

CANON INC  
Form 6-K  
July 28, 2006

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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 July, 2006  
**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 July 27, 2006

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. Results For The Second Quarter And The First Half Ended June 30, 2006
  2. Notice regarding revision of projected dividend for the fiscal year ending December 31, 2006 (the 106th Business Term)
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Table of Contents**RESULTS FOR THE SECOND QUARTER  
AND THE FIRST HALF ENDED JUNE 30, 2006**

July 27, 2006

**CONSOLIDATED RESULTS FOR THE FIRST HALF**

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

|  | Actual                                     |  |           | Projected                                  |                              |                               |           |
|--|--|--|-----------|--|------------------------------|-------------------------------|-----------|
|  | Six months ended June 30, 2006 (Unaudited) | Six months ended June 30, 2005 (Unaudited) | Change(%) | Six months ended June 30, 2006 (Unaudited) | Year ended December 31, 2005 | Year ending December 31, 2006 | Change(%) |
| <b>Net sales</b>   | <b>¥ 1,952,255</b>                         | ¥ 1,755,840                                | + 11.2    | <b>\$ 16,976,130</b>                       | ¥ 3,754,191                  | ¥ 4,130,000                   | + 10.0    |
| <b>Operating profit</b>                                  | <b>338,477</b>                             | 270,189                                    | + 25.3    | <b>2,943,278</b>                           | 583,043                      | 690,000                       | + 18.3    |
| <b>Income before income taxes and minority interests</b> | <b>341,045</b>                             | 283,733                                    | + 20.2    | <b>2,965,609</b>                           | 612,004                      | 700,000                       | + 14.4    |
| <b>Net income</b>  | <b>¥ 214,174</b>                           | ¥ 175,268                                  | + 22.2    | <b>\$ 1,862,383</b>                        | ¥ 384,096                    | ¥ 440,000                     | + 14.6    |
| <b>Net income per share:</b>                             |  |  |           |  |                              |                               |           |
| <b>Basic</b>   | <b>¥ 160.85</b>                            | ¥ 131.74                                   | + 22.1    | <b>\$ 1.40</b>                             | ¥ 288.63                     | ¥ 330.43                      | + 14.5    |
| <b>Diluted</b>   | <b>160.79</b>                              | 131.59                                     | + 22.2    | <b>1.40</b>                                | 288.36                       |                               |           |

|                     | Actual                          |                                 |           |                                 |
|---------------------|---------------------------------|---------------------------------|-----------|---------------------------------|
|                     | As of June 30, 2006 (Unaudited) | As of June 30, 2005 (Unaudited) | Change(%) | As of June 30, 2006 (Unaudited) |
| <b>Total assets</b> | <b>¥ 4,107,366</b>              | ¥ 3,657,425                     | + 12.3    | <b>\$ 35,716,226</b>            |
|                     |                                 |                                 |           | ¥ 4,043,553                     |

|                            |                    |             |        |                      |             |
|----------------------------|--------------------|-------------|--------|----------------------|-------------|
| <b>Stockholders equity</b> | <b>¥ 2,762,380</b> | ¥ 2,363,970 | + 16.9 | <b>\$ 24,020,696</b> | ¥ 2,604,682 |
|----------------------------|--------------------|-------------|--------|----------------------|-------------|

- Notes: 1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. U.S. dollar amounts are translated from yen at the rate of JPY115=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2006, solely for the convenience of the reader.
3. Based on the resolution of Board of Director's meeting held on May 11, 2006, Canon has made a 3- for -2 stock split on July 1, 2006, for shareholders recorded in the shareholder's register as of June 30, 2006. The basic net income per share, diluted net income per share, and projected net income per share has been calculated based on the number of outstanding shares following the implementation of the stock split.

## NON-CONSOLIDATED RESULTS FOR THE FIRST HALF

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

|                      | Six months ended June 30, 2006<br>(Unaudited) | Six months ended June 30, 2005<br>(Unaudited) | Actual    |   | Year ended December 31, 2005 | Projected Year ending December 31, 2006 |           |
|----------------------|---|---|-----------|---|------------------------------|---|-----------|
|                      |   |   | Change(%) | Six months ended June 30, 2006<br>(Unaudited) |                              | Change(%)                               | Change(%) |
| Net sales            | ¥ 1,266,000                                   | ¥ 1,158,478                                   | + 9.3     | \$ 11,008,696                                 | ¥ 2,481,481                  | ¥ 2,700,000                             | + 8.8     |
| Operating profit     | 240,422                                       | 192,147                                       | + 25.1    | 2,090,626                                     | 416,517                      | 493,000                                 | + 18.4    |
| Ordinary profit      | 246,101                                       | 210,125                                       | + 17.1    | 2,140,009                                     | 440,711                      | 500,000                                 | + 13.5    |
| Net income           | ¥ 155,548                                     | ¥ 137,938                                     | + 12.8    | \$ 1,352,591                                  | ¥ 289,294                    | ¥ 316,000                               | + 9.2     |
| Net income per share | ¥ 175.23                                      | ¥ 155.52                                      | + 12.7    | \$ 1.52                                       | ¥ 325.83                     | ¥ 237.31                                |           |
| Dividend per share   | 50.00   | 32.50   |           | 0.43  | 100.00                       | 83.33                                   |           |

|              | As of June 30, 2006<br>(Unaudited) | As of June 30, 2005<br>(Unaudited) | Actual    |                                    | As of December 31, 2005 |
|--------------|------------------------------------|------------------------------------|-----------|------------------------------------|-------------------------|
|              |                                    |                                    | Change(%) | As of June 30, 2006<br>(Unaudited) |                         |
| Total assets | ¥ 2,673,501                        | ¥ 2,427,971                        | + 10.1    | \$ 23,247,835                      | ¥ 2,652,847             |
| Net assets   | ¥ 1,970,766                        | ¥ 1,753,383                        | + 12.4    | \$ 17,137,096                      | ¥ 1,875,433             |

- Notes: 1. U.S. dollar amounts are translated from yen at the rate of JPY115=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of June 30, 2006, solely for the convenience of the reader.
2. Based on the resolution of Board of Director's meeting held on May 11, 2006, Canon has made a 3- for -2 stock split on July 1, 2006, for shareholders recorded in the shareholder's register as of June 30, 2006. The projected net income per share has been calculated based on the number of outstanding shares following the implementation of the stock split. The per share information assuming that the stock split was exercised on the beginning of the last year are as follows:

|                      | Six months ended June 30, 2006 | Six months ended June 30, 2005 | Year ended December 31, 2005 |
|----------------------|--------------------------------|--------------------------------|------------------------------|
| Net income per share | ¥ 116.82<br>33.33              | ¥ 103.68<br>21.67              | ¥ 217.22<br>66.67            |

Dividend per  
share

Canon Inc.  
Headquarter office

30-2, Shimomaruko 3-chome, Ohta-ku,  
Tokyo 146-8501, Japan

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**Management Policy**

**Basic Policy**

Under the corporate philosophy of *kyosei* living and working together for the common good Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporate group targeting continued growth and development.

**Management goals**

Based on this basic management policy, Canon Inc. launched two consecutive five-year management plans Phase I of its Excellent Global Corporation Plan in 1996 and Phase II in 2001 with the aim of becoming a truly excellent global company. Through these two five-year management plans, the company promoted a range of management reforms, thoroughly strengthening its product competitiveness and financial base. From 2006, Canon will make use of the solid management foundation achieved through the two five-year plans as the company initiates Phase III, a new five-year management initiative, targeting further growth and improved corporate value, pursuing sound growth by maintaining a high level of profitability while further expanding the company's corporate scale. In particular, the company will focus on the following five important management objectives.

- 1) Achieving the overwhelming No. 1 position worldwide in all current core businesses, and firmly establishing three display technologies as businesses
- 2) Establishing new production systems to sustain international competitiveness
- 3) Expanding business operations and establishing a Three Regional Headquarters System through diversification
- 4) Identifying new business domains and accumulating required technologies
- 5) Nurturing truly autonomous and strong individuals promoting everlasting corporate reforms

**Mid- to long-term management strategies**

In order to realize the above objectives, we will implement the following mid- to long-term management strategies:

- 1) Achieving the overwhelming No. 1 position worldwide in all current core businesses
- In order to realize our objective of obtaining the No. 1 market share position for all of our core products, Canon will focus on thoroughly enhancing each business's product development capabilities and product price competitiveness. Furthermore, in order to realize our objective of becoming No. 1 in each of our businesses, we will carry out the following measures.

As for copying machines and laser beam printers, amid growing demand for color output in the office, we have applied Canon proprietary technology to actively launch competitive new products that are differentiated by their outstanding performance capabilities to expand our market share. Furthermore, we will take advantage of changes in the office network environment due to the spread of broadband networks and aim to get a jump on the competition with the development of a new-concept multifunction device that maximizes the functionality of each device connected to a network. Also, to satisfy the various needs of our customers, we will actively expand our document solutions business through the use of our platform architecture, which makes possible expanded functionality, and by supplying software and services. Furthermore, going forward, we aim to launch products with improved price competitiveness in emerging markets, which are expected to grow significantly, capitalizing on underlying demand to raise our market share.

With regard to inkjet printers, we aim to expand our market share by utilizing Canon-developed high-precision inkjet print heads, which offer a competitive advantage in printing high-quality photo images, and strengthening our lineup of multifunction products, which have become a core segment of the market.

In the digital camera segment, through the timely launch of competitive products that capitalize on our expertise in optical and image-processing technologies, we will further solidify our top market share position. Especially in the expanding market for digital SLR cameras, we aim to further expand our market share by taking advantage of our strong product lineup, spanning the range from professional to entry-level models, along with strengthening such proprietary imaging technologies as CMOS image sensors and the



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DIGIC digital imaging engine, which support the differentiation of Canon products.

As for compact digital cameras, which continue to drop in price, we aim to increase our market share by continuously launching competitive new models in a timely manner while also further strengthening our cost competitiveness through an integrated production system that tightly links all stages of production, from parts manufacturing through to final assembly.

Furthermore, by taking advantage of our strengths in photo printers and digital cameras, we aim to become No. 1 worldwide in the home photo-printing market.

With regard to IC steppers, we will raise our competitiveness in the market by concentrating on the early development of lithography equipment that employs such leading-edge technologies as liquid immersion technology. As for LCD aligners, a market in which Canon has already secured the No. 1 market share position, we aim to strengthen the development of next-generation models to further solidify our position in the future.

### 2) Enhancing cost competitiveness

Amid intensified price competition in the marketplace, we will continue our efforts to strengthen cost competitiveness in order to raise the price competitiveness of our products. In addition to further advancing the various reform initiatives that we have carried out until now including production reform activities, centered on the cell production system, and prototype-less development, in which every effort has been made to eliminate the need for physical prototypes in the product-development process we will strive to realize a three-in-one foundation for manufacturing that organically integrates development, manufacturing technology, and the factory floor. Plans also call for the introduction of automated production lines using automated assembly systems and robots that operate around the clock, seven days a week, making possible production in Japan at costs that are competitive with production elsewhere in Asia. To realize this goal, we are planning the construction of a new production-engineering center to speed up the strengthening of our production technology capabilities. In addition, we will focus our energies on in-house production, ranging from key devices to various manufacturing equipment and metal molds, and on efforts to improve procurement efficiency of the Canon Group. By thoroughly carrying out these cost-reduction activities we will strive to further lower our cost of sales ratio.

### 3) Further enhancing technological strength, a source of profit and growth

For a company to continue growing while maintaining profitability, it is essential to make the most of growth areas and increase competitiveness in such areas. To this end, last year we completed the construction of a leading-edge technology research center at our Shimomaruko headquarters in Tokyo to actively promote the creation of next-generation business domains and develop leading-edge technologies. We are also working to move ahead of the competition in the development of leading-edge technologies by pursuing partnerships with the world's top research facilities and universities.

To improve product competitiveness within existing business segments, we are also focusing our efforts on the development of key components and key devices. At the same time, we are working to further bolster base development technologies in the areas of measurement, analysis and simulation with the aim of further shortening development lead times and reducing the number of product prototypes through the realization of prototype-less development processes.

In addition to the three management strategies outlined above, we will also promote group diversification and strive to create new independent businesses with manufacturing subsidiaries at the core.

By steadily implementing these management strategies, we are working to further enhance growth and profitability for the Canon Group and link this to improved corporate value.

## **Business challenges and countermeasures**

At Canon, the creation of new businesses and maintaining our high profitability structure represent two very important management objectives to ensure continuous future growth. As for new businesses, we will promote research into leading-edge technologies in such areas of expertise as biotechnology, nanotechnology and life sciences. Also, to establish new business segments, we will take advantage of M&A opportunities and business tie-ups. Furthermore, we aim to enter the display business, moving away from a focus on still images as we strengthen our ability to deliver video images, which will play an increasingly important role in the broadband era. In this area, we are accelerating our development efforts for our new large-screen flat panel SEDs (Surface-conduction

Electron-emitter Displays) toward full-scale

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commercialization. With this objective in mind, we established a joint venture company for the development and production of SED panels with Toshiba in October 2004.

With regard to maintaining our high profitability structure, in order to effectively respond to the intensifying price competition centered on the consumer goods market and the investment burden that accompanies the launch of new businesses, we believe that it is important to further improve the profit-earning ability of our current businesses. To facilitate this, we will promote the development of new competitive products and actively pursue cost-reduction activities.

We also view our approach to the environment as an important management issue which we need to deal with at the corporate level. From the product development stage through to production, sales, use, recovery, and recycling, we focus our energies on creating environmentally conscious products that realize energy efficiency, resource efficiency, and eliminate the use of hazardous substances. Additionally, we actively promote the development of recycling systems, the expansion of green procurement policies, the disclosure of environmental information, and participation in environmental conservation activities at the community level. Through these kinds of activities, we aim to simultaneously pursue environmental preservation and corporate development.

**Basic policy regarding share trading unit**

Canon maintains a basic policy of regularly reviewing its share trading unit from the standpoint of enhancing liquidity and stimulating broader investor participation.

In view of this policy, the company changed the number of shares that constitute one trading unit from 1,000 to 100, effective May 6, 2004. Furthermore, the company initiated a 3-for-2 forward stock split with a Record Date of June 30, 2006, making its shares even more accessible to a broader range of potential shareholders.

**Basic policy regarding profit distribution**

With regard to returning profits to shareholders, Canon actively works to do so mainly through the distribution of dividends, taking into consideration planned future investments, free cash flow, and the company's consolidated business performance.

Specifically, the medium- to long-term objective will be to continuously strive to raise the consolidated payout ratio to around 30 percent.

In accordance with this policy, Canon raised its full-year per-share dividend from 65 yen in 2004, to 100 yen in 2005. And for the period ending December 2006, to further enhance shareholder return, in addition to the interim dividend of 50 yen, Canon plans to pay a year-end dividend of 50 yen (post stock-split basis). Calculated on a pre-stock-split basis, the year-end dividend per share would be 75 yen per share, equivalent to a full-year dividend increase of 25 yen per share.

With regard to dividends from and after the fiscal year ending December 2007, we will review related policies, including the policy-making body and payout frequency.

**Matters regarding the parent company, etc.**

Canon Inc. does not have a parent company.

**Table of Contents****Operating Results and Financial Conditions****2006 First Half in Review**

Looking back at the global economy in the first half of 2006, the U.S. economy continued to display growth despite concerns over the effects of high crude oil prices and an increase in interest rates accompanying inflation fear, with private sector spending and corporate capital expenditure supporting expanded domestic demand. In Europe, the economy continued moving toward moderate recovery amid strong exports. Within Asia, China and India maintained high rates of growth while other economies in the region also enjoyed generally favorable performances. In Japan, the economy continued to indicate a trend toward recovery, boosted by an improvement of employment conditions and increased capital spending fueled by an upturn in corporate profits.

As for the markets in which the Canon Group operates, within the camera segment demand for digital single-lens-reflex (SLR) cameras and compact digital cameras continued to realize healthy growth during the term. Within the office imaging product market, demand for network digital multifunction devices (MFDs) remained solid amid the shift toward color. As for computer peripherals, including printers, while demand within the laser beam printer market grew for color models, and shifted within the inkjet printer market from single-function to multifunction models, the segment suffered amid severe price competition. In the optical equipment segment, although the market for steppers, used in the production of semiconductors, indicated a trend toward moderate recovery, the market for projection aligners, which are used to produce liquid crystal display (LCD) panels, declined due to restrained investment by LCD manufacturers. The average value of the yen in the first half was ¥115.63 to the U.S. dollar and ¥142.36 to the euro, representing year-on-year decrease of about 9% against the U.S. dollar, and 5% against the euro.

Amid these conditions, Canon's consolidated net sales for the first half increased by 11.2% from the year-ago period to ¥1,952.3 billion (U.S.\$16,976 million), boosted by a solid rise in sales of digital cameras, color network MFDs and laser beam printers, along with the positive effects of favorable currency exchange rates. The gross profit ratio marked a high level, improving 1.7 points year on year to reach 50.1%. The increase in the gross profit ratio was mainly the result of such factors as the launch of new products and cost reduction efforts realized through ongoing production-reform and procurement-reform activities, along with favorable sales of high value-added products. These absorbed the effects of escalating raw material costs, as well as severe price competition in the consumer product market. Owing to the increase in sales and an improvement in the gross profit ratio, first-half gross profit increased by 15.1% to ¥978.7 billion (U.S.\$8,511 million). As for operating expenses, while first-half R&D expenditures grew by ¥10.1 billion (U.S.\$88 million) for the year-ago period to ¥146.5 billion (U.S.\$1,274 million), the operating expense to net sales ratio improved 0.2 points year on year as a result of limiting growth in selling, general and administrative expenses, with the exception of a temporary increase in expenses related to the relocation of operating bases. Consequently, operating profit in the first half totaled ¥338.5 billion (U.S.\$2,943 million), a year-on-year increase of 25.3%. Although other income (deductions) declined mainly due to an increase in currency exchange losses on foreign-currency-denominated transactions, income before income taxes and minority interests in the first half totaled ¥341.0 billion (U.S.\$2,966 million), a year-on-year increase of 20.2% as interest income grew in line with the rise in the interest rate, and first-half net income totaled ¥214.2 billion (U.S.\$1,862 million), both recording all-time highs on a first-half basis.

Basic net income per share for the first half was ¥160.85 (U.S.\$1.40), a year-on-year increase of ¥29.11 (U.S.\$0.25). (Note: The basic net income per share calculation is based on the number of outstanding shares following the implementation of the stock split previously mentioned in this report.)

**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, has increased significantly for color models in the U.S. and European markets, as well as in the domestic Japanese market. Within this sector, the iR C3170 series, equipped with a new high-speed image-processing chip, and the iR C3220 series continued to sell well, as did the new high-speed iR C6870-series models. Among monochrome network digital MFDs, mid-level models such as the iR4570 series contributed to expanded sales, along with the iR6570, featuring energy-saving performance, while low-end models, such as the iR2020 series with enhanced networking features, also contributed to sales growth. Overall, sales of office imaging products for the first half realized a year-on-year increase of 3.1%. In the field of computer peripherals, sales of laser beam printers increased for both low-end monochrome and color models while sales of supplies also recorded healthy growth, resulting in a year-on-year increase in sales of 15.4%. As for inkjet printers, despite a decline in the unit sales of single-function models and severe price competition in the market, sales in terms of value increased by 4.3% thanks to such factors as a significant increase in unit sales of multifunction models, such as the mid-level PIXMA MP500 and entry-level PIXMA MP150 for overseas markets, as well as favorable sales growth for consumables. As a result, sales of computer peripherals for the first half increased 11.9% year on year. Within the field of business information products, sales increased by 5.8%, amid healthy demand for an expanded lineup of document scanners. Collectively, sales of business machines for the first half totaled ¥1,286.6 billion (U.S.\$11,188 million), a year-on-year increase of 7.5%. Operating profit for the business machines segment totaled ¥294.6 billion (U.S.\$2,561 million), a year-on-year increase of 13.5%, supported by such factors as an improvement in the expense ratio and an increase in gross profit accompanying the growth in sales.

Within the camera segment, digital SLR cameras continued to enjoy robust growth, bolstered by particularly strong sales of the EOS DIGITAL REBEL XT and the newly introduced EOS 30D, which has also led to expanded sales of interchangeable lenses. Sales of compact-model digital cameras also continued to expand steadily, with healthy demand for the PowerShot SD550 and PowerShot SD450, as well as the PowerShot SD700 IS, PowerShot SD630, and PowerShot SD600, launched in the first half. Accordingly, unit sales of digital cameras for the first half expanded more than 20% compared with the year-ago period. In the field of digital video camcorders, newly introduced DVD models delivered strong performances, as did Mini DV models. As a result, overall camera sales for the first half increased by 21.4% from the year-ago period to ¥460.3 billion (U.S.\$4,002 million). The gross profit ratio for the camera segment also rose substantially, boosted by such factors as favorable sales in high value-added products, along with cost-reduction efforts realized through production-reform and procurement-reform activities. As a result, operating profit for the camera segment increased by 75.8% year on year to ¥108.7 billion (U.S.\$946 million).

In the optical and other products segment, while steppers, used in the production of semiconductors, enjoyed steady demand, sales of optical products decreased in the first half amid declining demand for aligners, used to produce LCD panels, due to restrained investment by LCD manufacturers. As for the other products included in the segment, the subsidiary that was acquired last year contributed to significant sales growth. As a result, first-half sales for the optical and other products segment totaled ¥205.4 billion (U.S.\$1,786 million), a year-on-year increase of 14.3%. Operating profit for the segment grew by 10.2% year on year to ¥23.2 billion (U.S.\$202 million), boosted by the increase in gross profit accompanying the increase in sales.

**Cash Flow**

In the first half of 2006, Canon maintained cash flow from operating activities of ¥323.9 billion (U.S.\$2,816 million), a year-on-year increase of ¥65.9 billion (U.S.\$573 million), reflecting the substantial growth in sales and increased cash proceeds from sales, combined with an increase in net income and depreciation expenses. Capital expenditure totaled ¥208.7 billion (U.S.\$1,814 million), which was used mainly to expand production capabilities in both domestic and overseas regions, as well as to bolster the company's R&D-related infrastructure. Cash flow from investing activities totaled ¥210.3 billion (U.S.\$1,829 million). As a result, free cash flow totaled ¥113.6 billion (U.S.\$987 million), an improvement of ¥36.7 billion (U.S.\$319 million) from ¥76.9 billion for the year-ago period. Cash flow from financing activities recorded an outlay of ¥57.8 billion (U.S.\$503 million), mainly resulting from the dividend payout of ¥59.9 billion (U.S.\$521 million), an increase of ¥24.4 billion (U.S.\$212 million) compared with the previous year. Consequently, cash and cash equivalents, which totaled ¥1,055.2 billion (U.S.\$9,175 million), an

increase of ¥50.2 billion (U.S.\$437 million) from the end of the previous year, remained at a high level.

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**Non-consolidated Results and Dividend**

Canon Inc.'s non-consolidated net sales during the first half totaled ¥1,266.0 billion (U.S.\$11,009 million), a year-on-year increase of 9.3%. Ordinary profit grew by 17.1% to ¥246.1 billion (U.S.\$2,140 million) and net income increased 12.8% to ¥155.5 billion (U.S.\$1,353 million), marking all-time highs for both first-half ordinary profit and net income.

The Board of Directors is planning to increase the interim dividend by ¥17.50 (U.S.\$0.15) to ¥50.00 (U.S.\$0.43) per share.

**Outlook**

As for the outlook for the global economy in the third quarter and thereafter, although there are concerns due to such factors as price trends for crude oil and raw materials, as well as rising interest rates in the U.S., Europe, and Japan, the global economy is likely to continue its course toward modest recovery.

In the businesses in which Canon is involved, demand for digital cameras is expected to continue enjoying robust growth in Japan and overseas markets. As for network digital MFDs and laser beam printers, while demand is projected to shift toward full-color models, severe price competition and shifting demand toward lower-priced models are expected to continue. Within the semiconductor-production equipment market, demand for steppers indicates a trend toward moderate recovery, supported by increased investment by chip manufacturers. In the market for projection aligners used in the production of LCD panels, demand is expected to decline due to restrained investment by LCD manufacturers.

Reflecting the latest performance, the company has revised its forecasts for the 2006 fiscal year and now anticipates consolidated net sales of ¥4,130.0 billion (U.S.\$35,913 million) and, in addition to consolidated income before income taxes and minority interests of ¥700.0 billion (U.S.\$6,087 million), consolidated net income of ¥440.0 billion (U.S.\$3,826 million). As for non-consolidated forecasts, while keeping its non-consolidated sales projection of ¥2,700.0 billion (U.S.\$23,478 million), the company has revised its non-consolidated ordinary profit forecast to ¥500.0 billion (U.S.\$4,348 million) and non-consolidated net income to ¥316.0 billion (U.S.\$2,748 million). These forecasts assume currency exchange rates of ¥114 to the U.S. dollar and ¥143 to the euro, representing the same level against the U.S. dollar, and an approximately 4% depreciation of the yen against the euro compared with previous year.

**Table of Contents****Consolidated Outlook**

| Fiscal year  | Millions of yen            |                        |            |                                    |               |
|--|----------------------------|------------------------|------------|------------------------------------|---------------|
|  | Year ending                |                        |            | Year ended<br>December<br>31, 2005 | Change<br>(%) |
|  | December 31, 2006          |                        | Change     |                                    |               |
|  | Previous<br>Outlook<br>(A) | Revised Outlook<br>(B) |            | (B - A)                            | Results (C)   |
| Net sales  | ¥ 4,140,000                | ¥ 4,130,000            | ¥ (10,000) | ¥ 3,754,191                        | + 10.0%       |
| Income before income taxes<br>and minority interests | 690,000                    | 700,000                | 10,000     | 612,004                            | + 14.4%       |
| Net income   | 432,000                    | 440,000                | 8,000      | 384,096                            | + 14.6%       |

**Non-consolidated Outlook**

| Fiscal year     | Millions of yen            |                        |        |                                    |               |
|-----------------|----------------------------|------------------------|--------|------------------------------------|---------------|
|                 | Year ending                |                        |        | Year ended<br>December<br>31, 2005 | Change<br>(%) |
|                 | December 31, 2006          |                        | Change |                                    |               |
|                 | Previous<br>Outlook<br>(A) | Revised Outlook<br>(B) |        | (B - A)                            | Results (C)   |
| Net sales       | ¥ 2,700,000                | ¥ 2,700,000            | ¥      | ¥ 2,481,481                        | + 8.8%        |
| Ordinary profit | 489,000                    | 500,000                | 11,000 | 440,711                            | + 13.5%       |
| Net income      | 313,000                    | 316,000                | 3,000  | 289,294                            | + 9.2%        |

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

GROUP POSITION1. NUMBER OF GROUP COMPANIES

|                      | June 30,<br>2006 | December 31,<br>2005 | Change |
|----------------------|------------------|----------------------|--------|
| Subsidiaries         | 216              | 200                  | 16     |
| Affiliated Companies | 13               | 13                   |        |
| Total                | 229              | 213                  | 16     |

2. GROUP STRUCTURE AND MAJOR GROUP COMPANIES

- Notes:
- The companies with (\*) are affiliated companies (equity method).
  - Following subsidiaries are listed on domestic stock exchange.
    - Tokyo Stock Exchange (1st section): Canon Marketing Japan Inc., Canon Electronics Inc., Canon Finetech Inc.
    - Tokyo Stock Exchange (2nd section): Canon Software Inc.
    - Osaka Stock Exchange (2nd section): Canon Machinery Inc.
    - JASDAQ: Nisca Corporation.
  - Canon Sales Co., Inc. changed its corporate name to Canon Marketing Japan Inc. as of April 1, 2006. Lotte Canon Co., Ltd. changed its corporate name to Canon Korea Business Solutions Inc. as of March 3, 2006.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**1. CONSOLIDATED STATEMENTS OF INCOME**

|   | Millions of yen   |   | Change(%) | Thousands of  |
|---|---|---|-----------|---|
|   | <b>Three months ended June 30, 2006</b><br><b>(Unaudited)</b> | <b>Three months ended June 30, 2005</b><br><b>(Unaudited)</b> |           | U.S. dollars  |
| <b>Results for the second quarter</b>             |   |   |           | <b>Three months ended June 30, 2006</b><br><b>(Unaudited)</b> |
| Net sales   | ¥ <b>1,028,983</b>  | ¥ 912,473   | + 12.8    | \$ <b>8,947,678</b>   |
| Cost of sales                                     | <b>518,788</b>  | 472,097   |           | <b>4,511,200</b>  |
| Gross profit                                      | <b>510,195</b>  | 440,376   | + 15.9    | <b>4,436,478</b>  |
| Selling, general and administrative expenses      | <b>262,476</b>  | 236,252   |           | <b>2,282,400</b>  |
| Research and development expenses                 | <b>79,377</b>   | 77,217  |           | <b>690,235</b>  |
|   | <b>341,853</b>  | 313,469   |           | <b>2,972,635</b>  |
| Operating profit                                  | <b>168,342</b>  | 126,907   | + 32.6    | <b>1,463,843</b>  |
| Other income (deductions):                        |   |   |           |   |
| Interest and dividend income                      | <b>6,155</b>  | 3,289   |           | <b>53,522</b>   |
| Interest expense                                  | <b>(244)</b>  | (303)   |           | <b>(2,122)</b>  |
| Other, net  | <b>(2,799)</b>  | 4,389   |           | <b>(24,339)</b>   |
|   | <b>3,112</b>  | 7,375   |           | <b>27,061</b>   |
| Income before income taxes and minority interests | <b>171,454</b>  | 134,282   | + 27.7    | <b>1,490,904</b>  |
| Income taxes                                      | <b>60,985</b>   | 48,874  |           | <b>530,304</b>  |
| Income before minority interests                  | <b>110,469</b>  | 85,408  |           | <b>960,600</b>  |
| Minority interests                                | <b>4,564</b>  | 3,197   |           | <b>39,687</b>   |
| Net income  | ¥ <b>105,905</b>  | ¥ 82,211  | + 28.8    | \$ <b>920,913</b>   |

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 three months ended June 30, 2006 and 2005 were JPY103,418 million (U.S.\$899,287 thousand) and JPY86,568 million, respectively.

| Millions of yen | Thousands of      | Millions of |
|-----------------|-------------------|-------------|
| Six months      | U.S. dollars      | yen         |
|                 | <b>Six months</b> | Year ended  |

|   | Six months                         |                                    | Change(%) | December 31,                       |             |
|---|------------------------------------|------------------------------------|-----------|------------------------------------|-------------|
|   | ended June 30, 2006<br>(Unaudited) | ended June 30, 2005<br>(Unaudited) |           | ended June 30, 2006<br>(Unaudited) | 2005        |
| <b>Results for the first half</b>                 |                                    |                                    |           |                                    |             |
| Net sales   | ¥ 1,952,255                        | ¥ 1,755,840                        | + 11.2    | \$ 16,976,130                      | ¥ 3,754,191 |
| Cost of sales                                     | 973,542                            | 905,800                            |           | 8,465,582                          | 1,935,148   |
| Gross profit                                      | 978,713                            | 850,040                            | + 15.1    | 8,510,548                          | 1,819,043   |
| Selling, general and administrative expenses      | 493,709                            | 443,465                            |           | 4,293,122                          | 949,524     |
| Research and development expenses                 | 146,527                            | 136,386                            |           | 1,274,148                          | 286,476     |
|   | 640,236                            | 579,851                            |           | 5,567,270                          | 1,236,000   |
| Operating profit                                  | 338,477                            | 270,189                            | + 25.3    | 2,943,278                          | 583,043     |
| Other income (deductions):                        |                                    |                                    |           |                                    |             |
| Interest and dividend income                      | 11,143                             | 5,970                              |           | 96,896                             | 14,252      |
| Interest expense                                  | (625)                              | (771)                              |           | (5,435)                            | (1,741)     |
| Other, net  | (7,950)                            | 8,345                              |           | (69,130)                           | 16,450      |
|   | 2,568                              | 13,544                             |           | 22,331                             | 28,961      |
| Income before income taxes and minority interests | 341,045                            | 283,733                            | + 20.2    | 2,965,609                          | 612,004     |
| Income taxes                                      | 118,814                            | 101,268                            |           | 1,033,166                          | 212,785     |
| Income before minority interests                  | 222,231                            | 182,465                            |           | 1,932,443                          | 399,219     |
| Minority interests                                | 8,057                              | 7,197                              |           | 70,060                             | 15,123      |
| Net income  | ¥ 214,174                          | ¥ 175,268                          | + 22.2    | \$ 1,862,383                       | ¥ 384,096   |

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 six months ended June 30, 2006 and 2005 were JPY217,475 million (U.S.\$1,891,087 thousand) and JPY189,093 million, respectively.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**2. DETAILS OF SALES**

| <b>Results for the second quarter</b> | Millions of yen  |   |           | Thousands of   |
|---------------------------------------|--|---|-----------|--|
|                                       | <b>Three months ended June 30, 2006</b><br>(Unaudited) | Three months ended June 30, 2005<br>(Unaudited) | Change(%) | U.S. dollars   |
| <b>Sales by product</b>               |  |   |           | <b>Three months ended June 30, 2006</b><br>(Unaudited) |
| Business machines:                    |  |   |           |  |
| <i>Office imaging products</i>        | ¥ 298,949  | ¥ 292,716                                       | + 2.1     | \$ 2,599,557   |
| <i>Computer peripherals</i>           | 329,867  | 285,445   | + 15.6    | 2,868,409  |
| <i>Business information products</i>  | 26,627   | 25,316  | + 5.2     | 231,538  |
|                                       | 655,443  | 603,477   | + 8.6     | 5,699,504  |
| Cameras                               | 268,224  | 219,241   | + 22.3    | 2,332,383  |
| Optical and other products            | 105,316  | 89,755  | + 17.3    | 915,791  |
| Total                                 | ¥ 1,028,983  | ¥ 912,473                                       | + 12.8    | \$ 8,947,678   |

| <b>Sales by region</b> | Millions of yen  |   |           | Thousands of |
|------------------------|--|---|-----------|--------------|
|                        | <b>Three months ended June 30, 2006</b><br>(Unaudited) | Three months ended June 30, 2005<br>(Unaudited) | Change(%) | U.S. dollars |
| Japan                  | ¥ 232,604  | ¥ 208,024                                       | + 11.8    | \$ 2,022,643 |
| Overseas:              |  |   |           |              |
| <i>Americas</i>        | 309,406  | 269,403   | + 14.8    | 2,690,487    |
| <i>Europe</i>          | 329,322  | 294,330   | + 11.9    | 2,863,670    |
| <i>Other areas</i>     | 157,651  | 140,716   | + 12.0    | 1,370,878    |
|                        | 796,379  | 704,449   | + 13.0    | 6,925,035    |
| Total                  | ¥ 1,028,983  | ¥ 912,473                                       | + 12.8    | \$ 8,947,678 |

| <b>Results for the first half</b> | Millions of yen         |                  | Thousands of            | Millions of |
|-----------------------------------|-------------------------|------------------|-------------------------|-------------|
|                                   | <b>Six months ended</b> | Six months ended | U.S. dollars            | yen         |
|                                   |                         |                  | <b>Six months ended</b> | Year ended  |

|                                      |  |                                 |           |  | December<br>31,<br>2005 |
|--------------------------------------|--|---------------------------------|-----------|--|-------------------------|
| <b>Sales by product</b>              | <b>June 30,<br/>2006<br/>(Unaudited)</b> | June 30,<br>2005<br>(Unaudited) | Change(%) | <b>June 30,<br/>2006<br/>(Unaudited)</b> |                         |
| Business machines:                   |  |                                 |           |  |                         |
| <i>Office imaging products</i>       | ¥ 585,437                                | ¥ 567,799                       | + 3.1     | \$ 5,090,757                             | ¥ 1,153,240             |
| <i>Computer peripherals</i>          | 646,663                                  | 577,737                         | + 11.9    | 5,623,157                                | 1,244,906               |
| <i>Business information products</i> | 54,496                                   | 51,495                          | + 5.8     | 473,877                                  | 104,255                 |
|                                      | <b>1,286,596</b>                         | 1,197,031                       | + 7.5     | <b>11,187,791</b>                        | 2,502,401               |
| Cameras                              | 460,285                                  | 379,152                         | + 21.4    | 4,002,478                                | 879,186                 |
| Optical and other products           | 205,374                                  | 179,657                         | + 14.3    | 1,785,861                                | 372,604                 |
| Total                                | ¥ 1,952,255                              | ¥ 1,755,840                     | + 11.2    | \$ 16,976,130                            | ¥ 3,754,191             |

|                        | Millions of yen   |  |           | Thousands of<br>U.S. dollars                                      | Millions of<br>yen                 |
|------------------------|---|--|-----------|---|------------------------------------|
| <b>Sales by region</b> | <b>Six<br/>months<br/>ended<br/>June 30,<br/>2006<br/>(Unaudited)</b> | Six months<br>ended<br>June 30,<br>2005<br>(Unaudited) | Change(%) | <b>Six months<br/>ended<br/>June 30,<br/>2006<br/>(Unaudited)</b> | Year ended<br>December 31,<br>2005 |
| Japan                  | ¥ 446,298   | ¥ 416,118  | + 7.3     | \$ 3,880,852  | ¥ 856,205                          |
| Overseas:              |   |  |           |   |                                    |
| <i>Americas</i>        | 594,473   | 518,126  | + 14.7    | 5,169,330   | 1,145,950                          |
| <i>Europe</i>          | 610,943   | 551,666  | + 10.7    | 5,312,548   | 1,181,258                          |
| <i>Other areas</i>     | 300,541   | 269,930  | + 11.3    | 2,613,400   | 570,778                            |
|                        | <b>1,505,957</b>  | 1,339,722  | + 12.4    | <b>13,095,278</b>   | 2,897,986                          |
| Total                  | ¥ 1,952,255   | ¥ 1,755,840  | + 11.2    | \$ 16,976,130   | ¥ 3,754,191                        |

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 / Document scanners / 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:

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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**

|                                       | Millions of yen                                 |   | Change(%) | Thousands of  |
|---------------------------------------|---|---|-----------|---|
|                                       | Three months ended June 30, 2006<br>(Unaudited) | Three months ended June 30, 2005<br>(Unaudited) |           | U.S. dollars  |
| <b>Results for the second quarter</b> |   |   |           | <b>Three months ended June 30, 2006<br/>(Unaudited)</b> |
| <b>Business machines</b>              |   |   |           |   |
| Net sales:                            |   |   |           |   |
| Unaffiliated customers                | ¥ 655,443                                       | ¥ 603,477                                       | + 8.6     | \$ 5,699,504  |
| Intersegment                          |   |   |           |   |
| Total                                 | 655,443   | 603,477   | + 8.6     | 5,699,504   |
| Operating cost and expenses           | 513,046   | 484,852   | + 5.8     | 4,461,269   |
| Operating profit                      | 142,397   | 118,625   | + 20.0    | 1,238,235   |
| <b>Cameras</b>                        |   |   |           |   |
| Net sales:                            |   |   |           |   |
| Unaffiliated customers                | ¥ 268,224                                       | ¥ 219,241                                       | + 22.3    | \$ 2,332,383  |
| Intersegment                          |   |   |           |   |
| Total                                 | 268,224   | 219,241   | + 22.3    | 2,332,383   |
| Operating cost and expenses           | 203,527   | 181,202   | + 12.3    | 1,769,800   |
| Operating profit                      | 64,697  | 38,039  | + 70.1    | 562,583   |
| <b>Optical and other products</b>     |   |   |           |   |
| Net sales:                            |   |   |           |   |
| Unaffiliated customers                | ¥ 105,316                                       | ¥ 89,755  | + 17.3    | \$ 915,791  |
| Intersegment                          | 47,309  | 36,637  | + 29.1    | 411,383   |
| Total                                 | 152,625   | 126,392   | + 20.8    | 1,327,174   |
| Operating cost and expenses           | 143,956   | 118,032   | + 22.0    | 1,251,791   |
| Operating profit                      | 8,669   | 8,360   | + 3.7     | 75,383  |

**Corporate and Eliminations**

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|                             |            |           |   |           |              |
|-----------------------------|------------|-----------|---|-----------|--------------|
| Net sales:                  |            |           |   |           |              |
| Unaffiliated customers      | ¥          | ¥         |   | \$        |              |
| Intersegment                | (47,309)   | (36,637)  |   | (411,383) |              |
| Total                       | (47,309)   | (36,637)  |   | (411,383) |              |
| Operating cost and expenses | 112        | 1,480     | - | 92.4      | 975          |
| Operating profit            | (47,421)   | (38,117)  |   | (412,358) |              |
| <b>Consolidated</b>         |            |           |   |           |              |
| Net sales:                  |            |           |   |           |              |
| Unaffiliated customers      | ¥1,028,983 | ¥ 912,473 | + | 12.8      | \$ 8,947,678 |
| Intersegment                |            |           |   |           |              |
| Total                       | 1,028,983  | 912,473   | + | 12.8      | 8,947,678    |
| Operating cost and expenses | 860,641    | 785,566   | + | 9.6       | 7,483,835    |
| Operating profit            | 168,342    | 126,907   | + | 32.6      | 1,463,843    |

Note: General corporate expenses of JPY47,421 million (U.S.\$412,357 thousand) and JPY38,121 million in the three months ended June 30, 2006 and 2005, respectively, are included in Corporate and Eliminations.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

|                                   | Millions of yen                            |  | Change(%) | Thousands of                                      | Millions of                         |
|-----------------------------------|--|--|-----------|---|-------------------------------------|
|                                   | Six months ended June 30, 2006 (Unaudited) | Six months ended June 30, 2005 (Unaudited) |           | U.S. dollars                                      | yen                                 |
| <b>Results for the first half</b> |  |  |           | <b>Six months ended June 30, 2006 (Unaudited)</b> | <b>Year ended December 31, 2005</b> |
| <b>Business machines</b>          |  |  |           |   |                                     |
| Net sales:                        |  |  |           |   |                                     |
| Unaffiliated customers            | ¥ <b>1,286,596</b>                         | ¥ 1,197,031                                | + 7.5     | \$ <b>11,187,791</b>                              | ¥ 2,502,401                         |
| Intersegment                      |  |  |           |   |                                     |
| Total                             | <b>1,286,596</b>                           | 1,197,031                                  | + 7.5     | <b>11,187,791</b>                                 | 2,502,401                           |
| Operating cost and expenses       | <b>992,031</b>                             | 937,578                                    | + 5.8     | <b>8,626,356</b>                                  | 1,960,373                           |
| Operating profit                  | <b>294,565</b>                             | 259,453                                    | + 13.5    | <b>2,561,435</b>                                  | 542,028                             |
| <b>Cameras</b>                    |  |  |           |   |                                     |
| Net sales:                        |  |  |           |   |                                     |
| Unaffiliated customers            | ¥ <b>460,285</b>                           | ¥ 379,152                                  | + 21.4    | \$ <b>4,002,478</b>                               | ¥ 879,186                           |
| Intersegment                      |  |  |           |   |                                     |
| Total                             | <b>460,285</b>                             | 379,152                                    | + 21.4    | <b>4,002,478</b>                                  | 879,186                             |
| Operating cost and expenses       | <b>351,549</b>                             | 317,298                                    | + 10.8    | <b>3,056,948</b>                                  | 705,480                             |
| Operating profit                  | <b>108,736</b>                             | 61,854                                     | + 75.8    | <b>945,530</b>                                    | 173,706                             |
| <b>Optical and other products</b> |  |  |           |   |                                     |
| Net sales:                        |  |  |           |   |                                     |
| Unaffiliated customers            | ¥ <b>205,374</b>                           | ¥ 179,657                                  | + 14.3    | \$ <b>1,785,861</b>                               | ¥ 372,604                           |
| Intersegment                      | <b>88,706</b>                              | 71,818                                     | + 23.5    | <b>771,356</b>                                    | 158,114                             |
| Total                             | <b>294,080</b>                             | 251,475                                    | + 16.9    | <b>2,557,217</b>                                  | 530,718                             |
| Operating cost and expenses       | <b>270,885</b>                             | 230,436                                    | + 17.6    | <b>2,355,521</b>                                  | 491,898                             |
| Operating profit                  | <b>23,195</b>                              | 21,039                                     | + 10.2    | <b>201,696</b>                                    | 38,820                              |

**Corporate and Eliminations**

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|                             |          |          |           |           |
|-----------------------------|----------|----------|-----------|-----------|
| Net sales:                  |          |          |           |           |
| Unaffiliated customers      | ¥        | ¥        | \$        | ¥         |
| Intersegment                | (88,706) | (71,818) | (771,356) | (158,114) |
| Total                       | (88,706) | (71,818) | (771,356) | (158,114) |
| Operating cost and expenses | (687)    | 339      | (5,973)   | 13,397    |
| Operating profit            | (88,019) | (72,157) | (765,383) | (171,511) |

**Consolidated**

|                             |            |             |        |               |             |
|-----------------------------|------------|-------------|--------|---------------|-------------|
| Net sales:                  |            |             |        |               |             |
| Unaffiliated customers      | ¥1,952,255 | ¥ 1,755,840 | + 11.2 | \$ 16,976,130 | ¥ 3,754,191 |
| Intersegment                |            |             |        |               |             |
| Total                       | 1,952,255  | 1,755,840   | + 11.2 | 16,976,130    | 3,754,191   |
| Operating cost and expenses | 1,613,778  | 1,485,651   | + 8.6  | 14,032,852    | 3,171,148   |
| Operating profit            | 338,477    | 270,189     | + 25.3 | 2,943,278     | 583,043     |

Note: General corporate expenses of JPY87,931 million (U.S.\$764,617 thousand) and JPY72,160 million in the six months ended June 30, 2006 and 2005, respectively, are included in Corporate and Eliminations.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**4. SEGMENT INFORMATION BY GEOGRAPHIC AREA**

| <b>Results for the first half</b> | Millions of yen                                   |  | Change(%) | Thousands of  | Millions of                         |
|-----------------------------------|---|--|-----------|---|-------------------------------------|
|                                   | <b>Six months ended June 30, 2006 (Unaudited)</b> | Six months ended June 30, 2005 (Unaudited) |           | U.S. dollars<br><b>Six months ended June 30, 2006 (Unaudited)</b> | yen<br>Year ended December 31, 2005 |
| <b>Japan</b>                      |   |  |           |   |                                     |
| Net sales:                        |   |  |           |   |                                     |
| Unaffiliated customers            | ¥ 505,924   | ¥ 481,444                                  | + 5.1     | \$ 4,399,339  | ¥ 979,748                           |
| Intersegment                      | 1,069,960   | 958,506                                    | + 11.6    | 9,304,000   | 2,046,173                           |
| Total                             | 1,575,884   | 1,439,950                                  | + 9.4     | 13,703,339  | 3,025,921                           |
| Operating cost and expenses       | 1,203,207   | 1,129,146                                  | + 6.6     | 10,462,669  | 2,362,019                           |
| Operating profit                  | 372,677   | 310,804                                    | + 19.9    | 3,240,670   | 663,902                             |
| <b>Americas</b>                   |   |  |           |   |                                     |
| Net sales:                        |   |  |           |   |                                     |
| Unaffiliated customers            | ¥ 590,878   | ¥ 516,933                                  | + 14.3    | \$ 5,138,070  | ¥ 1,139,784                         |
| Intersegment                      | 2,456   | 4,593                                      | - 46.5    | 21,356  | 7,424                               |
| Total                             | 593,334   | 521,526                                    | + 13.8    | 5,159,426   | 1,147,208                           |
| Operating cost and expenses       | 570,559   | 503,674                                    | + 13.3    | 4,961,383   | 1,110,415                           |
| Operating profit                  | 22,775  | 17,852                                     | + 27.6    | 198,043   | 36,793                              |
| <b>Europe</b>                     |   |  |           |   |                                     |
| Net sales:                        |   |  |           |   |                                     |
| Unaffiliated customers            | ¥ 610,293   | ¥ 550,401                                  | + 10.9    | \$ 5,306,896  | ¥ 1,178,672                         |
| Intersegment                      | 1,344   | 1,114                                      | + 20.6    | 11,687  | 2,206                               |
| Total                             | 611,637   | 551,515                                    | + 10.9    | 5,318,583   | 1,180,878                           |
| Operating cost and expenses       | 593,528   | 537,469                                    | + 10.4    | 5,161,113   | 1,147,658                           |
| Operating profit                  | 18,109  | 14,046                                     | + 28.9    | 157,470   | 33,220                              |

**Others**

Net sales:

|                             |           |           |        |              |           |
|-----------------------------|-----------|-----------|--------|--------------|-----------|
| Unaffiliated customers      | ¥ 245,160 | ¥ 207,062 | + 18.4 | \$ 2,131,825 | ¥ 455,987 |
| Intersegment                | 361,772   | 292,479   | + 23.7 | 3,145,845    | 646,530   |
| Total                       | 606,932   | 499,541   | + 21.5 | 5,277,670    | 1,102,517 |
| Operating cost and expenses | 584,569   | 485,679   | + 20.4 | 5,083,209    | 1,071,155 |
| Operating profit            | 22,363    | 13,862    | + 61.3 | 194,461      | 31,362    |

**Corporate and Eliminations**

Net sales:

|                             |             |             |  |              |             |
|-----------------------------|-------------|-------------|--|--------------|-------------|
| Unaffiliated customers      | ¥           | ¥           |  | \$           | ¥           |
| Intersegment                | (1,435,532) | (1,256,692) |  | (12,482,888) | (2,702,333) |
| Total                       | (1,435,532) | (1,256,692) |  | (12,482,888) | (2,702,333) |
| Operating cost and expenses | (1,338,085) | (1,170,317) |  | (11,635,522) | (2,520,099) |
| Operating profit            | (97,447)    | (86,375)    |  | (847,366)    | (182,234)   |

**Consolidated**

Net sales:

|                             |             |             |        |               |             |
|-----------------------------|-------------|-------------|--------|---------------|-------------|
| Unaffiliated customers      | ¥ 1,952,255 | ¥ 1,755,840 | + 11.2 | \$ 16,976,130 | ¥ 3,754,191 |
| Intersegment                |             |             |        |               |             |
| Total                       | 1,952,255   | 1,755,840   | + 11.2 | 16,976,130    | 3,754,191   |
| Operating cost and expenses | 1,613,778   | 1,485,651   | + 8.6  | 14,032,852    | 3,171,148   |
| Operating profit            | 338,477     | 270,189     | + 25.3 | 2,943,278     | 583,043     |

Note: General corporate expenses of JPY87,931 million (U.S.\$764,617 thousand) and JPY72,160 million for the six months ended June 30, 2006 and 2005 respectively, are included in Corporate and Eliminations.

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## CANON INC. AND SUBSIDIARIES

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**5. CONSOLIDATED BALANCE SHEETS**

|   | Millions of yen                          |                           | Change    | Thousands of<br>U.S. dollars<br>As of<br>June 30,<br>2006<br>(Unaudited) | Millions of<br>yen<br>As of<br>June 30,<br>2005<br>(Unaudited) |
|---|--|---------------------------|-----------|--|--|
|   | As of<br>June 30,<br>2006<br>(Unaudited) | As of<br>Dec. 31,<br>2005 |           |  |  |
| <b>ASSETS</b>   |  |                           |           |  |  |
| Current assets:   |  |                           |           |  |  |
| Cash and cash equivalents                                 | ¥ 1,055,163                              | ¥ 1,004,953               | ¥ 50,210  | \$ 9,175,330   | ¥ 935,921  |
| Marketable securities                                     | 10,373                                   | 172                       | 10,201    | 90,200   | 1,236  |
| Trade receivables, net                                    | 637,624                                  | 689,427                   | (51,803)  | 5,544,557  | 542,192  |
| Inventories   | 533,468                                  | 510,195                   | 23,273    | 4,638,852  | 485,887  |
| Prepaid expenses and other<br>current assets              | 247,908                                  | 253,822                   | (5,914)   | 2,155,722  | 249,867  |
| Total current assets                                      | 2,484,536                                | 2,458,569                 | 25,967    | 21,604,661   | 2,215,103  |
| Noncurrent receivables                                    | 14,708                                   | 14,122                    | 586       | 127,896  | 14,162   |
| Investments   | 104,068                                  | 104,486                   | (418)     | 904,939  | 99,808   |
| Property, plant and equipment,<br>net                     | 1,185,913                                | 1,148,821                 | 37,092    | 10,312,287   | 1,042,448  |
| Other assets  | 318,141                                  | 317,555                   | 586       | 2,766,443  | 285,904  |
| Total assets  | ¥ 4,107,366                              | ¥ 4,043,553               | ¥ 63,813  | \$ 35,716,226  | ¥ 3,657,425  |
| <b>LIABILITIES AND<br/>STOCKHOLDERS EQUITY</b>            |  |                           |           |  |  |
| Current liabilities:                                      |  |                           |           |  |  |
| Short-term loans and current<br>portion of long-term debt | ¥ 14,564                                 | ¥ 5,059                   | ¥ 9,505   | \$ 126,643   | ¥ 11,645   |
| Trade payables  | 481,476                                  | 505,126                   | (23,650)  | 4,186,748  | 437,210  |
| Income taxes  | 101,485                                  | 110,844                   | (9,359)   | 882,478  | 78,324   |
| Accrued expenses  | 229,739                                  | 248,205                   | (18,466)  | 1,997,730  | 197,405  |
| Other current liabilities                                 | 174,327                                  | 209,394                   | (35,067)  | 1,515,888  | 181,525  |
| Total current liabilities                                 | 1,001,591                                | 1,078,628                 | (77,037)  | 8,709,487  | 906,109  |
| Long-term debt, excluding<br>current installments         | 16,199                                   | 27,082                    | (10,883)  | 140,861  | 25,056   |
| Accrued pension and severance<br>cost                     | 66,724                                   | 80,430                    | (13,706)  | 580,209  | 124,816  |
| Other noncurrent liabilities                              | 47,042                                   | 52,395                    | (5,353)   | 409,060  | 45,425   |
| Total liabilities   | 1,131,556                                | 1,238,535                 | (106,979) | 9,839,617  | 1,101,406  |

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|   |                    |             |          |                      |             |
|---|--------------------|-------------|----------|----------------------|-------------|
| Minority interests                            | <b>213,430</b>     | 200,336     | 13,094   | <b>1,855,913</b>     | 192,049     |
| Stockholders' equity:                         |                    |             |          |                      |             |
| Common stock                                  | <b>174,543</b>     | 174,438     | 105      | <b>1,517,765</b>     | 174,153     |
| Additional paid-in capital                    | <b>403,355</b>     | 403,246     | 109      | <b>3,507,435</b>     | 402,013     |
| Legal reserve                                 | <b>43,201</b>      | 42,331      | 870      | <b>375,661</b>       | 42,186      |
| Retained earnings                             | <b>2,171,681</b>   | 2,018,289   | 153,392  | <b>18,884,183</b>    | 1,838,441   |
| Accumulated other comprehensive income (loss) | <b>(24,911)</b>    | (28,212)    | 3,301    | <b>(216,617)</b>     | (87,487)    |
| Treasury stock                                | <b>(5,489)</b>     | (5,410)     | (79)     | <b>(47,731)</b>      | (5,336)     |
| Total stockholders' equity                    | <b>2,762,380</b>   | 2,604,682   | 157,698  | <b>24,020,696</b>    | 2,363,970   |
| Total liabilities and stockholders' equity    | <b>¥ 4,107,366</b> | ¥ 4,043,553 | ¥ 63,813 | <b>\$ 35,716,226</b> | ¥ 3,657,425 |

|  | Millions of yen                    |                     | Thousands of U.S. dollars          | Millions of yen                    |
|--|------------------------------------|---------------------|------------------------------------|------------------------------------|
|  | As of June 30, 2006<br>(Unaudited) | As of Dec. 31, 2005 | As of June 30, 2006<br>(Unaudited) | As of June 30, 2005<br>(Unaudited) |
| Allowance for doubtful receivables             | ¥ 13,722                           | ¥ 11,728            | \$ 119,322                         | ¥ 11,469                           |
| Accumulated depreciation                       | <b>1,319,695</b>                   | 1,272,163           | <b>11,475,609</b>                  | 1,185,569                          |
| Accumulated other comprehensive income (loss): |                                    |                     |                                    |                                    |
| Foreign currency translation adjustments       | <b>(23,579)</b>                    | (25,772)            | <b>(205,035)</b>                   | (66,702)                           |
| Net unrealized gains and losses on securities  | <b>6,325</b>                       | 6,073               | <b>55,000</b>                      | 6,836                              |
| Net gains and losses on derivative instruments | <b>(555)</b>                       | (1,174)             | <b>(4,826)</b>                     | 67                                 |
| Minimum pension liability adjustments          | <b>(7,102)</b>                     | (7,339)             | <b>(61,756)</b>                    | (27,688)                           |

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## CANON INC. AND SUBSIDIARIES

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**6. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

|   | Millions of yen |                                  |                  |                      |   |                   |                                  |
|---|-----------------|----------------------------------|------------------|----------------------|---|-------------------|----------------------------------|
|   | Common<br>Stock | Additional<br>paid-in<br>capital | Legal<br>reserve | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Treasury<br>stock | Total<br>stockholders'<br>equity |
| <b>Balances at<br/>December 31, 2005</b>                      | ¥ 174,438       | ¥ 403,246                        | ¥ 42,331         | ¥ 2,018,289          | ¥ (28,212)  | ¥ (5,410)         | ¥ 2,604,682                      |
| <b>Conversion of<br/>convertible debt<br/>and other</b>       | 105             | 109                              |                  |                      |   |                   | 214                              |
| <b>Cash dividends</b>   |                 |                                  |                  | (59,912)             |   |                   | (59,912)                         |
| <b>Transfers to legal<br/>reserve</b>                         |                 |                                  | 870              | (870)                |   |                   |                                  |
| <b>Comprehensive<br/>income (loss)</b>                        |                 |                                  |                  |                      |   |                   |                                  |
| <b>Net income</b>   |                 |                                  |                  | 214,174              |   |                   | 214,174                          |
| <b>Foreign currency<br/>translation<br/>adjustments</b>       |                 |                                  |                  |                      | 2,193   |                   | 2,193                            |
| <b>Net unrealized<br/>gains and losses on<br/>securities</b>  |                 |                                  |                  |                      | 252   |                   | 252                              |
| <b>Net gains and losses<br/>on derivative<br/>instruments</b> |                 |                                  |                  |                      | 619   |                   | 619                              |
| <b>Minimum pension<br/>liability adjustments</b>              |                 |                                  |                  |                      | 237   |                   | 237                              |
| <b>Total<br/>comprehensive<br/>income (loss)</b>              |                 |                                  |                  |                      |   |                   | 217,475                          |
| <b>Repurchase of<br/>treasury stock, net</b>                  |                 |                                  |                  |                      |   | (79)              | (79)                             |
| <b>Balances at<br/>June 30, 2006<br/>(Unaudited)</b>          | ¥ 174,543       | ¥ 403,355                        | ¥ 43,201         | ¥ 2,171,681          | ¥ (24,911)  | ¥ (5,489)         | ¥ 2,762,380                      |
|   | ¥ 173,864       | ¥ 401,773                        | ¥ 41,200         | ¥ 1,699,634          | ¥ (101,312)   | ¥ (5,263)         | ¥ 2,209,896                      |

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Balances at  
December 31, 2004

|   |     |      |     |          |        |  |      |          |
|---|-----|------|-----|----------|--------|--|------|----------|
| Conversion of convertible debt and other                                  | 289 | 289  |     |          |        |  |      | 578      |
| Capital transaction by consolidated subsidiaries and affiliated companies |     | (49) |     |          |        |  |      | (49)     |
| Cash dividends  |     |      |     | (35,475) |        |  |      | (35,475) |
| Transfers to legal reserve  |     |      | 986 | (986)    |        |  |      |          |
| Comprehensive income (loss)   |     |      |     |          |        |  |      |          |
| Net income  |     |      |     | 175,268  |        |  |      | 175,268  |
| Foreign currency translation adjustments                                  |     |      |     |          | 13,049 |  |      | 13,049   |
| Net unrealized gains and losses on securities                             |     |      |     |          | (634)  |  |      | (634)    |
| Net gains and losses on derivative instruments                            |     |      |     |          | 760    |  |      | 760      |
| Minimum pension liability adjustments                                     |     |      |     |          | 650    |  |      | 650      |
| Total comprehensive income (loss)   |     |      |     |          |        |  |      | 189,093  |
| Repurchase of treasury stock, net   |     |      |     |          |        |  | (73) | (73)     |

Balances at June 30, 2005 (Unaudited)    ¥ 174,153    ¥ 402,013    ¥ 42,186    ¥ 1,838,441    ¥ (87,487)    ¥ (5,336)    ¥ 2,363,970

Balances at December 31, 2004    ¥ 173,864    ¥ 401,773    ¥ 41,200    ¥ 1,699,634    ¥ (101,312)    ¥ (5,263)    ¥ 2,209,896

|   |     |     |  |          |  |  |  |          |
|---|-----|-----|--|----------|--|--|--|----------|
| Conversion of convertible debt and other                                  | 574 | 574 |  |          |  |  |  | 1,148    |
| Capital transaction by consolidated subsidiaries and affiliated companies |     | 899 |  |          |  |  |  | 899      |
| Cash dividends  |     |     |  | (64,310) |  |  |  | (64,310) |



|  |   |         |         |         |       |        |         |           |   |          |   |         |   |           |
|--|---|---------|---------|---------|-------|--------|---------|-----------|---|----------|---|---------|---|-----------|
| Transfers to legal reserve                     |   | 1,131   | (1,131) |         |       |        |         |           |   |          |   |         |   |           |
| Comprehensive income (loss)                    |   |         |         |         |       |        |         |           |   |          |   |         |   |           |
| Net income                                     |   |         | 384,096 |         |       |        | 384,096 |           |   |          |   |         |   |           |
| Foreign currency translation adjustments       |   |         |         | 53,979  |       |        | 53,979  |           |   |          |   |         |   |           |
| Net unrealized gains and losses on securities  |   |         |         | (1,397) |       |        | (1,397) |           |   |          |   |         |   |           |
| Net gains and losses on derivative instruments |   |         |         | (481)   |       |        | (481)   |           |   |          |   |         |   |           |
| Minimum pension liability adjustments          |   |         |         | 20,999  |       |        | 20,999  |           |   |          |   |         |   |           |
| Total comprehensive income (loss)              |   |         |         |         |       |        | 457,196 |           |   |          |   |         |   |           |
| Repurchase of treasury stock, net              |   |         |         |         | (147) |        | (147)   |           |   |          |   |         |   |           |
| Balances at December 31, 2005                  | ¥ | 174,438 | ¥       | 403,246 | ¥     | 42,331 | ¥       | 2,018,289 | ¥ | (28,212) | ¥ | (5,410) | ¥ | 2,604,682 |

Thousands of U.S. dollars

|  |           |                  |           |                  |              |                |           |                   |               |                  |           |                 |           |                   |
|--|-----------|------------------|-----------|------------------|--------------|----------------|-----------|-------------------|---------------|------------------|-----------|-----------------|-----------|-------------------|
| <b>Balances at December 31, 2005</b>                 | <b>\$</b> | <b>1,516,852</b> | <b>\$</b> | <b>3,506,487</b> | <b>\$</b>    | <b>368,096</b> | <b>\$</b> | <b>17,550,339</b> | <b>\$</b>     | <b>(245,321)</b> | <b>\$</b> | <b>(47,044)</b> | <b>\$</b> | <b>22,649,409</b> |
| <b>Conversion of convertible debt and other</b>      |           | <b>913</b>       |           | <b>948</b>       |              |                |           |                   |               |                  |           |                 |           | <b>1,861</b>      |
| <b>Cash dividends</b>                                |           |                  |           |                  |              |                |           | <b>(520,974)</b>  |               |                  |           |                 |           | <b>(520,974)</b>  |
| <b>Transfers to legal reserve</b>                    |           |                  |           |                  | <b>7,565</b> |                |           | <b>(7,565)</b>    |               |                  |           |                 |           |                   |
| <b>Comprehensive income (loss)</b>                   |           |                  |           |                  |              |                |           |                   |               |                  |           |                 |           |                   |
| <b>Net income</b>                                    |           |                  |           |                  |              |                |           | <b>1,862,383</b>  |               |                  |           |                 |           | <b>1,862,383</b>  |
| <b>Foreign currency translation adjustments</b>      |           |                  |           |                  |              |                |           |                   | <b>19,070</b> |                  |           |                 |           | <b>19,070</b>     |
| <b>Net unrealized gains and losses on securities</b> |           |                  |           |                  |              |                |           |                   | <b>2,191</b>  |                  |           |                 |           | <b>2,191</b>      |
| <b>Net gains and losses on derivative</b>            |           |                  |           |                  |              |                |           |                   | <b>5,383</b>  |                  |           |                 |           | <b>5,383</b>      |

|  |                     |                     |                   |                      |                     |                    |                      |
|--|---------------------|---------------------|-------------------|----------------------|---------------------|--------------------|----------------------|
| <b>instruments</b>                           |                     |                     |                   |                      |                     |                    |                      |
| <b>Minimum pension liability adjustments</b> |                     |                     |                   |                      | <b>2,060</b>        |                    | <b>2,060</b>         |
| <b>Total comprehensive income (loss)</b>     |                     |                     |                   |                      |                     |                    | <b>1,891,087</b>     |
| <b>Repurchase of treasury stock, net</b>     |                     |                     |                   |                      |                     | <b>(687)</b>       | <b>(687)</b>         |
| <b>Balances at June 30, 2006 (Unaudited)</b> | <b>\$ 1,517,765</b> | <b>\$ 3,507,435</b> | <b>\$ 375,661</b> | <b>\$ 18,884,183</b> | <b>\$ (216,617)</b> | <b>\$ (47,731)</b> | <b>\$ 24,020,696</b> |

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## CANON INC. AND SUBSIDIARIES

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**7. CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | Millions of yen   |  | Thousands of<br>U.S. dollars                           | Millions of<br>yen                 |
|--|---|--|--|------------------------------------|
|  | Six<br>months<br>ended<br>June 30,<br>2006<br>(Unaudited) | Six months<br>ended<br>June 30,<br>2005<br>(Unaudited) | Six months<br>ended<br>June 30,<br>2006<br>(Unaudited) | Year ended<br>December 31,<br>2005 |
| Cash flows from operating activities:  |   |  |  |                                    |
| Net income   | ¥ 214,174   | ¥ 175,268  | \$ 1,862,383   | ¥ 384,096                          |
| Adjustments to reconcile net income to net<br>cash provided by operating activities: |   |  |  |                                    |
| Depreciation and amortization  | 108,155   | 98,556   | 940,478  | 225,941                            |
| Loss on disposal of property, plant and<br>equipment                                 | 9,391   | 3,213  | 81,661   | 13,784                             |
| Deferred income taxes  | 8,014   | 8,608  | 69,687   | (766)                              |
| (Increase) decrease in trade receivables   | 57,191  | 59,839   | 497,313  | (48,391)                           |
| (Increase) decrease in inventories   | (18,953)  | 7,161  | (164,809)  | 27,558                             |
| Increase (decrease) in trade payables  | (20,089)  | (30,174)   | (174,687)  | 16,018                             |
| Increase (decrease) in income taxes  | (8,877)   | (27,171)   | (77,191)   | 1,998                              |
| Increase (decrease) in accrued expenses  | (21,293)  | (10,274)   | (185,157)  | 31,241                             |
| Decrease in accrued pension and severance<br>cost                                    | (14,790)  | (5,945)  | (128,609)  | (16,221)                           |
| Other, net   | 10,955  | (21,120)   | 95,261   | (29,580)                           |
| Net cash provided by operating activities  | 323,878   | 257,961  | 2,816,330  | 605,678                            |
| Cash flows from investing activities:  |   |  |  |                                    |
| Purchases of fixed assets  | (208,655)   | (185,601)  | (1,814,391)  | (395,055)                          |
| Proceeds from sale of fixed assets   | 15,490  | 6,637  | 134,696  | 14,827                             |
| Purchases of available-for-sale securities   | (6,433)   | (381)  | (55,939)   | (5,680)                            |
| Proceeds from sale of available-for-sale<br>securities                               | 1,034   | 2,371  | 8,991  | 12,337                             |
| Acquisitions of subsidiaries, net of cash<br>acquired                                | (605)   | (1,219)  | (5,261)  | (17,657)                           |
| Purchases of other investments   | (7,228)   | (2,886)  | (62,852)   | (19,531)                           |
| Other, net   | (3,900)   | 23   | (33,914)   | 9,618                              |
| Net cash used in investing activities  | (210,297)   | (181,056)  | (1,828,670)  | (401,141)                          |
| Cash flows from financing activities:  |   |  |  |                                    |
| Proceeds from issuance of long-term debt   | 781   | 735  | 6,791  | 1,716                              |
| Repayments of long-term debt   | (3,063)   | (3,384)  | (26,635)   | (15,187)                           |

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|  |                    |           |                     |             |
|--|--------------------|-----------|---------------------|-------------|
| Increase (decrease) in short-term loans                      | <b>(404)</b>       | 1,544     | <b>(3,513)</b>      | (12,011)    |
| Dividends paid   | <b>(59,912)</b>    | (35,475)  | <b>(520,974)</b>    | (64,310)    |
| Other, net   | <b>4,766</b>       | (1,829)   | <b>41,444</b>       | (4,147)     |
| Net cash used in financing activities                        | <b>(57,832)</b>    | (38,409)  | <b>(502,887)</b>    | (93,939)    |
| Effect of exchange rate changes on cash and cash equivalents | <b>(5,539)</b>     | 9,651     | <b>(48,165)</b>     | 6,581       |
| Net increase in cash and cash equivalents                    | <b>50,210</b>      | 48,147    | <b>436,608</b>      | 117,179     |
| Cash and cash equivalents at beginning of period             | <b>1,004,953</b>   | 887,774   | <b>8,738,722</b>    | 887,774     |
| Cash and cash equivalents at end of period                   | <b>¥ 1,055,163</b> | ¥ 935,921 | <b>\$ 9,175,330</b> | ¥ 1,004,953 |

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CANON INC. AND SUBSIDIARIES

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**8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**(1) CHANGES IN GROUP OF ENTITIES**

Subsidiaries

Addition: 21 companies

Removal: 5 companies

**(2) SIGNIFICANT ACCOUNTING POLICIES**

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

**1. Marketable Securities and Investments**

Canon's consolidated financial statements are based on Statement of Financial Accounting Standards No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities. Under SFAS 115, certain investments in debt and equity securities should be classified as trading, available-for-sale or held-to-maturity. Canon's debt securities and marketable equity securities consist of available-for-sale and held-to-maturity securities.

Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized.

**2. Inventories**

Inventories are stated at the lower of cost or market value. Cost is determined principally by the average method for domestic inventories and the first-in, first-out method for overseas inventories.

**3. Depreciation**

Depreciation is calculated principally by the declining-balance method over the estimated useful lives of assets.

**4. Accrued pension and severance cost**

Canon has been adopting Statement of Financial Accounting Standards No.87, Employer's Accounting for Pensions.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**9. MARKETABLE SECURITIES AND DERIVATIVE CONTRACTS****(1) MARKET VALUE ON MARKETABLE SECURITIES**

|                           | Millions of yen     |             |              |                         |           |              |
|---------------------------|---------------------|-------------|--------------|-------------------------|-----------|--------------|
|                           | As of June 30, 2006 |             |              | As of December 31, 2005 |           |              |
|                           | Acquisition         | Estimated   | Unrealized   | Acquisition             | Estimated | Unrealized   |
|                           | Cost                | Fair        | Holding      | Cost                    | Fair      | Holding      |
|                           | (Unaudited)         | Value       | Gains/Losses |                         | Value     | Gains/Losses |
|                           |                     | (Unaudited) | (Unaudited)  |                         |           | (Unaudited)  |
| Current:                  |                     |             |              |                         |           |              |
| Available-for-sale:       |                     |             |              |                         |           |              |
| Bank debt securities      | ¥ 71                | ¥ 71        | ¥            | ¥ 71                    | ¥ 71      | ¥            |
| Equity securities         |                     |             |              | 101                     | 101       |              |
| Held-to-maturity:         |                     |             |              |                         |           |              |
| Corporate debt securities | 10,302              | 10,302      |              |                         |           |              |
|                           | ¥10,373             | ¥ 10,373    | ¥            | ¥ 172                   | ¥ 172     | ¥            |
| Noncurrent:               |                     |             |              |                         |           |              |
| Available-for-sale:       |                     |             |              |                         |           |              |
| Government bonds          | ¥ 542               | ¥ 540       | ¥ (2)        | ¥ 525                   | ¥ 532     | ¥ 7          |
| Corporate debt securities | 4,087               | 4,087       |              | 85                      | 88        | 3            |
| Fund trusts               | 5,058               | 6,407       | 1,349        | 4,553                   | 5,999     | 1,446        |
| Equity securities         | 12,008              | 26,916      | 14,908       | 11,373                  | 26,449    | 15,076       |
| Held-to-maturity:         |                     |             |              |                         |           |              |
| Corporate debt securities | 10,409              | 10,409      |              | 20,961                  | 20,961    |              |
|                           | ¥32,104             | ¥ 48,359    | ¥ 16,255     | ¥37,497                 | ¥ 54,029  | ¥ 16,532     |

|                           | Thousands of U.S. dollars |             |              |
|---------------------------|---------------------------|-------------|--------------|
|                           | As of June 30, 2006       |             |              |
|                           | Acquisition               | Estimated   | Unrealized   |
|                           | Cost                      | Fair Value  | Holding      |
|                           | (Unaudited)               | (Unaudited) | Gains/Losses |
|                           |                           |             | (Unaudited)  |
| Current:                  |                           |             |              |
| Available-for-sale:       |                           |             |              |
| Bank debt securities      | \$ 617                    | \$ 617      | \$           |
| Held-to-maturity:         |                           |             |              |
| Corporate debt securities | 89,583                    | 89,583      |              |
|                           | \$ 90,200                 | \$ 90,200   | \$           |

Noncurrent:

|                           |            |            |            |
|---------------------------|------------|------------|------------|
| Available-for-sale:       |            |            |            |
| Government bonds          | \$ 4,713   | \$ 4,696   | \$ (17)    |
| Corporate debt securities | 35,539     | 35,539     |            |
| Fund trusts               | 43,983     | 55,713     | 11,730     |
| Equity securities         | 104,417    | 234,052    | 129,635    |
| Held-to-maturity:         |            |            |            |
| Corporate debt securities | 90,513     | 90,513     |            |
|                           | \$ 279,165 | \$ 420,513 | \$ 141,348 |

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

## (2) DERIVATIVE CONTRACTS

|   | Millions of yen                   |   |                         |                            | Thousands of U.S. dollars         |  |
|---|-----------------------------------|---|-------------------------|----------------------------|-----------------------------------|--|
|   | As of June 30, 2006               |   | As of December 31, 2005 |                            | As of June 30, 2006               |  |
|   | Contract<br>Amount<br>(Unaudited) | Estimated<br>Fair<br>Value<br>(Unaudited) | Contract<br>Amount      | Estimated<br>Fair<br>Value | Contract<br>Amount<br>(Unaudited) | Estimated<br>Fair Value<br>(Unaudited) |
| Trade receivables and<br>anticipated sales<br>transactions: |                                   |   |                         |                            |                                   |  |
| To sell foreign<br>currencies                               | ¥ 605,763                         | ¥ (7,563)                                 | ¥ 645,188               | ¥ (6,640)                  | \$ 5,267,504                      | \$ (65,765)                            |
| To buy foreign<br>currencies                                | 47,344                            | (149)                                     | 46,424                  | (1,172)                    | 411,687                           | (1,296)                                |

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CANON INC.

NON-CONSOLIDATED

**1. NON-CONSOLIDATED STATEMENTS OF INCOME****(Parent company only)**

|  | Millions of yen  |                  |        | Millions of yen   |
|--|------------------|------------------|--------|-------------------|
|  | Six months ended | Six months ended | Change | Year ended        |
|  | June 30, 2006    | June 30, 2005    | (%)    | December 31, 2005 |
| Net sales                                    | ¥ 1,266,000      | ¥ 1,158,478      | + 9.3  | ¥ 2,481,481       |
| Cost of sales                                | 785,624          | 741,242          |        | 1,571,561         |
| Gross profit                                 | 480,376          | 417,236          | + 15.1 | 909,920           |
| Selling, general and administrative expenses | 239,954          | 225,089          |        | 493,403           |
| Operating profit                             | 240,422          | 192,147          | + 25.1 | 416,517           |
| Other income (deductions):                   |                  |                  |        |                   |
| Interest and dividend income                 | 3,341            | 7,627            |        | 10,979            |
| Interest expense                             | (34)             | (33)             |        | (57)              |
| Other, net                                   | 2,372            | 10,384           |        | 13,272            |
|  | 5,679            | 17,978           |        | 24,194            |
| Ordinary profit                              | 246,101          | 210,125          | + 17.1 | 440,711           |
| Non-ordinary gain (loss), net                | (7,964)          | (315)            |        | (957)             |
| Income before income taxes                   | 238,137          | 209,810          |        | 439,754           |
| Income taxes                                 | 82,589           | 71,872           |        | 150,460           |
| Net income                                   | ¥ 155,548        | ¥ 137,938        | + 12.8 | ¥ 289,294         |
| Net income per share:                        | Yen              | Yen              |        | Yen               |
| Basic  | ¥ 175.23         | ¥ 155.52         |        | ¥ 325.83          |

**2. DETAILS OF SALES****(Parent company only)**

|                        | Millions of yen  |                  |        | Millions of yen   |
|------------------------|------------------|------------------|--------|-------------------|
|                        | Six months ended | Six months ended | Change | Year ended        |
|                        | June 30, 2006    | June 30, 2005    | (%)    | December 31, 2005 |
| <b>Sales by region</b> |                  |                  |        |                   |
| Japan                  | ¥ 176,365        | ¥ 159,218        | + 10.8 | ¥ 367,271         |
| Overseas:              |                  |                  |        |                   |

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|                    |                    |             |   |      |             |
|--------------------|--------------------|-------------|---|------|-------------|
| <i>Americas</i>    | <b>439,613</b>     | 385,418     | + | 14.1 | 852,063     |
| <i>Europe</i>      | <b>434,893</b>     | 399,653     | + | 8.8  | 840,786     |
| <i>Other areas</i> | <b>215,129</b>     | 214,189     | + | 0.4  | 421,361     |
|                    | <b>1,089,635</b>   | 999,260     | + | 9.0  | 2,114,210   |
| Total              | <b>¥ 1,266,000</b> | ¥ 1,158,478 | + | 9.3  | ¥ 2,481,481 |

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CANON INC.

NON-CONSOLIDATED

**3. NON-CONSOLIDATED BALANCE SHEETS****(Parent company only)**

|   | Millions of yen    |             |           |             |
|---|--------------------|-------------|-----------|-------------|
|   | As of              | As of       |           | As of       |
|   | June 30,           | June 30,    | Change    | December    |
|   | 2006               | 2005        |           | 31,         |
|   |                    |             |           | 2005        |
| <b>ASSETS</b>                                 |                    |             |           |             |
| Current assets:                               |                    |             |           |             |
| Cash  | ¥ 314,452          | ¥ 305,649   | ¥ 8,803   | ¥ 261,680   |
| Trade receivables                             | 761,148            | 698,964     | 62,184    | 845,977     |
| Inventories                                   | 201,536            | 191,896     | 9,640     | 189,699     |
| Prepaid expenses and other current assets     | 154,594            | 140,538     | 14,056    | 163,909     |
| Allowance for doubtful receivables            | (66)               | (2,860)     | 2,794     | (383)       |
| Total current assets                          | <b>1,431,664</b>   | 1,334,187   | 97,477    | 1,460,882   |
| Fixed assets:                                 |                    |             |           |             |
| Net property, plant and equipment             | 744,329            | 643,814     | 100,515   | 713,960     |
| Intangibles                                   | 29,042             | 22,607      | 6,435     | 27,123      |
| Investments and other fixed assets            | 468,563            | 427,460     | 41,103    | 450,979     |
| Allowance for doubtful receivables-noncurrent | (97)               | (97)        |           | (97)        |
| Total fixed assets                            | <b>1,241,837</b>   | 1,093,784   | 148,053   | 1,191,965   |
| Total assets                                  | <b>¥ 2,673,501</b> | ¥ 2,427,971 | ¥ 245,530 | ¥ 2,652,847 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>    |                    |             |           |             |
| Current liabilities:                          |                    |             |           |             |
| Trade payables                                | ¥ 352,761          | ¥ 313,833   | ¥ 38,928  | ¥ 363,375   |
| Short-term loans                              | 37,084             | 40,597      | (3,513)   | 33,159      |
| Accrued income taxes                          | 79,150             | 61,160      | 17,990    | 84,172      |
| Other current liabilities                     | 167,779            | 172,067     | (4,288)   | 218,425     |
| Total current liabilities                     | <b>636,774</b>     | 587,657     | 49,117    | 699,131     |
| Convertible debenture                         | 438                | 1,219       | (781)     | 649         |
| Accrued pension and severance cost            | 64,415             | 84,555      | (20,140)  | 76,386      |
| Accrued directors' retirement benefits        | 1,108              | 1,157       | (49)      | 1,248       |
| Total noncurrent liabilities                  | <b>65,961</b>      | 86,931      | (20,970)  | 78,283      |
| Total liabilities                             | <b>702,735</b>     | 674,588     | 28,147    | 777,414     |

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|  |                    |             |               |
|--|--------------------|-------------|---------------|
| Stockholders' equity:                      |                    |             |               |
| Common stock                               |                    | 174,153     | (174,153)     |
| Capital Surplus                            |                    | 305,681     | (305,681)     |
| Retained earnings                          |                    | 1,271,141   | (1,271,141)   |
| Net unrealized gains on securities         |                    | 7,744       | (7,744)       |
| Treasury stock                             |                    | (5,336)     | 5,336         |
|  |                    |             | (5,410)       |
| Total stockholders' equity                 |                    | 1,753,383   | (1,753,383)   |
|  |                    |             | 1,875,433     |
| Total liabilities and stockholders' equity |                    | ¥ 2,427,971 | ¥ (2,427,971) |
|  |                    |             | ¥ 2,652,847   |
| Net assets                                 |                    |             |               |
| Stockholders' equity:                      | <b>1,964,205</b>   |             | 1,964,205     |
| Difference of appreciation and conversion  | <b>6,561</b>       |             | 6,561         |
| Total net assets                           | <b>1,970,766</b>   |             | 1,970,766     |
| Total liabilities and net assets           | <b>¥ 2,673,501</b> |             | ¥ 2,673,501   |

|                          | Millions of yen |           | Millions of yen |
|--------------------------|-----------------|-----------|-----------------|
|                          | As of           | As of     | As of           |
|                          | June 30,        | June 30,  | December 31,    |
|                          | 2006            | 2005      | 2005            |
| Accumulated depreciation | ¥ 719,744       | ¥ 660,558 | ¥ 690,581       |

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CANON INC.

NON-CONSOLIDATED

**4. NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**(Parent company only)**

(Millions of yen)

|        | Capital surplus            |                       | Stockholders' equity |                          |                                      |                                 |                   | Retained earnings brought forward | Treasury stock | Total stockholders' equity | Difference of appreciation and conversion |                           |
|--------|----------------------------|-----------------------|----------------------|--------------------------|--------------------------------------|---------------------------------|-------------------|-----------------------------------|----------------|----------------------------|---|---------------------------|
|        | Additional paid-in capital | Other capital surplus | Legal reserve        | Reserve for depreciation | Reserve for special gain on property | Other retained earnings Reserve | Retained earnings |                                   |                |                            | Net unrealized gains on securities        | Deferred profit on hedges |
| of     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| er 31, | ¥ 174,438                  | ¥ 305,965             | ¥ 1                  | ¥ 22,114                 | ¥ 13,337                             | ¥ 5                             | ¥ 1,068,828       | ¥ 289,378                         | ¥ (5,410)      | ¥ 1,868,656                | ¥ 6,777                                   | ¥ 1,875,433               |
| in the |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| of     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| es     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| ion of |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| ble    | 105                        | 105                   |                      |                          |                                      |                                 |                   |                                   |                | 210                        |   |                           |
| es     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| to     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| or     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| tion   |                            |                       |                      |                          | 8,358                                |                                 |                   | (8,358)                           |                |                            |   |                           |
| of     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| or     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| tion   |                            |                       |                      |                          | (6,510)                              |                                 |                   | 6,510                             |                |                            |   |                           |
| to     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| or     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| of     |                            |                       |                      |                          |                                      |                                 |                   |                                   |                |                            |   |                           |
| ain on |                            |                       |                      |                          |                                      |                                 | 744               | (744)                             |                |                            |   |                           |

|                          |           |           |     |          |          |       |             |           |           |             |          |         |       |
|--------------------------|-----------|-----------|-----|----------|----------|-------|-------------|-----------|-----------|-------------|----------|---------|-------|
| of<br>or<br>of<br>ain on |           |           |     |          |          |       | (17)        |           | 17        |             |          |         |       |
| to                       |           |           |     |          |          |       |             | 181,100   | (181,100) |             |          |         |       |
| f<br>and<br>e            |           |           |     |          |          |       |             |           | (222)     |             | (222)    |         |       |
| ls<br>plus               |           |           |     |          |          |       |             |           | (59,912)  |             | (59,912) |         |       |
| me                       |           |           |     |          |          |       |             | 155,548   |           |             | 155,548  |         |       |
| e of<br>stock            |           |           |     |          |          |       |             |           |           | (85)        | (85)     |         |       |
| of<br>stock              |           |           | 4   |          |          |       |             |           |           | 6           | 10       |         |       |
| ge of<br>er              |           |           |     |          |          |       |             |           |           |             |          |         |       |
| ders                     |           |           |     |          |          |       |             |           |           |             |          | 339     | (555) |
| anges<br>m               | 105       | 105       | 4   |          | 1,848    | 727   | 181,100     | (88,261)  | (79)      | 95,549      | 339      | (555)   |       |
| of<br>2006               | ¥ 174,543 | ¥ 306,070 | ¥ 5 | ¥ 22,114 | ¥ 15,185 | ¥ 732 | ¥ 1,249,928 | ¥ 201,117 | ¥ (5,489) | ¥ 1,964,205 | ¥ 7,116  | ¥ (555) | ¥ 1,9 |

**Table of Contents**Canon Inc.  
July 27, 2006

CONSOLIDATED FINANCIAL RESULTS FOR THE SECOND QUARTER  
AND THE FIRST HALF ENDED JUNE 30, 2006  
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)

| 2nd<br>quarter | 2006      |                       |             | 2nd<br>quarter | 2005      |                |           | Change year over year |             |                |
|----------------|-----------|-----------------------|-------------|----------------|-----------|----------------|-----------|-----------------------|-------------|----------------|
|                | 1st half  | 3rd<br>quarter<br>(P) | Year<br>(P) |                | 1st half  | 3rd<br>quarter | Year      | 2nd<br>quarter        | 1st<br>half | 3rd<br>quarter |
| 154,477        | 301,774   | 142,800               | 619,300     | 150,541        | 304,509   | 138,824        | 612,832   | +2.6%                 | -0.9%       | +2.9%          |
| 88,639         | 178,855   | 90,500                | 364,900     | 89,981         | 185,544   | 87,260         | 357,689   | -1.5%                 | -3.6%       | +3.7%          |
| 48,846         | 86,800    | 37,300                | 186,900     | 43,532         | 82,909    | 36,191         | 183,727   | +12.2%                | +4.7%       | +3.1%          |
| 16,992         | 36,119    | 15,000                | 67,500      | 17,028         | 36,056    | 15,373         | 71,416    | -0.2%                 | +0.2%       | -2.4%          |
| 36,876         | 64,674    | 33,400                | 138,900     | 31,416         | 57,999    | 33,667         | 127,886   | +17.4%                | +11.5%      | -0.8%          |
| 41,251         | 79,850    | 50,200                | 183,100     | 26,067         | 53,610    | 22,829         | 115,487   | +58.2%                | +48.9%      | +119.9%        |
| 232,604        | 446,298   | 226,400               | 941,300     | 208,024        | 416,118   | 195,320        | 856,205   | +11.8%                | +7.3%       | +15.9%         |
| 500,966        | 984,822   | 513,200               | 2,070,300   | 452,936        | 892,522   | 459,361        | 1,889,569 | +10.6%                | +10.3%      | +11.7%         |
| 210,310        | 406,582   | 197,900               | 842,100     | 202,735        | 382,255   | 188,077        | 795,551   | +3.7%                 | +6.4%       | +5.2%          |
| 281,021        | 559,863   | 306,700               | 1,190,700   | 241,913        | 494,828   | 263,670        | 1,061,179 | +16.2%                | +13.1%      | +16.3%         |
| 9,635          | 18,377    | 8,600                 | 37,500      | 8,288          | 15,439    | 7,614          | 32,839    | +16.3%                | +19.0%      | +12.9%         |
| 231,348        | 395,611   | 193,300               | 873,700     | 187,825        | 321,153   | 169,493        | 751,300   | +23.2%                | +23.2%      | +14.0%         |
| 64,065         | 125,524   | 62,100                | 244,700     | 63,688         | 126,047   | 54,329         | 257,117   | +0.6%                 | -0.4%       | +14.3%         |
| 796,379        | 1,505,957 | 768,600               | 3,188,700   | 704,449        | 1,339,722 | 683,183        | 2,897,986 | +13.0%                | +12.4%      | +12.5%         |
| 206,847        | 414,417   | 218,900               | 865,500     | 187,418        | 374,966   | 195,487        | 795,268   | +10.4%                | +10.5%      | +12.0%         |
| 91,741         | 179,720   | 88,400                | 368,800     | 88,903         | 165,769   | 88,124         | 353,384   | +3.2%                 | +8.4%       | +0.3%          |



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|         |         |         |           |         |         |         |           |        |        |        |
|---------|---------|---------|-----------|---------|---------|---------|-----------|--------|--------|--------|
| 110,118 | 225,256 | 126,100 | 478,000   | 94,660  | 201,786 | 103,341 | 425,877   | +16.3% | +11.6% | +22.0% |
| 4,988   | 9,441   | 4,400   | 18,700    | 3,855   | 7,411   | 4,022   | 16,007    | +29.4% | +27.4% | +9.4%  |
| 88,816  | 153,488 | 77,300  | 352,800   | 72,528  | 124,565 | 68,533  | 308,667   | +22.5% | +23.2% | +12.8% |
| 13,743  | 26,568  | 12,400  | 55,200    | 9,457   | 18,595  | 10,157  | 42,015    | +45.3% | +42.9% | +22.1% |
| 309,406 | 594,473 | 308,600 | 1,273,500 | 269,403 | 518,126 | 274,177 | 1,145,950 | +14.8% | +14.7% | +12.6% |
| 222,929 | 431,781 | 220,200 | 915,800   | 204,604 | 398,026 | 196,343 | 838,081   | +9.0%  | +8.5%  | +12.2% |
| 94,483  | 180,706 | 85,000  | 376,900   | 93,515  | 176,072 | 77,550  | 357,188   | +1.0%  | +2.6%  | +9.6%  |
| 124,586 | 243,595 | 131,800 | 523,200   | 107,498 | 215,400 | 115,947 | 466,965   | +15.9% | +13.1% | +13.7% |
| 3,860   | 7,480   | 3,400   | 15,700    | 3,591   | 6,554   | 2,846   | 13,928    | +7.5%  | +14.1% | +19.5% |
| 98,361  | 163,008 | 73,600  | 350,100   | 84,502  | 141,833 | 68,709  | 316,769   | +16.4% | +14.9% | +7.1%  |
| 8,032   | 16,154  | 7,800   | 34,300    | 5,224   | 11,807  | 5,569   | 26,408    | +53.8% | +36.8% | +40.1% |
| 329,322 | 610,943 | 301,600 | 1,300,200 | 294,330 | 551,666 | 270,621 | 1,181,258 | +11.9% | +10.7% | +11.4% |
| 71,190  | 138,624 | 74,100  | 289,000   | 60,914  | 119,530 | 67,531  | 256,220   | +16.9% | +16.0% | +9.7%  |
| 24,086  | 46,156  | 24,500  | 96,400    | 20,317  | 40,414  | 22,403  | 84,979    | +18.6% | +14.2% | +9.4%  |
| 46,317  | 91,012  | 48,800  | 189,500   | 39,755  | 77,642  | 44,382  | 168,337   | +16.5% | +17.2% | +10.0% |
| 787     | 1,456   | 800     | 3,100     | 842     | 1,474   | 746     | 2,904     | -6.5%  | -1.2%  | +7.2%  |
| 44,171  | 79,115  | 42,400  | 170,800   | 30,795  | 54,755  | 32,251  | 125,864   | +43.4% | +44.5% | +31.5% |
| 42,290  | 82,802  | 41,900  | 155,200   | 49,007  | 95,645  | 38,603  | 188,694   | -13.7% | -13.4% | +8.5%  |
| 157,651 | 300,541 | 158,400 | 615,000   | 140,716 | 269,930 | 138,385 | 570,778   | +12.0% | +11.3% | +14.5% |

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|           |           |         |           |         |           |         |           |        |        |        |
|-----------|-----------|---------|-----------|---------|-----------|---------|-----------|--------|--------|--------|
| 655,443   | 1,286,596 | 656,000 | 2,689,600 | 603,477 | 1,197,031 | 598,185 | 2,502,401 | +8.6%  | +7.5%  | +9.7%  |
| 298,949   | 585,437   | 288,400 | 1,207,000 | 292,716 | 567,799   | 275,337 | 1,153,240 | +2.1%  | +3.1%  | +4.7%  |
| 329,867   | 646,663   | 344,000 | 1,377,600 | 285,445 | 577,737   | 299,861 | 1,244,906 | +15.6% | +11.9% | +14.7% |
| 26,627    | 54,496    | 23,600  | 105,000   | 25,316  | 51,495    | 22,987  | 104,255   | +5.2%  | +5.8%  | +2.7%  |
| 268,224   | 460,285   | 226,700 | 1,012,600 | 219,241 | 379,152   | 203,160 | 879,186   | +22.3% | +21.4% | +11.6% |
| 105,316   | 205,374   | 112,300 | 427,800   | 89,755  | 179,657   | 77,158  | 372,604   | +17.3% | +14.3% | +45.5% |
| 1,028,983 | 1,952,255 | 995,000 | 4,130,000 | 912,473 | 1,755,840 | 878,503 | 3,754,191 | +12.8% | +11.2% | +13.3% |

(P)=Projection

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Canon Inc.

**2. SEGMENT INFORMATION BY PRODUCT**

(Millions of yen)

| 2nd<br>quarter   | 2006             |                       |                  | 2nd<br>quarter   | 2005             |                  |                  | Change year over |             |                |
|------------------|------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------|----------------|
|                  | 1st half         | 3rd<br>quarter<br>(P) | Year<br>(P)      |                  | 1st half         | 3rd<br>quarter   | Year             | 2nd<br>quarter   | 1st<br>half | 3rd<br>quarter |
| 655,443          | 1,286,596        | 656,000               | 2,689,600        | 603,477          | 1,197,031        | 598,185          | 2,502,401        | + 8.6%           | + 7.5%      | + 9.7%         |
| 655,443          | 1,286,596        | 656,000               | 2,689,600        | 603,477          | 1,197,031        | 598,185          | 2,502,401        | + 8.6%           | + 7.5%      | + 9.7%         |
| 142,397<br>21.7% | 294,565<br>22.9% | 146,000<br>22.3%      | 600,600<br>22.3% | 118,625<br>19.7% | 259,453<br>21.7% | 132,379<br>22.1% | 542,028<br>21.7% | + 20.0%          | + 13.5%     | + 10.3%        |
| 268,224          | 460,285          | 226,700               | 1,012,600        | 219,241          | 379,152          | 203,160          | 879,186          | + 22.3%          | + 21.4%     | + 11.0%        |
| 268,224          | 460,285          | 226,700               | 1,012,600        | 219,241          | 379,152          | 203,160          | 879,186          | + 22.3%          | + 21.4%     | + 11.0%        |
| 64,697<br>24.1%  | 108,736<br>23.6% | 59,100<br>26.1%       | 237,100<br>23.4% | 38,039<br>17.4%  | 61,854<br>16.3%  | 48,795<br>24.0%  | 173,706<br>19.8% | + 70.1%          | + 75.8%     | + 21.1%        |
| 105,316          | 205,374          | 112,300               | 427,800          | 89,755           | 179,657          | 77,158           | 372,604          | + 17.3%          | + 14.3%     | + 45.3%        |
| 47,309           | 88,706           | 47,500                | 183,700          | 36,637           | 71,818           | 41,721           | 158,114          | + 29.1%          | + 23.5%     | + 13.9%        |
| 152,625          | 294,080          | 159,800               | 611,500          | 126,392          | 251,475          | 118,879          | 530,718          | + 20.8%          | + 16.9%     | + 34.4%        |
| 8,669<br>5.7%    | 23,195<br>7.9%   | 14,900<br>9.3%        | 47,400<br>7.8%   | 8,360<br>6.6%    | 21,039<br>8.4%   | 9,228<br>7.8%    | 38,820<br>7.3%   | + 3.7%           | + 10.2%     | + 61.5%        |

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|         |         |         |          |         |         |         |          |
|---------|---------|---------|----------|---------|---------|---------|----------|
| -47,309 | -88,706 | -47,500 | -183,700 | -36,637 | -71,818 | -41,721 | -158,114 |
| -47,309 | -88,706 | -47,500 | -183,700 | -36,637 | -71,818 | -41,721 | -158,114 |
| -47,421 | -88,019 | -48,000 | -195,100 | -38,117 | -72,157 | -46,837 | -171,511 |

|           |           |         |           |         |           |         |           |         |         |         |
|-----------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|---------|---------|
| 1,028,983 | 1,952,255 | 995,000 | 4,130,000 | 912,473 | 1,755,840 | 878,503 | 3,754,191 | + 12.8% | + 11.2% | + 13.3% |
| 1,028,983 | 1,952,255 | 995,000 | 4,130,000 | 912,473 | 1,755,840 | 878,503 | 3,754,191 | + 12.8% | + 11.2% | + 13.3% |
| 168,342   | 338,477   | 172,000 | 690,000   | 126,907 | 270,189   | 143,565 | 583,043   | + 32.6% | + 25.3% | + 19.3% |
| 16.4%     | 17.3%     | 17.3%   | 16.7%     | 13.9%   | 15.4%     | 16.3%   | 15.5%     |         |         |         |

(P)=Projection

**3. OTHER INCOME/DEDUCTIONS**

(Millions of yen)

|  | 2006        |          |                 |          | 2005        |          |             |        | Change year over year |          |             |         |
|--|-------------|----------|-----------------|----------|-------------|----------|-------------|--------|-----------------------|----------|-------------|---------|
|  | 2nd quarter | 1st half | 3rd quarter (P) | Year (P) | 2nd quarter | 1st half | 3rd quarter | Year   | 2nd quarter           | 1st half | 3rd quarter | Year    |
| Interest and dividend, net                     | 5,911       | 10,518   | 5,600           | 22,200   | 2,986       | 5,199    | 3,204       | 12,511 | + 2,925               | + 5,319  | + 2,396     | + 9,689 |
| Forex gain / loss                              | -6,555      | -14,639  | -4,100          | -23,000  | -1,639      | -898     | -550        | -3,710 | -4,916                | -13,741  | -3,550      | -19,290 |
| Equity earnings / loss of affiliated companies | 553         | 2,094    | 600             | 3,400    | 908         | 2,061    | -589        | 1,646  | -355                  | + 33     | + 1,189     | + 1,754 |
| Other, net                                     | 3,203       | 4,595    | 1,900           | 7,400    | 5,120       | 7,182    | 9,682       | 18,514 | -1,917                | -2,587   | -7,782      | -11,114 |
| Total  | 3,112       | 2,568    | 4,000           | 10,000   | 7,375       | 13,544   | 11,747      | 28,961 | -4,263                | -10,976  | -7,747      | -18,961 |

(P)=Projection

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Canon Inc.

**4. SALES COMPOSITION BY PRODUCT**

|  | 2006        |          |                 |          | 2005        |          |             |      |
|--|-------------|----------|-----------------|----------|-------------|----------|-------------|------|
|  | 2nd quarter | 1st half | 3rd quarter (P) | Year (P) | 2nd quarter | 1st half | 3rd quarter | Year |
| <b>Office imaging products</b>         |             |          |                 |          |             |          |             |      |
| Monochrome copying machines            | 53%         | 53%      | 52%             | 52%      | 56%         | 57%      | 56%         | 56%  |
| Color copying machines                 | 30%         | 30%      | 30%             | 31%      | 29%         | 27%      | 29%         | 28%  |
| Others                                 | 17%         | 17%      | 18%             | 17%      | 15%         | 16%      | 15%         | 16%  |
| <b>Computer peripherals</b>            |             |          |                 |          |             |          |             |      |
| Laser beam printers                    | 74%         | 75%      | 73%             | 72%      | 71%         | 72%      | 75%         | 71%  |
| Inkjet printers (includes inkjet MFPs) | 25%         | 24%      | 26%             | 27%      | 27%         | 26%      | 24%         | 27%  |
| Others                                 | 1%          | 1%       | 1%              | 1%       | 2%          | 2%       | 1%          | 2%   |
| <b>Business information products</b>   |             |          |                 |          |             |          |             |      |
| Personal computers                     | 63%         | 66%      | 64%             | 65%      | 68%         | 70%      | 67%         | 69%  |
| Others                                 | 37%         | 34%      | 36%             | 35%      | 32%         | 30%      | 33%         | 31%  |
| <b>Cameras</b>                         |             |          |                 |          |             |          |             |      |
| Film cameras / Lenses                  | 16%         | 16%      | 15%             | 15%      | 16%         | 16%      | 18%         | 17%  |
| Digital cameras                        | 74%         | 74%      | 73%             | 74%      | 72%         | 72%      | 70%         | 72%  |
| Video cameras                          | 10%         | 10%      | 12%             | 11%      | 12%         | 12%      | 12%         | 11%  |
| <b>Optical and other products</b>      |             |          |                 |          |             |          |             |      |
| Semiconductor production equipment     | 52%         | 52%      | 54%             | 52%      | 66%         | 68%      | 62%         | 64%  |
| Others                                 | 48%         | 48%      | 46%             | 48%      | 34%         | 32%      | 38%         | 36%  |

(P)=Projection

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

|  | 2006        |          |                 |          |
|--|-------------|----------|-----------------|----------|
|  | 2nd quarter | 1st half | 3rd quarter (P) | Year (P) |

**Business machines**

|          |       |       |       |       |
|----------|-------|-------|-------|-------|
| Japan    | +2.6% | -0.9% | +2.9% | +1.1% |
| Overseas | +4.3% | +2.9% | +8.1% | +5.5% |
| Total    | +3.9% | +1.9% | +6.9% | +4.4% |

**Cameras**

|          |        |        |        |        |
|----------|--------|--------|--------|--------|
| Japan    | +17.4% | +11.5% | -0.8%  | +8.6%  |
| Overseas | +16.2% | +15.5% | +10.3% | +12.4% |
| Total    | +16.4% | +14.9% | +8.4%  | +11.9% |

**Optical and other products**

|          |        |        |         |        |
|----------|--------|--------|---------|--------|
| Japan    | +58.2% | +48.9% | +119.9% | +58.5% |
| Overseas | -2.2%  | -4.1%  | +12.4%  | -6.9%  |
| Total    | +15.4% | +11.7% | +44.2%  | +13.4% |

**Total**

|             |        |       |        |       |
|-------------|--------|-------|--------|-------|
| Japan       | +11.8% | +7.3% | +15.9% | +9.9% |
| Overseas    | +6.9%  | +5.3% | +9.0%  | +6.2% |
| Americas    | +8.2%  | +5.5% | +9.8%  | +7.2% |
| Europe      | +5.3%  | +5.1% | +6.4%  | +5.8% |
| Other areas | +7.6%  | +5.1% | +12.6% | +5.0% |
| Total       | +8.0%  | +5.7% | +10.5% | +7.0% |

(P)=Projection

**Table of Contents****6. P&L SUMMARY (3rd Quarter 2006/Projection)**Canon Inc.  
(Millions of yen)

|   | 2006<br>3rd quarter<br>(P) | 2005<br>3rd quarter | Change<br>year over<br>year |
|---|----------------------------|---------------------|-----------------------------|
| Net sales   | 995,000                    | 878,503             | +13.3%                      |
| Operating profit                                  | 172,000                    | 143,565             | +19.8%                      |
| Income before income taxes and minority interests | 176,000                    | 155,312             | +13.3%                      |
| Net income  | 113,000                    | 100,617             | +12.3%                      |

(P)=Projection

**7. PROFITABILITY**

|     | 2006     |          | 2005     |       |
|-----|----------|----------|----------|-------|
|     | 1st half | Year (P) | 1st half | Year  |
| ROE | 16.0%    | 15.9%    | 15.3%    | 16.0% |
| ROA | 10.5%    | 10.3%    | 9.7%     | 10.1% |

(P)=Projection

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

(Yen)

|          | 2006     |              |          | 2005     |        |
|----------|----------|--------------|----------|----------|--------|
|          | 1st half | 2nd half (P) | Year (P) | 1st half | Year   |
| Yen/US\$ | 115.63   | 114.00       | 114.76   | 106.18   | 110.58 |
| Yen/Euro | 142.36   | 143.00       | 142.70   | 136.14   | 137.04 |

(P)=Projection

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

(Billions of yen)

|                  | 2006     |          |
|------------------|----------|----------|
|                  | 1st half | Year (P) |
| US\$             | +52.8    | +48.5    |
| Euro             | +21.2    | +40.8    |
| Other currencies | +2.6     | +2.3     |
| Total            | +76.6    | +91.6    |

(P)=Projection

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

(Billions of yen)

|                     | 2006<br>2nd half (P) |
|---------------------|----------------------|
| On sales            |                      |
| US\$                | 7.6                  |
| Euro                | 3.8                  |
| On operating profit |                      |

US\$ 4.2  
Euro 2.8

(P)=Projection  
(Millions of yen)

**9. STATEMENTS OF CASH FLOWS**

|  | 2006      |           | 2005     |           |
|--|-----------|-----------|----------|-----------|
|  | 1st half  | Year (P)  | 1st half | Year      |
| Net cash provided by operating activities                    |           |           |          |           |
| Net income   | 214,174   | 440,000   | 175,268  | 384,096   |
| Depreciation and amortization                                | 108,155   | 245,000   | 98,556   | 225,941   |
| Other, net   | 1,549     | 15,000    | -15,863  | -4,359    |
| Total  | 323,878   | 700,000   | 257,961  | 605,678   |
| Net cash used in investing activities                        | -210,297  | -450,000  | -181,056 | -401,141  |
| Free cash flow   | 113,581   | 250,000   | 76,905   | 204,537   |
| Net cash used in financing activities                        | -57,832   | -104,200  | -38,409  | -93,939   |
| Effect of exchange rate changes on cash and cash equivalents | -5,539    | -11,800   | 9,651    | 6,581     |
| Net change in cash and cash equivalents                      | 50,210    | 134,000   | 48,147   | 117,179   |
| Cash and cash equivalents at end of period                   | 1,055,163 | 1,139,000 | 935,921  | 1,004,953 |

(P)=Projection

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**Table of Contents****10. R&D EXPENDITURE**Canon Inc.  
(Millions of yen)

|                            | 2006     |          | 2005     |         |
|----------------------------|----------|----------|----------|---------|
|                            | 1st half | Year (P) | 1st half | Year    |
| Business machines          | 54,877   |          | 57,724   | 117,219 |
| Cameras                    | 19,896   |          | 18,959   | 39,746  |
| Optical and other products | 71,754   |          | 59,703   | 129,511 |
| Total                      | 146,527  | 317,000  | 136,386  | 286,476 |
| % of sales                 | 7.5%     | 7.7%     | 7.8%     | 7.6%    |

(P)=Projection  
(Millions of yen)**11. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION**

|                               | 2006     |          | 2005     |         |
|-------------------------------|----------|----------|----------|---------|
|                               | 1st half | Year (P) | 1st half | Year    |
| Capital expenditure           | 153,296  | 425,000  | 177,270  | 383,784 |
| Depreciation and amortization | 108,155  | 245,000  | 98,556   | 225,941 |

(P)=Projection

**12. INVENTORIES****(1) Inventories**

(Millions of yen)

|                            | 2006    | 2005    | Difference |
|----------------------------|---------|---------|------------|
|                            | Jun.30  | Dec.31  |            |
| Business machines          | 287,151 | 267,121 | +20,030    |
| Cameras                    | 92,104  | 88,831  | +3,273     |
| Optical and other products | 154,213 | 154,243 | -30        |
| Total                      | 533,468 | 510,195 | +23,273    |

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

(Days)

|                            | 2006   | 2005   | Difference |
|----------------------------|--------|--------|------------|
|                            | Jun.30 | Dec.31 |            |
| Business machines          | 41     | 37     | +4         |
| Cameras                    | 37     | 32     | +5         |
| Optical and other products | 137    | 146    | -9         |
| Total                      | 50     | 47     | +3         |

\*Index based on the previous six months sales.

**13. DEBT RATIO**

|                           | 2006   | 2005   | Difference |
|---------------------------|--------|--------|------------|
|                           | Jun.30 | Dec.31 |            |
| Total debt / Total assets | 0.7%   | 0.8%   | -0.1%      |

**14. OVERSEAS PRODUCTION RATIO**

|                           |                         |                     |
|---------------------------|-------------------------|---------------------|
| Overseas production ratio | 2006<br>1st half<br>40% | 2005<br>Year<br>40% |
|---------------------------|-------------------------|---------------------|

**15. NUMBER OF EMPLOYEES**

|          | 2006<br>Jun.30 | 2005<br>Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan    | 50,534         | 48,637         | +1,897     |
| Overseas | 71,054         | 66,946         | +4,108     |
| Total    | 121,588        | 115,583        | +6,005     |

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July 27, 2006

Canon Inc.  
 Chairman & CEO: Fujio Mitarai  
 Securities code: 7751  
 [First Section of Tokyo and other Stock  
 Exchanges]

Inquiries:  
 Toshizo Tanaka  
 Senior Managing Director & Group Executive,  
 Finance & Accounting Headquarters  
 +81-3-3758-2111

Notice regarding revision of projected dividend for the fiscal year  
 ending December 31, 2006 (the 106th Business Term)

At a Board of Directors meeting held on July 27, 2006, a decision was made to revise the projected year-end dividend for the fiscal year ending December 31, 2006 (the 106th Business Term) as follows.

1. Reason for the dividend revision

This year, the first year of Canon's latest five-year initiative Phase III of the Excellent Global Corporation Plan the Company expects to exceed its projected financial results.

Based on this expectation, and in order to enhance shareholder return and steadily pursue our medium- to long-term objective targeting a shareholder return ratio of 30%, the following revision was made to the year-end dividend projection.

2. Details of the revision

| Record Date                            | Mid-term  | Dividend per share |              |
|--|-----------|--------------------|--------------|
|  |           | Year-end           | Full Year    |
| Previous projection                    |           | 40.00 yen          | 90.00 yen    |
| (May 11, 2006)                         | 50.00 yen | (60.00 yen)        | (110.00 yen) |
| Current revision                       | 50.00 yen | 50.00 yen          | 100.00 yen   |
|  |           | (75.00 yen)        | (125.00 yen) |
| This year's dividend payout            |           |                    |              |
| Previous year's dividend payout        | 32.50 yen | 67.50 yen          | 100.00 yen   |
| (Fiscal year ending December 31, 2005) |           |                    |              |

Notes:

The projected year-end dividend reflects a 3-for-2 forward stock split for record date shareholders as of June 30, 2006. For reference only, figures in parenthesis reflect the projected year-end and full year dividend on a pre-stock-split basis.

Furthermore, the dividend for the previous year and the mid-term dividend for this year are presented on a pre-stock-split basis.

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