

CANON INC
Form 6-K
October 28, 2005

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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, 2005

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 **October 27, 2005**

By /s/ Hiroshi Kawashimo

(Signature)*

Hiroshi Kawashimo
General Manager, Finance
Division
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, 2005

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THE NINE MONTHS ENDED SEPTEMBER 30, 2005**

October 27, 2005

CONSOLIDATED RESULTS FOR THE THIRD QUARTER

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

| | Actual | | Change(%) | | |
|---|---|---|-----------|----|-----------|
| | Three months ended September 30, 2005 (Unaudited) | Three months ended September 30, 2004 (Unaudited) | | | |
| Net sales | ¥ 878,503 | ¥ 838,304 | + 4.8 | \$ | 7,774,363 |
| Operating profit | 143,565 | 158,299 | 9.3 | | 1,270,487 |
| Income before income taxes and minority interests | 155,312 | 162,629 | 4.5 | | 1,374,442 |
| Net income | ¥ 100,617 | ¥ 101,780 | 1.1 | \$ | 890,416 |
| Net income per share: | | | | | |
| - Basic | ¥ 113.40 | ¥ 114.79 | 1.2 | \$ | 1.00 |
| - Diluted | 113.31 | 114.62 | 1.1 | | 1.00 |

CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

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

| | Actual | | | Projected | | |
|---|--|--|-----------|--|-------------------------------|-----------|
| | Nine months ended September 30, 2005 (Unaudited) | Nine months ended September 30, 2004 (Unaudited) | Change(%) | Nine months ended September 30, 2005 (Unaudited) | Year ending December 31, 2005 | Change(%) |
| Net sales | ¥ 2,634,343 | ¥ 2,486,724 | + 5.9 | \$ 23,312,770 | ¥ 3,740,000 | + 7.8 |
| Operating profit | 413,754 | 411,675 | + 0.5 | 3,661,540 | 587,000 | + 7.9 |
| Income before income taxes and minority interests | 439,045 | 422,603 | + 3.9 | 3,885,354 | 614,000 | + 11.2 |
| Net income | ¥ 275,885 | ¥ 262,556 | + 5.1 | \$ 2,441,460 | ¥ 384,000 | + 11.8 |
| Net income per share: | | | | | | |
| - Basic | ¥ 311.01 | ¥ 296.70 | + 4.8 | \$ 2.75 | ¥ 432.73 | + 11.6 |
| - Diluted | 310.69 | 295.80 | + 5.0 | 2.75 | | |

| | As of September 30, 2005 (Unaudited) | As of December 31, 2004 | Actual Change(%) | As of September 30, 2005 (Unaudited) |
|----------------------------|---|-------------------------------|---------------------|---|
| Total assets | ¥ 3,805,641 | ¥ 3,587,021 | + 6.1 | \$ 33,678,239 |
| Stockholders equity | ¥ 2,448,242 | ¥ 2,209,896 | + 10.8 | \$ 21,665,858 |

Notes: 1. Canon's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

2. U.S. dollar amounts are translated from yen at the rate of JPY113=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of September 30, 2005, 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

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Operating Results and Financial Conditions

2005 Third Quarter in Review

Looking back at the global economy in the third quarter of 2005, the U.S. economy continued to display growth despite concern over the economic impact of escalating crude oil prices, with private sector capital spending continuing to grow and employment conditions and capacity utilization remaining at stable levels. In Europe, such factors as an improved job market have resulted in a trend toward moderate recovery. As for Asia, while the rate of expansion in consumer spending and capital investment declined somewhat, China continued to achieve high economic growth and other Asian economies also enjoyed generally favorable performances. In Japan, the economy continued to recover gradually thanks to such factors as increased corporate investment and improved employment conditions, fueled by favorable corporate profits, and consumer spending remained robust.

As for the markets in which the Canon Group operates, within the camera segment demand for digital single-lens-reflex (SLR) cameras continued to grow significantly during the term. Sales of digital compact cameras also remained strong to realize healthy overall growth for the segment. Demand for network digital multifunction devices (MFDs) stayed strong as the office market moves toward multifunctionality, speed and color. Although sales of computer peripherals, including printers, grew for both multifunction and color models, the segment suffered amid a shift in demand toward high-performance low-priced machines. Demand for steppers, used in the production of semiconductors, tapered off because investment by chip manufacturers has entered a correction phase. Increased investment by manufacturers of liquid crystal displays (LCDs) fueled growth in the market for projection aligners, which are used in the production of LCD panels. The average value of the yen for the third quarter was ¥111.23 to the U.S. dollar and ¥135.73 to the euro, representing a year-on-year decrease of almost 1% against both currencies. Amid these conditions, Canon's consolidated net sales for the third quarter increased by 4.8% from the year-ago period to ¥878.5 billion (U.S.\$7,774 million), boosted by a favorable rise in sales of digital cameras and color network MFDs, along with an increase in sales of printers. Net income for the third quarter totaled ¥100.6 billion (U.S.\$890 million), a slight decrease of 1.1% year-on-year, mainly caused by such factors from the previous year as the gain realized from the return to the Japanese Government of the substitutional portion of the employees pension funds. With the ongoing production-reform efforts through the integration of manufacturing and development operations during the term and the timely launch of competitive new products amid the rising cost of crude oil and raw materials, Canon's gross profit ratio for the third quarter was 48.9%, the same level as the year-ago period. Selling, general and administrative expenses for the third quarter increased 13.8% year-on-year, mainly due to such factors as R&D expenditures for the development of future businesses and increased advertising and sales promotion spending, along with such factors as expenses related to Canon Expo 2005, a showcase of the company's latest products and future technologies that is held every 5 years, and a ¥13.8 billion expense deduction for the gain from the year-ago period realized from the return to the Japanese Government of the substitutional portion of the employees pension funds that the company and certain of its subsidiaries in Japan had operated. Consequently, operating profit in the third quarter totaled ¥143.6 billion (U.S.\$1,270 million), a year-on-year decrease of 9.3%. Other income (deductions) improved by ¥7.4 billion (U.S.\$66 million), mainly due to an increase in interest revenue and sales on securities. As a result, income before income taxes and minority interests in the third quarter totaled ¥155.3 billion (U.S.\$1,374 million), a year-on-year decrease of 4.5%. The effective tax rate during the third quarter was 1.4 points lower compared with the previous year due to such factors as the introduction of the corporation size-based enterprise tax in Japan, which reduced the statutory tax rate from 42% to 40%. Consequently, as stated earlier, net income for the third quarter of 2005 totaled ¥100.6 billion (U.S.\$890 million). Basic net income per share for the third quarter was ¥113.40 (U.S.\$1.00), a year-on-year decrease of ¥1.39 (U.S.\$0.01).

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, indicates a shift from monochrome machines to color models, as well as a trend toward higher-end features. Additionally, amid color network digital MFDs, the iR C3170/2570 and iR C3220/2620 series continued to sell well in both Japan and overseas markets. Among monochrome network digital MFDs, such mid-level models as the iR4570/3570/2870/2270 contributed to the realization of expanded sales. Overall, sales of office imaging products in the third quarter realized a year-on-year increase of 3.7%. In the field of computer peripherals, laser beam printers enjoyed a year-on-year increase in unit sales, with color models increasing more than 30% and monochrome machines also recording healthy growth. Sales in value terms also realized growth despite the effect of the shift in market demand toward lower priced models. Inkjet printers recorded an increase in unit sales of approximately 10%, with the PIXMA iP3000/4000 and, in markets outside of Japan, the PIXMA MP110/130 maintaining brisk sales. Additionally, newly introduced models in overseas market, including the PIXMA iP4200/1600 and high-speed all-in-one models such as the PIXMA MP500/450, contributed to a stronger product lineup, which also led the sales in value term to realize growth. As a result, sales of computer peripherals for the third quarter realized a year-on-year increase of 4.4%. Sales of business information products, however, decreased by 15.4% due to the intentional curtailing of personal computer sales in the Japanese market. Collectively, sales of business machines during the third quarter totaled ¥598.2 billion (U.S.\$5,294 million), a year-on-year increase of 3.1%. Despite active efforts to reduce costs and launch new products amid sever price competition, operating profit for the third quarter totaled ¥132.4 billion (U.S.\$1,171 million), a year-on-year decrease of 5.2%, mainly due to a delay in the introduction of new inkjet printer products.

Within the camera segment, the continued strong demand for digital SLR cameras has fueled robust growth, with the EOS DIGITAL REBEL XT, launched in the first half, recording particularly strong sales along with continued healthy sales of the EOS 20D, launched in last year. This, in turn, has led to expanded sales of interchangeable lenses for SLR cameras. Sales of compact-model digital cameras also continued to expand apace, with healthy demand for the PowerShot SD400 and PowerShot A520, launched in the first half, as well as the PowerShot SD550 and PowerShot SD450, introduced in the third quarter. As a result, unit sales of digital cameras for the third quarter increased more than 30% from the year-ago period. In the field of digital video camcorders, newly introduced models such as the Optura 600, the Optura S1, and the DC20/10 recorded strong performances. Consequently, camera sales overall continued to enjoy growth of 23.1%, achieving total sales of ¥203.2 billion (U.S.\$1,798 million). The operating profit ratio for the camera segment increased 6.0 points influenced by such factors as increased sales, cost reduction efforts, expanded sales of newly introduced models, and sales growth for such high valued-added products as digital SLR cameras. As a result, the operating profit for the period totaled ¥48.8 billion (U.S.\$432 million), a year-on-year increase of 63.9%.

In the optical and other products segment, sales of steppers, used for the production of semiconductors, decreased substantially due to a drop in unit sales. While unit sales of aligners used in the production of LCDs decreased, sales in value terms remained at the same level as the previous year due to the rise in selling prices in line with the shift toward next-generation models capable of accommodating larger size LCD panels. As a result, third-quarter sales for the segment totaled ¥77.2 billion (U.S.\$683 million), a year-on-year decrease of 17.3%. While efforts were made to reduce costs, operating profit for the segment declined year-on-year by 9.8% to ¥9.2 billion (U.S.\$82 million), mainly due to the decrease in sales volume.

Cash Flow

In the nine months ended September 30, 2005, although Canon maintained the growth in sales and increased cash proceeds from sales, combined with an increase in net income, cash flow from operating activities totaled ¥368.7 billion (U.S.\$3,263 million), a decrease of ¥18.6 billion (U.S.\$165 million) due to an increased corporate tax payment accompanying the increase in profit last year.

Cash flow from investing activities totaled ¥288.4 billion (U.S.\$2,552 million), a year-on-year increase of ¥113.3 billion (U.S.\$1,002 million), caused by combination of such factors as a ¥271.0 billion (U.S.\$2,398 million) in capital expenditure, which was used mainly to expand production capabilities in both Japan and overseas regions as well as to bolster the company's R&D-related infrastructure, and also an acquisition of the stock of ANELVA

Corporation.

Cash flow from financing activities recorded an outlay of ¥75.0 billion (U.S.\$664 million), mainly resulting from continued repayment of loans and an increase in the dividend payout.

Consequently, cash and cash equivalents remained at a high level, totaling ¥903.1 billion (U.S.\$7,992 million), an increase of ¥15.3 billion (U.S.\$136 million), including the impact of currency exchange from the end of the previous year.

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Outlook

Regarding the outlook for the global economy in the fourth quarter and thereafter, although prospects remain uncertain due to rising oil prices and the damage caused by catastrophic hurricanes in the United States, which could adversely affect consumer spending and exchange rate trends, the global economy is likely to continue its course toward recovery.

In the businesses in which Canon is involved, demand in the digital-camera market is expected to continue enjoying growth, particularly in overseas markets. As for network digital MFDs and laser beam printers, while stable demand is projected for full-color models, severe price competition and shifting demand toward lower priced models is expected to adversely affect sales. Within the semiconductor-production equipment market, demand for steppers has been tapering off, which is expected to result in sluggish sales. In the market for projection aligners used in the production of LCDs, demand for LCD production equipment is expected to show continued growth.

The company has revised upward its forecasts for the 2005 fiscal year and now anticipates consolidated net sales of ¥3,740.0 billion (U.S.\$33,097 million), consolidated income before income taxes and minority interests of ¥614.0 billion (U.S.\$5,434 million), and consolidated net income of ¥384.0 billion (U.S.\$3,398 million). The company also projects non-consolidated net sales of ¥2,464.0 billion (U.S.\$21,805 million), non-consolidated ordinary profit of ¥435.0 billion (U.S.\$3,850 million), and non-consolidated net income of ¥286.0 billion (U.S.\$2,531 million). Although uncertainty surrounds several factors that could affect currency exchange rates, significant changes in rates are not anticipated. The company's forecasts for the remainder of 2005 are based on currency exchange assumptions of ¥112.00 to the U.S dollar and ¥135.00 to the euro.

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Table of Contents**Consolidated Outlook
Fiscal year**

| | Millions of yen | | | Year ended December 31, 2004 | Change (%) |
|--|----------------------------|------------------------|----------|------------------------------------|---------------|
| | Year ending | | Change | | |
| | December 31, 2005 | | | | |
| | Previous Outlook (A) | Revised Outlook (B) | | | |
| Net sales | ¥ 3,680,000 | ¥ 3,740,000 | ¥ 60,000 | ¥ 3,467,853 | + 7.8% |
| Income before income taxes and minority interests | 594,000 | 614,000 | 20,000 | 552,116 | + 11.2% |
| Net income | 367,000 | 384,000 | 17,000 | 343,344 | + 11.8% |

**Non-consolidated Outlook
Fiscal year**

| | Millions of yen | | | Year ended December 31, 2004 | Change (%) |
|-----------------|----------------------------|------------------------|----------|------------------------------------|---------------|
| | Year ending | | Change | | |
| | December 31, 2005 | | | | |
| | Previous Outlook (A) | Revised Outlook (B) | | | |
| Net sales | ¥ 2,446,000 | ¥ 2,464,000 | ¥ 18,000 | ¥ 2,278,374 | + 8.1% |
| Ordinary profit | 427,000 | 435,000 | 8,000 | 396,250 | + 9.8% |
| Net income | 277,000 | 286,000 | 9,000 | 249,251 | + 14.7% |

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

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

| | Millions of yen | | | | Thousands of U.S. dollars |
|--|--|---|-----------|-----|--|
| | Three months ended September 30, 2005 (Unaudited) | Three months ended September 30, 2004 (Unaudited) | Change(%) | | Three months ended September 30, 2005 (Unaudited) |
| Net sales | ¥ 878,503 | ¥ 838,304 | + | 4.8 | \$ 7,774,363 |
| Cost of sales | 448,651 | 428,514 | | | 3,970,363 |
| Gross profit | 429,852 | 409,790 | + | 4.9 | 3,804,000 |
| Selling, general and administrative expenses | 286,287 | 251,491 | | | 2,533,513 |
| Operating profit | 143,565 | 158,299 | | 9.3 | 1,270,487 |
| Other income (deductions): | | | | | |
| Interest and dividend income | 3,573 | 1,690 | | | 31,619 |
| Interest expense | (369) | (538) | | | (3,265) |
| Other, net | 8,543 | 3,178 | | | 75,601 |
| | 11,747 | 4,330 | | | 103,955 |
| Income before income taxes and minority interests | 155,312 | 162,629 | | 4.5 | 1,374,442 |
| Income taxes | 51,276 | 55,907 | | | 453,769 |
| Income before minority interests | 104,036 | 106,722 | | | 920,673 |
| Minority interests | 3,419 | 4,942 | | | 30,257 |
| Net income | ¥ 100,617 | ¥ 101,780 | | 1.1 | \$ 890,416 |

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains (losses) on securities, change in net gains (losses) on derivative financial

instruments and change in minimum pension liability adjustments. Comprehensive income for the three months ended September 30, 2005 and 2004 were JPY112,928 million (U.S.\$999,363 thousand) and JPY153,874 million, respectively.

Results for the nine months

| | Millions of yen | | | Thousands of U.S. dollars |
|---|--|--|-----------|--|
| | Nine months ended September 30, 2005 (Unaudited) | Nine months ended September 30, 2004 (Unaudited) | Change(%) | Nine months ended September 30, 2005 (Unaudited) |
| Net sales | ¥ 2,634,343 | ¥ 2,486,724 | + 5.9 | \$ 23,312,770 |
| Cost of sales | 1,354,451 | 1,251,167 | | 11,986,292 |
| Gross profit | 1,279,892 | 1,235,557 | + 3.6 | 11,326,478 |
| Selling, general and administrative expenses | 866,138 | 823,882 | | 7,664,938 |
| Operating profit | 413,754 | 411,675 | + 0.5 | 3,661,540 |
| Other income (deductions): | | | | |
| Interest and dividend income | 9,543 | 4,717 | | 84,451 |
| Interest expense | (1,140) | (1,976) | | (10,088) |
| Other, net | 16,888 | 8,187 | | 149,451 |
| | 25,291 | 10,928 | | 223,814 |
| Income before income taxes and minority interests | 439,045 | 422,603 | + 3.9 | 3,885,354 |
| Income taxes | 152,544 | 148,652 | | 1,349,947 |
| Income before minority interests | 286,501 | 273,951 | | 2,535,407 |
| Minority interests | 10,616 | 11,395 | | 93,947 |
| Net income | ¥ 275,885 | ¥ 262,556 | + 5.1 | \$ 2,441,460 |

Note: Canon's comprehensive

income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains (losses) on securities, change in net gains (losses) on derivative financial instruments and change in minimum pension liability adjustments.

Comprehensive income for the nine months ended September 30, 2005 and 2004 were JPY302,021 million (U.S.\$2,672,752 thousand) and JPY314,340 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 | | | Change(%) | Thousands of U.S. dollars |
|--------------------------------------|--|---|---|-----------|---|
| | Three months ended September 30, 2005 (Unaudited) | Three months ended September 30, 2004 (Unaudited) | | | Three months ended September 30, 2005 (Unaudited) |
| Business machines: | | | | | |
| <i>Office imaging products</i> | ¥ 275,337 | ¥ 265,590 | + | 3.7 | \$ 2,436,611 |
| <i>Computer peripherals</i> | 299,861 | 287,243 | + | 4.4 | 2,653,637 |
| <i>Business information products</i> | 22,987 | 27,179 | | 15.4 | 203,425 |
| | 598,185 | 580,012 | + | 3.1 | 5,293,673 |
| Cameras | 203,160 | 164,991 | + | 23.1 | 1,797,876 |
| Optical and other products | 77,158 | 93,301 | | 17.3 | 682,814 |
| Total | ¥ 878,503 | ¥ 838,304 | + | 4.8 | \$ 7,774,363 |

| Sales by region | Millions of yen | | | Change(%) | Thousands of U.S. dollars |
|--------------------|--|---|---|-----------|---|
| | Three months ended September 30, 2005 (Unaudited) | Three months ended September 30, 2004 (Unaudited) | | | Three months ended September 30, 2005 (Unaudited) |
| Japan | ¥ 195,320 | ¥ 196,104 | | 0.4 | \$ 1,728,496 |
| Overseas: | | | | | |
| <i>Americas</i> | 274,177 | 254,121 | + | 7.9 | 2,426,345 |
| <i>Europe</i> | 270,621 | 254,844 | + | 6.2 | 2,394,876 |
| <i>Other areas</i> | 138,385 | 133,235 | + | 3.9 | 1,224,646 |
| | 683,183 | 642,200 | + | 6.4 | 6,045,867 |
| Total | ¥ 878,503 | ¥ 838,304 | + | 4.8 | \$ 7,774,363 |

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, 2005 (Unaudited) | ended September 30, 2004 (Unaudited) | Change(%) | | ended September 30, 2005 (Unaudited) |
|--------------------------------------|---|---|------------------|------------|---|
| Business machines: | | | | | |
| <i>Office imaging products</i> | ¥ 843,136 | ¥ 819,838 | + | 2.8 | \$ 7,461,381 |
| <i>Computer peripherals</i> | 877,598 | 817,915 | + | 7.3 | 7,766,354 |
| <i>Business information products</i> | 74,482 | 84,520 | | 11.9 | 659,132 |
| | 1,795,216 | 1,722,273 | + | 4.2 | 15,886,867 |
| Cameras | 582,312 | 512,324 | + | 13.7 | 5,153,204 |
| Optical and other products | 256,815 | 252,127 | + | 1.9 | 2,272,699 |
| Total | ¥ 2,634,343 | ¥ 2,486,724 | + | 5.9 | \$ 23,312,770 |

| Sales by region | Millions of yen | | | Change(%) | Thousands of U.S. dollars |
|------------------------|---|---|----------|------------------|---|
| | Nine months ended September 30, 2005 (Unaudited) | Nine months ended September 30, 2004 (Unaudited) | | | Nine months ended September 30, 2005 (Unaudited) |
| Japan | ¥ 611,438 | ¥ 609,866 | + | 0.3 | \$ 5,410,956 |
| Overseas: | | | | | |
| <i>Americas</i> | 792,303 | 749,002 | + | 5.8 | 7,011,531 |
| <i>Europe</i> | 822,287 | 770,411 | + | 6.7 | 7,276,876 |
| <i>Other areas</i> | 408,315 | 357,445 | + | 14.2 | 3,613,407 |
| | 2,022,905 | 1,876,858 | + | 7.8 | 17,901,814 |
| Total | ¥ 2,634,343 | ¥ 2,486,724 | + | 5.9 | \$ 23,312,770 |

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 / Single
function inkjet
printers / Inkjet
multifunction
peripherals /
Image scanners
/ etc.

Business
information
products:
Computer
information
systems /
Micrographic
equipment /
Personal
information
products / etc.

Cameras: SLR
cameras /
Compact
cameras /
Digital cameras
/ Digital video
camcorders /
etc.

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

equipment /
Medical
equipment /
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, 2005 (Unaudited) | Three months ended September 30, 2004 (Unaudited) | Change(%) | | Three months ended September 30, 2005 (Unaudited) |
| Business machines | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers Intersegment | ¥ 598,185 | ¥ 580,012 | + 3.1 | \$ | 5,293,673 |
| Total | 598,185 | 580,012 | + 3.1 | | 5,293,673 |
| Operating cost and expenses | 465,806 | 440,411 | + 5.8 | | 4,122,177 |
| Operating profit | 132,379 | 139,601 | - 5.2 | | 1,171,496 |
| Cameras | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers Intersegment | ¥ 203,160 | ¥ 164,991 | + 23.1 | \$ | 1,797,876 |
| Total | 203,160 | 164,991 | + 23.1 | | 1,797,876 |
| Operating cost and expenses | 154,365 | 135,221 | + 14.2 | | 1,366,062 |
| Operating profit | 48,795 | 29,770 | + 63.9 | | 431,814 |
| Optical and other products | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers Intersegment | ¥ 77,158 | ¥ 93,301 | - 17.3 | \$ | 682,814 |
| | 41,721 | 36,857 | + 13.2 | | 369,213 |
| Total | 118,879 | 130,158 | - 8.7 | | 1,052,027 |
| Operating cost and expenses | 109,651 | 119,929 | - 8.6 | | 970,363 |
| Operating profit | 9,228 | 10,229 | - 9.8 | | 81,664 |

Corporate and Eliminations

| | | | | | |
|-----------------------------|----------|----------|--|-----------|--|
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ | |
| Intersegment | (41,721) | (36,857) | | (369,213) | |
| Total | (41,721) | (36,857) | | (369,213) | |
| Operating cost and expenses | 5,116 | (15,556) | | 45,274 | |
| Operating profit | (46,837) | (21,301) | | (414,487) | |

Consolidated

| | | | | | |
|-----------------------------|-----------|-----------|---|-----|--------------|
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 878,503 | ¥ 838,304 | + | 4.8 | \$ 7,774,363 |
| Intersegment | | | | | |
| Total | 878,503 | 838,304 | + | 4.8 | 7,774,363 |
| Operating cost and expenses | 734,938 | 680,005 | + | 8.1 | 6,503,876 |
| Operating profit | 143,565 | 158,299 | - | 9.3 | 1,270,487 |

Note: General corporate expenses of JPY46,850 million (U.S.\$414,602 thousand) and JPY21,301 million in the three months ended September 30, 2005 and 2004, respectively, are included in Corporate and Eliminations. For the three months ended September 30, 2004, a gain of JPY13,769 million is also included, which relates to the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.

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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, 2005 (Unaudited) | Nine months ended September 30, 2004 (Unaudited) | Change(%) | Nine months ended September 30, 2005 (Unaudited) |
| Business machines | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 1,795,216 | ¥ 1,722,273 | + 4.2 | \$ 15,886,867 |
| Intersegment | | | | |
| Total | 1,795,216 | 1,722,273 | + 4.2 | 15,886,867 |
| Operating cost and expenses | 1,403,384 | 1,333,911 | + 5.2 | 12,419,327 |
| Operating profit | 391,832 | 388,362 | + 0.9 | 3,467,540 |
| Cameras | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 582,312 | ¥ 512,324 | + 13.7 | \$ 5,153,204 |
| Intersegment | | | | |
| Total | 582,312 | 512,324 | + 13.7 | 5,153,204 |
| Operating cost and expenses | 471,663 | 421,123 | + 12.0 | 4,174,009 |
| Operating profit | 110,649 | 91,201 | + 21.3 | 979,195 |
| Optical and other products | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 256,815 | ¥ 252,127 | + 1.9 | \$ 2,272,699 |
| Intersegment | 113,539 | 102,413 | + 10.9 | 1,004,770 |
| Total | 370,354 | 354,540 | + 4.5 | 3,277,469 |
| Operating cost and expenses | 340,087 | 329,152 | + 3.3 | 3,009,619 |
| Operating profit | 30,267 | 25,388 | + 19.2 | 267,850 |

Corporate and Eliminations

| | | | | |
|-----------------------------|---|-----------|-----------|-------------|
| Net sales: | | | | |
| Unaffiliated customers | ¥ | | ¥ | \$ |
| Intersegment | | (113,539) | (102,413) | (1,004,770) |
| Total | | (113,539) | (102,413) | (1,004,770) |
| Operating cost and expenses | | 5,455 | (9,137) | 48,275 |
| Operating profit | | (118,994) | (93,276) | (1,053,045) |

Consolidated

| | | | | | |
|-----------------------------|---|-----------|---|-----------|---------------------|
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | 2,634,343 | ¥ | 2,486,724 | + 5.9 \$ 23,312,770 |
| Intersegment | | | | | |
| Total | | 2,634,343 | | 2,486,724 | + 5.9 23,312,770 |
| Operating cost and expenses | | 2,220,589 | | 2,075,049 | + 7.0 19,651,230 |
| Operating profit | | 413,754 | | 411,675 | + 0.5 3,661,540 |

Note: General corporate expenses of JPY119,010 million (U.S.\$1,053,186 thousand) and JPY93,346 million in the nine months ended September 30, 2005 and 2004, respectively, are included in Corporate and Eliminations. For the nine months ended September 30, 2004, a gain of JPY13,769 million is also included, which relates to the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. CONSOLIDATED BALANCE SHEETS

| | As of September 30, 2005 (Unaudited) | Millions of yen As of December 31, 2004 | Change | Thousands of U.S. dollars As of September 30, 2005 (Unaudited) |
|---|--|---|------------------|--|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥ 903,106 | ¥ 887,774 | ¥ 15,332 | \$ 7,992,088 |
| Marketable securities | 1,274 | 1,554 | (280) | 11,274 |
| Trade receivables, net | 571,930 | 602,790 | (30,860) | 5,061,327 |
| Inventories | 538,320 | 489,128 | 49,192 | 4,763,894 |
| Prepaid expenses and other current assets | 264,696 | 250,906 | 13,790 | 2,342,444 |
| Total current assets | 2,279,326 | 2,232,152 | 47,174 | 20,171,027 |
| Noncurrent receivables | 14,050 | 14,567 | (517) | 124,336 |
| Investments | 98,862 | 97,461 | 1,401 | 874,885 |
| Property, plant and equipment, net | 1,107,609 | 961,714 | 145,895 | 9,801,850 |
| Other assets | 305,794 | 281,127 | 24,667 | 2,706,141 |
| Total assets | ¥ 3,805,641 | ¥ 3,587,021 | ¥ 218,620 | \$ 33,678,239 |
| LIABILITIES AND STOCKHOLDERS | | | | |
| EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term loans and current portion of long-term debt | ¥ 17,639 | ¥ 9,879 | ¥ 7,760 | \$ 156,097 |
| Trade payables | 472,334 | 465,396 | 6,938 | 4,179,947 |
| Income taxes | 58,500 | 105,565 | (47,065) | 517,699 |
| Accrued expenses | 226,987 | 205,296 | 21,691 | 2,008,735 |
| Other current liabilities | 186,244 | 197,029 | (10,785) | 1,648,177 |
| Total current liabilities | 961,704 | 983,165 | (21,461) | 8,510,655 |
| Long-term debt, excluding current installments | 31,797 | 28,651 | 3,146 | 281,389 |
| Accrued pension and severance cost | 122,973 | 132,522 | (9,549) | 1,088,257 |
| Other noncurrent liabilities | 46,260 | 45,993 | 267 | 409,380 |
| Total liabilities | 1,162,734 | 1,190,331 | (27,597) | 10,289,681 |
| Minority interests | 194,665 | 186,794 | 7,871 | 1,722,700 |
| Stockholders' equity: | | | | |
| Common stock | 174,274 | 173,864 | 410 | 1,542,248 |
| Additional paid-in capital | 402,103 | 401,773 | 330 | 3,558,434 |

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| | | | | |
|---|--------------------|-------------|-----------|----------------------|
| Retained earnings | 1,952,409 | 1,740,834 | 211,575 | 17,277,956 |
| Accumulated other comprehensive income (loss) | (75,176) | (101,312) | 26,136 | (665,274) |
| Treasury stock | (5,368) | (5,263) | (105) | (47,506) |
| Total stockholders' equity | 2,448,242 | 2,209,896 | 238,346 | 21,665,858 |
| Total liabilities and stockholders' equity | ¥ 3,805,641 | ¥ 3,587,021 | ¥ 218,620 | \$ 33,678,239 |

| | Millions of yen | | Thousands of U.S. dollars |
|--|---|-------------------------|---|
| | As of September 30, 2005 (Unaudited) | As of December 31, 2004 | As of September 30, 2005 (Unaudited) |
| Allowance for doubtful receivables | ¥ 11,952 | ¥ 11,657 | \$ 105,770 |
| Accumulated depreciation | 1,251,662 | 1,173,305 | 11,076,655 |
| Accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (51,181) | (79,751) | (452,929) |
| Net unrealized gains (losses) on securities | 4,645 | 7,470 | 41,106 |
| Net gains (losses) on derivative financial instruments | (1,121) | (693) | (9,920) |
| Minimum pension liability adjustments | (27,519) | (28,338) | (243,531) |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

| | Millions of yen | | Thousands of U.S. dollars |
|--|---|---|---|
| | Nine months ended September 30, 2005 (Unaudited) | Nine months ended September 30, 2004 (Unaudited) | Nine months ended September 30, 2005 (Unaudited) |
| Cash flows from operating activities: | | | |
| Net income | ¥ 275,885 | ¥ 262,556 | \$ 2,441,460 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 158,620 | 137,126 | 1,403,717 |
| Loss on disposal of property, plant and equipment | 7,288 | 7,974 | 64,496 |
| Deferred income taxes | 7,307 | 13,241 | 64,664 |
| Decrease in trade receivables | 52,001 | 7,617 | 460,186 |
| Increase in inventories | (27,332) | (83,678) | (241,876) |
| Increase (decrease) in trade payables | (10,438) | 92,632 | (92,372) |
| Decrease in income taxes | (47,186) | (12,984) | (417,575) |
| Increase in accrued expenses | 15,044 | 9,028 | 133,132 |
| Decrease in accrued pension and severance cost | (10,496) | (14,606) | (92,885) |
| Other, net | (52,030) | (31,614) | (460,443) |
| Net cash provided by operating activities | 368,663 | 387,292 | 3,262,504 |
| Cash flows from investing activities: | | | |
| Purchases of property, plant and equipment | (271,014) | (197,277) | (2,398,354) |
| Proceeds from sale of property, plant and equipment | 7,469 | 4,397 | 66,097 |
| Purchases of available-for-sale securities | (1,591) | (98) | (14,080) |
| Proceeds from sale of available-for-sale securities | 11,090 | 9,733 | 98,142 |
| Purchases of other investments | (16,916) | (707) | (149,699) |
| Other, net | (17,367) | 8,847 | (153,690) |
| Net cash used in investing activities | (288,329) | (175,105) | (2,551,584) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt | 964 | 635 | 8,531 |
| Repayments of long-term debt | (9,673) | (32,079) | (85,602) |
| Increase (decrease) in short-term loans | 1,501 | (1,535) | 13,283 |
| Dividends paid | (64,310) | (52,950) | (569,115) |
| Other, net | (3,497) | (4,848) | (30,947) |
| Net cash used in financing activities | (75,015) | (90,777) | (663,850) |

| | | | |
|--|------------------|-----------|---------------------|
| Effect of exchange rate changes on cash and cash equivalents | 10,013 | 1,037 | 88,611 |
| Net increase in cash and cash equivalents | 15,332 | 122,447 | 135,681 |
| Cash and cash equivalents at beginning of period | 887,774 | 690,298 | 7,856,407 |
| Cash and cash equivalents at end of period | ¥ 903,106 | ¥ 812,745 | \$ 7,992,088 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

6. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**(1) NUMBER OF GROUP COMPANIES**

| | September 30, 2005 | December 31, 2004 | Change |
|--------------|-----------------------|----------------------|--------|
| Subsidiaries | 190 | 184 | 6 |
| Affiliates | 15 | 17 | (2) |
| Total | 205 | 201 | 4 |

CHANGES IN GROUP OF ENTITIES

Subsidiaries

Addition: 10 Companies

Removal: 4 Companies

Affiliates (Carried at Equity Basis)

Removal: 2 Companies

(2) SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the adjustments which management believes are necessary to conform them with accounting principles generally accepted in the United States of America, except for the segment information, as required by Statement of Financial Accounting Standards No.131, Disclosures about Segments of an Enterprise and Related Information.

7. OTHER

We have engaged Ernst & Young ShinNihon to complete a review of the consolidated statements of income, the consolidated balance sheets and the consolidated statements of cash flows as of and for the three and nine months ended September 30, 2005 based upon Statement of Auditing Standards No.100, Interim Financial Information, established by the American Institute of Certified Public Accountants.

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October 27, 2005

CONSOLIDATED FINANCIAL RESULTS FOR
THE THIRD QUARTER ENDED SEPTEMBER 30, 2005
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)

| | 2005 | | | 2004 | | | Change year over year | | |
|-------------------------------|----------------|--------------------|-------------|----------------|----------------|-----------|-----------------------|----------------|--------|
| | 3rd quarter | 4th quarter (P) | Year (P) | 3rd quarter | 4th quarter | Year | 3rd quarter | 4th quarter | Year |
| Japan | | | | | | | | | |
| Business machines | 138,824 | 188,767 | 632,100 | 138,521 | 172,541 | 602,772 | +0.2% | +9.4% | +4.9% |
| Office imaging products | 87,260 | 97,796 | 370,600 | 82,520 | 86,863 | 336,214 | +5.7% | +12.6% | +10.2% |
| Computer peripherals | 36,191 | 68,000 | 187,100 | 35,551 | 61,894 | 178,783 | +1.8% | +9.9% | +4.7% |
| Business information products | 15,373 | 22,971 | 74,400 | 20,450 | 23,784 | 87,775 | -24.8% | -3.4% | -15.2% |
| Cameras | 33,667 | 39,234 | 130,900 | 29,168 | 36,389 | 124,403 | +15.4% | +7.8% | +5.2% |
| Optical and other products | 22,829 | 51,361 | 127,800 | 28,415 | 30,938 | 122,559 | -19.7% | +66.0% | +4.3% |
| Total | 195,320 | 279,362 | 890,800 | 196,104 | 239,868 | 849,734 | -0.4% | +16.5% | +4.8% |
| Overseas | | | | | | | | | |
| Business machines | 459,361 | 534,117 | 1,886,000 | 441,491 | 493,139 | 1,785,181 | +4.0% | +8.3% | +5.6% |
| Office imaging products | 188,077 | 228,168 | 798,500 | 183,070 | 214,271 | 784,758 | +2.7% | +6.5% | +1.8% |
| Computer peripherals | 263,670 | 296,402 | 1,054,900 | 251,692 | 270,105 | 971,131 | +4.8% | +9.7% | +8.6% |
| Business information products | 7,614 | 9,547 | 32,600 | 6,729 | 8,763 | 29,292 | +13.2% | +8.9% | +11.3% |
| Cameras | 169,493 | 236,554 | 727,200 | 135,823 | 214,366 | 638,676 | +24.8% | +10.4% | +13.9% |
| Optical and other products | 54,329 | 55,624 | 236,000 | 64,886 | 33,756 | 194,262 | -16.3% | +64.8% | +21.5% |
| Total | 683,183 | 826,295 | 2,849,200 | 642,200 | 741,261 | 2,618,119 | +6.4% | +11.5% | +8.8% |
| Americas | | | | | | | | | |
| Business machines | 195,487 | 218,647 | 789,100 | 190,549 | 206,347 | 762,592 | +2.6% | +6.0% | +3.5% |
| Office imaging | 88,124 | 96,107 | 350,000 | 85,051 | 94,355 | 355,375 | +3.6% | +1.9% | -1.5% |

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| | | | | | | | | | |
|----------------------|----------------|----------------|------------------|----------------|----------------|------------------|--------------|---------------|---------------|
| products | | | | | | | | | |
| Computer peripherals | 103,341 | 117,973 | 423,100 | 102,008 | 107,754 | 392,800 | +1.3% | +9.5% | +7.7% |
| Business information | | | | | | | | | |
| products | 4,022 | 4,567 | 16,000 | 3,490 | 4,238 | 14,417 | +15.2% | +7.8% | +11.0% |
| Cameras | 68,533 | 107,702 | 300,800 | 53,515 | 95,181 | 262,873 | +28.1% | +13.2% | +14.4% |
| Optical and other | | | | | | | | | |
| products | 10,157 | 9,548 | 38,300 | 10,057 | 8,895 | 33,960 | +1.0% | +7.3% | +12.8% |
| Total | 274,177 | 335,897 | 1,128,200 | 254,121 | 310,423 | 1,059,425 | +7.9% | +8.2% | +6.5% |
| Europe | | | | | | | | | |
| Business machines | 196,343 | 245,231 | 839,600 | 191,143 | 227,892 | 794,601 | +2.7% | +7.6% | +5.7% |
| Office imaging | | | | | | | | | |
| products | 77,550 | 108,278 | 361,900 | 77,717 | 100,790 | 350,644 | -0.2% | +7.4% | +3.2% |
| Computer peripherals | 115,947 | 132,753 | 464,100 | 110,845 | 123,205 | 431,742 | +4.6% | +7.7% | +7.5% |
| Business information | | | | | | | | | |
| products | 2,846 | 4,200 | 13,600 | 2,581 | 3,897 | 12,215 | +10.3% | +7.8% | +11.3% |
| Cameras | 68,709 | 93,358 | 303,900 | 58,684 | 89,461 | 277,307 | +17.1% | +4.4% | +9.6% |
| Optical and other | | | | | | | | | |
| products | 5,569 | 6,724 | 24,100 | 5,017 | 5,531 | 21,387 | +11.0% | +21.6% | +12.7% |
| Total | 270,621 | 345,313 | 1,167,600 | 254,844 | 322,884 | 1,093,295 | +6.2% | +6.9% | +6.8% |
| Other areas | | | | | | | | | |
| Business machines | 67,531 | 70,239 | 257,300 | 59,799 | 58,900 | 227,988 | +12.9% | +19.3% | +12.9% |
| Office imaging | | | | | | | | | |
| products | 22,403 | 23,783 | 86,600 | 20,302 | 19,126 | 78,739 | +10.3% | +24.3% | +10.0% |
| Computer peripherals | 44,382 | 45,676 | 167,700 | 38,839 | 39,146 | 146,589 | +14.3% | +16.7% | +14.4% |
| Business information | | | | | | | | | |
| products | 746 | 780 | 3,000 | 658 | 628 | 2,660 | +13.4% | +24.2% | +12.8% |
| Cameras | 32,251 | 35,494 | 122,500 | 23,624 | 29,724 | 98,496 | +36.5% | +19.4% | +24.4% |
| Optical and other | | | | | | | | | |
| products | 38,603 | 39,352 | 173,600 | 49,812 | 19,330 | 138,915 | -22.5% | +103.6% | +25.0% |
| Total | 138,385 | 145,085 | 553,400 | 133,235 | 107,954 | 465,399 | +3.9% | +34.4% | +18.9% |
| Total | 598,185 | 722,884 | 2,518,100 | 580,012 | 665,680 | 2,387,953 | +3.1% | +8.6% | +5.5% |

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| | | | | | | | | | |
|-------------------------------|---------|-----------|-----------|---------|---------|-----------|--------|--------|--------|
| Business machines | | | | | | | | | |
| Office imaging products | 275,337 | 325,964 | 1,169,100 | 265,590 | 301,134 | 1,120,972 | +3.7% | +8.2% | +4.3% |
| Computer peripherals | 299,861 | 364,402 | 1,242,000 | 287,243 | 331,999 | 1,149,914 | +4.4% | +9.8% | +8.0% |
| Business information products | 22,987 | 32,518 | 107,000 | 27,179 | 32,547 | 117,067 | -15.4% | -0.1% | -8.6% |
| Cameras | 203,160 | 275,788 | 858,100 | 164,991 | 250,755 | 763,079 | +23.1% | +10.0% | +12.5% |
| Optical and other products | 77,158 | 106,985 | 363,800 | 93,301 | 64,694 | 316,821 | -17.3% | +65.4% | +14.8% |
| Total | 878,503 | 1,105,657 | 3,740,000 | 838,304 | 981,129 | 3,467,853 | +4.8% | +12.7% | +7.8% |

(P)=Projection

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Canon Inc.

2. SEGMENT INFORMATION BY PRODUCT

(Millions of yen)

| | 2005 | | | 2004 | | | Change year over year | | |
|-------------------------------------|-------------|-------------|-----------|-------------|-------------|-----------|-----------------------|-------------|--------|
| | 3rd quarter | 4th quarter | Year | 3rd quarter | 4th quarter | Year | 3rd quarter | 4th quarter | Year |
| Business machines | | | | | | | | | |
| Unaffiliated customers Intersegment | 598,185 | 722,884 | 2,518,100 | 580,012 | 665,680 | 2,387,953 | +3.1% | +8.6% | +5.5% |
| Total sales | 598,185 | 722,884 | 2,518,100 | 580,012 | 665,680 | 2,387,953 | +3.1% | +8.6% | +5.5% |
| Operating profit | 132,379 | 162,168 | 554,000 | 139,601 | 132,722 | 521,084 | -5.2% | +22.2% | +6.3% |
| % of sales | 22.1% | 22.4% | 22.0% | 24.1% | 19.9% | 21.8% | | | |
| Cameras | | | | | | | | | |
| Unaffiliated customers Intersegment | 203,160 | 275,788 | 858,100 | 164,991 | 250,755 | 763,079 | +23.1% | +10.0% | +12.5% |
| Total sales | 203,160 | 275,788 | 858,100 | 164,991 | 250,755 | 763,079 | +23.1% | +10.0% | +12.5% |
| Operating profit | 48,795 | 51,051 | 161,700 | 29,770 | 39,597 | 130,798 | +63.9% | +28.9% | +23.6% |
| % of sales | 24.0% | 18.5% | 18.8% | 18.0% | 15.8% | 17.1% | | | |
| Optical and other products | | | | | | | | | |
| Unaffiliated customers Intersegment | 77,158 | 106,985 | 363,800 | 93,301 | 64,694 | 316,821 | -17.3% | +65.4% | +14.8% |
| Intersegment | 41,721 | 38,061 | 151,600 | 36,857 | 36,006 | 138,419 | +13.2% | +5.7% | +9.5% |
| Total sales | 118,879 | 145,046 | 515,400 | 130,158 | 100,700 | 455,240 | -8.7% | +44.0% | +13.2% |
| Operating profit | 9,228 | 8,933 | 39,200 | 10,229 | 3,444 | 28,832 | -9.8% | +159.4% | +36.0% |
| % of sales | 7.8% | 6.2% | 7.6% | 7.9% | 3.4% | 6.3% | | | |
| Corporate and Eliminations | | | | | | | | | |
| Unaffiliated customers Intersegment | -41,721 | -38,061 | -151,600 | -36,857 | -36,006 | -138,419 | | | |
| Total sales | -41,721 | -38,061 | -151,600 | -36,857 | -36,006 | -138,419 | | | |

| | | | | | | | | | |
|------------------------|---------|-----------|-----------|---------|---------|-----------|-------|--------|-------|
| Operating profit | -46,837 | -48,906 | -167,900 | -21,301 | -43,645 | -136,921 | | | |
| Consolidated | | | | | | | | | |
| Unaffiliated customers | 878,503 | 1,105,657 | 3,740,000 | 838,304 | 981,129 | 3,467,853 | +4.8% | +12.7% | +7.8% |
| Intersegment | | | | | | | | | |
| Total sales | 878,503 | 1,105,657 | 3,740,000 | 838,304 | 981,129 | 3,467,853 | +4.8% | +12.7% | +7.8% |
| Operating profit | 143,565 | 173,246 | 587,000 | 158,299 | 132,118 | 543,793 | -9.3% | +31.1% | +7.9% |
| % of sales | 16.3% | 15.7% | 15.7% | 18.9% | 13.5% | 15.7% | | | |

(P)=Projection

3. OTHER INCOME / DEDUCTIONS

(Millions of yen)

| | 2005 | | | 2004 | | | Change year over year | | |
|--|-------------|-------------|--------|-------------|-------------|---------|-----------------------|-------------|---------|
| | 3rd quarter | 4th quarter | Year | 3rd quarter | 4th quarter | Year | 3rd quarter | 4th quarter | Year |
| Interest and dividend, net | 3,204 | 3,197 | 11,600 | 1,152 | 1,621 | 4,362 | +2,052 | +1,576 | +7,238 |
| Forex gain / loss | -550 | -3,452 | -4,900 | -1,200 | -11,440 | -17,800 | +650 | +7,988 | +12,900 |
| Equity earnings / loss of affiliated companies | -589 | 228 | 1,700 | 23 | 1,107 | 1,921 | -612 | -879 | -221 |
| Other, net | 9,682 | 1,736 | 18,600 | 4,355 | 6,107 | 19,840 | +5,327 | -4,371 | -1,240 |
| Total | 11,747 | 1,709 | 27,000 | 4,330 | -2,605 | 8,323 | +7,417 | +4,314 | +18,677 |

(P)=Projection

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4. SALES COMPOSITION BY PRODUCT

| | 2005 | | 2004 | | | |
|--------------------------------------|-------------|-------------|------|-------------|-------------|------|
| | 3rd quarter | 4th quarter | Year | 3rd quarter | 4th quarter | Year |
| | | (P) | (P) | | | |
| Office imaging products | | | | | | |
| Monochrome copying machines | 56% | 53% | 56% | 61% | 59% | 62% |
| Digital* | 96% | | | 95% | 96% | 95% |
| Analog* | 4% | | | 5% | 4% | 5% |
| Color copying machines | 29% | 32% | 29% | 25% | 26% | 24% |
| Others | 15% | 15% | 15% | 14% | 15% | 14% |
| Computer peripherals | | | | | | |
| Laser beam printers | 75% | 63% | 70% | 75% | 67% | 71% |
| Inkjet printers | 24% | 36% | 28% | 23% | 31% | 27% |
| (includes inkjet MFPs) Others | 1% | 1% | 2% | 2% | 2% | 2% |
| Business information products | | | | | | |
| Personal computers | 67% | 72% | 70% | 74% | 71% | 74% |
| Others | 33% | 28% | 30% | 26% | 29% | 26% |
| Cameras | | | | | | |
| Film cameras / Lenses | 18% | 14% | 16% | 16% | 14% | 16% |
| Digital cameras | 70% | 71% | 71% | 68% | 73% | 69% |
| Video cameras | 12% | 15% | 13% | 16% | 13% | 15% |
| Optical and other products | | | | | | |
| Semiconductor production equipment | 62% | 47% | 60% | 70% | 51% | 63% |
| Others | 38% | 53% | 40% | 30% | 49% | 37% |

* Among office-use monochrome copying machines (hardware only)

(P)=Projection

5. SALES GROWTH IN LOCAL CURRENCY

| | 2005 | | Year |
|-----------------------------------|-------------|-------------|--------|
| | 3rd quarter | 4th quarter | (P) |
| | | (P) | (P) |
| Business machines | | | |
| Japan | +0.2% | +9.4% | +4.9% |
| Overseas | +2.7% | +5.2% | +4.7% |
| Total | +2.1% | +6.3% | +4.8% |
| Cameras | | | |
| Japan | +15.4% | +7.8% | +5.2% |
| Overseas | +23.3% | +7.5% | +12.6% |
| Total | +21.9% | +7.6% | +11.4% |
| Optical and other products | | | |
| Japan | -19.7% | +66.0% | +4.3% |

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| | | | |
|--------------|--------|--------|--------|
| Overseas | -19.1% | +61.1% | +19.4% |
| Total | -19.2% | +63.4% | +13.5% |
| Total | | | |
| Japan | -0.4% | +16.5% | +4.8% |
| Overseas | +4.9% | +8.4% | +7.8% |
| Americas | +6.7% | +2.3% | +5.6% |
| Europe | +5.1% | +7.4% | +5.9% |
| Other areas | +1.0% | +29.1% | +17.0% |
| Total | +3.6% | +10.4% | +7.0% |

(P)=Projection

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6. P&L SUMMARY (4th Quarter 2005/Projection)

(Millions of yen)

| | 2005 | 2004 | Change year over year |
|---|----------------|-------------|-----------------------------|
| | 4th quarter(P) | 4th quarter | |
| Net sales | 1,105,657 | 981,129 | +12.7% |
| Operating profit | 173,246 | 132,118 | +31.1% |
| Income before income taxes and minority interests | 174,955 | 129,513 | +35.1% |
| Net income | 108,115 | 80,788 | +33.8% |

(P)=Projection

7. PROFITABILITY

| | 2005 | | 2004 | |
|-----|----------------|---------|----------------|-------|
| | 3rd quarter | Year(P) | 3rd quarter | Year |
| ROE | 16.7% | 16.1% | 19.6% | 16.8% |
| ROA | 10.8% | 10.1% | 12.0% | 10.1% |

(P)=Projection

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

(Yen)

| | 2005 | | 2004 | | |
|----------|----------------|-------------------|----------------|----------------|--------|
| | 3rd quarter | 4th quarter(P) | 3rd quarter | 4th quarter | Year |
| Yen/US\$ | 111.23 | 112.00 | 109.07 | 109.97 | 108.12 |
| Yen/Euro | 135.73 | 135.00 | 135.71 | 134.37 | 137.14 |

(P)=Projection

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

(Billions of yen)

| | 3rd quarter | 2005 4th quarter(P) | Year(P) |
|------------------|----------------|---------------------------|---------|
| US\$ | +5.5 | +23.1 | +18.5 |
| Euro | +2.2 | -4.5 | +6.7 |
| Other currencies | +3.0 | +1.6 | +6.8 |
| Total | +10.7 | +20.2 | +32.0 |

(P)=Projection

(3) Impact of foreign exchange rates per yen

(Billions of yen)

2005

| | |
|---------------------|-------------------|
| | 4th quarter(P) |
| On sales | |
| US\$ | 3.8 |
| Euro | 2.1 |
| On operating profit | |
| US\$ | 2.1 |
| Euro | 1.6 |
| | (P)=Projection |

9. STATEMENTS OF CASH FLOWS

(Millions of yen)

| | 2005 | | 2004 | |
|---|-------------|----------|----------------|----------------|
| | 3rd quarter | Year(P) | 3rd quarter | Year |
| Net cash provided by operating activities | | | | |
| Net income | 100,617 | 384,000 | 101,780 | 343,344 |
| Depreciation and amortization | 60,064 | 220,000 | 49,746 | 192,692 |
| Other, net | -49,979 | 16,000 | -62,061 | 25,493 |
| Total | 110,702 | 620,000 | 89,465 | 561,529 |
| Net cash used in investing activities | -107,273 | -430,000 | -65,185 | -252,967 |
| Free cash flow | 3,429 | 190,000 | 24,280 | 308,562 |
| Net cash used in financing activities | -36,606 | -90,800 | -26,451 | -102,268 |
| Effect of exchange rate changes on cash and cash equivalents | 362 | 9,700 | 3,695 | -8,818 |
| Net change in cash and cash equivalents | -32,815 | 108,900 | 1,524 | 197,476 |
| Cash and cash equivalents at end of period | 903,106 | 996,700 | 812,745 | 887,774 |
| | | | | (P)=Projection |

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10. R&D EXPENDITURE

(Millions of yen)

| | 2005 | | | 2004 | | |
|-------------------------------|----------------|-------------------|---------|----------------|-------------|---------|
| | 3rd quarter | 4th quarter(P) | Year(P) | 3rd quarter | 4th quarter | Year |
| Business machines | 25,359 | | | 25,908 | 36,964 | 120,916 |
| Cameras | 9,932 | | | 8,458 | 10,339 | 35,549 |
| Optical and other products | 29,723 | | | 25,054 | 36,215 | 118,835 |
| Total | 65,014 | 91,600 | 293,000 | 59,420 | 83,518 | 275,300 |
| % of sales | 7.4% | 8.3% | 7.8% | 7.1% | 8.5% | 7.9% |

(P)=Projection

11. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION

(Millions of yen)

| | 2005 | | | 2004 | | |
|----------------------------------|----------------|-------------------|---------|----------------|----------------|---------|
| | 3rd quarter | 4th quarter(P) | Year(P) | 3rd quarter | 4th quarter | Year |
| Capital expenditure | 109,044 | 118,686 | 405,000 | 85,784 | 99,190 | 318,730 |
| Depreciation and amortization | 60,064 | 61,380 | 220,000 | 49,746 | 55,566 | 192,692 |

(P)=Projection

12. INVENTORIES

(Millions of yen)

(1) Inventories

| | 2005 | | 2004 | | |
|----------------------------|---------|---------|---------|---------|------------|
| | Sep.30 | Dec.31 | Sep.30 | Dec.31 | Difference |
| Business machines | 289,343 | 244,050 | 289,343 | 244,050 | +45,293 |
| Cameras | 96,804 | 90,620 | 96,804 | 90,620 | +6,184 |
| Optical and other products | 152,173 | 154,458 | 152,173 | 154,458 | -2,285 |
| Total | 538,320 | 489,128 | 538,320 | 489,128 | +49,192 |

(2) Inventories/Sales*

(Days)

| | 2005 | | 2004 | | |
|----------------------------|--------|--------|--------|--------|------------|
| | Sep.30 | Dec.31 | Sep.30 | Dec.31 | Difference |
| Business machines | 44 | 36 | 44 | 36 | +8 |
| Cameras | 42 | 40 | 42 | 40 | +2 |
| Optical and other products | 166 | 178 | 166 | 178 | -12 |

| | | | |
|-------|----|----|----|
| Total | 55 | 49 | +6 |
|-------|----|----|----|

*Index based on
the previous six
months sales.

13. DEBT RATIO

| | | | |
|---------------------------|--------|--------|------------|
| | 2005 | 2004 | |
| | Sep.30 | Dec.31 | Difference |
| Total debt / Total assets | 1.3% | 1.1% | +0.2% |

14. OVERSEAS PRODUCTION RATIO

| | | |
|---------------------------|---------|------|
| | 2005 | 2004 |
| | 1st-3rd | Year |
| | quarter | |
| Overseas production ratio | 41% | 42% |

15. NUMBER OF EMPLOYEES

| | | | |
|----------|---------|---------|------------|
| | 2005 | 2004 | |
| | Sep.30 | Dec.31 | Difference |
| Japan | 47,847 | 46,103 | +1,744 |
| Overseas | 64,965 | 62,154 | +2,811 |
| Total | 112,812 | 108,257 | +4,555 |