

CANON INC
Form 6-K
August 26, 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 August __, 2008

CANON INC.

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

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANON INC.

(Registrant)

Date **August 25, 2008**

By /s/ Masashiro Kobayashi
(Signature)*

Masashiro Kobayashi
General Manager
Global Finance Management Center
Canon Inc.

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

The following materials are included.

1. Interim Report For The 108th Business Term From January 1,2008 to June 30,2008 Canon Inc.
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To Our Shareholders

We are pleased to present our report for the summary of the first half of our 108th business term (from January 1, 2008 to June 30, 2008).

Reviewing conditions in both the Japanese and overseas economies during the first half of the current business term, the U.S. economy decelerated due to depressing residential investment in the wake of the subprime loan issue, and with soaring crude oil prices weighing on corporate profits and stifling personal consumption. European economies also slowed down under the impact from the U.S. economic situation. Asian economies sustained high growth centered in China, although growth rates diminished due to the sluggish EU and U.S. economies. Meanwhile, there was stagnation in the Japanese economy due to factors such as a stalling of exports from the global economic slowdown, a squeeze on corporate profits from soaring prices of crude oil and raw materials, and weak consumer spending due to inflation. In foreign exchange markets, compared with the first half of the previous fiscal year, the yen rose substantially against the U.S. dollar and rose slightly against the euro.

As to the conditions of the markets in which the Canon Group operates, demand for digital cameras grew steadily for both single lens reflex (SLR) and compact types, while demand for color laser beam printers also continued to grow. For networked multifunctional devices, demand continued to shift from black-and-white to color machines. In the area of inkjet printers, rising demand for multifunction devices covered for a decline in single-function devices, leaving overall demand unchanged. Demand for mirror projection mask aligners for LCDs improved substantially due to recovered capital expenditures at LCD panel manufacturers, but demand for semiconductor production equipment was sluggish as memory device manufacturers restrained new capital investment.

Under these business conditions, facing the third year of Phase III (2006 to 2010) of our Excellent Global Corporation Plan, to enable the manufacture of attractive products at a low cost and timely market introduction, the Canon

Group worked to reduce costs and raise operational efficiency by continuing to move forward with various measures in each area of development, procurement, production and sales, and also strengthened operating frameworks by newly establishing an Executive Officer System.

As to the earnings for the first half of the current business term, on a consolidated basis, we recorded net sales of 2,113.4 billion yen (down 2.5% from the first half of 2007), income before taxes and minority interests of 339.2 billion yen (down 16.5%), and net income of 214.5 billion yen (down 15.9%). Also on a non-consolidated basis, we recorded net sales of 1,395.3 billion yen (up 1.8%), ordinary profit of 256.2 billion yen (down 15.2%), and net income of 168.4 billion yen (down 16.2%).

For the interim dividend, we have decided to pay 55.0 yen per share from August 26.

For the second half of the current business term, amid uncertainty over prices of natural resources, interest rates and foreign exchange rates, we expect a continued slowdown in global economic growth, and with competition intensifying more and more, business conditions for the Canon Group will remain extremely severe. Despite these adverse circumstances, the Canon Group is committed to making all necessary efforts to achieve improved results in the second half of the fiscal year.

We look forward to your continued support and encouragement in the future.

August 2008

Fujio Mitarai
Chairman & CEO
Tsuneji Uchida
President & COO

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Change in Profits

Net Sales (Consolidated)
100 MILLIONS OF YEN

Net Sales (Non-Consolidated)
100 MILLIONS OF YEN

**Income before Income Taxes and
Minority Interests (Consolidated)**
100 MILLIONS OF YEN

Ordinary Profit (Non-Consolidated)
100 MILLIONS OF YEN

Net Income (Consolidated)
100 MILLIONS OF YEN

Net Income (Non-Consolidated)
100 MILLIONS OF YEN

Business Conditions by Operations**n Sales by Operations****Consolidated**

| Operations | Sales (100 millions of yen) | Change from the First Half of Fiscal 2007 (%) |
|-----------------------------------|-----------------------------------|--|
| Business Machines | 13,890 | (4.0) |
| Office Imaging Products | 5,991 | (5.3) |
| Computer Peripherals | 7,432 | (2.3) |
| Business Information Products | 467 | (12.6) |
| Cameras | 5,294 | 1.9 |
| Optical and Other Products | 1,950 | (2.8) |
| Total | 21,134 | (2.5) |

Non-Consolidated

| Operations | Sales (100 millions of yen) | Change from the First Half of Fiscal 2007 (%) |
|-----------------------------------|-----------------------------------|--|
| Business Machines | 8,884 | (3.9) |
| Office Imaging Products | 2,566 | (7.4) |
| Computer Peripherals | 6,318 | (2.4) |
| Cameras | 4,139 | 12.2 |
| Optical and Other Products | 930 | 19.7 |
| Total | 13,953 | 1.8 |

Consolidated**Non-Consolidated**

Note:

Regarding the segment of Business Information Products within the Business Machines category in the consolidated information above, there were no sales on a non-consolidated basis.

n Business Machines Operations

Office Imaging Products

In the imageRUNNER series of office-use digital networked multifunctional devices, we launched seven new models for four types of color machines in the Japanese market to accommodate to the market shift from black-and-white to color machines. We strengthened our product range especially by launching our affordable iR C3580F/C3080F with their printing speeds enhanced but without compromising their energy conservation and space-saving features, as well as the iR C2550F which offers the same basic functions at a lower price. Meanwhile, our top-line iR C5185 continued to perform well in the U.S. In black-and-white devices, we worked to increase sales of the high-speed iR5075N/5065N multifunctional devices. Moreover, we promoted our solutions business by proposing printing environments adjusted to customers' business formats and needs by using the Multifunctional Embedded Application Platform (MEAP) capable of expanding the range of functions installed on our imageRUNNER series.

In the imagePRESS series of printers for digital commercial printing, the imagePRESS C7000VP was chosen for the Best 10 New Products Award presented by the Nikkan Kogyo Shimbun and concurrently received the Masuda Award which is given to products of special excellence. Additionally, we expanded our product range with the launch of the imagePRESS C6000 which is capable of printing 60 pages per minute in both color and black-and-white.

In the multifunctional black-and-white machines for individuals and small-business owners, we launched two new products such as the Satera MF4270 which combines four functions (copier, printer, color scanner and fax) and an automated double-sided printing function in a compact body while offering a printing speed of 20 pages per minute, and worked to expand sales of these products.

As a result of these activities, sales for this segment fell by 5.3% on a consolidated basis and by 7.4% on a non-consolidated basis, both in comparison to the first half of 2007.

Change in Sales
100 MILLIONS OF YEN
Consolidated

Non-Consolidated

Computer Peripherals

In the inkjet printers market, there was a moderate yet definite tendency towards a decline in prices, and market conditions remained severe. At the same time, the shift from single-function to multifunctional devices continued. Under this environment, in multifunctional devices, we launched the PIXUS MX7600 suited for office-use and equipped with our newly developed PgR technology enabling high-grade printing on regular paper, and the home-use PIXUS MX850 equipped with a duplex Auto Document Feeder, and worked to promote sales of these products. In single-function devices, we expanded our product range with the launch of the PIXUS iP2600, an entry model featuring slim form and stylish design, and the compact PIXUS iP100 photo printer which offers five color ink, minimum 1pl ink drop size, and high-quality resolution printing of 9600 dpi. As a result, we were able to substantially increase unit sales of inkjet printers despite the sluggish market. Meanwhile, sales of consumables including ink cartridges were also strong.

Regarding laser beam printers, OEM-brand products continued robust expansion in color products. In black-and-white products, the growth of multifunctional devices sustained strong but single-function devices slowed down. For Canon-brand products, in color machines, we launched the Satera LBP5050/5050N which features a compact body, only 262mm in height, and a color printing speed of 8 pages per minute, and worked to promote sales of these products. In black-and-white machines, we launched five models including the Satera LBP3980 capable of printing 35 pages per minute and up to A3 size, and the Satera LBP3310 capable of printing A4 size and equipped with an automatic duplexing capability as standard. Additionally, we worked to expand our solutions business utilizing the MEAP-Lite function expansion system.

As a result of these activities, sales for this segment fell by 2.3% on a consolidated basis and by 2.4% on a non-consolidated basis, both in comparison to the first half of 2007.

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Change in Sales
100 MILLIONS OF YEN
Consolidated

Non-Consolidated

Business Information Products

The office-use document scanners market continued to grow due to document digitization becoming widespread. Demand has been rising especially for low-priced compact products due to corporations carrying out upgrades of their internal PC and network environments. Under these conditions, in the image FORMULA series handled by Canon Electronics Inc., we launched the DR-X10C as a new version of the flagship model and promoted the compact and affordable DR-2510C and DR-2010C, achieving a steady growth in unit sales as a result.

Regarding calculators handled by Canon Electronics Business Machines (H.K.) Co., Ltd., we launched in the Japanese market the FN-600 equipped with financial calculator functions such as loan calculations and worked to expand sales. Regarding electronic dictionaries handled by the same company, we launched the wordtank V903 which offers rich Chinese language content for learners of Chinese, and the wordtank C36 for high-school students, and worked to expand sales. Despite these efforts, sales of electronic dictionaries declined.

Sales of servers and personal computers handled by Canon Marketing Japan Inc. declined as that company focused on its shift from sales of single products to the solutions business.

As a result of these activities, sales for this segment fell by 12.6% on a consolidated basis in comparison to the first half of 2007. For this segment, there were no sales on a non-consolidated basis.

Change in Sales
100 MILLIONS OF YEN
Consolidated

n Camera Operations

In digital cameras, demand for SLR models continued to grow. Under these conditions, in the EOS Kiss series which has been widely popular in the market, we expanded our product range with the launch of the affordable EOS Kiss X2 which accomplishes an even higher image quality owing to its 12.2 mega pixel CMOS sensor, and its sibling model, the EOS Kiss F for first-time users of SLR. Furthermore, as we worked to promote sales of the EOS 40D for advanced amateur photographers and other products, sales of SLR models developed positively. Consequently, sales of our EF lens series, dedicated flashes and other products also marked sound sales increases.

Regarding compact digital cameras, in our stylishly designed IXY DIGITAL series, we launched four models including the IXY DIGITAL 20 IS which features an enhanced image stabilization and a 3x zoom function with upgraded color variation, and the IXY DIGITAL 820 IS which boasts a optical 5x zoom function. Additionally, in the PowerShot series with its ample product range for a variety of photographic styles, we launched three new products including the PowerShot A590 IS which realized a combination of high performance with ease of use by loading Easy mode that enables easy shots of beautiful photographs and features optical 4x zoom function. Sales of digital compact cameras increased as a result.

In compact photo printers, in the dye sublimation SELPHY series, we strengthened our range of products by launching two new models including the CP770 based on a new concept targeting mothers with small children.

In digital video cameras, we increased our share of the market for HD video cameras by launching new products such as the iVIS HF10 which enables recording up to twelve hours by loading double memory comprised of an internal flash memory and an SD card slot as recording medium.

As a result of these activities, sales for this segment grew by 1.9% on a consolidated basis and by 12.2% on a non-consolidated basis, both in comparison to the first half of 2007.

Change in Sales
100 MILLIONS OF YEN
Consolidated

Non-Consolidated

n Optical and Other Products Operations

In mirror projection mask aligners for LCDs, the market improved substantially as panel manufacturers made proactive capital investment in reaction to the improved demand and supply situation for large-size LCD panels and rising panel prices. Under these conditions, as we worked to promote sales of our MPAsp-H710, the eighth-generation mirror projection mask aligners for LCDs and other products, sales resulted in significant sales growth.

In semiconductor production equipment, we experienced lower sales amid sustained severe market conditions due to falling demand caused by semiconductor manufacturers curbing capital investment in reaction to slumping semiconductor prices.

Regarding large-format inkjet printers, in the imagePROGRAF series, we launched the imagePROGRAF iPF720 capable of printing A0-plus paper for businesses that use CAD drawings for architecture or design, and the imagePROGRAF iPF605 capable of printing A1-plus paper. Sales posted solid growth as a result. Additionally, we launched PosterArtist 2008, a software application for the easy production of professional quality posters.

Regarding broadcast-use television lenses, we promoted sale of television lenses including DIGISUPER 86AF equipped with an autofocus function adaptive to high definition television.

In medical equipment, we launched CR-1, a non-mydratic digital retinal camera capable of producing high-quality images for medical examinations at two-thirds less flash intensity than before.

Sale of die bonders handled by Canon Machinery Inc. and magnetic head film deposition equipment handled by Canon ANELVA Corporation were depressed amid sluggish market conditions.

As a result of these activities, sales for this segment fell by 2.8% on a consolidated basis and grew by 19.7% on a non-consolidated basis, both in comparison to the first half of 2007.

Change in Sales
100 MILLIONS OF YEN
Consolidated

Non-Consolidated

Consolidated Financial Statements

Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.

Consolidated Balance Sheets

| ASSETS | As of June 30, 2008 (Unaudited) | Millions of yen As of Dec. 31, 2007 |
|--|---------------------------------------|---|
| Current assets: | | |
| Cash and cash equivalents | 866,395 | 944,463 |
| Short-term investments | 20,931 | 20,499 |
| Trade receivables, net | 703,690 | 794,240 |
| Inventories | 614,179 | 563,474 |
| Prepaid expenses and other current assets | 278,608 | 286,111 |
| Total current assets | 2,483,803 | 2,608,787 |
| Noncurrent receivables | 14,748 | 15,239 |
| Investments | 129,084 | 90,086 |
| Property, plant and equipment, net | 1,384,775 | 1,364,702 |
| Other assets | 445,786 | 433,811 |
| Total assets | 4,458,196 | 4,512,625 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| | As of June 30, 2008 (Unaudited) | Millions of yen As of Dec. 31, 2007 |
| Current liabilities: | | |
| Short-term loans and current portion of long-term debt | 16,114 | 18,317 |
| Trade payables | 511,112 | 514,226 |
| Accrued income taxes | 106,407 | 150,726 |
| Accrued expenses | 316,407 | 357,525 |
| Other current liabilities | 182,574 | 215,911 |
| Total current liabilities | 1,132,614 | 1,256,705 |
| Long-term debt, excluding current installments | 10,138 | 8,680 |
| Accrued pension and severance cost | 42,979 | 44,710 |
| Other noncurrent liabilities | 53,268 | 57,324 |
| Total liabilities | 1,238,999 | 1,367,419 |
| Minority interests | 211,268 | 222,870 |

| Commitment and contingent liabilities | | |
|--|------------------|------------------|
| Stockholders equity: | | |
| Common stock | 174,736 | 174,698 |
| [Authorized shares] (share) | [3,000,000,000] | [3,000,000,000] |
| [Issued shares] (share) | [1,333,711,360] | [1,333,636,210] |
| Additional paid-in capital | 402,866 | 402,991 |
| Legal reserve | 52,500 | 46,017 |
| Retained earnings | 2,852,485 | 2,720,146 |
| Accumulated other comprehensive income (loss) | (18,444) | 34,670 |
| Treasury stock, at cost | (456,214) | (456,186) |
| [Treasury shares] (share) | [72,594,874] | [72,588,428] |
| Total stockholders equity | 3,007,929 | 2,922,336 |
| Total liabilities and stockholders equity | 4,458,196 | 4,512,625 |

Notes:

1. Allowance for doubtful receivables 13,213 million yen
2. Accumulated depreciation of property, plant and equipment 1,683,150 million yen
3. Accumulated other comprehensive income (loss) includes foreign currency translation adjustments, net unrealized gains and losses on securities, net gains and losses on derivative financial instruments and pension liability adjustments.
4. Time deposits and Marketable securities, which had been previously disclosed separately in the consolidated balance sheets, have been reclassified to Short-term investments to conform to the current year presentation.
5. Collateral assets 223 million yen
6. Guarantees of bank borrowings by employees and consolidated subsidiaries and affiliated companies 26,066 million yen
7. Number of consolidated subsidiaries and affiliated companies accounted for under equity method is 240 and 18 respectively.

Consolidated Statements of Income

| | Six months ended June 30, 2008 (Unaudited) | Millions of yen Six months ended June 30, 2007 (Unaudited) |
|--|---|--|
| Net sales | 2,113,432 | 2,166,724 |
| Cost of sales | 1,071,977 | 1,059,170 |
| Gross profit | 1,041,455 | 1,107,554 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 535,009 | 548,411 |
| Research and development expenses | 175,463 | 170,267 |
| | 710,472 | 718,678 |
| Operating profit | 330,983 | 388,876 |
| Other income (deductions): | | |
| Interest and dividend income | 10,966 | 17,367 |
| Interest expense | (663) | (795) |
| Other, net | (2,041) | 693 |
| | 8,262 | 17,265 |
| Income before income taxes and minority interests | 339,245 | 406,141 |
| Income taxes | 117,338 | 142,836 |
| Income before minority interests | 221,907 | 263,305 |
| Minority interests | 7,422 | 8,122 |
| Net income | 214,485 | 255,183 |

Note:

Net income per share

Basic 170.08 yen

Diluted 170.07 yen

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Consolidated Statement of Stockholders Equity

| | | | | | | | Millions of yen |
|-----------------|----------------------------------|------------------|----------------------|---|-------------------|---------------------------------|-----------------|
| Common stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total stockholders equity | |
| <hr/> | | | | | | | |
| | | | | | | 18 | |

Non-Consolidated Financial Statements
Non-Consolidated Balance Sheets

| ASSETS | As of June 30, 2008 | Millions of yen As of Dec. 31, 2007 |
|---|------------------------|---|
| Current assets | 1,344,356 | 1,356,510 |
| Cash and deposits | 22,818 | 5,676 |
| Notes receivable | 247,038 | 233,775 |
| Accounts receivable | 564,623 | 604,547 |
| Marketable securities | 42,430 | 75,920 |
| Finished goods | 131,107 | 110,168 |
| Work in process | 124,410 | 112,051 |
| Raw materials and supplies | 5,077 | 4,731 |
| Deferred tax assets | 47,262 | 52,989 |
| Short-term loans receivable | 51,273 | 49,735 |
| Other current assets | 108,319 | 106,926 |
| Allowance for doubtful receivables | (1) | (8) |
| Fixed assets | 1,491,704 | 1,434,382 |
| Property, plant and equipment, net | 927,128 | 912,986 |
| Buildings | 491,715 | 465,680 |
| Machinery | 184,835 | 172,863 |
| Vehicles | 329 | 399 |
| Tools and equipment | 53,625 | 55,167 |
| Land | 138,187 | 138,165 |

| | | |
|---|------------------|------------------|
| Construction in progress | 58,437 | 80,712 |
| Intangibles fixed assets | 43,125 | 42,497 |
| Software | 39,903 | 39,205 |
| Other intangibles | 3,222 | 3,292 |
| Investments and other assets | 521,451 | 478,899 |
| Marketable securities-noncurrent | 30,889 | 28,471 |
| Investments in affiliated companies | 411,166 | 367,132 |
| Long-term loans receivable | 6,767 | 6,767 |
| Long-term pre-paid expenses | 12,251 | 12,957 |
| Deferred tax assets-noncurrent | 55,505 | 57,381 |
| Guarantees | 1,392 | 1,787 |
| Other noncurrent assets | 3,539 | 4,465 |
| Allowance for doubtful receivables-noncurrent | (58) | (61) |
| Total assets | 2,836,060 | 2,790,892 |

LIABILITIES AND NET ASSETS

Millions of yen

| | As of June 30, 2008 | As of Dec. 31, 2007 |
|--|--------------------------------|------------------------|
| Current liabilities | 811,879 | 854,642 |
| Notes payable | 2,519 | 2,440 |
| Accounts payable | 419,527 | 419,444 |
| Short-term loans | 139,914 | 94,465 |
| Other payable | 74,004 | 109,473 |
| Accrued expenses | 56,169 | 79,992 |
| Accrued income taxes | 78,830 | 115,668 |
| Deposits | 11,753 | 10,576 |
| Accrued warranty expenses | 3,269 | 4,705 |
| Accrued bonuses for employees | 5,197 | 5,194 |
| Accrued directors' bonuses | 198 | 360 |
| Other current liabilities | 20,499 | 12,325 |
| Noncurrent liabilities | 42,185 | 45,684 |
| Convertible debt | 53 | 128 |
| Accrued pension and severance cost | 38,081 | 41,713 |
| Accrued directors' retirement benefits | 1,449 | 1,368 |
| Reserve for environmental provision | 1,370 | 2,475 |
| Accrued long service rewards for employees | 1,232 | - |
| Total liabilities | 854,064 | 900,326 |
| Stockholders' Equity | 1,979,601 | 1,886,784 |
| Common stock | 174,736 | 174,698 |
| Capital surplus | 306,282 | 306,250 |
| Additional paid-in capital | 306,262 | 306,225 |
| Other capital surplus | 20 | 25 |
| Retained earnings | 1,954,797 | 1,862,022 |
| Legal reserve | 22,114 | 22,114 |
| Other retained earnings | 1,932,683 | 1,839,908 |
| Reserve for special depreciation | 5,917 | 7,694 |
| Reserve for deferral of capital gain on property | 2,023 | 1,255 |
| Special reserves | 1,249,928 | 1,249,928 |
| Retained earnings brought forward | 674,815 | 581,031 |
| Treasury stock, at cost | (456,214) | (456,186) |
| Valuation and translation adjustments | 2,333 | 3,782 |
| Net unrealized gains (losses) on securities | 3,141 | 5,028 |
| Net deferred gains (losses) on hedges | (808) | (1,246) |
| Subscription rights to shares | 62 | - |

| | | |
|---|------------------|------------------|
| Total net assets | 1,981,996 | 1,890,566 |
| Total liabilities and net assets | 2,836,060 | 2,790,892 |

Non-Consolidated Statements of Income

| | Six months ended June 30, 2008 | Millions of yen Six months ended June 30, 2007 |
|---|---|---|
| Net sales | 1,395,347 | 1,370,988 |
| Cost of sales | 894,697 | 830,843 |
| Gross profit | 500,650 | 540,145 |
| Selling, general and administrative expenses | 264,760 | 259,782 |
| Operating profit | 235,890 | 280,363 |
| Other Income | 62,703 | 60,708 |
| Interest income | 687 | 1,684 |
| Dividend income | 9,462 | 13,970 |
| Rental income | 29,620 | 21,855 |
| Royalty income | 15,203 | 17,726 |
| Miscellaneous income | 7,731 | 5,473 |
| Other Expense | 42,382 | 38,795 |
| Interest expense | 1,928 | 314 |
| Depreciation of rental assets | 26,321 | 19,009 |
| Loss on disposal and write-off of inventories | 1,388 | 1,910 |
| Foreign exchange loss | 8,920 | 12,499 |
| Miscellaneous loss | 3,825 | 5,063 |
| Ordinary profit | 256,211 | 302,276 |
| Non-Ordinary Income | 16 | 494 |
| Gain on sales of fixed assets | 16 | 404 |
| Gain on sales of marketable securities-noncurrent | 0 | 90 |
| Non-Ordinary Loss | 1,595 | 1,433 |
| Loss on sales and disposal of fixed assets | 1,595 | 1,433 |
| Income before income taxes | 254,632 | 301,337 |
| Income taxes -Current | 77,625 | 104,356 |
| -Deferred | 8,568 | (3,944) |
| Net income | 168,439 | 200,925 |

Notes to Non-Consolidated Balance Sheets

| | |
|---|---------------------|
| 1. Accumulated depreciation of property, plant and equipment | 915,209 million yen |
| Accumulated impairment losses of property, plant and equipment | 564 million yen |
| 2. Cautionary obligation and other cautionary obligation contract | 20,786 million yen |

Note to Non-Consolidated Statements of Income

| | |
|----------------------|------------|
| Net income per share | 133.57 yen |
|----------------------|------------|

Standard for Allowances

(Accrued long service rewards for employees)

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

Note to change in Accounting Policy

The Company has a byelaw for Refresh Leave to grant long service reward and refresh leave at a regular period to the employees who have been serving the Company for long years in order to refresh mind and body as well as generating new energy.

As the significance of amounts rose due to the increase in numbers of employees, and reinforcement of attendance record systems enabled to estimate the rational amounts of reward payable, the Company changed the accounting policy for long service reward from the expense of the term in which the reward was paid, to recognition of accrued long service reward based on expected amounts under the byelaw from this interim accounting period, in order to calculate periodical profit and loss more appropriately.

As a result, operating profit, ordinary profit and income before income taxes have decreased by 1,232 million yen, and net income has decreased by 739 million yen for the interim accounting period ended June 30, 2008.

Non-Consolidated Statement of changes in Stockholders Equity

| | Stockholders equity | | | | |
|--|---------------------|----------------------------|-----------------------|-------------------|----------------------------------|
| | | Capital surplus | | Retained earnings | |
| | Common stock | Additional paid-in capital | Other capital surplus | Legal reserve | Reserve for special depreciation |
| Balance at December 31, 2007 | 174,698 | 306,225 | 25 | 22,114 | 7,694 |
| Changes in the term | | | | | |
| Conversion of convertible debt | 38 | 37 | | | |
| Transfer to reserve for special depreciation | | | | | 116 |
| Reversal of reserve for special depreciation | | | | | (1,893) |
| Transfer to reserve for deferral of capital gain on property | | | | | |
| Reversal of reserve for deferral of capital gain on property | | | | | |
| Dividends from surplus | | | | | |
| Net income | | | | | |
| Purchase of treasury stock | | | | | |
| Disposal of treasury stock | | | (5) | | |
| Net change of items other than stockholders equity | | | | | |
| Total changes in the term | 38 | 37 | (5) | | (1,777) |
| Balance at June 30, 2008 | 174,736 | 306,262 | 20 | 22,114 | 5,917 |

Notes:

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

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

(Reason for change)

The increase reflects the purchase of 10,315 shares based on the shareholders' request for purchase of shares less-than-one-unit. The decrease reflects the sale of 3,869 shares based on the shareholders' request for the sale of shares less-than-one-unit.

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Millions of yen

| Reserve for deferral of capital gain on property | Stockholders equity | | | Total stockholders equity | Valuation and translation adjustments | | Subscription rights to shares | Total net assets |
|--|---------------------|-----------------------------------|----------------|---------------------------|---|---|-------------------------------|------------------|
| | Special reserves | Retained earnings brought forward | Treasury stock | | Net unrealized gains (losses) on securities | Net deferred profits (losses) on hedges | | |
| 1,255 | 1,249,928 | 581,031 | (456,186) | 1,886,784 | 5,028 | (1,246) | - | 1,890,566 |
| | | | | 75 | | | | 75 |
| | | (116) | | - | | | | - |
| | | 1,893 | | - | | | | - |
| 795 | | (795) | | - | | | | - |
| (27) | | 27 | | - | | | | - |
| | | (75,663) | | (75,663) | | | | (75,663) |
| | | 168,439 | | 168,439 | | | | 168,439 |
| | | | (52) | (52) | | | | (52) |
| | | | 24 | 19 | | | | 19 |
| | | | | - | (1,887) | 438 | 62 | (1,387) |
| 768 | - | 93,784 | (28) | 92,817 | (1,887) | 438 | 62 | 91,430 |
| 2,023 | 1,249,928 | 674,815 | (456,214) | 1,979,601 | 3,141 | (808) | 62 | 1,981,996 |

3. Dividend from surplus

Resolution

Record date

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| | Classes of stock | Total amount of dividends (millions of yen) | Dividend per share (yen) | | Effective date |
|---|---------------------|---|--------------------------------|----------------------|--------------------|
| March 28, 2008 The ordinary general meeting of shareholders | Common stock | 75,663 | 60.00 | December 31, 2007 | March 31, 2008 |
| July 24, 2008 Board of directors meeting | Common stock | 69,361 | 55.00 | June 30, 2008 | August 26, 2008 |

COMPANY PROFILE

The following statements are the status as of June 30, 2008, if not specified otherwise.

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n Canon Group Global Network
(1) Major Overseas Bases

Name [Location]

R&D

Canon Development Americas, Inc. [U.S.A.]
 Canon Technology Europe Ltd. [U.K.]
 Canon Research Centre France S.A.S. [France]
 Canon Information Systems Research Australia Pty. Ltd. [Australia]

Manufacturing

Canon Virginia, Inc. [U.S.A.]
 Canon Giessen GmbH [Germany]
 Canon Bretagne S.A.S. [France]
 Canon Dalian Business Machines, Inc. [China]
 Canon Zhuhai, Inc. [China]
 Canon Zhongshan Business Machines Co., Ltd. [China]
 Canon (Suzhou) Inc. [China]
 Canon Inc, Taiwan [Taiwan]
 Canon Hi-Tech (Thailand) Ltd. [Thailand]
 Canon Vietnam Co., Ltd. [Vietnam]
 Canon Opto (Malaysia) Sdn. Bhd. [Malaysia]

Marketing

Canon U.S.A., Inc. [U.S.A.]
 Canon Canada Inc. [Canada]
 Canon Latin America, Inc. [U.S.A.]
 Canon Europa N.V. [Netherlands]
 Canon (UK) Ltd. [U.K.]
 Canon France S.A.S. [France]
 Canon Deutschland GmbH [Germany]
 Canon North-East Oy [Finland]
 Canon Middle East FZ-LLC [U.A.E.]
 Canon (China) Co., Ltd. [China]
 Canon Hongkong Co., Ltd. [Hong Kong]
 Canon Korea Consumer Imaging Inc. [Korea]
 Canon Singapore Pte. Ltd. [Singapore]
 Canon Australia Pty. Ltd. [Australia]
 Canon do Brasil Indústria e Comércio Limitada [Brazil]
 Canon Chile, S.A. [Chile]
 Canon South Africa Pty. Ltd. [South Africa]

R&D, Manufacturing and Marketing

Canon Electronic Business Machines (H.K.) Co., Ltd. [Hong Kong]

(2) Major Domestic Bases

Name [Location]

Canon Inc.,

Headquarters [Tokyo]
Kawasaki Office [Kanagawa Pref.]
Ayase Office [Kanagawa Pref.]
Hiratsuka Development Center [Kanagawa Pref.]
Optics R&D Center [Tochigi Pref.]
Tamagawa Plant [Kanagawa Pref.]
Kosugi Office [Kanagawa Pref.]
Toride Plant [Ibaraki Pref.]
Fuji-Susono Research Park [Shizuoka Pref.]
Yako Office [Kanagawa Pref.]
Utsunomiya Plant [Tochigi Pref.]
Utsunomiya Optical Products Plant [Tochigi Pref.]
Ami Plant [Ibaraki Pref.]

Manufacturing

Oita Canon Inc. [Oita Pref.]
Canon Chemicals Inc. [Ibaraki Pref.]
Nagahama Canon Inc. [Shiga Pref.]
Fukushima Canon Inc. [Fukushima Pref.]

Marketing

Canon Marketing Japan Inc. [Tokyo]
Canon Software Inc. [Tokyo]

R&D, Manufacturing and Marketing

Canon Electronics Inc. [Saitama Pref.]
Canon Finetech Inc. [Saitama Pref.]
Canon Machinery Inc. [Shiga Pref.]
Nisca Corporation [Yamanashi Pref.]
Canon Precision Inc. [Aomori Pref.]
Canon ANELVA Corporation [Kanagawa Pref.]

n Main Activities of the Canon Group

Canon Group is engaged in the development, manufacture and sales of the following products.

Operations

Main Products

Business Machines

Office Imaging Products

Network Multifunction Devices,
Laser Multifunction Printers,
Copying Machines

Computer Peripherals

Laser Beam Printers,
Inkjet Printers,
Inkjet Multifunction Printers,
Image Scanners

Business Information
Products

Computers,
Document Scanners,
Handy Terminals,
Calculators,
Electronic Dictionaries

Cameras

Digital Cameras,
Digital Video Cameras,
Interchangeable Lenses,
LCD Projectors

Optical and Other Products

Semiconductor Production Equipment,
Mirror Projection Mask Aligners for LCDs,
Broadcast-use Television Lenses,
Medical Image Recording Equipment,
Large-Format Inkjet Printers,
Vacuum Equipment for Electronic
Components

n Employees of the Canon Group Consolidated

| | |
|---------------------|--|
| Number of employees | 142,491 persons |
| | (Increase of 11,139 persons from the end of the previous term) |
| Americas | 10,881 persons |
| Europe | 12,318 persons |
| Japan | 58,906 persons |
| Others | 60,386 persons |

Note:

The number of employees represents the total number of employees excluding those who do not work full-time.

Non-Consolidated

| | |
|--|----------------|
| Number of employees | 21,986 persons |
| Increase from the end of the previous term | 1,100 persons |
| Average age | 39.2 years |
| Average years of service | 15.7 years |

Notes:

- The number of employees represents the total number of employees excluding those who do not work full-time.
- The number of employees does not include those who have been dispatched to affiliated companies, etc. (2,567 persons).

n Shares and Share Options of the Company

(1) Shares

Number of Shares Issuable 3,000,000,000 shares

Number of Shares Issued, Capital Stock and Number of Shareholders

| | As of the end of the Previous Term | Increase (decrease) during this Half-Term | As of the end of this Half-Term |
|------------------------------------|---------------------------------------|--|------------------------------------|
| Number of Shares Issued (share) | 1,333,636,210 | 75,150 | 1,333,711,360 |

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| | | | |
|---------------------------------|-----------------|------------|-----------------|
| Capital Stock (yen) | 174,698,297,729 | 37,499,850 | 174,735,797,579 |
| Number of Shareholders (person) | 158,388 | 52 | 158,440 |

Note:

The increase of the number of shares issued and capital stock during this half-term reflect the conversion of convertible debentures into shares.

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(2) Shareholding by Category

| | Number of Shareholders | Number of Shares |
|--|------------------------|------------------|
| Banking Companies | 375 | 477,272,195 |
| Securities Underwriting Companies | 63 | 50,811,941 |
| Other Domestic Companies | 1,394 | 43,195,443 |
| Foreign Companies, etc. | 1,187 | 592,595,812 |
| Individual and Others | 155,420 | 97,241,095 |
| Treasury Stock | 1 | 72,594,874 |
| Total | 158,440 | 1,333,711,360 |

Shareholding Ratio**(3) Share Options****1. Share Options Issued as Stock Options**

| | Number of share options | Class and number of shares to be acquired | Number of holders |
|-------------------|-------------------------|---|-------------------|
| 1st Share Options | 5,920 options | Common stock 592,000 shares | 63 persons |

2. Convertible Debentures**The third series of Unsecured Convertible Debentures Due 2008**

n Directors and Corporate Auditors of the Company

Directors

| Position | Name | Business in Charge or Representative of other Organization, etc. |
|---|---|--|
| Chairman & CEO President & COO | Fujio Mitarai Tsuneji Uchida Toshizo Tanaka | Chairman of Nippon Keidanren |
| Executive Vice President & CFO Senior Managing Director | Nobuyoshi Tanaka | Group Executive of Policy & Economy Research Headquarters |
| Senior Managing Director | Junji Ichikawa | Group Executive of Corporate Intellectual Property and Legal Headquarters |
| Senior Managing Director | Akiyoshi Moroe | Chief Executive of Optical Products Operations |
| Senior Managing Director | Kunio Watanabe | Group Executive of External Relations Headquarters and Group Executive of General Affairs Headquarters |
| Managing Director Managing Director | Yoroku Adachi Yasuo Mitsuhashi | Group Executive of Corporate Planning Development Headquarters and Deputy Group Executive of Policy & Economic Research Headquarters |
| Managing Director | Tomonori Iwashita | President & CEO of Canon U.S.A., Inc. Chief Executive of Peripheral Products Operations |
| Managing Director | Masahiro Osawa | Group Executive of Environment Headquarters and Group Executive of Quality Management Headquarters |
| Managing Director | Shigeyuki Matsumoto | Group Executive of Finance & Accounting Headquarters |
| Managing Director | Katsuichi Shimizu | Group Executive of Device Technology Development Headquarters and Deputy Group Executive of Core Technology Development Headquarters |
| Managing Director Managing Director | Ryoichi Bamba Toshio Homma | Chief Executive of Inkjet Products Operations |
| Managing Director Managing Director | Masaki Nakaoka | President of Canon Europa N.V. Chief Executive of L Printer Products Operations |
| Managing Director | Haruhisa Honda | Chief Executive of Office Imaging Products Operations Group Executive of Production Engineering |

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| | | |
|----------|-------------------|---|
| Director | Shunichi Uzawa | Headquarters Executive Vice President of Canon U.S.A., Inc. |
| Director | Toshiyuki Komatsu | Deputy Group Executive of Corporate Planning Development Headquarters |
| Director | Tetsuro Tahara | Group Executive of Global Manufacturing & Logistics Headquarters |
| Director | Seijiro Sekine | Group Executive of Information & Communication Systems Headquarters |
| Director | Shunji Onda | Group Executive of Global Procurement Headquarters |
| Director | Kazunori Fukuma | President & Representative Director of SED Inc. |
| Director | Hideki Ozawa | President of Canon (China) Co., Ltd. |
| Director | Masaya Maeda | Group Executive of Image Communication Products Operations |

Corporate Auditors

| Position | Name | Business in Charge or Representative of other Organization, etc. |
|-------------------|-------------------|--|
| Corporate Auditor | *Keijiro Yamazaki | |
| Corporate Auditor | Kunihiro Nagata | |
| Corporate Auditor | Tadashi Ohe | Attorney |
| Corporate Auditor | Yoshinobu Shimizu | Certified Public Accountant |
| Corporate Auditor | Minoru Shishikura | |

Notes:

1. Mr. Fujio Mitarai, Mr. Tsuneji Uchida and Mr. Toshizo Tanaka are Representative Directors.
2. Corporate Auditor with asterisk was newly elected at the Ordinary General Meeting of Shareholders for the 107th Business Term held on March 28, 2008, and assumed the office.
3. Corporate Auditors Mr. Tadashi Ohe, Mr. Yoshinobu Shimizu and Mr. Minoru Shishikura are Outside Corporate Auditors

defined by
item 16,
Article 2 of the
Corporation
Law.

n Executive Officers of the Company

| Name | Business in Charge or Representative of other Organization, etc. |
|-------------------|--|
| Sachio Kageyama | President of Canon Vietnam Co., Ltd. |
| Masayuki Ito | President & Representative Director of Canon Ecology Industry Inc. |
| Masahiro Haga | Executive Vice President of Canon U.S.A., Inc. |
| Kengo Uramoto | Group Executive of Human Resources Management & Organization Headquarters |
| Masanori Yamada | Deputy Chief Executive of Office Imaging Products Operations |
| Akio Noguchi | Deputy Chief Executive of Peripheral Products Operations |
| Hiroyuki Suematsu | Chief Executive of Chemical Products Operations |
| Yasuhiro Tani | Group Executive of Digital Platform Technology Development Headquarters |

n Accounting Auditor

Ernst & Young ShinNihon LLC

Hibiya Kokusai Building

2-3, Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo

(Effective July 1, 2008, Ernst & Young ShinNihon has become Ernst & Young ShinNihon LLC due to a change in legal status.)

INFORMATION ON SHARES

Business term:

From January 1 to December 31 of each year

Ordinary general meeting of shareholders:

March of each year

Record date for above:

December 31 of each year

Record date for interim dividends:

June 30 of each year

Manager of the register of shareholders:

Mizuho Trust & Banking Co., Ltd.

2-1, Yaesu 1-chome, Chuo-ku, Tokyo

Business handling place:

Stock Transfer Agency Department, Head Office

Mizuho Trust & Banking Co., Ltd.

Mailing address and telephone number:

Business Office of Stock Transfer Agency Department

Mizuho Trust & Banking Co., Ltd.

17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722

Telephone: 0120-288-324 (toll free)

03-5213-5213

Intermediary office:

Branches of Mizuho Trust & Banking Co., Ltd.

Head Office and Branches of Mizuho Investors Securities Co., Ltd.

Number of shares constituting one unit:

100 shares

Newspaper in which public notice is inserted:

The Nihon Keizai Shimbun

Stock exchange listings:

Tokyo, Osaka, Nagoya, Fukuoka, Sapporo and New York

Stock code:

7751

Fee for issuing share certificate:

The amount equivalent to stamp duty for issue of each new share certificate

