

CANON INC
Form 6-K
October 26, 2007

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**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 October, 2007
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-_____

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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.

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

The following material is included.

1. CONSOLIDATED RESULTS FOR THE THIRD QUARTER AND THE NINE MONTHS ENDED SEPTEMBER 30, 2007
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Table of Contents**CONSOLIDATED RESULTS FOR THE THIRD QUARTER AND
THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

October 25, 2007

CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

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

| | Actual | | | Projected | | |
|---|--|--|-----------|--|-------------------------------|-----------|
| | Nine months ended September 30, 2007 (Unaudited) | Nine months ended September 30, 2006 (Unaudited) | Change(%) | Nine months ended September 30, 2007 (Unaudited) | Year ending December 31, 2007 | Change(%) |
| Net sales | ¥ 3,217,547 | ¥ 2,940,224 | + 9.4 | \$ 27,978,670 | ¥ 4,560,000 | + 9.7 |
| Operating profit | 563,097 | 511,163 | + 10.2 | 4,896,496 | 773,000 | + 9.3 |
| Income before income taxes and minority interests | 568,468 | 521,371 | + 9.0 | 4,943,200 | 788,000 | + 9.6 |
| Net income | ¥ 360,487 | ¥ 329,761 | + 9.3 | \$ 3,134,670 | ¥ 500,000 | + 9.8 |
| Net income per share: | | | | | | |
| - Basic | ¥ 276.67 | ¥ 247.66 | + 11.7 | \$ 2.41 | ¥ 396.49 | + 15.9 |
| - Diluted | 276.62 | 247.57 | + 11.7 | 2.41 | | |

CONSOLIDATED RESULTS FOR THE THIRD QUARTER

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

| | Actual | | |
|---|---|---|-----------|
| | Three months ended September 30, 2007 (Unaudited) | Three months ended September 30, 2006 (Unaudited) | Change(%) |
| Net sales | ¥ 1,050,823 | ¥ 987,969 | + 6.4 |
| Operating profit | 174,221 | 172,686 | + 0.9 |
| Income before income taxes and minority interests | 162,327 | 180,326 | 10.0 |
| Net income | ¥ 105,304 | ¥ 115,587 | 8.9 |
| Net income per share: | | | |
| - Basic | ¥ 81.94 | ¥ 86.80 | 5.6 |
| - Diluted | 81.93 | 86.78 | 5.6 |

| | As of September 30, 2007 (Unaudited) | | As of December 31, 2006 | Actual Change(%) | | As of September 30, 2007 (Unaudited) |
|----------------------------|---|---|--|-----------------------------|----|---|
| Total assets | ¥4,295,325 | ¥ | 4,521,915 | 5.0 | \$ | 37,350,652 |
| Stockholders equity | ¥2,819,596 | ¥ | 2,986,606 | 5.6 | \$ | 24,518,226 |

- 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 JPY115=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of September 28, 2007, solely for the convenience of the reader.

Canon Inc.
Headquarter office

30-2, Shimomaruko 3-chome, Ohta-ku,
Tokyo 146-8501, Japan
Phone: +81-3-3758-2111

Table of Contents**I. Operating Results and Financial Conditions****2007 Third Quarter in Review**

Looking back at the global economy in the third quarter of 2007, economic expansion was fairly steady during the term. In the United States, despite concern over the economic fallout of the subprime loan crisis, the impact was limited and the economy continued to display moderate growth. In Europe, while export growth proved sluggish, the region headed toward moderate recovery as domestic demand expanded in major European countries, boosted by such factors as increased consumer spending. Within Asia, the Chinese economy maintained a high rate of growth while other economies in the region also enjoyed generally favorable conditions. In Japan, although consumer spending grew at a sluggish pace, the economy maintained a trend toward recovery boosted by such factors as increased capital spending.

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 term. Within the office imaging products market, sales of network digital multifunction devices (MFDs) remained solid as demand shifted in all regions toward color models and advanced functionality. In the computer peripherals segment, which includes printers, demand for laser beam printers continued growing for both color and monochrome models. Among inkjet printers, 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 steppers, used in the production of semiconductors, indicated a moderate recovery, the market for projection aligners, used to produce liquid crystal display (LCD) panels, declined due to restrained investment by LCD manufacturers. The average value of the yen in the third quarter was ¥117.67 to the U.S. dollar and ¥161.82 to the euro, representing year-on-year decreases of about 1% against the U.S. dollar and about 9% against the euro.

Amid these conditions, Canon's consolidated net sales for the third quarter increased by 6.4% from the year-ago period to ¥1,050.8 billion (U.S.\$9,138 million), boosted by a solid rise in sales of digital cameras and color network MFDs, along with the positive effect of favorable currency exchange rates. The gross profit ratio in the third quarter improved 0.9 points year on year to 50.3%. The improved gross profit ratio was mainly the result of such factors as the launch of new products and continued cost-reduction efforts, which absorbed the effects of escalating raw material costs, declining sales price in the consumer products market, and an increase in depreciation expense due to the implementation of a change in accounting method to calculate depreciation of fixed assets. Owing to the improved gross profit ratio, third quarter gross profit increased by 8.3% to ¥528.4 billion (U.S.\$4,594 million). Operating expenses for the third quarter increased by 12.3% from the year-ago period to ¥354.1 billion (U.S.\$3,079 million), mainly due to an increase in depreciation expense, a factor that also led to a rise in cost of sales, along with R&D spending of ¥90.0 billion (U.S.\$783 million), representing a year-on-year increase of 27.3%. Consequently, third-quarter operating profit totaled ¥174.2 billion (U.S.\$1,515 million), a year-on-year increase of 0.9%. Other income (deductions) decreased by ¥19.5 billion (U.S.\$170 million), due to an increase in currency exchange loss on foreign-currency-denominated trade receivables. Income before income taxes and minority interests in the third quarter totaled ¥162.3 billion (U.S.\$1,412 million), a year-on-year decrease of 10.0%, and third quarter net income totaled ¥105.3 billion (U.S.\$916 million), a decrease of 8.9% compared with last year.

Basic net income per share for the third quarter was ¥81.94 (U.S.\$0.71), a year-on-year decrease of ¥4.86 (U.S.\$0.04).

Table of Contents**Results by Product Segment**

In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, continued to expand for color models in both the domestic Japanese and overseas markets. Additionally, among color network digital MFDs, the competitively priced iR C2880 series and the high-end iR C5185 series continued to enjoy strong sales. Among monochrome network digital MFDs, the iR5055 series and the new energy-saving iR3025 series contributed to expanded sales. Overall, sales of office imaging products for the third quarter recorded a year-on-year increase of 13.2%. In the field of computer peripherals, while laser beam printers achieved year-on-year unit sales growth amid strong demand for monochrome models, and consumables also grew favorably, sales in value terms for the segment remained at the same approximate level as the same period last year due to an increase in low-priced models as a percentage of unit sales as market demand shifted toward low-end models. 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 12.8%, boosted by such factors as increased unit sales of multifunction models, such as the PIXMA MP600, and healthy sales growth for consumables. As a result, sales of computer peripherals for the third quarter realized a year-on-year increase of 2.9%. Within the field of business information products, demand for document scanners grew, contributing to a sales increase of 1.6%. Collectively, sales of business machines for the third quarter totaled ¥685.8 billion (U.S.\$5,963 million), a year-on-year increase of 7.2%. Operating profit for the business machine segment totaled ¥152.4 billion (U.S.\$1,325 million), a year-on-year increase of 9.5%, made possible by such factors as increased sales and an improved gross profit ratio.

Within the camera segment, demand for digital SLR cameras fueled growth, with particularly strong sales for the competitively priced EOS DIGITAL REBEL XT_i and the new advanced-amateur model EOS 40D, launched in the third quarter of this year, which, in turn, led to expanded sales of interchangeable lenses for SLR cameras. Sales of compact digital cameras also continued to expand steadily with healthy demand for stylish ELPH-series models as well as for PowerShot-series models, which cater to a diverse range of shooting styles. Accordingly, unit sales of digital cameras for the third quarter expanded approximately 20% compared with the year-ago period. As a result, camera sales overall for the term increased by 14.0% year on year to ¥268.0 billion (U.S.\$2,330 million). Operating profit for the camera segment totaled ¥76.9 billion (U.S.\$668 million), a year-on-year increase of 14.0%, boosted by such factors as the suppression of price declines through the launch of new products and continued cost-reduction efforts, as well as sales growth.

In the optical and other products segment, while steppers, used in the production of semiconductors, enjoyed steady demand, sales of optical products decreased for the three-month period amid declining demand for aligners for the production of LCD panels as investment by LCD manufacturers remained at a low level. As a result, third-quarter sales for the segment totaled ¥97.0 billion (U.S.\$844 million), a year-on-year decrease of 14.4%. Operating profit for the segment decreased by 83.6% year on year to ¥2.4 billion (U.S.\$20 million).

Cash Flow

In the nine months ended September 30, 2007, Canon generated cash flow from operating activities of ¥562.6 billion (U.S.\$4,892 million), a year-on-year increase of ¥102.9 billion (U.S.\$895 million), reflecting the growth in net sales and net income and the change in working capital. Cash flow from investing activities totaled ¥340.9 billion (U.S.\$2,965 million), due to such factors as active capital investment, used mainly to expand production capabilities. As a result, free cash flow totaled ¥221.7 billion (U.S.\$1,927 million), representing a ¥90.2 billion (U.S.\$784 million) improvement from ¥131.5 billion for the year-ago period.

Cash flow from financing activities recorded an outlay of ¥602.7 billion (U.S.\$5,241 million), mainly resulting from the dividend payout of ¥131.6 billion (U.S.\$1,144 million) in accordance with the company's basic policy regarding profit distribution and the ¥450.0 billion (U.S.\$3,913 million) purchase of treasury stock with the aim of improving capital efficiency and ensuring a flexible capital strategy. Consequently, cash and cash equivalents totaled ¥766.3 billion (U.S.\$6,664 million), representing a ¥389.3 billion (U.S.\$3,385 million) decrease from the end of the previous year.

Table of Contents**Outlook**

As for the global economic outlook in the fourth quarter, although uncertainty surrounds such factors as the future direction of crude-oil and raw-material prices and a slowdown in the U.S. economy, the global economy is expected to continue growing gradually.

In the businesses in which Canon is involved, demand for both digital SLR cameras and compact digital cameras is expected to continue enjoying robust growth. As for 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, demand for steppers indicates a trend toward steady performance supported by increasing orders from chip manufacturers, while demand for projection aligners used in the production of LCD panels is expected to continue being sluggish as investment levels by LCD manufacturers remain low.

Following a review of the current business climate and currency exchange trends, the company has revised its forecast for the 2007 fiscal year and now anticipates consolidated net sales of ¥4,560.0 billion (U.S.\$39,652 million) while maintaining its forecasts for consolidated income before income taxes and minority interests of ¥788.0 billion (U.S.\$6,852 million), and consolidated net income of ¥500.0 billion (U.S.\$4,348 million). These forecasts reflect an increase in depreciation expense of around ¥63.0 billion (U.S.\$548 million) for the full business year, resulting from the change in the accounting method used to calculate depreciation. Additionally, these forecasts assume exchange rates of ¥115 to the U.S. dollar and ¥160 to the euro, representing an approximately 2% appreciation of the yen against the U.S. dollar, and an approximately 5% depreciation of the yen against the euro compared with the previous year.

Consolidated Outlook**Fiscal year**

| | Millions of yen | | | Year ended December 31, 2006 | Change (%) | (B - C) / C |
|--|----------------------------|---------------------------|------------|------------------------------------|---------------|----------------|
| | Year ending | | Change | | | |
| | December 31, 2007 | | | | | |
| | Previous Outlook (A) | Revised Outlook (B) | (B - A) | | | |
| Net sales | ¥ 4,580,000 | ¥ 4,560,000 | ¥ (20,000) | ¥ 4,156,759 | + | 9.7% |
| Income before income taxes and minority interests | 788,000 | 788,000 | | 719,143 | + | 9.6% |
| Net income | 500,000 | 500,000 | | 455,325 | + | 9.8% |

This document contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as anticipate, believe, estimate, expect, intend, may, or should and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this document. A detailed description of these and other risk factors is included in Canon's annual report on Form 20-F, which is on file with the United States

Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

II. Financial Statements**1. CONSOLIDATED STATEMENTS OF INCOME****Results for the third quarter**

| | Millions of yen | | | Thousands of U.S. dollars |
|--|--|---|-----------|--|
| | Three months ended September 30, 2007 (Unaudited) | Three months ended September 30, 2006 (Unaudited) | Change(%) | Three months ended September 30, 2007 (Unaudited) |
| Net sales | ¥ 1,050,823 | ¥ 987,969 | + 6.4 | \$ 9,137,591 |
| Cost of sales | 522,471 | 499,928 | | 4,543,226 |
| Gross profit | 528,352 | 488,041 | + 8.3 | 4,594,365 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 264,117 | 244,663 | | 2,296,670 |
| Research and development expenses | 90,014 | 70,692 | | 782,730 |
| | 354,131 | 315,355 | | 3,079,400 |
| Operating profit | 174,221 | 172,686 | + 0.9 | 1,514,965 |
| Other income (deductions): | | | | |
| Interest and dividend income | 8,133 | 7,299 | | 70,722 |
| Interest expense | (350) | (560) | | (3,043) |
| Other, net | (19,677) | 901 | | (171,105) |
| | (11,894) | 7,640 | | (103,426) |
| Income before income taxes and minority interests | 162,327 | 180,326 | 10.0 | 1,411,539 |
| Income taxes | 53,578 | 61,031 | | 465,896 |
| Income before minority interests | 108,749 | 119,295 | | 945,643 |
| Minority interests | 3,445 | 3,708 | | 29,956 |
| Net income | ¥ 105,304 | ¥ 115,587 | 8.9 | \$ 915,687 |

Note: Comprehensive income for the three months ended September 30, 2007 and 2006 was JPY60,662 million (U.S.\$527,496 thousand) and JPY135,362 million, respectively.

Results for the nine months

| | Millions of yen | | | Thousands of |
|---|---|--|-----------|----------------------|
| | Nine months ended September 30, 2007 (Unaudited) | Nine months ended September 30, 2006 (Unaudited) | Change(%) | U.S. dollars |
| Net sales | ¥ 3,217,547 | ¥ 2,940,224 | + 9.4 | \$ 27,978,670 |
| Cost of sales | 1,581,641 | 1,473,470 | | 13,753,400 |
| Gross profit | 1,635,906 | 1,466,754 | + 11.5 | 14,225,270 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 812,528 | 738,372 | | 7,065,461 |
| Research and development expenses | 260,281 | 217,219 | | 2,263,313 |
| | 1,072,809 | 955,591 | | 9,328,774 |
| Operating profit | 563,097 | 511,163 | + 10.2 | 4,896,496 |
| Other income (deductions): | | | | |
| Interest and dividend income | 25,500 | 18,442 | | 221,739 |
| Interest expense | (1,145) | (1,185) | | (9,957) |
| Other, net | (18,984) | (7,049) | | (165,078) |
| | 5,371 | 10,208 | | 46,704 |
| Income before income taxes and minority interests | 568,468 | 521,371 | + 9.0 | 4,943,200 |
| Income taxes | 196,414 | 179,845 | | 1,707,948 |
| Income before minority interests | 372,054 | 341,526 | | 3,235,252 |
| Minority interests | 11,567 | 11,765 | | 100,582 |
| Net income | ¥ 360,487 | ¥ 329,761 | + 9.3 | \$ 3,134,670 |

Note: Comprehensive income for the nine months ended September 30, 2007 and 2006 was JPY417,296 million (U.S.\$3,628,661 thousand) and JPY352,837 million, respectively.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

| Sales by product | Millions of yen | | | Thousands of U.S. dollars |
|--------------------------------------|--|---|-----------|---|
| | Three months ended September 30, 2007 (Unaudited) | Three months ended September 30, 2006 (Unaudited) | Change(%) | Three months ended September 30, 2007 (Unaudited) |
| Business machines: | | | | |
| <i>Office imaging products</i> | ¥ 305,715 | ¥ 269,983 | + 13.2 | \$ 2,658,391 |
| <i>Computer peripherals</i> | 355,962 | 345,790 | + 2.9 | 3,095,322 |
| <i>Business information products</i> | 24,103 | 23,723 | + 1.6 | 209,591 |
| | 685,780 | 639,496 | + 7.2 | 5,963,304 |
| Cameras | 267,987 | 235,141 | + 14.0 | 2,330,322 |
| Optical and other products | 97,056 | 113,332 | 14.4 | 843,965 |
| Total | ¥ 1,050,823 | ¥ 987,969 | + 6.4 | \$ 9,137,591 |

| Sales by region | Millions of yen | | | Thousands of U.S. dollars |
|--------------------|--|---|-----------|---|
| | Three months ended September 30, 2007 (Unaudited) | Three months ended September 30, 2006 (Unaudited) | Change(%) | Three months ended September 30, 2007 (Unaudited) |
| Japan | ¥ 218,665 | ¥ 219,251 | 0.3 | \$ 1,901,435 |
| Overseas: | | | | |
| <i>Americas</i> | 313,805 | 299,811 | + 4.7 | 2,728,739 |
| <i>Europe</i> | 338,918 | 297,762 | + 13.8 | 2,947,113 |
| <i>Other areas</i> | 179,435 | 171,145 | + 4.8 | 1,560,304 |
| | 832,158 | 768,718 | + 8.3 | 7,236,156 |
| Total | ¥ 1,050,823 | ¥ 987,969 | + 6.4 | \$ 9,137,591 |

Results for the nine months

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-------------|------------------------------|
| | Nine months | Nine months | Nine months |

| Sales by product | ended September 30, 2007 (Unaudited) | ended September 30, 2006 (Unaudited) | Change(%) | ended September 30, 2007 (Unaudited) |
|--------------------------------------|---|---|------------------|---|
| Business machines: | | | | |
| <i>Office imaging products</i> | ¥ 938,143 | ¥ 855,420 | + 9.7 | \$ 8,157,765 |
| <i>Computer peripherals</i> | 1,116,649 | 992,453 | + 12.5 | 9,709,991 |
| <i>Business information products</i> | 77,575 | 78,219 | 0.8 | 674,566 |
| | 2,132,367 | 1,926,092 | + 10.7 | 18,542,322 |
| Cameras | 787,561 | 695,426 | + 13.2 | 6,848,357 |
| Optical and other products | 297,619 | 318,706 | 6.6 | 2,587,991 |
| Total | ¥3,217,547 | ¥ 2,940,224 | + 9.4 | \$ 27,978,670 |

| Sales by region | Millions of yen | | Change(%) | Thousands of U.S. dollars |
|------------------------|---|---|------------------|---|
| | Nine months ended September 30, 2007 (Unaudited) | Nine months ended September 30, 2006 (Unaudited) | | Nine months ended September 30, 2007 (Unaudited) |
| Japan | ¥ 676,967 | ¥ 665,549 | + 1.7 | \$ 5,886,670 |
| Overseas: | | | | |
| <i>Americas</i> | 955,754 | 894,284 | + 6.9 | 8,310,904 |
| <i>Europe</i> | 1,061,297 | 908,705 | + 16.8 | 9,228,670 |
| <i>Other areas</i> | 523,529 | 471,686 | + 11.0 | 4,552,426 |
| | 2,540,580 | 2,274,675 | + 11.7 | 22,092,000 |
| Total | ¥3,217,547 | ¥ 2,940,224 | + 9.4 | \$ 27,978,670 |

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.

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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

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

| | Millions of yen | | | Thousands of U.S. dollars |
|-----------------------------------|--|---|-----------|--|
| | Three months ended September 30, 2007 (Unaudited) | Three months ended September 30, 2006 (Unaudited) | Change(%) | Three months ended September 30, 2007 (Unaudited) |
| Business machines | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 685,780 | ¥ 639,496 | + 7.2 | \$ 5,963,304 |
| Intersegment | | | | |
| Total | 685,780 | 639,496 | + 7.2 | 5,963,304 |
| Operating cost and expenses | 533,409 | 500,397 | + 6.6 | 4,638,339 |
| Operating profit | 152,371 | 139,099 | + 9.5 | 1,324,965 |
| Cameras | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 267,987 | ¥ 235,141 | + 14.0 | \$ 2,330,322 |
| Intersegment | | | | |
| Total | 267,987 | 235,141 | + 14.0 | 2,330,322 |
| Operating cost and expenses | 191,131 | 167,751 | + 13.9 | 1,662,009 |
| Operating profit | 76,856 | 67,390 | + 14.0 | 668,313 |
| Optical and other products | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 97,056 | ¥ 113,332 | 14.4 | \$ 843,965 |
| Intersegment | 65,361 | 49,879 | + 31.0 | 568,357 |
| Total | 162,417 | 163,211 | 0.5 | 1,412,322 |
| Operating cost and expenses | 160,067 | 148,852 | + 7.5 | 1,391,887 |
| Operating profit | 2,350 | 14,359 | 83.6 | 20,435 |

Corporate and Eliminations

Net sales:

| | | | | |
|-----------------------------|----------|----------|--|-----------|
| Unaffiliated customers | ¥ | ¥ | | \$ |
| Intersegment | (65,361) | (49,879) | | (568,357) |
| Total | (65,361) | (49,879) | | (568,357) |
| Operating cost and expenses | (8,005) | (1,717) | | (69,609) |
| Operating profit | (57,356) | (48,162) | | (498,748) |

Consolidated

Net sales:

| | | | | |
|-----------------------------|-------------|-----------|-------|--------------|
| Unaffiliated customers | ¥ 1,050,823 | ¥ 987,969 | + 6.4 | \$ 9,137,591 |
| Intersegment | | | | |
| Total | 1,050,823 | 987,969 | + 6.4 | 9,137,591 |
| Operating cost and expenses | 876,602 | 815,283 | + 7.5 | 7,622,626 |
| Operating profit | 174,221 | 172,686 | + 0.9 | 1,514,965 |

Note: General corporate expenses of JPY57,368 million (U.S.\$498,852 thousand) and JPY48,073 million in the three months ended September 30, 2007 and 2006, respectively, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

Results for the nine months

| | Millions of yen | | | Thousands of U.S. dollars |
|-----------------------------------|---|--|-----------|---|
| | Nine months ended September 30, 2007 (Unaudited) | Nine months ended September 30, 2006 (Unaudited) | Change(%) | Nine months ended September 30, 2007 (Unaudited) |
| Business machines | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 2,132,367 | ¥ 1,926,092 | + 10.7 | \$ 18,542,322 |
| Intersegment | | | | |
| Total | 2,132,367 | 1,926,092 | + 10.7 | 18,542,322 |
| Operating cost and expenses | 1,644,525 | 1,492,428 | + 10.2 | 14,300,218 |
| Operating profit | 487,842 | 433,664 | + 12.5 | 4,242,104 |
| Cameras | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 787,561 | ¥ 695,426 | + 13.2 | \$ 6,848,357 |
| Intersegment | | | | |
| Total | 787,561 | 695,426 | + 13.2 | 6,848,357 |
| Operating cost and expenses | 573,402 | 519,300 | + 10.4 | 4,986,105 |
| Operating profit | 214,159 | 176,126 | + 21.6 | 1,862,252 |
| Optical and other products | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 297,619 | ¥ 318,706 | 6.6 | \$ 2,587,991 |
| Intersegment | 173,278 | 138,585 | + 25.0 | 1,506,766 |
| Total | 470,897 | 457,291 | + 3.0 | 4,094,757 |
| Operating cost and expenses | 447,162 | 419,737 | + 6.5 | 3,888,366 |
| Operating profit | 23,735 | 37,554 | 36.8 | 206,391 |

Corporate and Eliminations

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| | | | | | |
|-----------------------------|-------------|-------------|--------|---------------|--|
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ | |
| Intersegment | (173,278) | (138,585) | | (1,506,766) | |
| Total | (173,278) | (138,585) | | (1,506,766) | |
| Operating cost and expenses | (10,639) | (2,404) | | (92,515) | |
| Operating profit | (162,639) | (136,181) | | (1,414,251) | |
| Consolidated | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 3,217,547 | ¥ 2,940,224 | + 9.4 | \$ 27,978,670 | |
| Intersegment | | | | | |
| Total | 3,217,547 | 2,940,224 | + 9.4 | 27,978,670 | |
| Operating cost and expenses | 2,654,450 | 2,429,061 | + 9.3 | 23,082,174 | |
| Operating profit | 563,097 | 511,163 | + 10.2 | 4,896,496 | |

Note: General corporate expenses of JPY162,661 million (U.S.\$1,414,443 thousand) and JPY136,004 million in the nine months ended September 30, 2007 and 2006, respectively, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. CONSOLIDATED BALANCE SHEETS

| | As of September 30, 2007 (Unaudited) | Millions of yen As of December 31, 2006 | Change | Thousands of U.S. dollars As of September 30, 2007 (Unaudited) |
|---|--|---|--------------------|--|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥ 766,307 | ¥ 1,155,626 | ¥ (389,319) | \$ 6,663,539 |
| Time deposits | 25,814 | 41,953 | (16,139) | 224,470 |
| Marketable securities | 10,436 | 10,445 | (9) | 90,748 |
| Trade receivables, net | 684,238 | 761,947 | (77,709) | 5,949,896 |
| Inventories | 607,792 | 539,057 | 68,735 | 5,285,148 |
| Prepaid expenses and other current assets | 290,258 | 273,321 | 16,937 | 2,523,982 |
| Total current assets | 2,384,845 | 2,782,349 | (397,504) | 20,737,783 |
| Noncurrent receivables | 14,438 | 14,335 | 103 | 125,548 |
| Investments | 99,577 | 110,418 | (10,841) | 865,887 |
| Property, plant and equipment, net | 1,370,748 | 1,266,425 | 104,323 | 11,919,548 |
| Other assets | 425,717 | 348,388 | 77,329 | 3,701,886 |
| Total assets | ¥4,295,325 | ¥ 4,521,915 | ¥ (226,590) | \$ 37,350,652 |
| LIABILITIES AND STOCKHOLDERS | | | | |
| EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term loans and current portion of long-term debt | ¥ 14,926 | ¥ 15,362 | ¥ (436) | \$ 129,791 |
| Trade payables | 505,495 | 493,058 | 12,437 | 4,395,609 |
| Income taxes | 93,022 | 133,745 | (40,723) | 808,887 |
| Accrued expenses | 322,653 | 303,353 | 19,300 | 2,805,678 |
| Other current liabilities | 203,968 | 217,789 | (13,821) | 1,773,635 |
| Total current liabilities | 1,140,064 | 1,163,307 | (23,243) | 9,913,600 |
| Long-term debt, excluding current installments | 6,239 | 15,789 | (9,550) | 54,252 |
| Accrued pension and severance cost | 49,154 | 83,876 | (34,722) | 427,426 |
| Other noncurrent liabilities | 59,587 | 55,536 | 4,051 | 518,148 |
| Total liabilities | 1,255,044 | 1,318,508 | (63,464) | 10,913,426 |
| Minority interests | 220,685 | 216,801 | 3,884 | 1,919,000 |

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| | | | | |
|---|-------------------|-------------|-------------|----------------------|
| Stockholders' equity: | | | | |
| Common stock | 174,698 | 174,603 | 95 | 1,519,113 |
| Additional paid-in capital | 403,208 | 403,510 | (302) | 3,506,157 |
| Legal reserve | 45,823 | 43,600 | 2,223 | 398,461 |
| Retained earnings | 2,592,495 | 2,368,047 | 224,448 | 22,543,435 |
| Accumulated other comprehensive income (loss) | 59,527 | 2,718 | 56,809 | 517,626 |
| Treasury stock | (456,155) | (5,872) | (450,283) | (3,966,566) |
| Total stockholders' equity | 2,819,596 | 2,986,606 | (167,010) | 24,518,226 |
| Total liabilities and stockholders' equity | ¥4,295,325 | ¥ 4,521,915 | ¥ (226,590) | \$ 37,350,652 |

| | Millions of yen | | Thousands of U.S. dollars |
|--|---|-------------------------|---|
| | As of September 30, 2007 (Unaudited) | As of December 31, 2006 | As of September 30, 2007 (Unaudited) |
| Allowance for doubtful receivables | ¥ 15,984 | ¥ 13,849 | \$ 138,991 |
| Accumulated depreciation | 1,537,689 | 1,382,944 | 13,371,209 |
| Accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | 25,046 | 22,858 | 217,791 |
| Net unrealized gains and losses on securities | 7,496 | 8,065 | 65,183 |
| Net gains and losses on derivative instruments | 2,763 | (1,663) | 24,026 |
| Pension liability adjustments | 24,222 | (26,542) | 210,626 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Millions of yen

| | Common Stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total stockholders equity |
|--|-----------------|----------------------------------|------------------|----------------------|---|-------------------|---------------------------------|
| Balance at December 31, 2006 | ¥ 174,603 | ¥ 403,510 | ¥ 43,600 | ¥ 2,368,047 | ¥ 2,718 | ¥ (5,872) | ¥ 2,986,606 |
| Cumulative effect of a change in accounting principle adoption of EITF 06-2, net of tax | | | | (2,204) | | | (2,204) |
| Conversion of convertible debt and other Cash dividends | 95 | (306) | | (131,612) | | | (211) (131,612) |
| Transfers to legal reserve | | | 2,223 | (2,223) | | | |
| Comprehensive income: | | | | | | | |
| Net income | | | | 360,487 | | | 360,487 |
| Other comprehensive income (loss), net of tax | | | | | | | |
| Foreign currency translation adjustments | | | | | 2,188 | | 2,188 |
| Net unrealized gains and losses on securities | | | | | (569) | | (569) |
| Net gains and losses on | | | | | 4,426 | | 4,426 |

| | | | | | | | | |
|--|------------------|------------------|-----------------|--------------------|-----------------|--------------------|--------------------|------------------|
| derivative instruments | | | | | | | | |
| Pension liability adjustments | | | | | | 50,764 | | 50,764 |
| Total comprehensive income | | | | | | | | 417,296 |
| Repurchase of treasury stock, net | | | 4 | | | | (450,283) | (450,279) |
| Balance at September 30, 2007 (Unaudited) | ¥ 174,698 | ¥ 403,208 | ¥ 45,823 | ¥ 2,592,495 | ¥ 59,527 | ¥ (456,155) | ¥ 2,819,596 | |
| Balance at December 31, 2005 | ¥ 174,438 | ¥ 403,246 | ¥ 42,331 | ¥ 2,018,289 | ¥ (28,212) | ¥ (5,410) | ¥ 2,604,682 | |
| Conversion of convertible debt and other | 122 | 146 | | | | | | 268 |
| Cash dividends | | | | | (104,298) | | | (104,298) |
| Transfers to legal reserve | | | 969 | | (969) | | | |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 329,761 | | | 329,761 |
| Other comprehensive income (loss), net of tax | | | | | | | | |
| Foreign currency translation adjustments | | | | | | 23,132 | | 23,132 |
| Net unrealized gains and losses on securities | | | | | | 536 | | 536 |
| Net gains and losses on derivative instruments | | | | | | (863) | | (863) |
| | | | | | | 271 | | 271 |

| | | | | | | | | |
|---|-----------|-----------|----------|-------------|-----------|-----------|-------------|---------|
| Minimum pension liability adjustments | | | | | | | | |
| Total comprehensive income | | | | | | | | 352,837 |
| Repurchase of treasury stock, net | | | | | | | (289) | (289) |
| Balance at September 30, 2006 (Unaudited) | ¥ 174,560 | ¥ 403,392 | ¥ 43,300 | ¥ 2,242,783 | ¥ (5,136) | ¥ (5,699) | ¥ 2,853,200 | |

Thousands of U.S. dollars

| | | | | | | | |
|--|---------------------|---------------------|-------------------|----------------------|------------------|--------------------|----------------------|
| Balance at December 31, 2006 | \$ 1,518,287 | \$ 3,508,783 | \$ 379,131 | \$ 20,591,712 | \$ 23,635 | \$ (51,061) | \$ 25,970,487 |
| Cumulative effect of a change in accounting principle - adoption of EITF 06-2, net of tax | | | | (19,165) | | | (19,165) |
| Conversion of convertible debt and other | 826 | (2,661) | | | | | (1,835) |
| Cash dividends | | | | (1,144,452) | | | (1,144,452) |
| Transfers to legal reserve | | | 19,330 | (19,330) | | | |
| Comprehensive income: | | | | | | | |
| Net income | | | | 3,134,670 | | | 3,134,670 |
| Other comprehensive income (loss), | | | | | | | |

| | | | | | | | |
|-------------------------|---------------------|---------------------|-------------------|----------------------|-------------------|-----------------------|----------------------|
| net of tax | | | | | | | |
| Foreign | | | | | | | |
| currency | | | | | | | |
| translation | | | | | | | |
| adjustments | | | | | 19,026 | | 19,026 |
| Net unrealized | | | | | | | |
| gains and losses | | | | | | | |
| on securities | | | | | (4,948) | | (4,948) |
| Net gains and | | | | | | | |
| losses on | | | | | | | |
| derivative | | | | | | | |
| instruments | | | | | 38,487 | | 38,487 |
| Pension | | | | | | | |
| liability | | | | | | | |
| adjustments | | | | | 441,426 | | 441,426 |
| Total | | | | | | | |
| comprehensive | | | | | | | |
| income | | | | | | | 3,628,661 |
| Repurchase of | | | | | | | |
| treasury stock, | | | | | | | |
| net | | 35 | | | | (3,915,505) | (3,915,470) |
| Balance at | | | | | | | |
| September 30, | | | | | | | |
| 2007 | | | | | | | |
| (Unaudited) | \$ 1,519,113 | \$ 3,506,157 | \$ 398,461 | \$ 22,543,435 | \$ 517,626 | \$ (3,966,566) | \$ 24,518,226 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

6. CONSOLIDATED STATEMENTS OF CASH FLOWS**Results for the nine months**

Millions of yen

Thousands of
U.S. dollars

| | Nine months ended September 30, 2007 (Unaudited) | Nine months ended September 30, 2006 (Unaudited) | Nine months ended September 30, 2007 (Unaudited) |
|--|---|--|---|
| Cash flows from operating activities: | | | |
| Net income | ¥ 360,487 | ¥ 329,761 | \$ 3,134,670 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 235,446 | 187,923 | 2,047,357 |
| Loss on disposal of property, plant and equipment | 5,599 | 8,619 | 48,687 |
| Deferred income taxes | (16,642) | 8,531 | (144,713) |
| Decrease in trade receivables | 95,021 | 49,294 | 826,270 |
| Increase in inventories | (71,692) | (57,873) | (623,409) |
| Increase (decrease) in trade payables | 12,345 | (16,387) | 107,348 |
| Decrease in income taxes | (42,499) | (36,088) | (369,557) |
| Increase in accrued expenses | 10,224 | 6,455 | 88,904 |
| Decrease in accrued pension and severance cost | (9,049) | (19,110) | (78,687) |
| Other, net | (16,611) | (1,371) | (144,444) |
| Net cash provided by operating activities | 562,629 | 459,754 | 4,892,426 |
| Cash flows from investing activities: | | | |
| Purchases of fixed assets | (363,509) | (318,790) | (3,160,948) |
| Proceeds from sale of fixed assets | 4,960 | 12,233 | 43,130 |
| Purchases of available-for-sale securities | (2,256) | (7,497) | (19,617) |
| Proceeds from sale and maturity of available-for-sale securities | 6,831 | 3,046 | 59,400 |
| Proceeds from maturity of held-to-maturity securities | 10,000 | | 86,957 |
| Decrease in time deposits | 16,362 | 489 | 142,278 |
| Acquisitions of subsidiaries, net of cash acquired | (12,520) | (605) | (108,870) |
| Purchases of other investments | (2,293) | (7,407) | (19,939) |
| Other, net | 1,465 | (9,746) | 12,739 |
| Net cash used in investing activities | (340,960) | (328,277) | (2,964,870) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt | 1,851 | 943 | 16,096 |
| Repayments of long-term debt | (12,620) | (4,514) | (109,739) |
| Decrease in short-term loans | (473) | (692) | (4,113) |
| Dividends paid | (131,612) | (104,298) | (1,144,452) |

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| | | | |
|--|------------------|-------------|---------------------|
| Purchases of treasury stock, net | (450,279) | (275) | (3,915,470) |
| Other, net | (9,532) | 2,970 | (82,887) |
| Net cash used in financing activities | (602,665) | (105,866) | (5,240,565) |
| Effect of exchange rate changes on cash and cash equivalents | (8,323) | (6,076) | (72,374) |
| Net change in cash and cash equivalents | (389,319) | 19,535 | (3,385,383) |
| Cash and cash equivalents at beginning of period | 1,155,626 | 1,004,953 | 10,048,922 |
| Cash and cash equivalents at end of period | ¥ 766,307 | ¥ 1,024,488 | \$ 6,663,539 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

7. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**(1) GROUP POSITION**

1. Number of Group Companies

| | September 30, 2007 | December 31, 2006 | Change |
|--------------|-----------------------|----------------------|--------|
| Subsidiaries | 234 | 219 | 15 |
| Affiliates | 17 | 14 | 3 |
| Total | 251 | 233 | 18 |

2. Change in Group of Entities

Subsidiaries

Addition: 19 Companies

Removal: 4 Companies

Affiliates (Carried at Equity
Basis)

Addition: 6 Companies

Removal: 3 Companies

3. Subsidiaries listed on domestic stock exchange

Tokyo Stock Exchange (1st section): Canon Marketing Japan Inc., Canon Electronics Inc., Canon Finetech Inc., Argo 21 Corporation

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

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

JASDAQ: Nisca 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, Disclosure 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 by JPY40,363 million (U.S.\$ 350,983thousand) for the nine months ended September 30, 2007.

8. OTHER

We have engaged Ernst & Young ShinNihon to perform a review of the consolidated statements of income, the consolidated balance sheets, the consolidated statements of the stockholders' equity and the consolidated statements of cash flows as of and for the three and nine months ended September 30, 2007. This review engagement was partially performed in accordance with Statement of Auditing Standards No.100, Interim Financial Information (SAS 100), established by the American Institute of Certified Public Accountants, and the consolidated interim financial information does not include certain disclosures, such as notes to financial statements, compared with that required under U.S. generally accepted accounting principles and by the United States Securities and Exchange Commission.

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Canon Inc.
October 25, 2007

CONSOLIDATED FINANCIAL RESULTS FOR
THE THIRD QUARTER ENDED SEPTEMBER 30, 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.

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Canon Inc.

1. SALES BY REGION AND PRODUCT

(Millions of yen)

| | 3rd quarter | 2007 4th quarter (P) | Year (P) | 3rd quarter | 2006 4th quarter | Year | Change year over year | | |
|-------------------------------|----------------|----------------------------|----------------|----------------|---------------------|----------------|-----------------------|----------------|--------------|
| | | | | | | | 3rd quarter | 4th quarter | Year |
| Japan | | | | | | | | | |
| Business machines | 147,288 | | | 140,645 | 177,294 | 619,713 | +4.7% | | |
| Office imaging products | 95,542 | | | 87,242 | 93,838 | 359,935 | +9.5% | | |
| Computer peripherals | 37,036 | | | 37,972 | 66,209 | 190,981 | -2.5% | | |
| Business information products | 14,710 | | | 15,431 | 17,247 | 68,797 | -4.7% | | |
| Cameras | 36,766 | | | 34,275 | 40,676 | 139,625 | +7.3% | | |
| Optical and other products | 34,611 | | | 44,331 | 48,771 | 172,952 | -21.9% | | |
| Total | 218,665 | 283,833 | 960,800 | 219,251 | 266,741 | 932,290 | -0.3% | +6.4% | +3.1% |
| Overseas | | | | | | | | | |
| Business machines | 538,492 | | | 498,851 | 587,701 | 2,071,374 | +7.9% | | |
| Office imaging products | 210,173 | | | 182,741 | 236,667 | 825,990 | +15.0% | | |
| Computer peripherals | 318,926 | | | 307,818 | 339,746 | 1,207,427 | +3.6% | | |
| Business information products | 9,393 | | | 8,292 | 11,288 | 37,957 | +13.3% | | |
| Cameras | 231,221 | | | 200,866 | 305,763 | 902,240 | +15.1% | | |
| Optical and other | 62,445 | | | 69,001 | 56,330 | 250,855 | -9.5% | | |

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| | | | | | | | | | |
|-------------------------------|---------|-----------|-----------|---------|---------|-----------|--------|--------|--------|
| products | | | | | | | | | |
| Total | 832,158 | 1,058,620 | 3,599,200 | 768,718 | 949,794 | 3,224,469 | +8.3% | +11.5% | +11.6% |
| Americas | | | | | | | | | |
| Business machines | 214,744 | | | 211,464 | 239,816 | 865,697 | +1.6% | | |
| Office imaging products | 89,450 | | | 81,700 | 99,908 | 361,328 | +9.5% | | |
| Computer peripherals | 120,543 | | | 125,150 | 134,218 | 484,624 | -3.7% | | |
| Business information products | 4,751 | | | 4,614 | 5,690 | 19,745 | +3.0% | | |
| Cameras | 84,963 | | | 75,304 | 133,312 | 362,104 | +12.8% | | |
| Optical and other products | 14,098 | | | 13,043 | 16,234 | 55,845 | +8.1% | | |
| Total | 313,805 | 405,746 | 1,361,500 | 299,811 | 389,362 | 1,283,646 | +4.7% | +4.2% | +6.1% |
| Europe | | | | | | | | | |
| Business machines | 244,203 | | | 212,212 | 272,115 | 916,108 | +15.1% | | |
| Office imaging products | 93,568 | | | 77,285 | 111,718 | 369,709 | +21.1% | | |
| Computer peripherals | 146,939 | | | 131,983 | 155,646 | 531,224 | +11.3% | | |
| Business information products | 3,696 | | | 2,944 | 4,751 | 15,175 | +25.5% | | |
| Cameras | 85,167 | | | 77,472 | 122,190 | 362,670 | +9.9% | | |
| Optical and other products | 9,548 | | | 8,078 | 11,295 | 35,527 | +18.2% | | |
| Total | 338,918 | 466,703 | 1,528,000 | 297,762 | 405,600 | 1,314,305 | +13.8% | +15.1% | +16.3% |
| Other areas | | | | | | | | | |
| Business machines | 79,545 | | | 75,175 | 75,770 | 289,569 | +5.8% | | |

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| | | | | | | | | | |
|--------------------------------|------------------|------------------|------------------|----------------|------------------|------------------|--------------|---------------|---------------|
| Office imaging products | 27,155 | | 23,756 | 25,041 | 94,953 | | +14.3% | | |
| Computer peripherals | 51,444 | | 50,685 | 49,882 | 191,579 | | +1.5% | | |
| Business information products | 946 | | 734 | 847 | 3,037 | | +28.9% | | |
| Cameras | 61,091 | | 48,090 | 50,261 | 177,466 | | +27.0% | | |
| Optical and other products | 38,799 | | 47,880 | 28,801 | 159,483 | | -19.0% | | |
| Total | 179,435 | 186,171 | 709,700 | 171,145 | 154,832 | 626,518 | +4.8% | +20.2% | +13.3% |
| Total Business machines | 685,780 | 836,533 | 2,968,900 | 639,496 | 764,995 | 2,691,087 | +7.2% | +9.4% | +10.3% |
| Office imaging products | 305,715 | 372,757 | 1,310,900 | 269,983 | 330,505 | 1,185,925 | +13.2% | +12.8% | +10.5% |
| Computer peripherals | 355,962 | 435,451 | 1,552,100 | 345,790 | 405,955 | 1,398,408 | +2.9% | +7.3% | +11.0% |
| Business information products | 24,103 | 28,325 | 105,900 | 23,723 | 28,535 | 106,754 | +1.6% | -0.7% | -0.8% |
| Cameras | 267,987 | 393,039 | 1,180,600 | 235,141 | 346,439 | 1,041,865 | +14.0% | +13.5% | +13.3% |
| Optical and other products | 97,056 | 112,881 | 410,500 | 113,332 | 105,101 | 423,807 | -14.4% | +7.4% | -3.1% |
| Total | 1,050,823 | 1,342,453 | 4,560,000 | 987,969 | 1,216,535 | 4,156,759 | +6.4% | +10.4% | +9.7% |

(P)=Projection

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Canon Inc.

2. SEGMENT INFORMATION BY PRODUCT

(Millions of yen)

| | 2007 | | | 2006 | | | Change year over year | | |
|---|------------------|--------------------|------------------|------------------|------------------|------------------|-----------------------|----------------|--------|
| | 3rd quarter | 4th quarter (P) | Year (P) | 3rd quarter | 4th quarter | Year | 3rd quarter | 4th quarter | Year |
| Business Lines | | | | | | | | | |
| affiliated members segment | 685,780 | 836,533 | 2,968,900 | 639,496 | 764,995 | 2,691,087 | +7.2% | +9.4% | +10.0% |
| sales | 685,780 | 836,533 | 2,968,900 | 639,496 | 764,995 | 2,691,087 | +7.2% | +9.4% | +10.0% |
| ating t sales | 152,371 22.2% | 190,458 22.8% | 678,300 22.8% | 139,099 21.8% | 165,565 21.6% | 599,229 22.3% | +9.5% | +15.0% | +13.0% |
| eras | | | | | | | | | |
| affiliated members segment | 267,987 | 393,039 | 1,180,600 | 235,141 | 346,439 | 1,041,865 | +14.0% | +13.5% | +13.0% |
| sales | 267,987 | 393,039 | 1,180,600 | 235,141 | 346,439 | 1,041,865 | +14.0% | +13.5% | +13.0% |
| ating t sales | 76,856 28.7% | 108,841 27.7% | 323,000 27.4% | 67,390 28.7% | 92,612 26.7% | 268,738 25.8% | +14.0% | +17.5% | +20.0% |
| cal and r ucts | | | | | | | | | |
| affiliated members segment | 97,056 | 112,881 | 410,500 | 113,332 | 105,101 | 423,807 | -14.4% | +7.4% | -3.0% |
| sales | 65,361 | 61,322 | 234,600 | 49,879 | 52,102 | 190,687 | +31.0% | +17.7% | +23.0% |
| ating t sales | 162,417 | 174,203 | 645,100 | 163,211 | 157,203 | 614,494 | -0.5% | +10.8% | +5.0% |
| ating t sales | 2,350 1.4% | 565 0.3% | 24,300 3.8% | 14,359 8.8% | 3,921 2.5% | 41,475 6.7% | -83.6% | -85.6% | -41.0% |

Corporate

Eliminations

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| | | | | | | | | | |
|---|-----------|-----------|-----------|----------|-----------|-----------|-------|--------|-------|
| Consolidated Sales segment | (65,361) | (61,322) | (234,600) | (49,879) | (52,102) | (190,687) | | | |
| Operating segment | (65,361) | (61,322) | (234,600) | (49,879) | (52,102) | (190,687) | | | |
| Operating segment | (57,356) | (89,961) | (252,600) | (48,162) | (66,228) | (202,409) | | | |
| Consolidated Sales segment | 1,050,823 | 1,342,453 | 4,560,000 | 987,969 | 1,216,535 | 4,156,759 | +6.4% | +10.4% | +9.8% |
| Operating segment | 1,050,823 | 1,342,453 | 4,560,000 | 987,969 | 1,216,535 | 4,156,759 | +6.4% | +10.4% | +9.8% |
| Operating segment | 174,221 | 209,903 | 773,000 | 172,686 | 195,870 | 707,033 | +0.9% | +7.2% | +9.8% |
| Operating segment | 16.6% | 15.6% | 17.0% | 17.5% | 16.1% | 17.0% | | | |

(P)=Projected

OTHER INCOME / DEDUCTIONS

(Millions of dollars)

| | 2007 | | | 2006 | | | Change year over year | | |
|-------------------------------|-------------|--------------------|-------------|-------------|-------------|----------|-----------------------|-------------|---------|
| | 3rd quarter | 4th quarter (P) | Year (P) | 3rd quarter | 4th quarter | Year | 3rd quarter | 4th quarter | Year |
| Interest and dividend, net | 7,783 | 8,045 | 32,400 | 6,739 | 7,706 | 24,963 | +1,044 | +339 | +7,433 |
| Gain / loss | (20,388) | 508 | (30,400) | (2,428) | (8,737) | (25,804) | (17,960) | +9,245 | (4,559) |
| Operating segment | 200 | 315 | 5,800 | 715 | 1,428 | 4,237 | (515) | (1,113) | +1,560 |
| Operating segment | 511 | 761 | 7,200 | 2,614 | 1,505 | 8,714 | (2,103) | (744) | (1,511) |
| Operating segment | (11,894) | 9,629 | 15,000 | 7,640 | 1,902 | 12,110 | (19,534) | +7,727 | +2,899 |

(P)=Projected

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Canon Inc.

4. SALES COMPOSITION BY PRODUCT

| | 3rd quarter | 2007 4th quarter (P) | Year (P) | 3rd quarter | 2006 4th quarter | Year |
|---|----------------|-------------------------------|-------------|----------------|------------------------|------|
| Office imaging products | | | | | | |
| Monochrome copying machines | 46% | 45% | 47% | 52% | 49% | 52% |
| Color copying machines | 35% | 36% | 35% | 30% | 34% | 31% |
| Others | 19% | 19% | 18% | 18% | 17% | 17% |
| Computer peripherals | | | | | | |
| Laser beam printers | 74% | 68% | 73% | 76% | 68% | 73% |
| Inkjet printers (includes inkjet MFPs) | 25% | 31% | 26% | 23% | 31% | 26% |
| Others | 1% | 1% | 1% | 1% | 1% | 1% |
| Business information products | | | | | | |
| Personal computers | 61% | 61% | 61% | 65% | 61% | 64% |
| Others | 39% | 39% | 39% | 35% | 39% | 36% |
| Cameras | | | | | | |
| Film cameras / Lenses | 17% | 14% | 15% | 16% | 14% | 15% |
| Digital cameras | 75% | 79% | 77% | 74% | 76% | 75% |
| Video cameras | 8% | 7% | 8% | 10% | 10% | 10% |
| Optical and other products | | | | | | |
| Semiconductor production equipment | 42% | 45% | 47% | 52% | 53% | 52% |
| Others | 58% | 55% | 53% | 48% | 47% | 48% |

(P)=Projection

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

| | 3rd quarter | 2007 4th quarter (P) | Year (P) |
|-----------------------------------|----------------|-------------------------------|-------------|
| Business machines | | | |
| Japan | +4.7% | | |
| Overseas | +3.8% | | |
| Total | +4.0% | +8.9% | +6.8% |
| Cameras | | | |
| Japan | +7.3% | | |
| Overseas | +10.4% | | |
| Total | +10.0% | +12.5% | +9.2% |
| Optical and other products | | | |
| Japan | -21.9% | | |
| Overseas | -11.2% | | |
| Total | -15.4% | +7.4% | -4.3% |
| Total | | | |
| Japan | -0.3% | +6.4% | +3.1% |

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| | | | |
|-------------|-------|--------|--------|
| Overseas | +4.2% | +10.8% | +7.2% |
| Americas | +3.4% | +6.8% | +4.7% |
| Europe | +5.9% | +10.7% | +7.9% |
| Other areas | +2.6% | +21.3% | +10.8% |
| Total | +3.2% | +9.8% | +6.3% |

(P)=Projection

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Canon Inc.

6. P&L SUMMARY (4th Quarter 2007/Projection) (Millions of yen)

| | 2007 4th quarter(P) | 2006 4th quarter | Change year over year |
|---|------------------------|---------------------|--------------------------|
| Net sales | 1,342,453 | 1,216,535 | +10.4% |
| Operating profit | 209,903 | 195,870 | +7.2% |
| Income before income taxes and minority interests | 219,532 | 197,772 | +11.0% |
| Net income | 139,513 | 125,564 | +11.1% |

(P)=Projection

7. PROFITABILITY

| | 2007 | | 2006 | |
|-----|-----------------|---------|-----------------|-------|
| | 1st-3rd quarter | Year(P) | 1st-3rd quarter | Year |
| ROE | 16.6% | 16.8% | 16.1% | 16.3% |
| ROA | 10.9% | 11.0% | 10.6% | 10.6% |

(P)=Projection

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

| | 2007 | | | 2006 | | | (Yen) |
|----------|-------------|----------------|---------|-------------|-------------|--------|-------|
| | 3rd quarter | 4th quarter(P) | Year(P) | 3rd quarter | 4th quarter | Year | |
| Yen/US\$ | 117.67 | 115.00 | 117.98 | 116.29 | 117.81 | 116.43 | |
| Yen/Euro | 161.82 | 160.00 | 160.29 | 148.19 | 151.89 | 146.51 | |

(P)=Projection

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

(Billions of yen)

| | 2007 3rd quarter | 2007 4th quarter(P) | Year(P) |
|------------------|---------------------|------------------------|---------|
| US\$ | (0.5) | (13.9) | +20.2 |
| Euro | +20.8 | +18.7 | +98.8 |
| Other currencies | +2.9 | +1.4 | +9.9 |
| Total | +23.2 | +6.2 | +128.9 |

(P)=Projection

(3) Impact of foreign exchange rates per yen

(Billions of yen)

| | 2007 4th quarter(P) |
|----------|------------------------|
| On sales | |

| | |
|---------------------|-----|
| US\$ | 4.7 |
| Euro | 2.4 |
| On operating profit | |
| US\$ | 2.9 |
| Euro | 1.9 |

(P)=Projection

9. STATEMENTS OF CASH FLOWS

| | 2007 | | (Millions of yen) 2006 | |
|--|-------------|-----------|---------------------------|-----------|
| | 3rd quarter | Year(P) | 3rd quarter | Year |
| Net cash provided by operating activities | | | | |
| Net income | 105,304 | 500,000 | 115,587 | 455,325 |
| Depreciation and amortization | 92,202 | 355,000 | 79,768 | 262,294 |
| Other, net | (75,201) | (47,000) | (59,479) | (22,378) |
| Total | 122,305 | 808,000 | 135,876 | 695,241 |
| Net cash used in investing activities | (131,607) | (448,000) | (117,980) | (460,805) |
| Free cash flow | (9,302) | 360,000 | 17,896 | 234,436 |
| Net cash used in financing activities | (322,895) | (609,700) | (48,034) | (107,487) |
| Effect of exchange rate changes on cash and cash equivalents | (10,224) | (10,900) | (537) | 23,724 |
| Net change in cash and cash equivalents | (342,421) | (260,600) | (30,675) | 150,673 |
| Cash and cash equivalents at end of period | 766,307 | 895,000 | 1,024,488 | 1,155,626 |

(P)=Projection

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Canon Inc.

**10. R&D
EXPENDITURE**

(Millions of yen)

| | 2007 | | | 2006 | | |
|----------------------------|-------------|-------------------|---------|-------------|-------------|---------|
| | 3rd quarter | 4th quarter(P) | Year(P) | 3rd quarter | 4th quarter | Year |
| Business machines | 27,929 | | | 23,869 | 35,024 | 113,770 |
| Cameras | 10,946 | | | 10,487 | 10,739 | 41,122 |
| Optical and other products | 51,139 | | | 36,336 | 45,325 | 153,415 |
| Total | 90,014 | 99,719 | 360,000 | 70,692 | 91,088 | 308,307 |
| % of sales | 8.6% | 7.4% | 7.9% | 7.2% | 7.5% | 7.4% |

(P)=Projection

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

(Millions of yen)

| | 2007 | | | 2006 | | |
|----------------------------------|-------------|-------------------|---------|-------------|-------------|---------|
| | 3rd quarter | 4th quarter(P) | Year(P) | 3rd quarter | 4th quarter | Year |
| Capital expenditure | 136,347 | 107,311 | 440,000 | 120,256 | 106,105 | 379,657 |
| Depreciation and amortization | 92,202 | 119,554 | 355,000 | 79,768 | 74,371 | 262,294 |

(P)=Projection

12. INVENTORIES**(1) Inventories**

(Millions of yen)

| | 2007 | 2006 | Difference |
|----------------------------|---------|---------|------------|
| | Sep.30 | Dec.31 | |
| Business machines | 315,581 | 288,815 | +26,766 |
| Cameras | 116,748 | 87,515 | +29,233 |
| Optical and other products | 175,463 | 162,727 | +12,736 |
| Total | 607,792 | 539,057 | +68,735 |

(2) Inventories/Sales*

(Days)

| | 2007 | 2006 | Difference |
|----------------------------|--------|--------|------------|
| | Sep.30 | Dec.31 | |
| Business machines | 41 | 38 | +3 |
| Cameras | 38 | 27 | +11 |
| Optical and other products | 164 | 136 | +28 |
| Total | 51 | 45 | +6 |

* Index based on the previous six months sales.

13. DEBT RATIO

| | 2007 | 2006 | Difference |
|---------------------------|--------|--------|------------|
| | Sep.30 | Dec.31 | |
| Total debt / Total assets | 0.5% | 0.7% | -0.2% |

14. OVERSEAS PRODUCTION RATIO

| | 2007 1st-3rd quarter | 2006 Year |
|---------------------------|----------------------------|--------------|
| Overseas production ratio | 40% | 39% |

15. NUMBER OF EMPLOYEES

| | 2007 Sep.30 | 2006 Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan | 54,671 | 50,753 | +3,918 |
| Overseas | 75,106 | 67,746 | +7,360 |
| Total | 129,777 | 118,499 | +11,278 |

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