

CANON INC  
Form 6-K  
August 24, 2007

**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 \_\_, 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.**

(Registrant)

Date August 24, 2007

By /s/ Hiroshi Kawashimo  
(Signature)\*

Hiroshi Kawashimo  
Deputy Senior General Manager,  
Finance Division  
Canon Inc.

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

The following materials are included.

1. Interim Report For The 107th Business Term From January 1, 2007 to June 30, 2007 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 107th business term (from January 1, 2007 to June 30, 2007).

Reviewing conditions in both the domestic and overseas economies during the first half of the current business term, the U.S. economy continued to show modest growth, despite the impact of a slowdown in housing investment and capital investment. The European economies were strong overall, including a steady recovery of consumer spending and continued growth in internal demand. Asian economies maintained their high growth particularly in China. The Japanese economy remained strong with a firm bottom in capital investment under modest growth in corporate earnings and also due to a pickup in consumer spending. In the foreign exchange markets, the yen was weaker against both the U.S. dollar and the euro compared with the first half of the previous fiscal year.

Regarding markets in which the Canon Group operates, demand expanded greatly for digital single-lens-reflex (SLR) cameras, color network multifunction devices and color laser beam printers. Fiercer price competition for inkjet printers was accompanied by an acceleration in the shift from single-function to multifunction machines. Although demand for semiconductor production equipment showed a trend of recovery, demand for mirror projection mask aligners for LCDs fell greatly due to a restraint in capital investment by LCD panel manufacturers.

Under these business conditions, the Canon Group, entering the second year of Phase III (2006 to 2010) of our Excellent Global Corporation Plan, continued to launch new products differentiated by their unique technology in a market where price competition keeps intensifying, while concentrating on various initiatives to improve our cost competitiveness and strengthen our corporate structure, by further advancing our efforts on in-house production of key components, production automation and procurement reform activities, etc.

Additionally, in February and March of this year, we acquired approximately 31 million of our own shares for about 200 billion yen in order to improve our capital efficiency and to ensure a flexible future capital strategy.

As to the earnings for the first half of the current business term, on a consolidated basis, we recorded net sales of 2,166.7 billion yen (up 11.0% from the first half of 2006), income before income taxes and minority interests of 406.1 billion yen (up 19.1%), and net income of 255.2 billion yen (up 19.1%). Also on a non-consolidated basis, we recorded net sales of 1,371.0 billion yen (up 8.3%), ordinary profit of 302.3 billion yen (up 22.8%), and net income of 200.9 billion yen (up 29.2%). All of these figures were record highs.

For the interim dividend, we have decided to pay 50.0 yen per share from August 24.

Looking ahead to the second half of the current business term, we expect the global economy to continue growing steadily, but also believe that factors such as rise in crude oil and other resource costs, fluctuating interest rates and intensifying market competition will continue to provide uncertainty in our business environment. Under these conditions, the Canon Group is fully committed in management to achieve strong performance in the current business term, which marks the 70th anniversary of our founding.

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

August 2007

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 2006 (%)
<b>Business Machines</b>	<b>14,466</b>	<b>12.4</b>
Office Imaging Products	6,324	8.0
Computer Peripherals	7,607	17.6
Business Information Products	535	(1.9)
<b>Cameras</b>	<b>5,196</b>	<b>12.9</b>
<b>Optical and Other Products</b>	<b>2,005</b>	<b>(2.3)</b>
<b>Total</b>	<b>21,667</b>	<b>11.0</b>

**Non-Consolidated**

Operations	Sales (100 millions of yen)	Change from the First Half of Fiscal 2006 (%)
<b>Business Machines</b>	<b>9,245</b>	<b>10.9</b>
Office Imaging Products	2,771	8.5
Computer Peripherals	6,474	11.9
<b>Cameras</b>	<b>3,688</b>	<b>11.6</b>
<b>Optical and Other Products</b>	<b>777</b>	<b>(23.6)</b>
<b>Total</b>	<b>13,710</b>	<b>8.3</b>

**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**

Regarding color machines in our imageRUNNER series of office-use digital network multifunction devices, in a market shifting toward color machines, we launched the iR C5185/C5185N, which are the two top models in the series, capable of printing 51 color pages per minute. We also worked to increase sales of the predecessor model the popular iR C5180 as well as the affordable iR C3380/C2880 series.

As for black-and-white machines, we began and worked to expand sales of five models of three high-speed multifunctional products, including the iR5075N/iR5065N, which boasts excellent productivity and energy saving, as well as six models of three affordable products, including the iR3045F/3035F, which combines energy saving with space-saving. We also worked to expand our solution business, leveraging the Multifunctional Embedded Application Platform ( MEAP ) capable of expanding range of functions, which is installed on our imageRUNNER series.

Additionally, regarding printers for digital commercial printing, under our new imagePRESS brand launched last year toward our full-scale entry into the Digital Commercial Printing market which is expected to grow, we launched sales of the imagePRESS C7000VP which is capable of printing 70 pages per minute in both color and black-and-white, and worked to expand sales together with our popular imagePRESS C1.

In the multifunctional black-and-white machines for individuals and small-business owners, of which market is expanding in Japan and overseas, we launched three products, including the Satera MF4150 which is capable of printing 20 pages per minute, as well as the Satera MF4680 which can be used on a network, and worked to expand sales of these products.

As a result of these activities, sales for this segment grew by 8.0% on a consolidated basis and by 8.5% on a non-consolidated basis, both in comparison to the first half of 2006.

**Change in Sales**  
100 MILLIONS OF YEN  
**Consolidated**

**Non-Consolidated**

### **Computer Peripherals**

The conditions for inkjet printers remained severe, with intensifying price competition amid a market slowdown. Under these circumstances, we worked to differentiate our products through our proprietary FINE high-precision print head technology, and by pursuing beautiful design and high usability. We also worked to expand our product lineup, launching such products as the PIXUS iP2500 which offers luxurious design and high definition printing for its affordable price, the compact PIXUS iP90v into which miniaturization technologies are concentrated, and the PIXUS Pro9500 model for professionals and high-end amateurs which uses 10-color pigment ink and supports A3 wide-size paper and half-size. Additionally, amid accelerating shift from single-function to multifunction devices, our mid-level PIXUS MP600 multifunction machine has gained great popularity in the market, maintaining a high share in the Japanese market since its launch last year.

In laser beam printers, as for OEM-brand products, we enjoyed steadily growing unit sales of affordable black-and-white and color products which led to solid sales revenue. As for Canon-brand products, amid growing demand for color machines, we introduced the compact Satera LBP5100 with an automated double-sided printing function and printing capability of 10 color pages per minute, and worked to promote sales together with our high-speed Satera LBP5900/5600 capable of printing A3 paper.

As for black-and-white machines, we launched the Satera LBP3970/3920 high-speed, compact machines capable of printing A3 paper, and achieved favorable sales as well as the Satera LBP3000/2900 with double-sided printing as a standard function.

We also worked to advance our solution business by making proposals of printing environment to respond to our customer's business types and needs utilizing the MEAP-Lite function expansion system.

As a result of these activities, sales for this segment grew by 17.6% on a consolidated basis and by 11.9% on a non-consolidated basis, both in comparison to the first half of 2006.

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**Change in Sales**  
100 MILLIONS OF YEN  
**Consolidated**

**Non-Consolidated**

**Business Information Products**

The market for office-use document scanners has continued to grow due to the demand for businesses to digitize their documents in order to comply with various laws related to company's internal control, the management of personal information, and the management of medical related information. Under these circumstances, in the DR Scanner series handled by Canon Electronics Inc., we introduced the compact and affordable DR-2580C and DR-2050CII for which demand of such type has grown substantially, as well as the DR-2050SP which is capable of sending scanned data to a projector, and achieved strong growth in sales as a result of our efforts for sales expansion.

Regarding the calculators handled by Canon Electronics Business Machines (H.K.) Co., Ltd., we launched for the Japanese market the BP36-DTS calculator with a high-speed, quiet printer capable of printing 5.6 lines per second and worked to expand sales. Also print-capable calculators continued to enjoy a favorable reception in the U.S. market and maintained their high share. Regarding the electronic dictionaries for the Japanese market also handled by that company, the flagship wordtank V300 learner's model featuring a large full touch-screen panel, and our wordtank M300 which while compact offers a full range of learning features, were introduced and helped to increase sales.

As for servers and personal computers handled by Canon Marketing Japan Inc., single product sales fell as that Company moved ahead with its shift to the solutions business.

As a result of these activities, sales for this segment fell by 1.9% on a consolidated basis in comparison to the first half of 2006. 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, amid the expanding demand for SLR products, the EOS-1D Mark III launched as our flagship model in May was selected in Europe as Best Professional Digital SLR Camera and enjoyed a favorable response in the market. Also EOS 30D for high-end amateurs, and the compact, lightweight EOS Kiss Digital X launched last year maintained their strong sales, and sales of SLR products increased as a result. Consequently, sales of our EF lens series, dedicated flashes and other products also marked sound sales increases.

In the area of compact digital cameras, we have increased sales, launching three products in our stylish IXY DIGITAL series, including the IXY DIGITAL 10 featuring 3x zoom in a simple, square design, and the IXY DIGITAL 810 IS employing optical image stabilization function, both of which are equipped with a face recognition function, as well as seven products in our PowerShot series featuring broad range of shooting styles with a variety of product lineup, including the PowerShot S5 IS with 12x optical zoom, and the PowerShot A570 IS which is the first affordable camera equipped with the DIGIC III imaging processor.

Additionally, in the compact photo printers, we enhanced our product lineup in the dye sublimation SELPHY series printers with the launch of the CP750/CP740 featuring a larger color LCD monitor.

In digital video cameras, we introduced such new products as the iVIS HV20 HDV model featuring a built-in full HD CMOS sensor for even greater sensitivity and the iVIS DC50 5-megapixel DVD model featuring dual layer disk, and worked to increase sales, and as a result, increased our share in the market for HD video cameras where demand is expected to grow.

As a result of these activities, sales for this segment grew by 12.9% on a consolidated basis and by 11.6% on a non-consolidated basis, both in comparison to the first half of 2006.

**Change in Sales**  
100 MILLIONS OF YEN  
**Consolidated**

**Non-Consolidated**



### **n Optical and Other Products Operations**

In semiconductor production equipment, unit shipments into the market have increased amid growing demand for semiconductors and aggressive capital investment by manufacturers. Under these conditions, we worked to increase sales of the FPA-6000ES5a KrF (krypton fluoride) stepper and the FPA-5500iZa i-line stepper.

Regarding mirror projection mask aligners for LCDs, the market shrunk greatly as a consequence of manufacturers continuing to restrain capital investment due to a glut in LCD panel production. Amid these circumstances, although we introduced the new MPAsp-H700 eighth-generation mirror projection mask aligner for LCDs, and worked actively to increase sales, unit sales and sales revenue both declined.

In the area of large-format inkjet printers, the market showed a strong growth due to new demand created by a wide range of applications in large-format printing such as the production of posters. In this context, we introduced the new imagePROGRAF iPF6100 capable of printing A1-plus paper, and worked to expand sales. As a result of these efforts, sales increased greatly.

Regarding broadcast-use television lenses, we introduced several new products, including the KH13×4.5 and KJ13×6B, which are compact, lightweight standard zoom lenses for affordable High Definition Television (HDTV) cameras. As a result of these enhancements to our lineup, sales grew strongly.

In medical equipment, we worked to expand sales of our CXDI-50G X-ray digital camera equipped with our own Flat Panel X-Ray Image Sensor. As a result of these efforts, we recorded strong sales.

The BESTEM series die bonder handled by Canon Machinery Inc. remained popular, and the semiconductor sputtering equipment and magnetic head film deposition equipment and other products handled by Canon ANELVA Corporation also recorded strong performance.

As a result of these activities, sales for this segment fell by 2.3% on a consolidated basis and by 23.6% on a non-consolidated basis, both in comparison to the first half of 2006.

**Change in Sales**

100 MILLIONS OF YEN

**Consolidated**

**Non-Consolidated**

Note:

The products mentioned above may have different names in other areas.

**Consolidated Financial Statements**

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

**Consolidated Balance Sheets**

ASSETS	Millions of yen	
	As of June 30, 2007 (Unaudited)	As of Dec. 31, 2006
<b>Current assets:</b>		
Cash and cash equivalents	1,108,728	1,155,626
Time deposits	22,166	41,953
Marketable securities	294	10,445
Trade receivables, net	729,298	761,947
Inventories	575,036	539,057
Prepaid expenses and other current assets	282,254	273,321
<b>Total current assets</b>	<b>2,717,776</b>	<b>2,782,349</b>
Noncurrent receivables	14,560	14,335
Investments	116,471	110,418
Property, plant and equipment, net	1,336,716	1,266,425
Other assets	422,991	348,388
<b>Total assets</b>	<b>4,608,514</b>	<b>4,521,915</b>
LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen	
	As of June 30, 2007 (Unaudited)	As of Dec. 31, 2006
<b>Current liabilities:</b>		
Short-term loans and current portion of long-term debt	5,301	15,362
Trade payables	506,177	493,058
Income taxes	135,090	133,745
Accrued expenses	318,330	303,353
Other current liabilities	215,850	217,789
<b>Total current liabilities</b>	<b>1,180,748</b>	<b>1,163,307</b>
Long-term debt, excluding current installments	16,290	15,789
Accrued pension and severance cost	49,210	83,876
Other noncurrent liabilities	63,198	55,536

<b>Total liabilities</b>	<b>1,309,446</b>	<b>1,318,508</b>
<b>Minority interests</b>	<b>224,701</b>	<b>216,801</b>
<b>Commitment and contingent liabilities</b>		
<b>Stockholders equity:</b>		
Common stock	174,674	174,603
[Authorized shares] (share)	[3,000,000,000]	[3,000,000,000]
[Issued shares] (share)	[1,333,588,114]	[1,333,445,830]
Additional paid-in capital	403,577	403,510
Legal reserve	45,730	43,600
Retained earnings	2,552,314	2,368,047
Accumulated other comprehensive income (loss)	104,169	2,718
Treasury stock	(206,097)	(5,872)
[Treasury shares] (share)	[32,993,191]	[1,794,390]
<b>Total stockholders equity</b>	<b>3,074,367</b>	<b>2,986,606</b>
<b>Total liabilities and stockholders equity</b>	<b>4,608,514</b>	<b>4,521,915</b>

Notes:

1. Allowance for doubtful receivables 16,553 million yen
2. Accumulated depreciation of property, plant and equipment 1,488,148 million yen
3. Accumulated other comprehensive income (loss) include foreign currency translation adjustments, net unrealized gains and losses on securities, net gains and losses on derivative financial instruments and pension liability adjustments.
4. Collateral assets 222 million yen
5. Guarantees of bank borrowings by employees and consolidated subsidiaries and affiliated companies 28,507 million yen
6. Number of consolidated subsidiaries and affiliated companies accounted for under equity method is 230 and 19 respectively.

## Consolidated Statements of Income

	<b>Six months ended June 30, 2007 (Unaudited)</b>	Millions of yen  Six months ended June 30, 2006 (Unaudited)
<b>Net sales</b>	<b>2,166,724</b>	<b>1,952,255</b>
Cost of sales	1,059,170	973,542
<b>Gross profit</b>	<b>1,107,554</b>	<b>978,713</b>
<b>Operating expenses:</b>		
Selling, general and administrative expenses	548,411	493,709
Research and development expenses	170,267	146,527
	<b>718,678</b>	<b>640,236</b>
<b>Operating profit</b>	<b>388,876</b>	<b>338,477</b>
<b>Other income (deductions):</b>		
Interest and dividend income	17,367	11,143
Interest expense	(795)	(625)
Other, net	693	(7,950)
	<b>17,265</b>	<b>2,568</b>
<b>Income before income taxes and minority interests</b>	<b>406,141</b>	<b>341,045</b>
Income taxes	142,836	118,814
<b>Income before minority interests</b>	<b>263,305</b>	<b>222,231</b>
Minority interests	8,122	8,057
<b>Net income</b>	<b>255,183</b>	<b>214,174</b>

## Note:

Net income per share

Basic 194.38 yen

Diluted 194.33 yen

## Other significant matter:

Prior to the second quarter of fiscal 2007, the Company and its domestic subsidiaries had depreciated machinery and equipment under the fixed-percentage-on-declining base method with certain salvage values. As a result of evaluation of its depreciation method, effective second quarter of 2007, the Company and its domestic subsidiaries

have changed their depreciation method to 250% declining balance method with salvage values of 1 yen. As a result of this change, income before income taxes and minority interests, and net income for the six months ended June 30, 2007 decreased by 19,330 million yen and 11,178 million yen, respectively.

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## 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
<b>Balance at December 31, 2006</b>	<b>174,603</b>	<b>403,510</b>	<b>43,600</b>	<b>2,368,047</b>	<b>2,718</b>	<b>(5,872)</b>	<b>2,986,606</b>
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	71	63					134
Cash dividends				(66,582)			(66,582)
Transfers to legal reserve			2,130	(2,130)			-
Comprehensive income:							
Net income				255,183			255,183
Other comprehensive income (loss), net of tax							
Foreign currency translation adjustments					49,237		49,237
Net unrealized gains and losses on securities					1,438		1,438
Net gains and losses on derivative instruments					(977)		(977)
Pension liability adjustments					51,753		51,753



<b>Total comprehensive income</b>							<b>356,634</b>
Repurchase of treasury stock, net		4				(200,225)	(200,221)
<b>Balance at June 30, 2007 (Unaudited)</b>	<b>174,674</b>	<b>403,577</b>	<b>45,730</b>	<b>2,552,314</b>	<b>104,169</b>	<b>(206,097)</b>	<b>3,074,367</b>

**Non-Consolidated Financial Statements**  
**Non-Consolidated Balance Sheets**

ASSETS	Millions of yen	
	<b>As of June 30, 2007</b>	As of Dec. 31, 2006
<b>Current Assets</b>	<b>1,431,255</b>	<b>1,622,281</b>
Cash and deposits	206,144	324,053
Notes receivable	267,168	295,862
Accounts receivable	566,660	621,656
Finished goods	115,155	93,685
Work in process	111,031	107,666
Raw materials and supplies	5,487	4,642
Deferred tax assets	37,201	34,124
Short-term loans receivable	20,281	19,320
Other current assets	102,147	121,295
Allowance for doubtful receivables	(19)	(22)
<b>Fixed Assets</b>	<b>1,377,390</b>	<b>1,315,791</b>
<b>Property, Plant And Equipment</b>	<b>866,142</b>	<b>818,094</b>
Buildings	434,729	418,087
Machinery	161,263	150,795
Vehicles	433	332
Tools and equipment	59,424	54,985
Land	136,472	133,522
Construction in progress	73,821	60,373

<b>Intangibles</b>	<b>37,810</b>	<b>34,480</b>
Software	34,317	31,999
Other intangible assets	3,493	2,481
<b>Investments</b>	<b>473,438</b>	<b>463,217</b>
Marketable securities-noncurrent	32,875	38,571
Investment in affiliated companies	357,051	347,051
Long-term loans receivable	8,101	4,897
Long-term pre-paid expenses	13,980	13,741
Deferred tax assets-noncurrent	55,307	53,810
Guarantees	2,019	2,141
Other noncurrent assets	4,169	3,102
Allowance for doubtful receivables-noncurrent	(64)	(96)
<b>TOTAL ASSETS</b>	<b>2,808,645</b>	<b>2,938,072</b>

**LIABILITIES AND NET ASSETS**

Millions of yen

	<b>As of June 30, 2007</b>	As of Dec. 31, 2006
<b>Current Liabilities</b>	<b>713,735</b>	<b>770,621</b>
Notes payable	2,437	2,248
Accounts payable	374,423	406,771
Short-term loans	34,657	36,452
Other payable	86,668	115,245
Accrued expenses	64,333	70,238
Accrued income taxes	104,212	103,871
Deposits	12,085	10,161
Accrued warranty expenses	3,131	3,171
Accrued bonuses for employees	4,935	5,656
Accrued bonuses for directors	148	295
Other current liabilities	26,706	16,513
<b>Noncurrent Liabilities</b>	<b>52,310</b>	<b>58,168</b>
Convertible debentures	176	318
Accrued pension and severance cost	47,069	52,376
Accrued directors' retirement benefit	1,261	1,209
Reserve for environmental provision	3,804	4,265
<b>TOTAL LIABILITIES</b>	<b>766,045</b>	<b>828,789</b>
<b>Stockholders' Equity</b>	<b>2,035,807</b>	<b>2,101,545</b>
<b>Common Stock</b>	<b>174,674</b>	<b>174,603</b>
<b>Capital Surplus</b>	<b>306,227</b>	<b>306,152</b>
Additional paid-in capital	306,201	306,130
Other capital surplus	26	22
<b>Retained Earnings</b>	<b>1,761,003</b>	<b>1,626,662</b>
Legal reserve	22,114	22,114
Other retained earnings	1,738,889	1,604,548
Reserve for special depreciation	10,191	12,485
Reserve for deferral of capital gain on property	1,273	1,292
Special reserves	1,249,928	1,249,928
Retained earnings brought forward	477,497	340,843
<b>Treasury Stock</b>	<b>(206,097)</b>	<b>(5,872)</b>
<b>Difference Of Appreciation And Conversion</b>	<b>6,793</b>	<b>7,738</b>
<b>Net Unrealized Gains (Losses) On Securities</b>	<b>7,907</b>	<b>8,899</b>
<b>Net Deferred Profits (Losses) On Hedges</b>	<b>(1,114)</b>	<b>(1,161)</b>
<b>TOTAL NET ASSETS</b>	<b>2,042,600</b>	<b>2,109,283</b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>2,808,645</b>	<b>2,938,072</b>
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## Non-Consolidated Statements of Income

	<b>Six months ended June 30, 2007</b>	Millions of yen  Six months ended June 30, 2006
<b>Net sales</b>	<b>1,370,988</b>	<b>1,266,000</b>
<b>Cost of sales</b>	<b>830,843</b>	<b>785,624</b>
<b>Gross profit</b>	<b>540,145</b>	<b>480,376</b>
<b>Selling, general and administrative expenses</b>	<b>259,782</b>	<b>239,954</b>
<b>Operating profit</b>	<b>280,363</b>	<b>240,422</b>
<b>Other Income</b>	<b>60,708</b>	<b>41,114</b>
Interest income	1,684	769
Dividend income	13,970	2,572
Rental income	21,855	17,405
Patent royalties	17,726	14,864
Miscellaneous income	5,473	5,504
<b>Other Expense</b>	<b>38,795</b>	<b>35,435</b>
Interest expense	314	34
Depreciation of rental assets	19,009	15,661
Loss on disposal and write-off of inventories	1,910	4,334
Foreign exchange loss	12,499	11,402
Miscellaneous loss	5,063	4,004
<b>Ordinary profit</b>	<b>302,276</b>	<b>246,101</b>
<b>Non-Ordinary Income</b>	<b>494</b>	<b>335</b>
Gain on sales of fixed assets	404	335
Gain on sales of marketable securities-noncurrent	90	-
<b>Non-Ordinary Loss</b>	<b>1,433</b>	<b>8,299</b>
Loss on sales and disposal of fixed assets	1,433	2,975
Loss on impairment of fixed assets	-	5,218
Loss on sales of marketable securities-noncurrent	-	34
Loss on sales of investments in affiliated companies	-	72
<b>Income before income taxes</b>	<b>301,337</b>	<b>238,137</b>
Income taxes -Current	104,356	77,942
-Deferred	(3,944)	4,647
<b>Net income</b>	<b>200,925</b>	<b>155,548</b>



**Notes to Non-Consolidated Balance Sheets**

Accumulated depreciation of property, plant and equipment	782,984 million yen
Accumulated impairment losses of property, plant and equipment	494 million yen
Cautionary obligation and other	
Cautionary obligation contract	24,231 million yen

**Notes to Non-Consolidated Statements of Income**

Net income per share	153.05 yen
(Change of Depreciation Method)	

Due to the amendment of Japanese Corporate Tax Law in 2007, the Company changed its method of depreciation of buildings purchased on or after April 1, 2007 to the straight-line method at rates prescribed in the amended corporate tax law and its method of depreciation of other tangible fixed assets purchased on or after April 1, 2007 to the declining-balance method at rates prescribed in the amended corporate tax law.

The changes in accounting for depreciation did not have a material impact on the statements of income.



## Non-Consolidated Statements of changes in Stockholders Equity

	Stockholders equity				
	Common stock	Additional paid-in capital	Other capital surplus	Retained earnings Legal reserve	Reserve for special depreciation
Balance of December 31, 2006	174,603	306,130	22	22,114	12,485
Changes in the term					
Issuance of new shares					
Conversion of convertible debentures	71	71			
Transfer to reserve for special depreciation					536
Reversal of reserve for special depreciation					(2,829)
Transfer to reserve for deferral of capital gain on property					
Reversal of reserve for deferral of capital gain on property					
Transfer to special reserves					
Dividends from surplus					
Net income					
Purchase of treasury stock					
Disposal of treasury stock			4		
Net change of items other than stockholders equity					
Total changes in the term	71	71	4		(2,294)
Balance of June 30, 2007	174,674	306,201	26	22,114	10,191

## Notes:

1. Number of outstanding shares as of June 30, 2007 1,333,588,114 shares
2. Classes and number of treasury stock

Classes of stock	Balance as of December 31, 2006	Increase	Decrease	Balance as of June 30, 2007
Common stock	1,794,390 shares	31,201,445 shares	2,644 shares	32,993,191 shares

## (Reason for change)

The increase of 31,201,445 shares reflects the acquisition of 31,165,500 shares as approved by the resolution of the board of directors meeting, and the purchase of 35,945 shares based on the shareholders request for purchase of shares less-than-one-unit. The decrease reflects the sale of 2,644 shares based on the shareholders request for the sale of shares less-than-one-unit.

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							Millions of yen
Stockholders equity				Difference of appreciation and conversion			
Retained earnings Other retained earnings					Net unrealized gains (losses) on securities		
Reserve for deferral of capital gain on property	Special reserves	Retained earnings brought forward	Treasury stock	Total stockholders equity	Net unrealized gains (losses) on securities	Net Deferred profits (losses) on hedges	Total net assets
1,292	1,249,928	340,843	(5,872)	2,101,545	8,899	(1,161)	2,109,283
				-			-
				142			142
		(536)		-			-
		2,829		-			-
				-			-
(19)		19		-			-
				-			-
		(66,583)		(66,583)			(66,583)
		200,925		200,925			200,925
			(200,239)	(200,239)			(200,239)
			14	17			17
				-	(992)	47	(945)
(19)	-	136,654	(200,225)	(65,738)	(992)	47	(66,683)
1,273	1,249,928	477,497	(206,097)	2,035,807	7,907	(1,114)	2,042,600

3. Dividend from surplus

Resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 29, 2007 The ordinary general meeting of shareholders	66,583	50.00	December 31, 2006	March 30, 2007
July 26, 2007 Board of directors meeting	65,030	50.00	June 30, 2007	August 24, 2007

**COMPANY PROFILE**

*(The following statements are the status as of June 30, 2007, 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 (China) Co., Ltd. [China]  
 Canon Hongkong Co., Ltd. [Hong Kong]  
 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]  
Ayase Office [Kanagawa Pref.]  
Hiratsuka Development Center [Kanagawa Pref.]  
Ami Plant [Ibaraki Pref.]  
Optics R&D Center [Tochigi Pref.]  
Toride Plant [Ibaraki Pref.]  
Kosugi Office [Kanagawa Pref.]  
Fuji-Susono Research Park [Shizuoka Pref.]  
Yako Office [Kanagawa Pref.]  
Tamagawa Plant [Kanagawa Pref.]  
Utsunomiya Plant [Tochigi Pref.]  
Utsunomiya Optical Products Plant [Tochigi 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. [Ibaraki Pref.]  
Canon Machinery Inc. [Shiga Pref.]  
Nisca Corporation [Yamanashi Pref.]  
Canon ANELVA Corporation [Tokyo]



**n Main Activities of the Canon Group**

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

Operations		Main Products
<b>Business Machines</b>	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
<b>Cameras</b>		Digital Cameras, Digital Video Cameras, Interchangeable Lenses, LCD Projectors
<b>Optical and Other Products</b>		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	127,338 persons
	(Increase of 8,839 persons from the end of the previous term)
Americas	10,350 persons
Europe	11,537 persons
Japan	54,487 persons
Others	50,964 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	20,937 persons
Increase from the end of the previous term	560 persons
Average age	39.3 years
Average years of service	15.7 years

### Notes:

1. The number of employees represents the total number of employees excluding those who do not work full-time.
2. The number of employees does not include those who have been dispatched to affiliated companies, etc. (2,514 persons).

## n Shares and Convertible Debentures

### (1) Shares

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

### Outstanding Shares, 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
Outstanding Shares (share)	1,333,445,830	142,284	1,333,588,114

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Capital Stock (yen)	174,603,298,109	70,999,716	174,674,297,825
Number of Shareholders (person)	120,770	(8,192)	112,578

Note:

The increase of the outstanding shares 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
<b>Banking Companies</b>	350	521,507,767
<b>Securities Underwriting Companies</b>	70	45,358,890
<b>Other Domestic Companies</b>	1,161	42,870,443
<b>Foreign Companies, etc.</b>	1,189	609,870,823
<b>Individual and Others</b>	109,807	80,987,000
<b>Treasury Stock</b>	1	32,993,191
<b>Total</b>	112,578	1,333,588,114

**Shareholding Ratio****(3) Convertible Debentures**

**The third series of Unsecured Convertible Debentures Due 2008** MILLIONS OF YEN

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## n Directors and Corporate Auditors

### Directors

Position	Name	Business in Charge or Representatives of other Organization, etc.
Chairman & CEO President & COO	Fujio Mitarai Tsuneji Uchida Toshizo Tanaka	Chairman of Nippon Keidanren  Group Executive of Policy & Economy Research Headquarters
Vice President		
Senior Managing Director	Nobuyoshi Tanaka	Group Executive of Corporate Intellectual Property & Legal Headquarters
Senior Managing Director	Junji Ichikawa	Chief Executive of Optical Products Operations
Senior Managing Director Senior Managing Director Managing Director	Hajime Tsuruoka Akiyoshi Moroe	President of Canon Europa N.V. Group Executive of Human Resources Management & Organization Headquarters and Group Executive of External Relations Headquarters
Managing Director	Kunio Watanabe	Group Executive of Corporate Planning Development Headquarters and Deputy Group Executive of Policy & Economy Research Headquarters
Managing Director Managing Director	Yoroku Adachi Yasuo Mitsuhashi	President & CEO of Canon U.S.A., Inc. Chief Executive of Peripheral Products Operations
Managing Director	Tomonori Iwashita	Group Executive of Global Environment Promotion Headquarters and Group Executive of Quality Management Headquarters
Managing Director	Masahiro Osawa	Group Executive of Finance & Accounting Headquarters
Managing Director	Shigeyuki Matsumoto	Group Executive of Device Technology Development Headquarters
Director	Katsuichi Shimizu	Chief Executive of Inkjet Products Operations
Director	Ryoichi Bamba	Executive Vice President of Canon U.S.A., Inc.
Director	Toshio Homma	Chief Executive of L Printer Products Operations
Director	Keijiro Yamazaki	Group Executive of General Affairs Headquarters
Director Director	Shunichi Uzawa	Group Executive of Core Technology Development Headquarters

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Director	Masaki Nakaoka	Chief Executive of Office Imaging Products Operations
Director	Toshiyuki Komatsu	Group Executive of Leading-Edge Technology Development Headquarters
Director	Haruhisa Honda	Group Executive of Production Engineering 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 of SED Inc.
Director	*Hideki Ozawa	President of Canon (China) Co. Ltd.
Director	*Masaya Maeda	Chief Executive of Image Communication Products Operations

**Corporate Auditors**

Position	Name	Business in Charge or Representatives of other Organization, etc.
Corporate Auditor	Teruomi Takahashi	
Corporate Auditor	Kunihiro Nagata	
Corporate Auditor	Tadashi Ohe	Attorney
Corporate Auditor	Yoshinobu Shimizu	Certified Public Accountant
Corporate Auditor	Minoru Shishikura	

Notes:

1. Directors with asterisk were newly elected at the Ordinary General Meeting of Shareholders for the 106th Business Term held on March 29, 2007 and assumed their respective offices.
2. 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 Accounting Auditor**

**Ernst & Young ShinNihon**

Hibiya Kokusai Building

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





**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

**Fee for issuing share certificate:**

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

