled ¥307.4 billion (U.S.\$2,697 million), a year-on-year increase of 14.4%, boosted by such factors as the suppression of price declines through the launch of new products and continued cost-reduction efforts realized through ongoing production-reform and procurement-reform activities.

In the optical and other products segment, sales of aligners, used to produce LCD panels, decreased amid reduced market demand due to restrained investment by LCD manufacturers, and sales of steppers, used in the production of semiconductors, also declined slightly. As a result, sales for the segment totaled ¥393.1 billion (U.S.\$3,449 million), a year-on-year decrease of 7.2%. Operating profit for the segment decreased by 49.2% year on year to ¥21.1 billion (U.S.\$185 million).

#### **Cash Flow**

In the twelve months ended December 31, 2007, Canon generated cash flow from operating activities of about ¥839.3 billion (U.S.\$7,362 million), a year-on-year increase of ¥144.0 billion (U.S.\$1,263 million), reflecting a steady increase in net sales and net income. Cash flow from investing activities totaled ¥432.5 billion (U.S.\$3,794 million) due to such factors as active capital investment, used mainly to expand production capabilities. As a result, free cash flow surpassed the ¥400.0 billion mark for the first time ever, totaling positive ¥406.8 billion (U.S.\$3,568 million), representing a ¥172.4 billion (U.S.\$1,512 million) improvement from ¥234.4 billion from the year-ago period.

Cash flow from financing activities recorded an outlay of ¥604.4 billion (U.S.\$5,302 million), mainly resulting from the dividend payout of ¥131.6 billion (U.S.\$1,154 million) in accordance with the company's basic policy regarding profit distribution and the ¥450.0 billion (U.S.\$3,947 million) purchase of treasury stock with the aim of improving capital efficiency and ensuring a flexible capital strategy. Consequently, cash and cash equivalents totaled ¥944.5 billion (U.S.\$8,285 million) at December 31, 2007, an amount that, while representing a ¥211.2 billion (U.S.\$1,852 million) decrease from the end of the previous year, remained at a high level.

#### **Non-consolidated Results**

Canon Inc.'s non-consolidated net sales in 2007 grew by 5.8% year on year to ¥2,887.9 billion (U.S.\$25,333 million), while ordinary profit increased by 5.5% year on year to ¥552.8 billion (U.S.\$4,850 million). Non-consolidated net income also increased by 8.7% year on year to ¥367.0 billion (U.S.\$3,219 million), marking all-time highs for both net sales and net income.



## Outlook

With regard to the global economic outlook for the fiscal year 2008, despite the economic slow down in major countries during the first half of the year due to high prices for crude oil and raw materials along with the subprime loan crisis, the economies of Asia and emerging countries are expected to continue recording favorable growth. In the second half of the year, major countries are expected to move toward moderate recovery with the global economy displaying steady growth.

As for the businesses in which Canon is involved, sales for both digital SLR cameras and compact digital cameras are expected to continue enjoying robust growth. Regarding network digital MFDs and laser beam printers, while additional demand is projected for full-color models, severe price competition and shifting demand toward lower-priced models are expected to continue. Within the semiconductor-production equipment market, although the market scale for ArF immersion tools will expand, demand for steppers overall will decline compared with the previous year. As for projection aligners used in the production of LCD panels, demand is expected to recover significantly due to planned increases in investment by LCD manufacturers.

In fiscal year 2008 Canon forecasts consolidated net sales of ¥4,720.0 billion (U.S.\$41,404 million), a year-on-year increase of 5.3%, consolidated operating profit of ¥800.0 billion (U.S.\$7,018 million), a year-on-year increase of 5.7%, consolidated income before income taxes of ¥820.0 billion (U.S.\$7,193 million), a year-on-year increase of 6.7%, and consolidated net income of ¥520.0 billion (U.S.\$4,561 million), a year-on-year increase of 6.5%, anticipating the company's ninth consecutive year of increased consolidated sales and profit. While future interest rate trends in major countries remain uncertain, these forecasts assume currency exchange rates of ¥107 to the U.S. dollar and ¥157 to the euro, representing an approximately 9% appreciation of the yen against the U.S. dollar compared with 2007, and an approximately 3% appreciation against the euro.

### 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 the company's consolidated business performance. Specifically, Canon's medium- to long-term objective is to continuously strive to raise its consolidated payout ratio to around 30%.

In accordance with this policy, the company plans to distribute a full-year dividend for fiscal year 2007 amounting to ¥110.00 (U.S.\$0.96) (interim dividend of ¥50.00 (U.S.\$0.44) per share (already distributed) and year-end dividend of ¥60.00 (U.S.\$0.52) per share). For fiscal year 2006, Canon's full-year dividend was ¥100.00. As the company made a 3-for-2 stock split on July 1, 2006, the company's full-year dividend in fiscal year 2006 on a split adjusted basis was ¥83.33, representing a ¥26.67 (U.S.\$0.23) dividend increase.

Based on the above, Canon's consolidated payout ratio was 23.1% for 2005 and 24.4% for 2006, and is determined to be 28.8% for 2007.

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

### **(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****Results for the fourth quarter**

|   | Millions of yen   |   |       | Change(%) | Thousands of<br>U.S. dollars                            |
|---|---|---|-------|-----------|---|
|   | <b>Three<br/>months<br/>ended<br/>December<br/>31, 2007</b> | Three months<br>ended<br>December 31,<br>2006 |       |           | <b>Three months<br/>ended<br/>December 31,<br/>2007</b> |
| Net sales   | ¥1,263,799  | ¥ 1,216,535                                   | + 3.9 | \$        | <b>11,085,956</b>                                       |
| Cost of sales                                     | <b>652,724</b>  | 622,809                                       |       |           | <b>5,725,649</b>  |
| Gross profit                                      | <b>611,075</b>  | 593,726                                       | + 2.9 |           | <b>5,360,307</b>  |
| Operating expenses:                               |   |   |       |           |   |
| Selling, general and administrative expenses      | <b>309,519</b>  | 306,768                                       |       |           | <b>2,715,079</b>  |
| Research and development expenses                 | <b>107,980</b>  | 91,088  |       |           | <b>947,193</b>  |
|   | <b>417,499</b>  | 397,856                                       |       |           | <b>3,662,272</b>  |
| Operating profit                                  | <b>193,576</b>  | 195,870                                       | - 1.2 |           | <b>1,698,035</b>  |
| Other income (deductions):                        |   |   |       |           |   |
| Interest and dividend income                      | <b>7,319</b>  | 8,711   |       |           | <b>64,202</b>   |
| Interest expense                                  | <b>(326)</b>  | (1,005)                                       |       |           | <b>(2,860)</b>  |
| Other, net  | <b>(649)</b>  | (5,804)                                       |       |           | <b>(5,693)</b>  |
|   | <b>6,344</b>  | 1,902   |       |           | <b>55,649</b>   |
| Income before income taxes and minority interests | <b>199,920</b>  | 197,772                                       | + 1.1 |           | <b>1,753,684</b>  |
| Income taxes                                      | <b>67,844</b>   | 68,388  |       |           | <b>595,123</b>  |
| Income before minority interests                  | <b>132,076</b>  | 129,384                                       |       |           | <b>1,158,561</b>  |
| Minority interests                                | <b>4,231</b>  | 3,820   |       |           | <b>37,114</b>   |
| Net income  | ¥ <b>127,845</b>  | ¥ 125,564                                     | + 1.8 | \$        | <b>1,121,447</b>  |

Note: Comprehensive income for the three months ended December 31, 2007 and 2006 was JPY102,988 million (U.S.\$903,404 thousand) and JPY149,046 million, respectively.

**Results for the fiscal year**

|  | Millions of yen                                 |                                    |  | Change(%) | Thousands of<br>U.S. dollars                |
|--|---|------------------------------------|--|-----------|---|
|  | <b>Year<br/>ended<br/>December<br/>31, 2007</b> | Year ended<br>December 31,<br>2006 |  |           | <b>Year ended<br/>December 31,<br/>2007</b> |

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|   |             |             |       |               |
|---|-------------|-------------|-------|---------------|
| Net sales   | ¥ 4,481,346 | ¥ 4,156,759 | + 7.8 | \$ 39,310,053 |
| Cost of sales                                     | 2,234,365   | 2,096,279   |       | 19,599,693    |
| Gross profit                                      | 2,246,981   | 2,060,480   | + 9.1 | 19,710,360    |
| Operating expenses:                               |             |             |       |               |
| Selling, general and administrative expenses      | 1,122,047   | 1,045,140   |       | 9,842,518     |
| Research and development expenses                 | 368,261     | 308,307     |       | 3,230,360     |
|   | 1,490,308   | 1,353,447   |       | 13,072,878    |
| Operating profit                                  | 756,673     | 707,033     | + 7.0 | 6,637,482     |
| Other income (deductions):                        |             |             |       |               |
| Interest and dividend income                      | 32,819      | 27,153      |       | 287,886       |
| Interest expense                                  | (1,471)     | (2,190)     |       | (12,904)      |
| Other, net  | (19,633)    | (12,853)    |       | (172,218)     |
|   | 11,715      | 12,110      |       | 102,764       |
| Income before income taxes and minority interests | 768,388     | 719,143     | + 6.8 | 6,740,246     |
| Income taxes                                      | 264,258     | 248,233     |       | 2,318,053     |
| Income before minority interests                  | 504,130     | 470,910     |       | 4,422,193     |
| Minority interests                                | 15,798      | 15,585      |       | 138,579       |
| Net income  | ¥ 488,332   | ¥ 455,325   | + 7.2 | \$ 4,283,614  |

Note: Comprehensive income for the year ended December 31, 2007 and 2006 was JPY520,284 million (U.S.\$4,563,895 thousand) and JPY501,883 million, respectively.

## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. DETAILS OF SALES**Results for the fourth quarter**

| Sales by product                     | Millions of yen                                  |   |       | Change(%)     | Thousands of<br>U.S. dollars                  |
|--------------------------------------|--|---|-------|---------------|---|
|                                      | Three<br>months<br>ended<br>December<br>31, 2007 | Three months<br>ended<br>December 31,<br>2006 |       |               | Three months<br>ended<br>December 31,<br>2007 |
| Business machines:                   |  |   |       |               |   |
| <i>Office imaging products</i>       | ¥ 352,645  | ¥ 330,505                                     | + 6.7 | \$ 3,093,377  |   |
| <i>Computer peripherals</i>          | 420,862  | 405,955                                       | + 3.7 | 3,691,772     |   |
| <i>Business information products</i> | 29,668   | 28,535  | + 4.0 | 260,246       |   |
|                                      | 803,175  | 764,995                                       | + 5.0 | 7,045,395     |   |
| Cameras                              | 365,102  | 346,439                                       | + 5.4 | 3,202,649     |   |
| Optical and other products           | 95,522   | 105,101                                       | - 9.1 | 837,912       |   |
| Total                                | ¥1,263,799                                       | ¥ 1,216,535                                   | + 3.9 | \$ 11,085,956 |   |

| Sales by region    | Millions of yen                                  |   |        | Change(%)     | Thousands of<br>U.S. dollars                  |
|--------------------|--|---|--------|---------------|---|
|                    | Three<br>months<br>ended<br>December<br>31, 2007 | Three months<br>ended<br>December 31,<br>2006 |        |               | Three months<br>ended<br>December 31,<br>2007 |
| Japan              | ¥ 270,620  | ¥ 266,741                                     | + 1.5  | \$ 2,373,860  |   |
| Overseas:          |  |   |        |               |   |
| <i>Americas</i>    | 380,414  | 389,362                                       | - 2.3  | 3,336,965     |   |
| <i>Europe</i>      | 437,989  | 405,600                                       | + 8.0  | 3,842,009     |   |
| <i>Other areas</i> | 174,776  | 154,832                                       | + 12.9 | 1,533,122     |   |
|                    | 993,179  | 949,794                                       | + 4.6  | 8,712,096     |   |
| Total              | ¥1,263,799                                       | ¥ 1,216,535                                   | + 3.9  | \$ 11,085,956 |   |

**Results for the fiscal year**

| Sales by product | Millions of yen                       |                                    |  | Change(%) | Thousands of<br>U.S. dollars       |
|------------------|---------------------------------------|------------------------------------|--|-----------|------------------------------------|
|                  | Year<br>ended<br>December<br>31, 2007 | Year ended<br>December 31,<br>2006 |  |           | Year ended<br>December 31,<br>2007 |

|                                      |                    |             |   |      |    |                   |
|--------------------------------------|--------------------|-------------|---|------|----|-------------------|
| Business machines:                   |                    |             |   |      |    |                   |
| <i>Office imaging products</i>       | ¥ <b>1,290,788</b> | ¥ 1,185,925 | + | 8.8  | \$ | <b>11,322,702</b> |
| <i>Computer peripherals</i>          | <b>1,537,511</b>   | 1,398,408   | + | 9.9  |    | <b>13,486,939</b> |
| <i>Business information products</i> | <b>107,243</b>     | 106,754     | + | 0.5  |    | <b>940,727</b>    |
|                                      | <b>2,935,542</b>   | 2,691,087   | + | 9.1  |    | <b>25,750,368</b> |
| Cameras                              | <b>1,152,663</b>   | 1,041,865   | + | 10.6 |    | <b>10,111,079</b> |
| Optical and other products           | <b>393,141</b>     | 423,807     | - | 7.2  |    | <b>3,448,606</b>  |
| Total                                | ¥ <b>4,481,346</b> | ¥ 4,156,759 | + | 7.8  | \$ | <b>39,310,053</b> |

| Sales by product   | Millions of yen              |                              |           | Thousands of U.S. dollars    |                      |
|--------------------|------------------------------|------------------------------|-----------|------------------------------|----------------------|
|                    | Year ended December 31, 2007 | Year ended December 31, 2006 | Change(%) | Year ended December 31, 2007 |                      |
| Japan              | ¥ <b>947,587</b>             | ¥ 932,290                    | +         | 1.6                          | \$ <b>8,312,167</b>  |
| Overseas:          |                              |                              |           |                              |                      |
| <i>Americas</i>    | <b>1,336,168</b>             | 1,283,646                    | +         | 4.1                          | <b>11,720,772</b>    |
| <i>Europe</i>      | <b>1,499,286</b>             | 1,314,305                    | +         | 14.1                         | <b>13,151,632</b>    |
| <i>Other areas</i> | <b>698,305</b>               | 626,518                      | +         | 11.5                         | <b>6,125,482</b>     |
|                    | <b>3,533,759</b>             | 3,224,469                    | +         | 9.6                          | <b>30,997,886</b>    |
| Total              | ¥ <b>4,481,346</b>           | ¥ 4,156,759                  | +         | 7.8                          | \$ <b>39,310,053</b> |

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 / etc.

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

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

Cameras : Digital SLR cameras / Compact digital cameras / Interchangeable lenses / Digital video camcorders / etc.

Optical and other products : Semiconductor production equipment / Mirror projection mask aligners for LCD panels /

Broadcasting equipment / Medical equipment / Large format printers / Components / etc.

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 PRODUCTResults for the fourth quarter

|                                   | Millions of yen   |   |           |    | Thousands of<br>U.S. dollars                            |
|-----------------------------------|---|---|-----------|----|---|
|                                   | <b>Three<br/>months<br/>ended<br/>December<br/>31, 2007</b> | Three months<br>ended<br>December 31,<br>2006 | Change(%) |    | <b>Three months<br/>ended<br/>December 31,<br/>2007</b> |
| <b>Business machines</b>          |   |   |           |    |   |
| Net sales:                        |   |   |           |    |   |
| Unaffiliated customers            | ¥ 803,175   | ¥ 764,995                                     | + 5.0     | \$ | 7,045,395   |
| Intersegment                      |   |   |           |    |   |
| Total                             | 803,175   | 764,995                                       | + 5.0     |    | 7,045,395   |
| Operating cost and expenses       | 640,756   | 599,430                                       | + 6.9     |    | 5,620,667   |
| Operating profit                  | 162,419   | 165,565                                       | - 1.9     |    | 1,424,728   |
| <b>Cameras</b>                    |   |   |           |    |   |
| Net sales:                        |   |   |           |    |   |
| Unaffiliated customers            | ¥ 365,102   | ¥ 346,439                                     | + 5.4     | \$ | 3,202,649   |
| Intersegment                      |   |   |           |    |   |
| Total                             | 365,102   | 346,439                                       | + 5.4     |    | 3,202,649   |
| Operating cost and expenses       | 271,835   | 253,827                                       | + 7.1     |    | 2,384,517   |
| Operating profit                  | 93,267  | 92,612  | + 0.7     |    | 818,132   |
| <b>Optical and other products</b> |   |   |           |    |   |
| Net sales:                        |   |   |           |    |   |
| Unaffiliated customers            | ¥ 95,522  | ¥ 105,101                                     | - 9.1     | \$ | 837,912   |
| Intersegment                      | 65,381  | 52,102  | + 25.5    |    | 573,518   |
| Total                             | 160,903   | 157,203                                       | + 2.4     |    | 1,411,430   |
| Operating cost and expenses       | 163,558   | 153,282                                       | + 6.7     |    | 1,434,719   |
| Operating profit (loss)           | (2,655)   | 3,921   |           |    | (23,289)  |



**Corporate and Eliminations**

Net sales:

|                             |          |          |  |           |
|-----------------------------|----------|----------|--|-----------|
| Unaffiliated customers      | ¥        | ¥        |  | \$        |
| Intersegment                | (65,381) | (52,102) |  | (573,518) |
| Total                       | (65,381) | (52,102) |  | (573,518) |
| Operating cost and expenses | (5,926)  | 14,126   |  | (51,982)  |
| Operating profit (loss)     | (59,455) | (66,228) |  | (521,536) |

**Consolidated**

Net sales:

|                             |             |             |   |     |               |
|-----------------------------|-------------|-------------|---|-----|---------------|
| Unaffiliated customers      | ¥ 1,263,799 | ¥ 1,216,535 | + | 3.9 | \$ 11,085,956 |
| Intersegment                |             |             |   |     |               |
| Total                       | 1,263,799   | 1,216,535   | + | 3.9 | 11,085,956    |
| Operating cost and expenses | 1,070,223   | 1,020,665   | + | 4.9 | 9,387,921     |
| Operating profit            | 193,576     | 195,870     | - | 1.2 | 1,698,035     |

Note: General corporate expenses of JPY59,318 million (U.S.\$520,333 thousand) and JPY66,324 million in the three months ended December 31, 2007 and 2006, respectively, are included in Corporate and Eliminations.

## CANON INC. AND SUBSIDIARIES

## CONSOLIDATED

**Results for the fiscal year**

Millions of yen

Thousands of  
U.S. dollars

|                                   | <b>Year<br/>ended<br/>December<br/>31, 2007</b> | Year ended<br>December 31,<br>2006 | Change(%) | <b>Year ended<br/>December 31,<br/>2007</b> |
|-----------------------------------|---|------------------------------------|-----------|---|
| <b>Business Machines</b>          |   |                                    |           |   |
| Net sales:                        |   |                                    |           |   |
| Unaffiliated customers            | ¥ <b>2,935,542</b>                              | ¥ 2,691,087                        | + 9.1     | \$ <b>25,750,368</b>                        |
| Intersegment                      |   |                                    |           |   |
| Total                             | <b>2,935,542</b>                                | 2,691,087                          | + 9.1     | <b>25,750,368</b>                           |
| Operating cost and expenses       | <b>2,285,281</b>                                | 2,091,858                          | + 9.2     | <b>20,046,324</b>                           |
| Operating profit                  | <b>650,261</b>                                  | 599,229                            | + 8.5     | <b>5,704,044</b>                            |
| Assets                            | <b>1,762,167</b>                                | 1,617,198                          | + 9.0     | <b>15,457,605</b>                           |
| Depreciation and amortization     | <b>159,309</b>                                  | 127,873                            | + 24.6    | <b>1,397,447</b>                            |
| Capital expenditure               | <b>166,143</b>                                  | 154,259                            | + 7.7     | <b>1,457,395</b>                            |
| <b>Cameras</b>                    |   |                                    |           |   |
| Net sales:                        |   |                                    |           |   |
| Unaffiliated customers            | ¥ <b>1,152,663</b>                              | ¥ 1,041,865                        | + 10.6    | \$ <b>10,111,079</b>                        |
| Intersegment                      |   |                                    |           |   |
| Total                             | <b>1,152,663</b>                                | 1,041,865                          | + 10.6    | <b>10,111,079</b>                           |
| Operating cost and expenses       | <b>845,237</b>                                  | 773,127                            | + 9.3     | <b>7,414,360</b>                            |
| Operating profit                  | <b>307,426</b>                                  | 268,738                            | + 14.4    | <b>2,696,719</b>                            |
| Assets                            | <b>561,504</b>                                  | 542,866                            | + 3.4     | <b>4,925,474</b>                            |
| Depreciation and amortization     | <b>37,180</b>                                   | 28,756                             | + 29.3    | <b>326,140</b>                              |
| Capital expenditure               | <b>32,870</b>                                   | 31,517                             | + 4.3     | <b>288,333</b>                              |
| <b>Optical and Other Products</b> |   |                                    |           |   |
| Net sales:                        |   |                                    |           |   |
| Unaffiliated customers            | ¥ <b>393,141</b>                                | ¥ 423,807                          | - 7.2     | \$ <b>3,448,606</b>                         |
| Intersegment                      | <b>238,659</b>                                  | 190,687                            | + 25.2    | <b>2,093,499</b>                            |
| Total                             | <b>631,800</b>                                  | 614,494                            | + 2.8     | <b>5,542,105</b>                            |

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|                                   |                    |             |   |       |                      |
|-----------------------------------|--------------------|-------------|---|-------|----------------------|
| Operating cost and expenses       | <b>610,720</b>     | 573,019     | + | 6.6   | <b>5,357,193</b>     |
| Operating profit                  | <b>21,080</b>      | 41,475      | - | 49.2  | <b>184,912</b>       |
| Assets                            | <b>544,734</b>     | 501,008     | + | 8.7   | <b>4,778,368</b>     |
| Depreciation and amortization     | <b>69,843</b>      | 37,018      | + | 88.7  | <b>612,658</b>       |
| Capital expenditure               | <b>78,449</b>      | 36,272      | + | 116.3 | <b>688,149</b>       |
| <b>Corporate and Eliminations</b> |                    |             |   |       |                      |
| Net sales:                        |                    |             |   |       |                      |
| Unaffiliated customers            | ¥                  | ¥           |   |       | \$                   |
| Intersegment                      | <b>(238,659)</b>   | (190,687)   |   |       | <b>(2,093,499)</b>   |
| Total                             | <b>(238,659)</b>   | (190,687)   |   |       | <b>(2,093,499)</b>   |
| Operating cost and expenses       | <b>(16,565)</b>    | 11,722      |   |       | <b>(145,306)</b>     |
| Operating profit (loss)           | <b>(222,094)</b>   | (202,409)   |   |       | <b>(1,948,193)</b>   |
| Assets                            | <b>1,644,220</b>   | 1,860,843   | - | 11.6  | <b>14,422,983</b>    |
| Depreciation and amortization     | <b>75,362</b>      | 68,647      | + | 9.8   | <b>661,071</b>       |
| Capital expenditure               | <b>151,087</b>     | 157,609     | - | 4.1   | <b>1,325,325</b>     |
| <b>Consolidated</b>               |                    |             |   |       |                      |
| Net sales:                        |                    |             |   |       |                      |
| Unaffiliated customers            | ¥ <b>4,481,346</b> | ¥ 4,156,759 | + | 7.8   | \$ <b>39,310,053</b> |
| Intersegment                      |                    |             |   |       |                      |
| Total                             | <b>4,481,346</b>   | 4,156,759   | + | 7.8   | <b>39,310,053</b>    |
| Operating cost and expenses       | <b>3,724,673</b>   | 3,449,726   | + | 8.0   | <b>32,672,571</b>    |
| Operating profit                  | <b>756,673</b>     | 707,033     | + | 7.0   | <b>6,637,482</b>     |
| Assets                            | <b>4,512,625</b>   | 4,521,915   | - | 0.2   | <b>39,584,430</b>    |
| Depreciation and amortization     | <b>341,694</b>     | 262,294     | + | 30.3  | <b>2,997,316</b>     |
| Capital expenditure               | <b>428,549</b>     | 379,657     | + | 12.9  | <b>3,759,202</b>     |

Notes: 1. General corporate expenses of JPY221,979 million (U.S.\$1,947,184 thousand) and JPY202,328 million in the years ended December 31, 2007 and 2006, respectively, are included in Corporate

and Eliminations.  
2. Corporate assets of JPY1,644,220 million (U.S.\$14,422,983 thousand) and JPY1,860,933 million as of December 31, 2007 and 2006, respectively, which mainly consist of cash and cash equivalents, time deposits, marketable securities, investments and corporate properties, are included in Corporate and Eliminations.

## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. SEGMENT INFORMATION BY GEOGRAPHIC AREA**Results for the fiscal year**

Millions of yen

Thousands of  
U.S. dollars  
**Year ended  
December 31,  
2007**

|                             | <b>Year ended<br/>December<br/>31, 2007</b> | <b>Year ended<br/>December 31,<br/>2006</b> | <b>Change(%)</b> |                      |
|-----------------------------|---|---|------------------|----------------------|
| <b>Japan</b>                |   |   |                  |                      |
| Net sales:                  |   |   |                  |                      |
| Unaffiliated customers      | ¥ <b>1,048,310</b>                          | ¥ 1,037,657                                 | + 1.0            | \$ <b>9,195,702</b>  |
| Intersegment                | <b>2,494,251</b>                            | 2,311,482                                   | + 7.9            | <b>21,879,394</b>    |
| Total                       | <b>3,542,561</b>                            | 3,349,139                                   | + 5.8            | <b>31,075,096</b>    |
| Operating cost and expenses | <b>2,722,672</b>                            | 2,558,685                                   | + 6.4            | <b>23,883,087</b>    |
| Operating profit            | <b>819,889</b>                              | 790,454                                     | + 3.7            | <b>7,192,009</b>     |
| Assets                      | <b>2,715,294</b>                            | 2,644,116                                   | + 2.7            | <b>23,818,368</b>    |
| <b>Americas</b>             |   |   |                  |                      |
| Net sales:                  |   |   |                  |                      |
| Unaffiliated customers      | ¥ <b>1,329,479</b>                          | ¥ 1,277,867                                 | + 4.0            | \$ <b>11,662,096</b> |
| Intersegment                | <b>4,608</b>                                | 4,764                                       | - 3.3            | <b>40,422</b>        |
| Total                       | <b>1,334,087</b>                            | 1,282,631                                   | + 4.0            | <b>11,702,518</b>    |
| Operating cost and expenses | <b>1,281,805</b>                            | 1,236,138                                   | + 3.7            | <b>11,243,904</b>    |
| Operating profit            | <b>52,282</b>                               | 46,493                                      | + 12.5           | <b>458,614</b>       |
| Assets                      | <b>506,295</b>                              | 432,001                                     | + 17.2           | <b>4,441,184</b>     |
| <b>Europe</b>               |   |   |                  |                      |
| Net sales:                  |   |   |                  |                      |
| Unaffiliated customers      | ¥ <b>1,499,821</b>                          | ¥ 1,313,919                                 | + 14.1           | \$ <b>13,156,325</b> |
| Intersegment                | <b>3,496</b>                                | 3,586                                       | - 2.5            | <b>30,666</b>        |
| Total                       | <b>1,503,317</b>                            | 1,317,505                                   | + 14.1           | <b>13,186,991</b>    |
| Operating cost and expenses | <b>1,441,972</b>                            | 1,272,463                                   | + 13.3           | <b>12,648,877</b>    |
| Operating profit            | <b>61,345</b>                               | 45,042                                      | + 36.2           | <b>538,114</b>       |

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|                                   |                    |             |   |      |                      |
|-----------------------------------|--------------------|-------------|---|------|----------------------|
| Assets                            | <b>732,579</b>     | 682,381     | + | 7.4  | <b>6,426,132</b>     |
| <b>Others</b>                     |                    |             |   |      |                      |
| Net sales:                        |                    |             |   |      |                      |
| Unaffiliated customers            | ¥ <b>603,736</b>   | ¥ 527,316   | + | 14.5 | \$ <b>5,295,930</b>  |
| Intersegment                      | <b>824,844</b>     | 792,018     | + | 4.1  | <b>7,235,474</b>     |
| Total                             | <b>1,428,580</b>   | 1,319,334   | + | 8.3  | <b>12,531,404</b>    |
| Operating cost and expenses       | <b>1,378,306</b>   | 1,275,817   | + | 8.0  | <b>12,090,404</b>    |
| Operating profit                  | <b>50,274</b>      | 43,517      | + | 15.5 | <b>441,000</b>       |
| Assets                            | <b>367,234</b>     | 339,314     | + | 8.2  | <b>3,221,351</b>     |
| <b>Corporate and Eliminations</b> |                    |             |   |      |                      |
| Net sales:                        |                    |             |   |      |                      |
| Unaffiliated customers            | ¥                  | ¥           |   |      | \$                   |
| Intersegment                      | <b>(3,327,199)</b> | (3,111,850) |   |      | <b>(29,185,956)</b>  |
| Total                             | <b>(3,327,199)</b> | (3,111,850) |   |      | <b>(29,185,956)</b>  |
| Operating cost and expenses       | <b>(3,100,082)</b> | (2,893,377) |   |      | <b>(27,193,701)</b>  |
| Operating profit (loss)           | <b>(227,117)</b>   | (218,473)   |   |      | <b>(1,992,255)</b>   |
| Assets                            | <b>191,223</b>     | 424,103     | - | 54.9 | <b>1,677,395</b>     |
| <b>Consolidated</b>               |                    |             |   |      |                      |
| Net sales:                        |                    |             |   |      |                      |
| Unaffiliated customers            | ¥ <b>4,481,346</b> | ¥ 4,156,759 | + | 7.8  | \$ <b>39,310,053</b> |
| Intersegment                      |                    |             |   |      |                      |
| Total                             | <b>4,481,346</b>   | 4,156,759   | + | 7.8  | <b>39,310,053</b>    |
| Operating cost and expenses       | <b>3,724,673</b>   | 3,449,726   | + | 8.0  | <b>32,672,571</b>    |
| Operating profit                  | <b>756,673</b>     | 707,033     | + | 7.0  | <b>6,637,482</b>     |
| Assets                            | <b>4,512,625</b>   | 4,521,915   | - | 0.2  | <b>39,584,430</b>    |

Notes: 1. General corporate expenses of JPY221,979 million (U.S.\$1,947,184 thousand) and JPY202,328 million in the years ended

December 31, 2007  
and 2006,  
respectively, are  
included in Corporate  
and Eliminations.

2. Corporate assets of  
JPY1,644,220 million  
(U.S.\$14,422,983  
thousand) and  
JPY1,860,933 million  
as of December 31,  
2007 and 2006,  
respectively, which  
mainly consist of cash  
and cash equivalents,  
time deposits,  
marketable securities,  
investments and  
corporate properties,  
are included in  
Corporate and  
Eliminations.

## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED BALANCE SHEETS

|   | Millions of yen                  |                                  |             | Thousands of<br>U.S. dollars     |
|---|----------------------------------|----------------------------------|-------------|----------------------------------|
|   | As of<br>December<br>31,<br>2007 | As of<br>December<br>31,<br>2006 | Change      | As of<br>December<br>31,<br>2007 |
| <b>ASSETS</b>   |                                  |                                  |             |                                  |
| Current assets:   |                                  |                                  |             |                                  |
| Cash and cash equivalents                                 | ¥ 944,463                        | ¥ 1,155,626                      | ¥ (211,163) | \$ 8,284,763                     |
| Time deposits   | 10,333                           | 41,953                           | (31,620)    | 90,640                           |
| Marketable securities                                     | 10,166                           | 10,445                           | (279)       | 89,175                           |
| Trade receivables, net                                    | 794,240                          | 761,947                          | 32,293      | 6,967,018                        |
| Inventories   | 563,474                          | 539,057                          | 24,417      | 4,942,754                        |
| Prepaid expenses and other current assets                 | 286,111                          | 273,321                          | 12,790      | 2,509,746                        |
| <br>  |                                  |                                  |             |                                  |
| Total current assets                                      | 2,608,787                        | 2,782,349                        | (173,562)   | 22,884,096                       |
| Noncurrent receivables                                    | 15,239                           | 14,335                           | 904         | 133,675                          |
| Investments   | 90,086                           | 110,418                          | (20,332)    | 790,228                          |
| Property, plant and equipment, net                        | 1,364,702                        | 1,266,425                        | 98,277      | 11,971,070                       |
| Other assets  | 433,811                          | 348,388                          | 85,423      | 3,805,361                        |
| <br>  |                                  |                                  |             |                                  |
| Total assets  | ¥4,512,625                       | ¥ 4,521,915                      | ¥ (9,290)   | \$ 39,584,430                    |
| <br>  |                                  |                                  |             |                                  |
| <b>LIABILITIES AND STOCKHOLDERS<br/>EQUITY</b>            |                                  |                                  |             |                                  |
| Current liabilities:                                      |                                  |                                  |             |                                  |
| Short-term loans and current portion of<br>long-term debt | ¥ 18,317                         | ¥ 15,362                         | ¥ 2,955     | \$ 160,675                       |
| Trade payables  | 514,226                          | 493,058                          | 21,168      | 4,510,754                        |
| Income taxes  | 150,726                          | 133,745                          | 16,981      | 1,322,158                        |
| Accrued expenses  | 357,525                          | 303,353                          | 54,172      | 3,136,184                        |
| Other current liabilities                                 | 215,911                          | 217,789                          | (1,878)     | 1,893,957                        |
| <br>  |                                  |                                  |             |                                  |
| Total current liabilities                                 | 1,256,705                        | 1,163,307                        | 93,398      | 11,023,728                       |
| Long-term debt, excluding current<br>installments         | 8,680                            | 15,789                           | (7,109)     | 76,140                           |
| Accrued pension and severance cost                        | 44,710                           | 83,876                           | (39,166)    | 392,193                          |
| Other noncurrent liabilities                              | 57,324                           | 55,536                           | 1,788       | 502,843                          |



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|   |                   |             |           |                      |
|---|-------------------|-------------|-----------|----------------------|
| Total liabilities                             | <b>1,367,419</b>  | 1,318,508   | 48,911    | <b>11,994,904</b>    |
| Minority interests                            | <b>222,870</b>    | 216,801     | 6,069     | <b>1,955,000</b>     |
| Stockholders' equity:                         |                   |             |           |                      |
| Common stock                                  | <b>174,698</b>    | 174,603     | 95        | <b>1,532,439</b>     |
| Additional paid-in capital                    | <b>402,991</b>    | 403,510     | (519)     | <b>3,535,009</b>     |
| Legal reserve                                 | <b>46,017</b>     | 43,600      | 2,417     | <b>403,658</b>       |
| Retained earnings                             | <b>2,720,146</b>  | 2,368,047   | 352,099   | <b>23,860,930</b>    |
| Accumulated other comprehensive income (loss) | <b>34,670</b>     | 2,718       | 31,952    | <b>304,123</b>       |
| Treasury stock                                | <b>(456,186)</b>  | (5,872)     | (450,314) | <b>(4,001,633)</b>   |
| Total stockholders' equity                    | <b>2,922,336</b>  | 2,986,606   | (64,270)  | <b>25,634,526</b>    |
| Total liabilities and stockholders' equity    | <b>¥4,512,625</b> | ¥ 4,521,915 | ¥ (9,290) | <b>\$ 39,584,430</b> |

|  | Millions of yen         |                         | Thousands of U.S. dollars |
|--|-------------------------|-------------------------|---------------------------|
|  | As of December 31, 2007 | As of December 31, 2006 | As of December 31, 2007   |
| Allowance for doubtful receivables             | ¥ <b>14,547</b>         | ¥ 13,849                | \$ <b>127,605</b>         |
| Accumulated depreciation                       | <b>1,594,374</b>        | 1,382,944               | <b>13,985,737</b>         |
| Accumulated other comprehensive income (loss): |                         |                         |                           |
| Foreign currency translation adjustments       | <b>22,796</b>           | 22,858                  | <b>199,965</b>            |
| Net unrealized gains and losses on securities  | <b>6,287</b>            | 8,065                   | <b>55,149</b>             |
| Net gains and losses on derivative instruments | <b>(849)</b>            | (1,663)                 | <b>(7,447)</b>            |
| Pension liability adjustments                  | <b>6,436</b>            | (26,542)                | <b>56,456</b>             |

## CANON INC. AND SUBSIDIARIES

## CONSOLIDATED

6. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | Common<br>Stock | Additional<br>paid-in<br>capital | Legal<br>reserve | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Treasury<br>stock | Million<br>To<br>stockh<br>equ |
|---|-----------------|----------------------------------|------------------|----------------------|---|-------------------|--------------------------------|
| at December 31, 2005                        | ¥ 174,438       | ¥ 403,246                        | ¥ 42,331         | ¥ 2,018,289          | ¥ (28,212)  | ¥ (5,410)         | ¥ 2,60                         |
| tion of convertible debt and other          | 165             | 264                              |                  |                      |   |                   |                                |
| dividends                                   |                 |                                  |                  | (104,298)            |   |                   | (10                            |
| ns to legal reserve                         |                 |                                  | 1,269            | (1,269)              |   |                   |                                |
| prehensive income:                          |                 |                                  |                  |                      |   |                   |                                |
| me  |                 |                                  |                  | 455,325              |   |                   | 45                             |
| prehensive income (loss), net of tax        |                 |                                  |                  |                      |   |                   |                                |
| currency translation adjustments            |                 |                                  |                  |                      | 48,630  |                   | 4                              |
| alized gains and losses on securities       |                 |                                  |                  |                      | 1,992   |                   |                                |
| s and losses on derivative instruments      |                 |                                  |                  |                      | (489)   |                   |                                |
| n pension liability adjustments             |                 |                                  |                  |                      | (3,575)   |                   |                                |
| prehensive income                           |                 |                                  |                  |                      |   |                   | 50                             |
| ent to initially apply SFAS 158, net of tax |                 |                                  |                  |                      | (15,628)  |                   | (1                             |
| ase of treasury stock, net                  |                 |                                  |                  |                      |   | (462)             |                                |
| at December 31, 2006                        | ¥ 174,603       | ¥ 403,510                        | ¥ 43,600         | ¥ 2,368,047          | ¥ 2,718   | ¥ (5,872)         | ¥ 2,98                         |
| ative effect of a change in accounting      |                 |                                  |                  |                      |   |                   |                                |
| e - adoption of EITF 06-2, net of tax       |                 |                                  |                  | (2,204)              |   |                   |                                |
| ion of convertible debt and other           | 95              | (522)                            |                  |                      |   |                   |                                |
| dividends                                   |                 |                                  |                  | (131,612)            |   |                   | (13                            |
| rs to legal reserve                         |                 |                                  | 2,417            | (2,417)              |   |                   |                                |
| prehensive income:                          |                 |                                  |                  |                      |   |                   |                                |
| me  |                 |                                  |                  | 488,332              |   |                   | 48                             |
| prehensive income (loss), net of tax        |                 |                                  |                  |                      |   |                   |                                |
| currency translation adjustments            |                 |                                  |                  |                      | (62)  |                   |                                |
| alized gains and losses on securities       |                 |                                  |                  |                      | (1,778)   |                   |                                |
| s and losses on derivative instruments      |                 |                                  |                  |                      | 814   |                   |                                |
| liability adjustments                       |                 |                                  |                  |                      | 32,978  |                   | 3                              |
| prehensive income                           |                 |                                  |                  |                      |   |                   | 52                             |
| ase of treasury stock, net                  |                 | 3                                |                  |                      |   | (450,314)         | (45                            |

|   |    |           |    |           |    |         |    |             |    |          |           |             |                   |       |
|---|----|-----------|----|-----------|----|---------|----|-------------|----|----------|-----------|-------------|-------------------|-------|
| at December 31, 2007                    | ¥  | 174,698   | ¥  | 402,991   | ¥  | 46,017  | ¥  | 2,720,146   | ¥  | 34,670   | (456,186) | ¥           | 2,92              |       |
|   |    |           |    |           |    |         |    |             |    |          |           |             |                   |       |
|   |    |           |    |           |    |         |    |             |    |          |           |             | Thousands of U.S. |       |
| at December 31, 2006                    | \$ | 1,531,606 | \$ | 3,539,561 | \$ | 382,456 | \$ | 20,772,342  | \$ | 23,842   | \$        | (51,510)    | \$                | 26,19 |
| ative effect of a change in accounting  |    |           |    |           |    |         |    |             |    |          |           |             |                   |       |
| e - adoption of EITF 06-2, net of tax   |    |           |    |           |    |         |    | (19,333)    |    |          |           |             |                   | (1    |
| ion of convertible debt and other       |    | 833       |    | (4,579)   |    |         |    |             |    |          |           |             |                   | 0     |
| idends                                  |    |           |    |           |    |         |    | (1,154,491) |    |          |           |             |                   | (1,15 |
| rs to legal reserve                     |    |           |    |           |    | 21,202  |    | (21,202)    |    |          |           |             |                   |       |
| hensive income:                         |    |           |    |           |    |         |    |             |    |          |           |             |                   |       |
| me                                      |    |           |    |           |    |         |    | 4,283,614   |    |          |           |             |                   | 4,28  |
| omprehensive income (loss), net of tax  |    |           |    |           |    |         |    |             |    |          |           |             |                   |       |
| currency translation adjustments        |    |           |    |           |    |         |    |             |    | (544)    |           |             |                   |       |
| realized gains and losses on securities |    |           |    |           |    |         |    |             |    | (15,596) |           |             |                   | (1    |
| s and losses on derivative instruments  |    |           |    |           |    |         |    |             |    | 7,140    |           |             |                   |       |
| liability adjustments                   |    |           |    |           |    |         |    |             |    | 289,281  |           |             |                   | 28    |
| prehensive income                       |    |           |    |           |    |         |    |             |    |          |           |             |                   | 4,56  |
| ase of treasury stock, net              |    |           |    |           |    | 27      |    |             |    |          |           | (3,950,123) |                   | (3,95 |
| at December 31, 2007                    | \$ | 1,532,439 | \$ | 3,535,009 | \$ | 403,658 | \$ | 23,860,930  | \$ | 304,123  | \$        | (4,001,633) | \$                | 25,63 |

## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Millions of yen                       |                                    | Thousands of<br>U.S. dollars       |
|--|---------------------------------------|------------------------------------|------------------------------------|
|  | Year<br>ended<br>December<br>31, 2007 | Year ended<br>December 31,<br>2006 | Year ended<br>December 31,<br>2007 |
| Cash flows from operating activities:  |                                       |                                    |                                    |
| Net income   | ¥ 488,332                             | ¥ 455,325                          | \$ 4,283,614                       |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |                                       |                                    |                                    |
| Depreciation and amortization  | 341,694                               | 262,294                            | 2,997,316                          |
| Loss on disposal of property, plant and equipment                                    | 9,985                                 | 16,182                             | 87,588                             |
| Deferred income taxes  | (35,021)                              | (6,945)                            | (307,202)                          |
| Increase in trade receivables  | (10,722)                              | (40,969)                           | (94,053)                           |
| Increase in inventories  | (26,643)                              | (5,542)                            | (233,711)                          |
| Increase (decrease) in trade payables  | 21,136                                | (2,313)                            | 185,404                            |
| Increase in accrued income taxes   | 14,988                                | 22,657                             | 131,474                            |
| Increase in accrued expenses   | 43,035                                | 36,165                             | 377,500                            |
| Decrease in accrued pension and severance cost                                       | (15,387)                              | (20,309)                           | (134,974)                          |
| Other, net   | 7,872                                 | (21,304)                           | 69,053                             |
| Net cash provided by operating activities  | 839,269                               | 695,241                            | 7,362,009                          |
| Cash flows from investing activities:  |                                       |                                    |                                    |
| Purchases of fixed assets  | (474,285)                             | (424,862)                          | (4,160,395)                        |
| Proceeds from sale of fixed assets   | 9,635                                 | 12,507                             | 84,518                             |
| Purchases of available-for-sale securities   | (2,281)                               | (7,768)                            | (20,009)                           |
| Proceeds from sale and maturity of available-for-sale<br>securities                  | 8,614                                 | 4,047                              | 75,561                             |
| Proceeds from maturity of held-to-maturity<br>securities                             | 10,000                                |                                    | 87,719                             |
| Decrease (increase) in time deposits   | 31,681                                | (35,863)                           | 277,904                            |
| Acquisitions of subsidiaries, net of cash acquired                                   | (15,675)                              | (2,485)                            | (137,500)                          |
| Purchases of other investments   | (2,432)                               | (8,911)                            | (21,333)                           |
| Other, net   | 2,258                                 | 2,530                              | 19,807                             |
| Net cash used in investing activities  | (432,485)                             | (460,805)                          | (3,793,728)                        |
| Cash flows from financing activities:  |                                       |                                    |                                    |
| Proceeds from issuance of long-term debt   | 2,635                                 | 1,053                              | 23,114                             |
| Repayments of long-term debt   | (13,046)                              | (5,861)                            | (114,439)                          |
| Decrease in short-term loans   | (358)                                 | (828)                              | (3,140)                            |
| Dividends paid   | (131,612)                             | (104,298)                          | (1,154,491)                        |
| Purchases of treasury stock, net   | (450,311)                             | (462)                              | (3,950,096)                        |
| Other, net   | (11,691)                              | 2,909                              | (102,553)                          |

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|  |                  |             |                     |
|--|------------------|-------------|---------------------|
| Net cash used in financing activities                        | <b>(604,383)</b> | (107,487)   | <b>(5,301,605)</b>  |
| Effect of exchange rate changes on cash and cash equivalents | <b>(13,564)</b>  | 23,724      | <b>(118,983)</b>    |
| Net change in cash and cash equivalents                      | <b>(211,163)</b> | 150,673     | <b>(1,852,307)</b>  |
| Cash and cash equivalents at beginning of period             | <b>1,155,626</b> | 1,004,953   | <b>10,137,070</b>   |
| Cash and cash equivalents at end of period                   | <b>¥ 944,463</b> | ¥ 1,155,626 | <b>\$ 8,284,763</b> |

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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, 2007 | December 31, 2006 | Change |
|--------------|-------------------|-------------------|--------|
| Subsidiaries | 239               | 219               | 20     |
| Affiliates   | 15                | 14                | 1      |
| Total        | 254               | 233               | 21     |

## 2. Change in Group of Entities

| Subsidiaries |              | Affiliates (Carried at Equity Basis) |             |
|--------------|--------------|--------------------------------------|-------------|
| Addition:    | 25 Companies | Addition:                            | 6 Companies |
| Removal:     | 5 Companies  | Removal:                             | 5 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.

The disclosure is omitted for other than listed below, since no significant change has occurred since the date of the annual financial statements.

Change of Depreciation Method

On April 1, 2007, the Company and its domestic subsidiaries elected to change the declining balance method of depreciating machinery and equipment from the fixed-percentage-on-declining base application to the 250% declining balance application. Estimated salvage values were also reduced in conjunction with this change. The change in depreciation methods caused an increase in depreciation expense of JPY63,773 million (U.S.\$559,412 thousand) for the fiscal year ended December 31, 2007.

New Accounting Standards

In June, 2006, the FASB ratified the EITF consensus on EITF Issue No.06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No.43 ( EITF06-2 ). EITF06-2 was adopted by Canon on January 1, 2007 through a cumulative-effect adjustment which increased accrued expenses by JPY4,402 million (U.S.\$38,614 thousand) and decreased retained earnings by JPY2,204 million (U.S.\$19,333 thousand).

## 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<br>of<br>U.S. dollars       |
|-----------------------------|------------------------------------|------------------------------------|---------------------------------------|
|                             | Year ended<br>December 31,<br>2007 | Year ended<br>December 31,<br>2006 | Year ended<br>December<br>31,<br>2007 |
| Net income                  |                                    |                                    |                                       |
| -Basic                      | ¥ 488,332                          | ¥ 455,325                          | \$ 4,283,614                          |
| -Diluted                    | 488,336                            | 455,333                            | 4,283,649                             |

|                                      | Number of shares |               |
|--------------------------------------|------------------|---------------|
| Average common shares<br>outstanding |                  |               |
| -Basic                               | 1,293,295,680    | 1,331,542,074 |
| -Diluted                             | 1,293,517,431    | 1,332,016,870 |

|                       | Yen      |          | U.S. dollars |
|-----------------------|----------|----------|--------------|
| Net income per share: |          |          |              |
| -Basic                | ¥ 377.59 | ¥ 341.95 | \$ 3.31      |
| -Diluted              | 377.53   | 341.84   | 3.31         |

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

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

(3) SUBSEQUENT EVENT

There is no significant subsequent event.

CANON INC.

NON-CONSOLIDATED

10. NON-CONSOLIDATED STATEMENTS OF INCOME

( Parent company only )

|  | Millions of yen                          |                                       |           |
|--|--|---------------------------------------|-----------|
|  | Year<br>ended<br>December<br>31,<br>2007 | Year ended<br>December<br>31,<br>2006 | Change(%) |
| Net sales                                    | ¥ 2,887,912                              | ¥ 2,729,657                           | + 5.8     |
| Cost of sales                                | 1,793,613                                | 1,703,615                             |           |
| Gross profit                                 | 1,094,299                                | 1,026,042                             | + 6.7     |
| Selling, general and administrative expenses | 560,458                                  | 514,885                               |           |
| Operating profit                             | 533,841                                  | 511,157                               | + 4.4     |
| Other income (deductions):                   |  |                                       |           |
| Interest and dividend income                 | 18,870                                   | 16,868                                |           |
| Interest expense                             | (1,285)                                  | (134)                                 |           |
| Other, net                                   | 1,417                                    | (3,895)                               |           |
|  | 19,002                                   | 12,839                                |           |
| Ordinary profit                              | 552,843                                  | 523,996                               | + 5.5     |
| Non-ordinary gain(loss), net                 | (3,470)                                  | (14,516)                              |           |
| Income before income taxes                   | 549,373                                  | 509,480                               |           |
| Income taxes                                 | 182,400                                  | 171,960                               |           |
| Net income                                   | ¥ 366,973                                | ¥ 337,520                             | + 8.7     |

11. DETAILS OF SALES

( Parent company only )

**Sales by product**

|                                | Millions of yen                          |                                       |           |
|--------------------------------|--|---------------------------------------|-----------|
|                                | Year<br>ended<br>December<br>31,<br>2007 | Year ended<br>December<br>31,<br>2006 | Change(%) |
| Business machines:             |  |                                       |           |
| <i>Office Imaging Products</i> | ¥ 540,926                                | ¥ 522,024                             | + 3.6     |
| <i>Computer peripherals</i>    | 1,331,983                                | 1,242,807                             | + 7.2     |
|                                | 1,872,909                                | 1,764,831                             | + 6.1     |



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|                            |                   |             |        |
|----------------------------|-------------------|-------------|--------|
| Cameras                    | <b>851,522</b>    | 760,081     | + 12.0 |
| Optical and other products | <b>163,481</b>    | 204,745     | - 20.2 |
| Total                      | <b>¥2,887,912</b> | ¥ 2,729,657 | + 5.8  |

**Sales by region**

Millions of yen

|                    | <b>Year ended<br/>December<br/>31,<br/>2007</b> | Year ended<br>December<br>31,<br>2006 | Change(%) |
|--------------------|---|---------------------------------------|-----------|
| Japan              | ¥ <b>379,055</b>                                | ¥ 392,855                             | - 3.5     |
| Overseas:          |   |                                       |           |
| <i>Americas</i>    | <b>989,139</b>                                  | 965,502                               | + 2.4     |
| <i>Europe</i>      | <b>1,029,922</b>                                | 929,330                               | + 10.8    |
| <i>Other areas</i> | <b>489,796</b>                                  | 441,970                               | + 10.8    |
|                    | <b>2,508,857</b>                                | 2,336,802                             | + 7.4     |
| Total              | <b>¥2,887,912</b>                               | ¥ 2,729,657                           | + 5.8     |

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CANON INC.

NON-CONSOLIDATED

## 12. NON-CONSOLIDATED BALANCE SHEETS

( Parent company only )

|   | As of<br>December<br>31,<br>2007 | Millions of yen<br>As of<br>December 31,<br>2006 | Change             |
|---|----------------------------------|--|--------------------|
| <b>ASSETS</b>                                 |                                  |  |                    |
| Current assets:                               |                                  |  |                    |
| Cash  | ¥ 5,676                          | ¥ 324,053  | ¥ (318,377)        |
| Trade receivables                             | 838,322                          | 917,518  | (79,196)           |
| Marketable securities                         | 75,920                           |  | 75,920             |
| Inventories                                   | 226,950                          | 205,993  | 20,957             |
| Prepaid expenses and other current assets     | 209,650                          | 174,739  | 34,911             |
| Allowance for doubtful receivables            | (8)                              | (22)   | 14                 |
| <b>Total current assets</b>                   | <b>1,356,510</b>                 | <b>1,622,281</b>                                 | <b>(265,771)</b>   |
| Fixed assets:                                 |                                  |  |                    |
| Net property, plant and equipment             | 912,986                          | 818,094  | 94,892             |
| Intangibles                                   | 42,497                           | 34,480   | 8,017              |
| Investments and other fixed assets            | 478,960                          | 463,313  | 15,647             |
| Allowance for doubtful receivables-noncurrent | (61)                             | (96)   | 35                 |
| <b>Total fixed assets</b>                     | <b>1,434,382</b>                 | <b>1,315,791</b>                                 | <b>118,591</b>     |
| <b>Total assets</b>                           | <b>¥2,790,892</b>                | <b>¥ 2,938,072</b>                               | <b>¥ (147,180)</b> |
| <b>LIABILITIES AND NET ASSETS</b>             |                                  |  |                    |
| Current liabilities:                          |                                  |  |                    |
| Trade payables                                | ¥ 421,884                        | ¥ 409,019  | ¥ 12,865           |
| Short-term loans                              | 94,465                           | 36,452   | 58,013             |
| Accrued income taxes                          | 115,668                          | 103,871  | 11,797             |
| Accrued warranty expenses                     | 4,705                            | 3,171  | 1,534              |
| Accrued bonuses for employees                 | 5,194                            | 5,656  | (462)              |
| Accrued bonuses for directors                 | 360                              | 295  | 65                 |
| Other current liabilities                     | 212,366                          | 212,157  | 209                |
| <b>Total current liabilities</b>              | <b>854,642</b>                   | <b>770,621</b>                                   | <b>84,021</b>      |
| Noncurrent liabilities:                       |                                  |  |                    |
| Convertible debenture                         | 128                              | 318  | (190)              |
| Accrued pension and severance cost            | 41,713                           | 52,376   | (10,663)           |
| Accrued directors' retirement benefits        | 1,368                            | 1,209  | 159                |
| Reserve for environmental provision           | 2,475                            | 4,265  | (1,790)            |

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|   |                   |             |            |
|---|-------------------|-------------|------------|
| Total noncurrent liabilities              | <b>45,684</b>     | 58,168      | (12,484)   |
| Total liabilities                         | <b>900,326</b>    | 828,789     | 71,537     |
| Net assets:                               |                   |             |            |
| Stockholders' equity                      | <b>1,886,784</b>  | 2,101,545   | (214,761)  |
| Difference of appreciation and conversion | <b>3,782</b>      | 7,738       | (3,956)    |
| Total net assets                          | <b>1,890,566</b>  | 2,109,283   | (218,717)  |
| Total liabilities and net assets          | <b>¥2,790,892</b> | ¥ 2,938,072 | ¥(147,180) |

|  | <b>As of<br/>December<br/>31, 2007</b> | As of<br>December 31,<br>2006 |
|--|--|-------------------------------|
| 1,Accumulated depreciation   | ¥ <b>848,039</b>                       | ¥ 741,115                     |
| Accumulated impairment loss  | ¥ <b>993</b>                           | ¥ 494                         |
| 2,Cautiounary obligation and other   |  |                               |
| Cautiounary obligation contract  | ¥ <b>22,721</b>                        | ¥ 25,986                      |
| 3,Issuance of new stock capitalised those due to<br>conversion of convertible bond | ¥ <b>190</b>                           | ¥ 330                         |
| (Those capitalised)  | <b>(95)</b>                            | (165)                         |
| Those due to conversion of convertible bond  | ¥ <b>190</b>                           | ¥ 330                         |
| (Those capitalised)  | <b>(95)</b>                            | (165)                         |
| 4,Number of stock newly issued(Thousand<br>shares)                                 | <b>190</b>                             | 261                           |
| Those due to conversion of convertible bond<br>(Thousand shares)                   | <b>190</b>                             | 261                           |

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CANON INC.

NON-CONSOLIDATED

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

(Parent company only)

Year ended December 31, 2007

(Millions of yen)

| Common<br>stock | Capital surplus                  |                             |                  |   | Stockholders' equity  |                     |  | Treasury<br>stock | Total<br>stockholders<br>equity | Difference of<br>appreciation<br>and conversion            |   |
|-----------------|----------------------------------|-----------------------------|------------------|---|---|---------------------|--|-------------------|---------------------------------|--|---|
|                 | Additional<br>paid-in<br>capital | Other<br>capital<br>surplus | Legal<br>reserve | Reserve<br>for<br>special<br>depreciation | Retained earnings<br>Other retained earnings<br>Reserve<br>for<br>deferral<br>of<br>capital<br>gain<br>on<br>property | Special<br>reserves | Retained<br>earnings<br>brought<br>forward |                   |                                 | Net<br>unrealized<br>gains<br>(losses)<br>on<br>securities | Net<br>Deferr<br>profit<br>(losse<br>on<br>hedg |
| 174,603         | ¥ 306,130                        | ¥ 22                        | ¥ 22,114         | ¥ 12,485                                  | ¥ 1,292   | ¥ 1,249,928         | ¥ 340,843                                  | ¥ (5,872)         | ¥ 2,101,545                     | ¥ 8,899  | (1,100)   |
| 95              | 95                               |                             |                  | 609                                       |   |                     | (609)                                      |                   | 190                             |  |   |
|                 |                                  |                             |                  | (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)     | (8)     |               |
| 174,698 | ¥ 306,225 | ¥ 25 | ¥ 22,114 | ¥ 7,694 | ¥ 1,255 | ¥ 1,249,928 | ¥ 581,031 | ¥ (456,186) | ¥ 1,886,784 | ¥ 5,028 | ¥ (1,249,928) |

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

2. Classes and number of treasury stock

(Shares)

| Classes of stock | Balance as of<br>December 31,<br>2006 | Increase   | Decrease | Balance as of<br>December 31,<br>2007 |
|------------------|---------------------------------------|------------|----------|---------------------------------------|
| common stock     | 1,794,390                             | 70,799,633 | 5,595    | 72,588,428                            |

3.Dividend from surplus

Decision

Dividend per share(yen)

Base date

Effective date

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|   | Classes of stock | Cash dividend (Millions of yen) |       |  |                      |                    |
|---|------------------|---------------------------------|-------|--|----------------------|--------------------|
| March 29, 2007<br>Annual meeting<br>of stockholders | common<br>stock  | 66,583                          | 50.00 |  | December<br>31, 2006 | March 30,<br>2007  |
| July 26, 2007<br>Board of<br>directors meeting      | common<br>stock  | 65,030                          | 50.00 |  | June 30,<br>2007     | August 24,<br>2007 |

| Scheduled   | Classes of stock | Cash dividend (Millions of yen) | A source of dividend | Dividend per share(yen) | Base date            | Effective date    |
|---|------------------|---------------------------------|----------------------|-------------------------|----------------------|-------------------|
| March 28,<br>2008<br>Annual<br>meeting of<br>stockholders | common<br>stock  | 75,663                          | Retained<br>earnings | 60.00                   | December<br>31, 2007 | March 31,<br>2008 |

CANON INC.

NON-CONSOLIDATED

Year ended December 31, 2006

(Millions of yen)

| Common<br>stock | Capital surplus                  |                             |                  | Stockholders equity                       |   |                     |  | Treasury<br>stock | Total<br>stockholders<br>equity | Difference of<br>appreciation<br>and conversion            |  |
|-----------------|----------------------------------|-----------------------------|------------------|---|---|---------------------|--|-------------------|---------------------------------|--|--|
|                 | Additional<br>paid-in<br>capital | Other<br>capital<br>surplus | Legal<br>reserve | Reserve<br>for<br>special<br>depreciation | Retained earnings<br>Other retained earnings<br>Reserve<br>for<br>deferral<br>of<br>capital<br>gain<br>on<br>property | Special<br>reserves | Retained<br>earnings<br>brought<br>forward |                   |                                 | Net<br>unrealized<br>gains<br>(losses)<br>on<br>securities | Net<br>Deferred<br>profits<br>(losses)<br>on<br>hedges |
| ¥ 174,438       | ¥ 305,965                        | ¥ 1                         | ¥ 22,114         | ¥ 13,337                                  | ¥ 5   | ¥ 1,068,828         | ¥ 289,378                                  | ¥ (5,410)         | ¥ 1,868,656                     | ¥ 6,777  |  |

165 165

330

9,065 (9,065)

(9,917) 9,917

1,335 (1,335)





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1. Number of issued shares of December 31, 2006 1,333,445,830

2. Classes and number of treasury stock

| (Shares)         |                                       |          |          |                                       |
|------------------|---------------------------------------|----------|----------|---------------------------------------|
| Classes of stock | Balance as of<br>December 31,<br>2005 | Increase | Decrease | Balance as of<br>December 31,<br>2006 |
| common stock     | 1,145,682                             | 656,152  | 7,444    | 1,794,390                             |

3. Dividend from surplus

| Decision  | Classes<br>of<br>stock | Cash<br>dividend<br>(Millions of<br>yen) | Dividend per<br>share(yen) | Base date            | Effective<br>date  |
|---|------------------------|--|----------------------------|----------------------|--------------------|
| March 30, 2006<br>Annual meeting of<br>stockholders | common<br>stock        | 59,912                                   | 67.50                      | December 31,<br>2005 | March<br>31, 2006  |
| July 27, 2006<br>Board of<br>directors meeting      | common<br>stock        | 44,386                                   | 50.00                      | June 30, 2006        | August<br>25, 2006 |

CANON INC.

NON-CONSOLIDATED

14. CHANGES OF BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

( Parent company only )

1.Note to change in Accounting Policy

Change of Depreciation Method

Due to the amendment of Japanese Corporate Tax Law in 2007, the Company elected to change its method of depreciation of tangible fixed assets purchased on or after April 1, 2007 to the method at rates prescribed in the amended corporate tax law. The change in depreciation methods caused an increase in depreciation expense by JPY 7,491 million for the fiscal year ended December 31,2007.

2.Notes to changes in Presentation

Marketable securities

(Regarding Non-Consolidated Balance Sheets)

Effective from the fiscal year ended December 31, 2007, the Company adopted Practical Guideline for Accounting for Financial Instruments. (Accounting Committee Report No.14,issued by the Japanese Institute of Certified Public Accountants,July 4, 2007) s well as Q&A of Accounting for Financial Instruments. (issued by the Japanese Institute of Certified Public Accountants, November 6, 2007)

As a result, Certificates of Deposit was included in Cash as of December 31,2006, while it is presented in Marketable securities as of December 31,2007.

The amount of Certificates of Deposit included in Cash as of December 31,2006 was JPY 313,100 million.

(Regarding Non-Consolidated Statements of Income)

Effective from the fiscal year ended December 31, 2007, the Company adopted Practical Guideline for Accounting for Financial Instruments. (Accounting Committee Report No.14,issued by the Japanese Institute of Certified Public Accountants,July 4, 2007) as well as Q&A of Accounting for Financial Instruments. (issued by the Japanese Institute of Certified Public Accountants, November 6, 2007)

As a result, Certificates of Deposit is disclosed as Marketable securities as of December 31,2007 and related Interest income of JPY 1,068 million for the year ended December 31,2007 is included in Other,net .

Interest income related to Certificates of Deposit for the year ended December 31,2006 was included in Interest and dividend income at JPY 739 million.

NON-CONSOLIDATED

## Directors

(Current titles are shown in the parentheses)

## (1) Candidate for new Representative Director

|  |                |  |
|--|----------------|--|
| Representative Director<br>& Executive Vice<br>President | Toshizo Tanaka | (Executive Vice President, Group Executive of Policy<br>& Economy Research Headquarters) |
|--|----------------|--|

## (2) Candidates for Directors to be promoted

|                             |                |  |
|-----------------------------|----------------|--|
| Senior Managing<br>Director | Akiyoshi Moroe | (Managing Director, Group Executive of Human Resources<br>Management & Organization Headquarters / External<br>Relations Headquarters) |
|-----------------------------|----------------|--|

|                             |                |  |
|-----------------------------|----------------|--|
| Senior Managing<br>Director | Kunio Watanabe | (Managing Director, Group Executive of Corporate Planning<br>Development Headquarters) |
|-----------------------------|----------------|--|

|                   |                   |   |
|-------------------|-------------------|---|
| Managing Director | Katsuichi Shimizu | (Director, Chief Executive of Inkjet Products Operations) |
|-------------------|-------------------|---|

|                   |               |  |
|-------------------|---------------|--|
| Managing Director | Ryoichi Bamba | (Director, Executive Vice President of Canon U.S.A., Inc.) |
|-------------------|---------------|--|

|                   |              |  |
|-------------------|--------------|--|
| Managing Director | Toshio Homma | (Director, Chief Executive of L Printer Products Operations) |
|-------------------|--------------|--|

|                   |                |  |
|-------------------|----------------|--|
| Managing Director | Masaki Nakaoka | (Director, Chief Executive of Office Imaging Products<br>Operations) |
|-------------------|----------------|--|

|                   |                |   |
|-------------------|----------------|---|
| Managing Director | Haruhisa Honda | (Director, Group Executive of Production Engineering<br>Headquarters) |
|-------------------|----------------|---|

## (3) Candidate for new Corporate Auditor to be appointed

|                   |                  |   |
|-------------------|------------------|---|
| Corporate Auditor | Keijiro Yamazaki | (Director, Group Executive of General Affairs Headquarters) |
|-------------------|------------------|---|

## (4) Director to be retired

|                             |                 |                           |
|-----------------------------|-----------------|---------------------------|
| Senior Managing<br>Director | Hajime Tsuruoka | (Advisor to be appointed) |
|-----------------------------|-----------------|---------------------------|

|          |                  |                                     |
|----------|------------------|-------------------------------------|
| Director | Keijiro Yamazaki | (Corporate Auditor to be appointed) |
|----------|------------------|-------------------------------------|

## (5) Corporate Auditor to be retired

|                   |                   |                           |
|-------------------|-------------------|---------------------------|
| Corporate Auditor | Teruomi Takahashi | (Advisor to be appointed) |
|-------------------|-------------------|---------------------------|

Canon Inc.  
January 30, 2008

CONSOLIDATED FINANCIAL RESULTS FOR THE FOURTH QUARTER  
AND THE FISCAL YEAR ENDED DECEMBER 31, 2007  
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.

Canon Inc.

**1. SALES BY REGION AND PRODUCT (2007)**

(Millions of yen)

|                               | 2007        |           | 2006        |           | Change year over year |        |
|-------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
|                               | 4th quarter | Year      | 4th quarter | Year      | 4th quarter           | Year   |
| <b>Japan</b>                  |             |           |             |           |                       |        |
| Business machines             | 186,527     | 636,534   | 177,294     | 619,713   | +5.2%                 | +2.7%  |
| Office imaging products       | 105,504     | 384,546   | 93,838      | 359,935   | +12.4%                | +6.8%  |
| Computer peripherals          | 63,169      | 186,214   | 66,209      | 190,981   | -4.6%                 | -2.5%  |
| Business information products | 17,854      | 65,774    | 17,247      | 68,797    | +3.5%                 | -4.4%  |
| Cameras                       | 40,239      | 149,892   | 40,676      | 139,625   | -1.1%                 | +7.4%  |
| Optical and other products    | 43,854      | 161,161   | 48,771      | 172,952   | -10.1%                | -6.8%  |
| Total                         | 270,620     | 947,587   | 266,741     | 932,290   | +1.5%                 | +1.6%  |
| <b>Overseas</b>               |             |           |             |           |                       |        |
| Business machines             | 616,648     | 2,299,008 | 587,701     | 2,071,374 | +4.9%                 | +11.0% |
| Office imaging products       | 247,141     | 906,242   | 236,667     | 825,990   | +4.4%                 | +9.7%  |
| Computer peripherals          | 357,693     | 1,351,297 | 339,746     | 1,207,427 | +5.3%                 | +11.9% |
| Business information products | 11,814      | 41,469    | 11,288      | 37,957    | +4.7%                 | +9.3%  |
| Cameras                       | 324,863     | 1,002,771 | 305,763     | 902,240   | +6.2%                 | +11.1% |
| Optical and other products    | 51,668      | 231,980   | 56,330      | 250,855   | -8.3%                 | -7.5%  |
| Total                         | 993,179     | 3,533,759 | 949,794     | 3,224,469 | +4.6%                 | +9.6%  |
| <b>Americas</b>               |             |           |             |           |                       |        |
| Business machines             | 226,063     | 888,189   | 239,816     | 865,697   | -5.7%                 | +2.6%  |
| Office imaging products       | 96,735      | 373,093   | 99,908      | 361,328   | -3.2%                 | +3.3%  |
| Computer peripherals          | 124,368     | 495,676   | 134,218     | 484,624   | -7.3%                 | +2.3%  |
| Business information products | 4,960       | 19,420    | 5,690       | 19,745    | -12.8%                | -1.6%  |

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|                               |         |           |         |           |        |        |
|-------------------------------|---------|-----------|---------|-----------|--------|--------|
| Cameras                       | 140,465 | 390,768   | 133,312 | 362,104   | +5.4%  | +7.9%  |
| Optical and other products    | 13,886  | 57,211    | 16,234  | 55,845    | -14.5% | +2.4%  |
| Total                         | 380,414 | 1,336,168 | 389,362 | 1,283,646 | -2.3%  | +4.1%  |
| <b>Europe</b>                 |         |           |         |           |        |        |
| Business machines             | 299,139 | 1,067,998 | 272,115 | 916,108   | +9.9%  | +16.6% |
| Office imaging products       | 122,303 | 423,925   | 111,718 | 369,709   | +9.5%  | +14.7% |
| Computer peripherals          | 171,114 | 626,236   | 155,646 | 531,224   | +9.9%  | +17.9% |
| Business information products | 5,722   | 17,837    | 4,751   | 15,175    | +20.4% | +17.5% |
| Cameras                       | 126,689 | 388,651   | 122,190 | 362,670   | +3.7%  | +7.2%  |
| Optical and other products    | 12,161  | 42,637    | 11,295  | 35,527    | +7.7%  | +20.0% |
| Total                         | 437,989 | 1,499,286 | 405,600 | 1,314,305 | +8.0%  | +14.1% |
| <b>Other areas</b>            |         |           |         |           |        |        |
| Business machines             | 91,446  | 342,821   | 75,770  | 289,569   | +20.7% | +18.4% |
| Office imaging products       | 28,103  | 109,224   | 25,041  | 94,953    | +12.2% | +15.0% |
| Computer peripherals          | 62,211  | 229,385   | 49,882  | 191,579   | +24.7% | +19.7% |
| Business information products | 1,132   | 4,212     | 847     | 3,037     | +33.6% | +38.7% |
| Cameras                       | 57,709  | 223,352   | 50,261  | 177,466   | +14.8% | +25.9% |
| Optical and other products    | 25,621  | 132,132   | 28,801  | 159,483   | -11.0% | -17.1% |
| Total                         | 174,776 | 698,305   | 154,832 | 626,518   | +12.9% | +11.5% |
| <b>Total</b>                  |         |           |         |           |        |        |
| Business machines             | 803,175 | 2,935,542 | 764,995 | 2,691,087 | +5.0%  | +9.1%  |
| Office imaging products       | 352,645 | 1,290,788 | 330,505 | 1,185,925 | +6.7%  | +8.8%  |
| Computer peripherals          | 420,862 | 1,537,511 | 405,955 | 1,398,408 | +3.7%  | +9.9%  |
| Business information products | 29,668  | 107,243   | 28,535  | 106,754   | +4.0%  | +0.5%  |
| Cameras                       | 365,102 | 1,152,663 | 346,439 | 1,041,865 | +5.4%  | +10.6% |

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|                            |           |           |           |           |       |       |
|----------------------------|-----------|-----------|-----------|-----------|-------|-------|
| Optical and other products | 95,522    | 393,141   | 105,101   | 423,807   | -9.1% | -7.2% |
| Total                      | 1,263,799 | 4,481,346 | 1,216,535 | 4,156,759 | +3.9% | +7.8% |

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Canon Inc.

**2. SALES BY REGION AND PRODUCT (2008/Projection)****(1) Sales by product**

(Millions of yen)

|                               | 2008 (P)  |           |           | 2007      |           |           | Change year over year |          |        |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------------|----------|--------|
|                               | 1st half  | 2nd half  | Year      | 1st half  | 2nd half  | Year      | 1st half              | 2nd half | Year   |
| Business machines             | 1,475,600 | 1,573,000 | 3,048,600 | 1,446,587 | 1,488,955 | 2,935,542 | +2.0%                 | +5.6%    | +3.9%  |
| Office imaging products       | 637,400   | 695,900   | 1,333,300 | 632,428   | 658,360   | 1,290,788 | +0.8%                 | +5.7%    | +3.3%  |
| Computer peripherals          | 786,400   | 824,200   | 1,610,600 | 760,687   | 776,824   | 1,537,511 | +3.4%                 | +6.1%    | +4.8%  |
| Business information products | 51,800    | 52,900    | 104,700   | 53,472    | 53,771    | 107,243   | -3.1%                 | -1.6%    | -2.4%  |
| Cameras                       | 548,400   | 684,100   | 1,232,500 | 519,574   | 633,089   | 1,152,663 | +5.5%                 | +8.1%    | +6.9%  |
| Optical and other products    | 206,000   | 232,900   | 438,900   | 200,563   | 192,578   | 393,141   | +2.7%                 | +20.9%   | +11.6% |
| Total                         | 2,230,000 | 2,490,000 | 4,720,000 | 2,166,724 | 2,314,622 | 4,481,346 | +2.9%                 | +7.6%    | +5.3%  |

(P)=Projection

**(2) Sales by region**

(Millions of yen)

|             | 2008 (P)  |           |           | 2007      |           |           | Change year over year |          |        |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------------|----------|--------|
|             | 1st half  | 2nd half  | Year      | 1st half  | 2nd half  | Year      | 1st half              | 2nd half | Year   |
| Japan       | 467,100   | 503,700   | 970,800   | 458,302   | 489,285   | 947,587   | +1.9%                 | +2.9%    | +2.4%  |
| Overseas    | 1,762,900 | 1,986,300 | 3,749,200 | 1,708,422 | 1,825,337 | 3,533,759 | +3.2%                 | +8.8%    | +6.1%  |
| Americas    | 622,700   | 709,000   | 1,331,700 | 641,949   | 694,219   | 1,336,168 | -3.0%                 | +2.1%    | -0.3%  |
| Europe      | 762,200   | 842,600   | 1,604,800 | 722,379   | 776,907   | 1,499,286 | +5.5%                 | +8.5%    | +7.0%  |
| Other areas | 378,000   | 434,700   | 812,700   | 344,094   | 354,211   | 698,305   | +9.9%                 | +22.7%   | +16.4% |
| Total       | 2,230,000 | 2,490,000 | 4,720,000 | 2,166,724 | 2,314,622 | 4,481,346 | +2.9%                 | +7.6%    | +5.3%  |

(P)=Projection





Canon Inc.

**3. SEGMENT INFORMATION BY PRODUCT  
(2007)**

(Millions of yen)

|                                   | 2007        |           | 2006        |           | Change year over year |        |
|-----------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
|                                   | 4th quarter | Year      | 4th quarter | Year      | 4th quarter           | Year   |
| <b>Business machines</b>          |             |           |             |           |                       |        |
| Unaffiliated customers            | 803,175     | 2,935,542 | 764,995     | 2,691,087 | +5.0%                 | +9.1%  |
| Intersegment                      |             |           |             |           |                       |        |
| Total sales                       | 803,175     | 2,935,542 | 764,995     | 2,691,087 | +5.0%                 | +9.1%  |
| Operating profit                  | 162,419     | 650,261   | 165,565     | 599,229   | -1.9%                 | +8.5%  |
| % of sales                        | 20.2%       | 22.2%     | 21.6%       | 22.3%     |                       |        |
| <b>Cameras</b>                    |             |           |             |           |                       |        |
| Unaffiliated customers            | 365,102     | 1,152,663 | 346,439     | 1,041,865 | +5.4%                 | +10.6% |
| Intersegment                      |             |           |             |           |                       |        |
| Total sales                       | 365,102     | 1,152,663 | 346,439     | 1,041,865 | +5.4%                 | +10.6% |
| Operating profit                  | 93,267      | 307,426   | 92,612      | 268,738   | +0.7%                 | +14.4% |
| % of sales                        | 25.5%       | 26.7%     | 26.7%       | 25.8%     |                       |        |
| <b>Optical and other products</b> |             |           |             |           |                       |        |
| Unaffiliated customers            | 95,522      | 393,141   | 105,101     | 423,807   | -9.1%                 | -7.2%  |
| Intersegment                      | 65,381      | 238,659   | 52,102      | 190,687   | +25.5%                | +25.2% |
| Total sales                       | 160,903     | 631,800   | 157,203     | 614,494   | +2.4%                 | +2.8%  |
| Operating profit                  | (2,655)     | 21,080    | 3,921       | 41,475    |                       | -49.2% |
| % of sales                        | -1.7%       | 3.3%      | 2.5%        | 6.7%      |                       |        |
| <b>Corporate and Eliminations</b> |             |           |             |           |                       |        |
| Unaffiliated customers            |             |           |             |           |                       |        |
| Intersegment                      | (65,381)    | (238,659) | (52,102)    | (190,687) |                       |        |
| Total sales                       | (65,381)    | (238,659) | (52,102)    | (190,687) |                       |        |
| Operating profit                  | (59,455)    | (222,094) | (66,228)    | (202,409) |                       |        |
| <b>Consolidated</b>               |             |           |             |           |                       |        |
| Unaffiliated customers            | 1,263,799   | 4,481,346 | 1,216,535   | 4,156,759 | +3.9%                 | +7.8%  |

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Intersegment

|                  |           |           |           |           |       |       |
|------------------|-----------|-----------|-----------|-----------|-------|-------|
| Total            | 1,263,799 | 4,481,346 | 1,216,535 | 4,156,759 | +3.9% | +7.8% |
| Operating profit | 193,576   | 756,673   | 195,870   | 707,033   | -1.2% | +7.0% |
| % of sales       | 15.3%     | 16.9%     | 16.1%     | 17.0%     |       |       |

**4. OTHER INCOME / DEDUCTIONS (2007)**

(Millions of yen)

|  | 2007        |          | 2006        |          | Change year over year |         |
|--|-------------|----------|-------------|----------|-----------------------|---------|
|  | 4th quarter | Year     | 4th quarter | Year     | 4th quarter           | Year    |
| Interest and dividend, net                     | 6,993       | 31,348   | 7,706       | 24,963   | (713)                 | +6,385  |
| Forex gain / loss                              | (1,035)     | (31,943) | (8,737)     | (25,804) | +7,702                | (6,139) |
| Equity earnings / loss of affiliated companies | 149         | 5,634    | 1,428       | 4,237    | (1,279)               | +1,397  |
| Other, net                                     | 237         | 6,676    | 1,505       | 8,714    | (1,268)               | (2,038) |
| Total  | 6,344       | 11,715   | 1,902       | 12,110   | +4,442                | (395)   |

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Canon Inc.

**5. SEGMENT INFORMATION BY PRODUCT  
(2008/Projection)**

(Millions of yen)

|                                    | 2008 (P)           |                    |                    | 2007               |                    |                    | Change year over year |                  |                 |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-----------------------|------------------|-----------------|
|                                    | 1st half           | 2nd half           | Year               | 1st half           | 2nd half           | Year               | 1st half              | 2nd half         | Year            |
| <b>Business Machines</b>           |                    |                    |                    |                    |                    |                    |                       |                  |                 |
| Unaffiliated customers per segment | 1,475,600          | 1,573,000          | 3,048,600          | 1,446,587          | 1,488,955          | 2,935,542          | +2.0%                 | +5.6%            | +3.9%           |
| Total sales                        | 1,475,600          | 1,573,000          | 3,048,600          | 1,446,587          | 1,488,955          | 2,935,542          | +2.0%                 | +5.6%            | +3.9%           |
| Operating profit of sales          | 341,900<br>23.2%   | 335,000<br>21.3%   | 676,900<br>22.2%   | 335,471<br>23.2%   | 314,790<br>21.1%   | 650,261<br>22.2%   | +1.9%                 | +6.4%            | +4.1%           |
| <b>Cameras</b>                     |                    |                    |                    |                    |                    |                    |                       |                  |                 |
| Unaffiliated customers per segment | 548,400            | 684,100            | 1,232,500          | 519,574            | 633,089            | 1,152,663          | +5.5%                 | +8.1%            | +6.9%           |
| Total sales                        | 548,400            | 684,100            | 1,232,500          | 519,574            | 633,089            | 1,152,663          | +5.5%                 | +8.1%            | +6.9%           |
| Operating profit of sales          | 144,800<br>26.4%   | 190,800<br>27.9%   | 335,600<br>27.2%   | 137,303<br>26.4%   | 170,123<br>26.9%   | 307,426<br>26.7%   | +5.5%                 | +12.2%           | +9.2%           |
| <b>Optical and Other Products</b>  |                    |                    |                    |                    |                    |                    |                       |                  |                 |
| Unaffiliated customers per segment | 206,000<br>109,500 | 232,900<br>143,800 | 438,900<br>253,300 | 200,563<br>107,917 | 192,578<br>130,742 | 393,141<br>238,659 | +2.7%<br>+1.5%        | +20.9%<br>+10.0% | +11.6%<br>+6.1% |
| Total sales                        | 315,500            | 376,700            | 692,200            | 308,480            | 323,320            | 631,800            | +2.3%                 | +16.5%           | +9.6%           |
| Operating profit of sales          | 20,500<br>6.5%     | 20,000<br>5.3%     | 40,500<br>5.9%     | 21,385<br>6.9%     | (305)<br>-0.1%     | 21,080<br>3.3%     | -4.1%                 |                  | +92.1%          |
| <b>Corporate and Eliminations</b>  |                    |                    |                    |                    |                    |                    |                       |                  |                 |

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|                                    |           |           |           |           |           |           |       |        |       |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------|--------|-------|
| Unaffiliated customers per segment | (109,500) | (143,800) | (253,300) | (107,917) | (130,742) | (238,659) |       |        |       |
| Total sales                        | (109,500) | (143,800) | (253,300) | (107,917) | (130,742) | (238,659) |       |        |       |
| Operating profit                   | (117,200) | (135,800) | (253,000) | (105,283) | (116,811) | (222,094) |       |        |       |
| <b>Consolidated</b>                |           |           |           |           |           |           |       |        |       |
| Unaffiliated customers per segment | 2,230,000 | 2,490,000 | 4,720,000 | 2,166,724 | 2,314,622 | 4,481,346 | +2.9% | +7.6%  | +5.3% |
| Total sales                        | 2,230,000 | 2,490,000 | 4,720,000 | 2,166,724 | 2,314,622 | 4,481,346 | +2.9% | +7.6%  | +5.3% |
| Operating profit                   | 390,000   | 410,000   | 800,000   | 388,876   | 367,797   | 756,673   | +0.3% | +11.5% | +5.7% |
| Profit of sales                    | 17.5%     | 16.5%     | 16.9%     | 17.9%     | 15.9%     | 16.9%     |       |        |       |

(P)=Projection

**OTHER INCOME / DEDUCTIONS (2008/Projection)**

(Millions of yen)

|                            | 2008 (P) |          |          | 2007     |          |          | Change year over year |          |         |
|----------------------------|----------|----------|----------|----------|----------|----------|-----------------------|----------|---------|
|                            | 1st half | 2nd half | Year     | 1st half | 2nd half | Year     | 1st half              | 2nd half | Year    |
| Interest and dividend, net | 12,500   | 10,300   | 22,800   | 16,572   | 14,776   | 31,348   | (4,072)               | (4,476)  | (8,548) |
| FX gain / loss             | (7,800)  | (9,300)  | (17,100) | (10,520) | (21,423) | (31,943) | +2,720                | +12,123  | +14,843 |
| Equity earnings / loss     |          |          |          |          |          |          |                       |          |         |
| Unaffiliated companies     | 1,500    | 2,900    | 4,400    | 5,285    | 349      | 5,634    | (3,785)               | +2,551   | (1,234) |
| Other, net                 | 11,800   | (1,900)  | 9,900    | 5,928    | 748      | 6,676    | +5,872                | (2,648)  | +3,224  |
| Total                      | 18,000   | 2,000    | 20,000   | 17,265   | (5,550)  | 11,715   | +735                  | +7,550   | +8,285  |

(P)=Projection

**7. SALES COMPOSITION BY PRODUCT**

|                                      | 2008 (P)    |             |      | 2007           |             |             | 2006 |                |      |
|--------------------------------------|-------------|-------------|------|----------------|-------------|-------------|------|----------------|------|
|                                      | 1st<br>half | 2nd<br>half | Year | 4th<br>quarter | 1st<br>half | 2nd<br>half | Year | 4th<br>quarter | Year |
| <b>Office imaging products</b>       |             |             |      |                |             |             |      |                |      |
| Monochrome copying machines          | 43%         | 40%         | 42%  | 43%            | 46%         | 43%         | 45%  | 46%            | 49%  |
| Color copying machines               | 37%         | 38%         | 37%  | 36%            | 35%         | 36%         | 35%  | 34%            | 31%  |
| Others                               | 20%         | 22%         | 21%  | 21%            | 19%         | 21%         | 20%  | 20%            | 20%  |
| <b>Computer peripherals</b>          |             |             |      |                |             |             |      |                |      |
| Laser beam printers                  | 75%         | 71%         | 73%  | 69%            | 75%         | 71%         | 73%  | 68%            | 73%  |
| Inkjet printers                      | 24%         | 28%         | 26%  | 30%            | 24%         | 28%         | 26%  | 31%            | 26%  |
| Others                               | 1%          | 1%          | 1%   | 1%             | 1%          | 1%          | 1%   | 1%             | 1%   |
| <b>Business information products</b> |             |             |      |                |             |             |      |                |      |
| Personal computers                   | 62%         | 59%         | 61%  | 62%            | 62%         | 62%         | 62%  | 61%            | 64%  |
| Others                               | 38%         | 41%         | 39%  | 38%            | 38%         | 38%         | 38%  | 39%            | 36%  |
| <b>Cameras</b>                       |             |             |      |                |             |             |      |                |      |
| Digital cameras                      | 76%         | 77%         | 77%  | 77%            | 76%         | 77%         | 76%  | 76%            | 75%  |
| Video cameras                        | 9%          | 9%          | 9%   | 8%             | 8%          | 8%          | 8%   | 10%            | 10%  |
| Interchangeable lenses and others    | 15%         | 14%         | 14%  | 15%            | 16%         | 15%         | 16%  | 14%            | 15%  |
| <b>Optical and other products</b>    |             |             |      |                |             |             |      |                |      |
| Semiconductor production equipment   | 49%         | 49%         | 49%  | 43%            | 50%         | 43%         | 46%  | 53%            | 52%  |
| Others                               | 51%         | 51%         | 51%  | 57%            | 50%         | 57%         | 54%  | 47%            | 48%  |

(P)=Projection

\* From this report, 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.

\* From this report, the segment previously named Film cameras / Lenses is now named Interchangeable lenses and others.

## 8. SALES GROWTH IN LOCAL CURRENCY

|                                   | 2008 (P)    |             |        | 2007           |             |             |       |
|-----------------------------------|-------------|-------------|--------|----------------|-------------|-------------|-------|
|                                   | 1st<br>half | 2nd<br>half | Year   | 4th<br>quarter | 1st<br>half | 2nd<br>half | Year  |
| <b>Business machines</b>          |             |             |        |                |             |             |       |
| Japan                             |             |             |        | +5.2%          | +0.3%       | +5.0%       | +2.7% |
| Overseas                          |             |             |        | +4.5%          | +8.9%       | +4.1%       | +6.4% |
| Total                             | +6.4%       | +8.7%       | +7.6%  | +4.6%          | +6.9%       | +4.3%       | +5.6% |
| <b>Cameras</b>                    |             |             |        |                |             |             |       |
| Japan                             |             |             |        | -1.1%          | +12.7%      | +2.7%       | +7.4% |
| Overseas                          |             |             |        | +5.3%          | +5.3%       | +7.4%       | +6.4% |
| Total                             | +10.0%      | +11.1%      | +10.6% | +4.6%          | +6.3%       | +6.8%       | +6.6% |
| <b>Optical and other products</b> |             |             |        |                |             |             |       |
| Japan                             |             |             |        | -10.1%         | +3.6%       | -15.7%      | -6.8% |
| Overseas                          |             |             |        | -8.6%          | -9.2%       | -10.0%      | -9.6% |
| Total                             | +4.1%       | +21.8%      | +12.8% | -9.3%          | -4.2%       | -12.5%      | -8.5% |
| <b>Total</b>                      |             |             |        |                |             |             |       |
| Japan                             | +1.9%       | +2.9%       | +2.4%  | +1.5%          | +2.7%       | +0.7%       | +1.6% |
| Overseas                          | +8.4%       | +12.4%      | +10.5% | +4.0%          | +6.5%       | +4.1%       | +5.2% |
| Americas                          | +5.8%       | +7.0%       | +6.4%  | +1.6%          | +4.0%       | +2.4%       | +3.1% |
| Europe                            | +7.4%       | +11.1%      | +9.3%  | +2.2%          | +7.1%       | +3.8%       | +5.3% |
| Other areas                       | +15.6%      | +26.2%      | +21.0% | +14.3%         | +10.2%      | +8.2%       | +9.1% |
| Total                             | +7.1%       | +10.4%      | +8.8%  | +3.4%          | +5.6%       | +3.3%       | +4.4% |

(P)=Projection

**9. PROFITABILITY**

|     | 2008 (P)<br>Year | 2007<br>Year | 2006<br>Year |
|-----|------------------|--------------|--------------|
| ROE | 16.6%            | 16.5%        | 16.3%        |
| ROA | 11.0%            | 10.8%        | 10.6%        |

(P)=Projection

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

(Yen)

|          | 2008 (P)<br>Year | 2007<br>4th<br>quarter | 2006<br>Year | 2006<br>4th quarter | 2006<br>Year |
|----------|------------------|------------------------|--------------|---------------------|--------------|
| Yen/US\$ | 107.00           | 113.19                 | 117.50       | 117.81              | 116.43       |
| Yen/Euro | 157.00           | 163.86                 | 161.41       | 151.89              | 146.51       |

(P)=Projection

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

(Billions of yen)

|                  | 2008 (P)<br>Year | 2007<br>4th<br>quarter | 2007<br>Year |
|------------------|------------------|------------------------|--------------|
| US\$             | (177.1)          | (24.5)                 | +9.6         |
| Euro             | (34.3)           | +24.6                  | +104.7       |
| Other currencies | (4.6)            | +2.7                   | +11.2        |
| Total            | (216.0)          | +2.8                   | +125.5       |

(P)=Projection

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

(Billions of yen)

|          | 2008 (P)<br>Year |
|----------|------------------|
| On sales |                  |
| US\$     | 16.9             |
| Euro     | 7.6              |



On operating profit  
 US\$ 9.9  
 Euro 5.6

(P)=Projection

**11. STATEMENTS OF CASH FLOWS**

(Millions of yen)

|  | 2008 (P)  | 2007           |           | 2006        |           |
|--|-----------|----------------|-----------|-------------|-----------|
|  | Year      | 4th<br>quarter | Year      | 4th quarter | Year      |
| Net cash provided by operating activities                    |           |                |           |             |           |
| Net income   | 520,000   | 127,845        | 488,332   | 125,564     | 455,325   |
| Depreciation and amortization                                | 375,000   | 106,248        | 341,694   | 74,371      | 262,294   |
| Other, net   | (95,000)  | 42,547         | 9,243     | 35,552      | (22,378)  |
| Total  | 800,000   | 276,640        | 839,269   | 235,487     | 695,241   |
| Net cash used in investing activities                        | (500,000) | (91,525)       | (432,485) | (132,528)   | (460,805) |
| Free cash flow   | 300,000   | 185,115        | 406,784   | 102,959     | 234,436   |
| Net cash used in financing activities                        | (165,000) | (1,718)        | (604,383) | (1,621)     | (107,487) |
| Effect of exchange rate changes on cash and cash equivalents | (9,500)   | (5,241)        | (13,564)  | 29,800      | 23,724    |
| Net change in cash and cash equivalents                      | 125,500   | 178,156        | (211,163) | 131,138     | 150,673   |
| Cash and cash equivalents at end of period                   | 1,070,000 | 944,463        | 944,463   | 1,155,626   | 1,155,626 |

(P)=Projection

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Canon Inc.

**12. R&D EXPENDITURE**

(Millions of yen)

|                            | 2008 (P)<br>Year | 2007<br>Year | 2006<br>Year |
|----------------------------|------------------|--------------|--------------|
| Business machines          |                  | 122,570      | 113,770      |
| Cameras                    |                  | 44,304       | 41,122       |
| Optical and other products |                  | 201,387      | 153,415      |
| Total                      | 395,000          | 368,261      | 308,307      |
| % of sales                 | 8.4%             | 8.2%         | 7.4%         |

(P)=Projection

**13. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION**

(Millions of yen)

|                                      | 2008 (P)<br>Year | 2007<br>Year | 2006<br>Year |
|--------------------------------------|------------------|--------------|--------------|
| <b>Capital expenditure</b>           |                  |              |              |
| Business machines                    |                  | 166,143      | 154,259      |
| Cameras                              |                  | 32,870       | 31,517       |
| Optical and other products           |                  | 78,449       | 36,272       |
| Corporate and eliminations           |                  | 151,087      | 157,609      |
| Total                                | 440,000          | 428,549      | 379,657      |
| <b>Depreciation and amortization</b> |                  |              |              |
| Business machines                    |                  | 159,309      | 127,873      |
| Cameras                              |                  | 37,180       | 28,756       |
| Optical and other products           |                  | 69,843       | 37,018       |
| Corporate and eliminations           |                  | 75,362       | 68,647       |
| Total                                | 375,000          | 341,694      | 262,294      |

(P)=Projection

**14. INVENTORIES****(1) Inventories**

(Millions of yen)

|                   | 2007<br>Dec.31 | 2006<br>Dec.31 | Difference |
|-------------------|----------------|----------------|------------|
| Business machines | 277,444        | 288,815        | (11,371)   |
| Cameras           | 107,406        | 87,515         | +19,891    |

|                            |         |         |         |
|----------------------------|---------|---------|---------|
| Optical and other products | 178,624 | 162,727 | +15,897 |
| Total                      | 563,474 | 539,057 | +24,417 |

**(2) Inventories/Sales\***

(Days)

|                            | 2007<br>Dec.31 | 2006<br>Dec.31 | Difference |
|----------------------------|----------------|----------------|------------|
| Business machines          | 34             | 38             | (4)        |
| Cameras                    | 31             | 27             | +4         |
| Optical and other products | 169            | 136            | +33        |
| Total                      | 44             | 45             | (1)        |

\*Index based on the previous six months sales.

**15. DEBT RATIO**

|                           | 2007<br>Dec.31 | 2006<br>Dec.31 | Difference |
|---------------------------|----------------|----------------|------------|
| Total debt / Total assets | 0.6%           | 0.7%           | -0.1%      |

**16. OVERSEAS PRODUCTION RATIO**

|                           | 2007<br>Year | 2006<br>Year |
|---------------------------|--------------|--------------|
| Overseas production ratio | 40%          | 39%          |

**17. NUMBER OF EMPLOYEES**

|          | 2007<br>Dec.31 | 2006<br>Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan    | 55,227         | 50,753         | +4,474     |
| Overseas | 76,125         | 67,746         | +8,379     |
| Total    | 131,352        | 118,499        | +12,853    |

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January 30, 2008

Canon Inc.  
Chairman & CEO: Fujio Mitarai  
Securities code: 7751  
[Tokyo (First section) and other Stock Exchanges]  
Inquiries:  
Masahiro Osawa  
Managing Director, Group Executive,  
Finance & Accounting Headquarters  
+81-3-3758-2111

**Notice Concerning Change of Representative Director**

At the meeting of its Board of Directors held on January 30, 2008, Canon Inc. (the Company) tentatively approved a change of the Company's Representative Director as follows.

The change is scheduled to be resolved at the Ordinary General Meeting of Shareholders for the 107th Business Term and the following Board of Directors meeting to be held on March 28, 2008.

**1. Reason of change**

To further reinforce management structure, amid expansion of the Company's scale and scope of business activities

**2. Profile of the Representative Director to be newly appointed**

|                        |   |
|------------------------|---|
| New Title              | Representative Director & Executive Vice President    |
| Name                   | Toshizo Tanaka  |
| Place of Birth         | Aichi Prefecture, Japan                               |
| Educational Background | March 1964, Graduated from Keio University, Economics |
|                        | Dept.   |
| Date of Birth          | October 8, 1940                                       |
| Business Career        | See attached.   |

**3. Scheduled Date of Appointment**

March 28, 2008

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Attached Document

**Business Career  
Toshizo Tanaka  
Executive Vice President  
Canon Inc.**

|          |       |   |
|----------|-------|---|
| April    | 1964, | Joined Canon Camera Co. Inc.<br>(March 1969, Company name changed to Canon Inc.)  |
| February | 1968, | Transferred to Canon U.S.A., Inc.   |
| January  | 1977, | Manager; Accounting Dept. Tamagawa Plant; Canon Inc.  |
| January  | 1978, | Transferred to Canon U.S.A., Inc.   |
| February | 1988, | General Manager; Accounting Div.; Canon Inc.  |
| January  | 1992, | Deputy Group Executive; Finance & Accounting Headquarters   |
| April    | 1993, | Advisory Director   |
| March    | 1995, | Director  |
| April    | 1995, | Director, Group Executive; Finance & Accounting Headquarters  |
| March    | 1997, | Managing Director   |
| April    | 1998, | Managing Director, Group Executive; Finance & Accounting<br>Headquarters, Logistics Headquarters                        |
| January  | 1999, | Managing Director, Group Executive; Finance & Accounting<br>Headquarters  |
| March    | 2001, | Senior Managing Director  |
| January  | 2007, | Senior Managing Director, Group Executive; Finance & Accounting<br>Headquarters, Policy & Economy Research Headquarters |
| March    | 2007, | Executive Vice President (Current)  |
| April    | 2007, | Executive Vice President, Group Executive; Policy & Economy<br>Research Headquarters (Current)                          |



January 30, 2008

Canon Inc.  
Chairman & CEO: Fujio Mitarai  
Securities code: 7751  
[Tokyo (First Section) and other Stock  
Exchanges]  
Inquiries:  
Masahiro Osawa  
Managing Director, Group Executive,  
Finance & Accounting Headquarters  
+81-3-3758-2111

**Notice Regarding Introduction of Executive Officer System**

Canon Inc. (the Company ) resolved at the Board of Directors meeting held on January 30, 2008 the introduction of the Executive Officer System and the appointment of Executive Officers, as follows.

**1. Reason for Introduction of the Executive Officer System**

Considering the expansion of its operations and business scale, the Company hereby introduces the Executive Officer System to address the need to further strengthen its operational structure over the medium and long terms.

By promoting capable human resources with wide knowledge of business as Executive Officers and entrusting them with operations responsibilities for specific business areas, the Company intends to enhance its corporate value through more flexible and more efficient management operations.

**2. Outline of the System**

- (1) The term of office of Executive Officers will be one year.
- (2) The appointment and discharge of Executive Officers will be made by the Board of Directors.
- (3) The duties and operations that Executive Officers will be entrusted with will be decided by the Board of Directors.
- (4) While the number of Executive Officers initially appointed upon the introduction of the system will be seven, this number will gradually increase in the future toward the realization of a more solid management execution structure.

**3. Timing of Introduction of the System**

The System shall be introduced on April 1, 2008.

**4. Appointment of Executive Officers (Effective April 1, 2008)**

---

| (Name)            | (Current title)  |
|-------------------|--|
| Masayuki Ito      | President & C.E.O., Canon Ecology Industry, Inc.                               |
| Masahiro Haga     | Senior Vice President, Canon U.S.A., Inc                                       |
| Kengo Uramoto     | Deputy Group Executive, Human Resources Management & Organization Headquarters |
| Masanori Yamada   | Group Executive, Office Imaging Products Corporate System Group                |
| Akio Noguchi      | Deputy Chief Executive, Peripheral Products Operations                         |
| Hiroyuki Suematsu | Chief Executive, Chemical Products Operations                                  |
| Yasuhiro Tani     | Group Executive, Digital Platform Technology Development Headquarters          |

This notice 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, plan, 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 notice. 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.



January 30, 2008

Canon Inc.  
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Securities code: 7751  
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**Notice Regarding Issuance of Stock Options (Share Options)**

Canon Inc. (the **Company**) resolved, at the meeting of its board of directors (the **Board of Directors**) held on January 30, 2008 to make the following proposals at the Ordinary General Meeting of Shareholders for the 107th Business Term of the Company scheduled for March 28, 2008: a) that share options (*shinkabu yoyaku-ken*) be issued, without compensation, to the Company's directors, executive officers and senior employees, as stock options, pursuant to the provisions of Articles 236, 238 and 239 of the Corporation Law (*Kaisha-ho*); b) that the determination of the matters regarding the offering be delegated to the Board of Directors; and c) that share options be issued to the Company's directors as compensation. The Company hereby announces as follows:

**1. The Reason for the Necessity to Solicit Those Who Subscribe for Share Options on Particularly Favorable Conditions**

Share options will be issued to the Company's directors, executive officers and senior employees, without compensation, for the purpose of further enhancing their motivation and morale to improve the Company's performance, with a view to long-term improvement of its corporate value.

**2. Grantees of Share Options**

The Company's directors, seven (7) executive officers, and not more than thirty-five (35) senior employees who are entrusted with important functions.

**3. Maximum Number of Share Options**

The maximum number of share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by resolution of the said shareholders meeting (the **Resolution**), will be six thousand (6,000).

**4. Cash Payment for Share Options**

No cash payment will be required for the share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by the Resolution.

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## 5. Features of Share Options

The features of share options that the Board of Directors will be authorized to determine matters on offering, based on the delegation by the Resolution, will be as follows:

### (1) Number of Shares to be acquired upon Exercise of a Share Option

The number of shares to be acquired upon Exercise of one (1) share option (the **Allotted Number of Shares** ) shall be one hundred (100) common shares, and the maximum total number of shares to be delivered due to the exercise of share options shall be six hundred thousand (600,000) shares.

However, if the Company effects a share split (including allotment of common shares without compensation; this inclusion being applicable below) or a share consolidation after the date of the allotment of the share options, the Allotted Number of Shares will be adjusted by the following calculation formula:

#### **Allotted Number of Shares after Adjustment**

**= Allotted Number of Shares before Adjustment x Ratio of Share Splitting or Share Consolidation.**

Such adjustment will be made only with respect to the number of issued share options that have not then been exercised, and any fractional number of less than one (1) share resulting from such adjustment will be rounded off.

### (2) Amount of Property to Be Contributed upon Exercise of Share Options

The amount of property to be contributed upon the exercise of each share option will be the amount obtained by multiplying the amount to be paid in for one share (the **Exercise Price** ) to be delivered upon the exercise of a share option by the Allotted Number of Shares. The Exercise Price will be the product of the multiplication of 1.05 and the closing price of one (1) common share of the Company in ordinary trading at the Tokyo Stock Exchange as of the date of allotment of the share options (or if no trade is made on such date, the date immediately preceding the date on which such ordinary shares are traded), with any fractional amount of less than one (1) yen to be rounded up to one (1) yen.

The Exercise Price will be adjusted as follows:

- (i) If the Company effects a share split or a share consolidation after the date of the allotment of the share options, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one (1) yen to be rounded up to one (1) yen:

#### **Exercise Price after Adjustment**

**= Exercise Price before Adjustment x  $\frac{1}{\text{Ratio of Share Splitting or Share Consolidation}}$**

- (ii) If, after the date of allotment of share options, the Company issues common shares at a price lower than the then market price thereof (other than by way of conversion the third series of Unsecured Convertible Debentures Due 2008 of the Company) or disposes common shares owned by it, the Exercise Price will be adjusted by the following calculation formula, with any fractional amount of less than one (1) yen to

be rounded up to one (1) yen; however, the Exercise Price will not be adjusted in the case of the exercise of share options:

**Exercise Price after Adjustment = Exercise Price before Adjustment x**

**Number of Issued and Outstanding Shares +** **Number of Newly Issued Shares x Payment amount per Share**  
**Market Price**

**Number of Issued and Outstanding Shares + Number of Newly Issued Shares**

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The Number of Issued and Outstanding Shares is the number of shares already issued by the Company after subtraction of the number of shares owned by the Company. In the case of the Company's disposal of shares owned by it, the Number of Newly Issued Shares will be replaced with the Number of Own Shares to Be Disposed.

- (iii) In the case of a merger, a company split or capital reduction after the date of allotment of share options, or in any other analogous case requiring the adjustment of the Exercise Price, the Exercise Price shall be appropriately adjusted within a reasonable range.

**(3) Period during Which Share Options Are Exercisable**

From May 1, 2010 to April 30, 2014.

**(4) Matters regarding Stated Capital and Capital Reserves Increased When Shares Are Issued upon Exercise of Share Options**

- (i) The increased amount of stated capital will be one half (1/2) of the maximum amount of increases of stated capital, etc. to be calculated in accordance with Article 40, Paragraph 1 of the Companies Accounting Regulations (*Kaisha Keisan Kisoku*). Any fractional amount of less than one (1) yen resulting from such calculation will be rounded up to one (1) yen.
- (ii) The increased amount of capital reserves shall be the amount of the maximum amount of increases of stated capital, etc., mentioned in (i) above, after the subtraction of increased amount of stated capital mentioned in (i) above.

**(5) Restriction on Acquisition of Share Options by Transfer**

An acquisition of share options by way of transfer requires the approval of the Board of Directors.

**(6) Events for the Company's Acquisition of Share Options**

If a proposal for the approval of a merger agreement under which the Company will become an extinguishing company or a proposal for the approval for a share exchange agreement or a share transfer plan under which the Company will become a wholly-owned subsidiary is approved by the Company's shareholders at a shareholders' meeting (or by the Board of Directors if no resolution of a shareholders' meeting is required for such approval), the Company will be entitled to acquire the share options, without compensation, on a date separately designated by the Board of Directors.

**(7) Handling of Fractions**

Any fraction of a share (less than one (1) share) to be delivered to any holder of share options who has exercised share options will be disregarded.

**(8) Other Conditions for Exercise of Share Options**

- (i) One share option may not be exercised partially.
- (ii) Each holder of share options must continue to be a director, executive officer or employee of the Company until the end of the Company's general meeting of shareholders regarding the final business term within two (2) years from the end of the Ordinary General Meeting of Shareholders for the 107th

Business Term of the Company.

- (iii) Holders of share options will be entitled to exercise their share options for two (2) years, and during the exercisable period, even after they lose their positions as directors, executive officers or employees. However, if a holder of share options loses such position due to resignation at his/her initiative, or due to dismissal or discharge by the Company, his/her share options will immediately lose effect.
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(iv) No succession by inheritance is authorized for the share options.

(v) Any other conditions for the exercise of share options may be established by the Board of Directors.

**6. Specific Method of Calculation of Remuneration to Directors**

The amount of share options to be issued to the directors of the Company, as remuneration, will be the amount to be obtained by multiplying the fair market value per share option as of the allotment date thereof by the total number (not more than three thousand five hundred (3,500) share options) of share options to be allotted to the directors existing as of such allotment date. The fair market value of a share option will be calculated with the use of the Black-Scholes model on the basis of various conditions applicable on the allotment date. Upon the approval of Proposal No. 2, regarding election of directors, the number of directors will be Twenty-five (25).

End.