

CANON INC
Form 6-K
January 31, 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 **January, 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 **January 30, 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 Fourth Quarter And The Fiscal Year Ended December 31, 2005
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January 30, 2006

**RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 31, 2005****CONSOLIDATED RESULTS**

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

	Actual			Projected		
	Year ended December 31, 2005	Year ended December 31, 2004	Change(%)	Year ended December 31, 2005	Year ending December 31, 2006	Change(%)
Net sales	¥3,754,191	¥3,467,853	+ 8.3	\$ 31,815,178	¥4,060,000	+ 8.1
Operating profit	583,043	543,793	+ 7.2	4,941,042	653,000	+ 12.0
Income before income taxes and minority interests	612,004	552,116	+ 10.8	5,186,475	665,000	+ 8.7
Net income	¥ 384,096	¥ 343,344	+ 11.9	\$ 3,255,051	¥ 415,000	+ 8.0
Net income per share:						
- Basic	¥ 432.94	¥ 387.80	+ 11.6	\$ 3.67	¥ 467.55	+ 8.0
- Diluted	432.55	386.78	+ 11.8	3.67		

	Actual			
	As of December 31, 2005	As of December 31, 2004	Change(%)	As of December 31, 2005
Total assets	¥4,043,553	¥3,587,021	+ 12.7	\$ 34,267,398
Stockholders equity	¥2,604,682	¥2,209,896	+ 17.9	\$ 22,073,576

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

2. U.S. dollar amounts are translated from yen at the rate of JPY118= U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2005, solely for the convenience of the reader.

NON-CONSOLIDATED RESULTS

(Millions of yen, except per share amounts)

	Actual			Projected	
	Year ended December 31, 2005	Year ended December 31, 2004	Change(%)	Year ending December 31, 2006	Change(%)
Net sales	¥2,481,481	¥ 2,278,374	+ 8.9	¥2,660,000	+ 7.2
Operating profit	416,517	383,284	+ 8.7	467,000	+ 12.1
Ordinary profit	440,711	396,250	+ 11.2	475,000	+ 7.8
Net income	¥ 289,294	¥ 249,251	+ 16.1	¥ 307,000	+ 6.1

Net income per share:					
- Basic	¥	325.83	¥	281.30	+ 15.8
- Diluted		325.52		280.50	+ 16.0
Dividend per share		100.00		65.00	
					¥ 345.88 + 6.2
					100.00

			Actual	
		As of	As of	
		December	December 31,	
		31, 2005	2004	Change(%)
Total assets	¥	2,652,847	¥ 2,384,803	+ 11.2
Stockholders equity	¥	1,875,433	¥ 1,651,407	+ 13.6

Canon Inc.
Headquarter office

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

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Management 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, and thoroughly strengthened its product competitiveness and financial base. From 2006, targeting further growth and improved corporate value, Canon will make use of the solid management foundation achieved through Phases I and II as the company initiates Phase III, a new five-year management initiative, 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. As we pursue our objective of becoming No. 1, we will carry out the following measures for each business.

Within the copying machines and laser beam printer segment, in accordance with expanding demand for color imaging equipment in the office market, we will apply Canon proprietary technology to actively launch competitive new products that are differentiated by their outstanding performance capabilities. Furthermore, we expect a significant change in the office environment due to the spread of broadband networks. Based on this expectation, we will 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. Additionally, 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 worldwide market share.

With regard to inkjet printers, in addition to single function models, we will utilize Canon-developed high-precision inkjet print heads, which offer a competitive advantage in printing high-quality photo images, to strengthen our multifunction product lineup and extend our share of the still-expanding multifunction printer 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 DIGIC digital imaging engine, which support the differentiation of Canon products.

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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 procurement and 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, taking into consideration the overall optimization of the Canon Group. By thoroughly carrying out these cost-reduction activities we will strive to further lower our cost of sales ratio.

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 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 also 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 realizing prototype-less development processes.

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

Through these activities, we are constantly working to enhance our corporate value, targeting improved growth and profitability for the Canon Group.

Business challenges and countermeasures

At Canon, the creation of new businesses to ensure future growth and maintaining our high profitability structure represent two very important management objectives. As for the creation of 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 as early as possible, we will take advantage of M&A opportunities and business tie-ups. As for the areas of new business we plan to pursue, 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 have high expectations for SEDs (Surface-conduction Electron-emitter Displays), our new large-screen flat panel display technology. We established a joint venture company for the development and production of SED panels with Toshiba in October 2004 and have already started preparations

toward full-scale commercialization.

With regard to maintaining our high profitability structure, in order to effectively respond to the

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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 products and actively pursue cost-reduction activities.

We also view our approach to the environment as an important management issue. 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.

Corporate governance policies and implementation of related measures

Canon, recognizing the importance of bolstering management supervision functions and management transparency, has been implementing various measures to improve its corporate governance. In this manner, we are striving to continuously elevate the company's corporate value.

1) Implementation of corporate governance measures

In addition to our Board of Directors and Board of Corporate Auditors, Canon Inc. has created an original system of internal audit for the further development of its corporate governance.

There are currently 25 directors (none of whom are outside directors) on the company's board, who are focused on making management decisions in a rational and efficient manner. As a general rule, all matters of importance are decided at board and management meetings attended by all directors. Moreover, various cross-company management advisory committees have been established to address important management themes. Each committee serves to accelerate and rationalize the decision-making process while supplementing the business-division system and performing a checking function.

Canon's Board of Corporate Auditors consists of four members, two of whom are outside corporate auditors. In accordance with the Board of Corporate Auditors' auditing policies and their assigned duties, the auditors attend board, management, and various committee meetings; listen to business reports from the directors and others; carefully examine documents related to important decisions; and conduct strict audits of the company's business and assets.

Corporate auditors and the Board of Corporate Auditors receive from the external auditors an outline of their audit plan as well as reports on the results of the audit, the status of internal control systems as grasped by the external auditors, risk assessments, significant accounting issues, and other relevant matters, and exchange opinions on such matters with the external auditors. Furthermore, corporate auditors may attend the external auditors' field work and their closing meeting as necessary, and may from time to time request of the external auditors a report on the progress of their audit.

With regard to external audits, we established regulations related to the pre-approval of policies and procedures for both auditing and non-auditing services to reinforce the independence of our accounting firms. Based on the regulations, the Board of Corporate Auditors must approve in advance the content and related fees of contracts between the accounting firms and the company before they are entered into.

Furthermore, the Corporate Audit Center, which serves as an internal auditing division, conducts audits covering such areas as compliance and internal control systems, and provides assessments and proposals. The various relevant administrative divisions also work very closely with the Corporate Audit Center to inspect such areas as product quality, environmental issues, information security and physical security.

Canon engages Ernst & Young ShinNihon to audit its financial statements.

The names and other details of the certified public accountants that carry out audit work for the company are listed below.

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	Certified Public Accountant		Accounting Firm	Number of Years of Consecutive Audits
Designated Partner	Managing Partner	Michio Shibuya	Ernst & Young ShinNihon	10 Years
Designated Partner	Managing Partner	Hideo Kojima	Ernst & Young ShinNihon	
Designated Partner	Managing Partner	Eiichi Wada	Ernst & Young ShinNihon	12 Years
Designated Partner	Managing Partner	Yuichiro Munakata	Ernst & Young ShinNihon	
Designated Partner	Managing Partner	Hirokazu Tanaka	Ernst & Young ShinNihon	

Note 1: For those designated partners with less than 7 years of consecutive audits, entries for the number of years of consecutive audits have been omitted.

Note 2: This accounting firm has applied the audit partner rotation system in fulfillment of the Certified Public Accountant Law in Japan and Japanese Institute of Certified public Accountants regulations.

Note 3: In accordance with the Certified Public Accountant Law, managing partners are able to conduct audits within a period of seven consecutive fiscal years for fiscal years beginning in and after April 2004. Meanwhile, the accounting firm takes voluntary measure to rotate managing partners that exceed seven years, for companies whose business term start on or after November 1, 2005. Accordingly, the accounting firm will notify such companies of any rotation of a relevant managing partner.

Auditing assistants: (Certified Public Accountants: 23 persons, Junior Accountants: 22 persons, Others: 11 persons)

The company has also established a code of conduct, which calls on all Canon Group employees to strictly observe and comply with all laws as well as company rules and regulations. The Canon Code of Conduct Handbook is available in eleven different languages to further raise awareness of compliance throughout the entire Canon Group.

Canon has made a practice of keeping shareholders and other investors abreast of management conditions through corporate strategy conferences, quarterly conferences on operating results, individual investor conferences, and the company's Web site, and will continue to actively promote the accurate and timely disclosure of information.

Through these measures, Canon will continue to strengthen its corporate governance system based on management's strong sense of mission and ethics.

2) Overview of relationship between the company and outside corporate auditors in regard to personal, capital, and business relationships, and other interests

There are no special interests between the company and its two outside corporate auditors.

3) Measures implemented over the past year aimed at improving and enhancing corporate governance

In 2004, we established standing committees, namely the Corporate Ethics and Compliance Committee, in January, and the Internal Control Committee, in April, with the president appointed as chairman of both groups. The aim of the Corporate Ethics and Compliance Committee is to raise compliance and ethical awareness throughout the company, examining Canon's social responsibilities from various viewpoints while engaging in activities to ensure thorough adherence within the company. To raise the effectiveness of these activities, in January 2005 the related administrative department, which had been part of the General Affairs Headquarters, was made an independent unit—the Corporate Ethics and Compliance Administration Office—under the direct control of the company's president. A company director

was appointed to head the office, which aims to promote the transparency and soundness of business activities while fostering a corporate culture characterized by an increased awareness of corporate ethics and compliance.

The Internal Control Committee has built a highly effective internal control system unique to the

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Canon Group, which not only serves to ensure the reliability of the company's financial reporting, but also aims to ensure the effectiveness and efficiency of our business operations, as well as compliance with related laws, regulations, and internal controls.

Additionally, in February 2005, the Disclosure Committee was established with the president appointed as chairman. This committee was formed to ensure that we are not only in compliance with applicable laws, rules and regulations, but also to ensure that information disclosed to shareholders and capital markets is both correct and comprehensive.

Basic policy regarding profit distribution

As for returning profits to shareholders, Canon has worked to raise its dividend per share in accordance with the company's policy of providing a stable dividend. Under a new policy, Canon will actively work to return profits to shareholders, mainly in the form 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 new policy, Canon plans to raise its full-year per-share dividend from 65 yen in 2004, to 100 yen in 2005.

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.

Table of Contents**Operating Results and Financial Conditions****2005 in Review**

Looking back at the global economy in 2005, the U.S. economy continued to display growth despite concern over the economic impact of escalating crude oil prices and the catastrophic damage caused by Hurricane Katrina, with healthy employment conditions and continued growth in consumer spending. In Europe, while the recovery in consumer spending appeared to falter, such factors as growth in the production sector amid strong exports indicate a trend toward moderate recovery. As for Asia, China continued to achieve a high rate of economic growth, mainly fueled by exports, while other Asian economies also enjoyed generally favorable performances. In Japan, the economy continued to recover gradually thanks to such factors as increased corporate investment supported by favorable corporate profits and improved consumer spending.

As for the markets in which the Canon Group operates, demand in the digital camera segment for single-lens-reflex (SLR) models continued to grow significantly during the term. Sales of digital compact cameras also remained strong to realize healthy overall growth for the segment. Demand for network digital multifunction devices (MFDs) remained solid as the office market, including small-scale enterprises, moved toward color and multifunctionality. Although sales of computer peripherals, including printers, grew for both multifunction and color models, the segment suffered amid a shift in further demand toward high-performance low-priced machines and severe price competition. Demand for steppers, used in the production of semiconductors, tapered off after the summer of 2004 as the chip manufacturing market entered a correction phase. The market for projection aligners, which are used in the production of liquid crystal displays (LCDs) panels, enjoyed stable growth, fueled by increased investment by LCD panel manufacturers amid the rapid expansion of the LCD television market. The average value of the yen for the year was ¥110.58 to the U.S. dollar and ¥137.04 to the euro, representing a year-on-year decrease of almost 2% against both currencies.

Amid these conditions, Canon's consolidated net sales in 2005 increased by 8.3% from the year-ago period to ¥3,754.2 billion (U.S.\$31,815 million), boosted by a favorable rise in sales of digital cameras and color network MFDs, along with an increase in sales of projection aligners. In 2005, the final year of Phase II of Canon's Excellent Global Corporation Plan (2001-2005), net income increased by 11.9% year on year to ¥384.1 billion (U.S.\$3,255 million), marking all-time highs for both net sales and net income, and the sixth consecutive year of sales and profit growth. Despite such negative factors as escalating prices of raw materials, severe price competition, and the impact of acquiring new subsidiaries into the Group, the gross profit ratio for the year remained at high, with a decrease of 0.9 points from the previous year, owing to cost reductions realized through ongoing production-reform and procurement-reform efforts. By curbing an increase of selling, general and administrative (SG&A) expense through comprehensive cost cutting, keeping spending growth below the growth rate for net sales, the SG&A expenses to net sales ratio improved 0.7 points. Consequently, operating profit in 2005 totaled ¥583.0 billion (U.S.\$4,941 million), a year-on-year increase of 7.2%. The operating profit ratio was 15.5%, a year-on-year decrease of 0.2 points, mainly due to a ¥17.1 billion expense deduction for the gain in the year-ago period realized from the return to the Japanese Government of the substitutional portion of the employees' pension funds. Other income (deductions) improved by ¥20.6 billion (U.S.\$175 million), mainly due to an increase in interest revenue, resulting from such factors as an increase in surplus funds accompanying the improved balance sheet and a rise in interest rates in the United States, along with a decrease in currency exchange losses. As a result, income before income taxes and minority interests in 2005 totaled ¥612.0 billion (U.S.\$5,186 million), a year-on-year increase of 10.8%. The effective tax rate during the year was 34.8%, 0.3 points lower compared with the previous year, due to such factors as the introduction of corporation size-based enterprise tax in Japan. Consequently, as stated earlier, net income for the year totaled ¥384.1 billion (U.S.\$3,255 million).

Basic net income per share for the year was ¥432.94 (U.S.\$3.67), a year-on-year increase of ¥45.14 (U.S.\$0.38).

Results by Product Segment

In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, indicates a shift to color models, as well as a trend toward higher-end features. Additionally, amid color network digital MFDs, the iR C3170/2570 series, equipped with a new high-speed image-processing chip, and the iR C3220/2620 series continued to sell well in both Japan and European markets, as did the new high-speed iR

C6870/5870 series models. Among monochrome network

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digital MFDs, mid-level models such as the iR4570/3570/2870/2270 series contributed to expanded sales, along with the iR6570/5570, featuring energy-saving performance and high productivity, and the iR2020/2016 series, with enhanced networking features. Overall, sales of office imaging products in 2005 realized a year-on-year increase of 2.9%. In the field of computer peripherals, laser beam printers enjoyed a year-on-year increase in unit sales, with color models growing more than 30% and monochrome machines, particularly low-end models, also recording healthy growth. Sales in value terms also rose despite the effect of the shift in market demand toward lower priced models. Inkjet printers recorded an increase in unit sales of more than 10%, with the PIXMA iP3000/4000 and, in markets outside of Japan, the PIXMA MP110/130 maintaining brisk sales. Additionally, newly introduced models, including the PIXMA iP4200, the PIXMA iP1600 in overseas markets, and high-speed all-in-one models such as the PIXMA MP500, contributed to a stronger product lineup, which also fueled sales growth in value terms. As a result, sales of computer peripherals for the year realized a year-on-year increase of 8.3%. Sales of business information products, however, decreased by 10.9% due to the intentional curtailing of personal computer sales in the Japanese market. Collectively, sales of business machines during the year totaled ¥2,502.4 billion (U.S.\$21,207 million), a year-on-year increase of 4.8%. Operating profit for the year totaled ¥542.0 billion (U.S.\$4,593 million), a year-on-year increase of 4.0%, lifted by sales growth along with active efforts to reduce costs as a means of limiting the decline in the gross profit ratio amid severe price competition, as well as efforts to curtail expenses. The operating profit ratio remained at almost the same level as for the year-ago period.

Within the camera segment, the continued strong demand for digital SLR cameras has fueled robust growth, with the EOS DIGITAL REBEL XT, launched in the first half of 2005, and the EOS 5D, launched in the second half, recording particularly strong sales along with continued healthy sales of the EOS 20D, launched in the previous period. This, in turn, has led to expanded sales of interchangeable lenses for SLR cameras. Sales of compact-model digital cameras also continued to expand steadily, with healthy demand for the PowerShot SD400 and PowerShot A520, launched in the first half of 2005, as well as the PowerShot SD550 and PowerShot SD450 models, introduced in the second half. As a result, unit sales of digital cameras for the year increased by more than 20% from the year-ago period. In the field of digital video camcorders, newly introduced Mini DV, DVD, and HDV models, including the Optura 600, the DC20/10, and the XL H1 registered strong performances. Consequently, camera sales overall continued to enjoy growth, achieving total sales of ¥879.2 billion (U.S.\$7,451 million), a year-on-year increase of 15.2%. The operating profit ratio for the camera segment rose 2.7 points, boosted by such factors as substantially increased sales; cost reduction efforts, including the in-house production of key parts and procurement reform; and sales growth for digital SLR cameras and other high valued-added products. As a result, operating profit for the camera segment increased substantially by 32.8% to ¥173.7 billion (U.S.\$1,472 million).

In the optical and other products segment, demand for steppers, used in the production of semiconductors, has continued to lag since the summer of 2004, resulting in a drop in the number of units sold and, consequently, a decrease in sales value. Sales of aligners, however, which are used in the production of LCD panels realized notable growth in terms of both volume and value owing to increased investments by LCD manufacturers in response to the rapidly expanding LCD television market. Additionally, the vacuum thin-film deposition and processing equipment produced by the company's newly consolidated subsidiary contributed to expanded sales. As a result, sales for the segment increased year on year by 17.6% to ¥372.6 billion (U.S.\$3,158 million). Operating profit for the segment totaled ¥38.8 billion (U.S.\$329 million), a substantial year-on-year increase of 34.6%, mainly due to the increase in sales volume.

Cash Flow

In the twelve months ended December 31, 2005, Canon maintained cash flow from operating activities of ¥605.7 billion (U.S.\$5,133 million), a year-on-year increase of ¥44.1 billion (U.S.\$374 million), reflecting the substantial growth in sales and increased cash proceeds from sales, combined with a substantial increase in net income and an improvement in working capital.

Cash flow from investing activities totaled ¥401.2 billion (U.S.\$3,400 million), a year-on-year increase of ¥148.2 billion (U.S.\$1,256 million), due to a combination of factors such as a ¥395.1 billion (U.S.\$3,348 million) capital expenditure, which was used mainly to expand production capabilities in Japan and overseas regions and to bolster the company's R&D-related infrastructure, as well as the acquisition of stock through M&A activities. As a

result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled positive ¥204.5 billion (U.S.\$1,733 million).

Cash flow from financing activities recorded an outlay of ¥93.9 billion (U.S.\$796 million), a year-on-year decrease of ¥8.3 billion (U.S.\$71 million), mainly resulting from a decrease in loan repayments accompanying the company's strengthened financial position despite a large increase in the dividend payout.

Consequently, cash and cash equivalents surpassed the ¥1,000.0 billion mark for the first, reaching

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¥1,005.0 billion (U.S.\$8,517 million), a year-on-year increase of ¥117.2 billion (U.S.\$993 million), including the impact of currency exchange rate.

Non-consolidated Results and Dividend

Canon Inc.'s non-consolidated net sales in 2005 grew by 8.9% to ¥2,481.5 billion (U.S.\$21,030 million) while ordinary profit increased by 11.2% to ¥440.7 billion (U.S.\$3,735 million). Non-consolidated net income increased substantially by 16.1% to ¥289.3 billion (U.S.\$2,452 million), marking all-time highs for both net sales and net income, and the sixth consecutive year of sales and profit growth as was also the case with Canon's consolidated performances. In response to continued shareholder support, the Board of Directors intends to propose a ¥35 (U.S.\$0.30) increase in the company's year-end dividend to ¥67.50 (U.S.\$0.57) which, when combined with the interim dividend of ¥32.50 (U.S.\$0.28), would bring the company's annual dividend per share to ¥100 (U.S.\$0.85).

Outlook

Regarding the outlook for the global economy, although prospects remain uncertain due to such factors as rising oil prices in connection with unstable conditions in the Middle East and shortages accompanying economic growth in developing countries, the impact on business activities of additional interest rate hikes in the United States and Europe, and future exchange rate trends, the global economy is likely to continue its course toward growth.

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

In fiscal 2006 Canon anticipates consolidated net sales of ¥4,060.0 billion (U.S.\$34,407 million), consolidated income before income taxes of ¥665.0 billion (U.S.\$5,636 million), and consolidated net income of ¥415.0 billion (U.S.\$3,517 million). The company also forecasts non-consolidated net sales of ¥2,660.0 billion (U.S.\$22,542 million), non-consolidated ordinary profit of ¥475.0 billion (U.S.\$4,025 million), and non-consolidated net income of ¥307.0 billion (U.S.\$2,602 million), aiming for the seventh consecutive year of increased consolidated and non-consolidated sales and profit. These forecasts assume currency exchange rates of ¥115 to the U.S. dollar and ¥135 to the euro, representing an approximately 4% depreciation of the yen against the U.S. dollar, and a slight appreciation against the euro compared with 2005.

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 POSITION

1. NUMBER OF GROUP COMPANIES

2. GROUP STRUCTURE AND MAJOR GROUP COMPANIES

Notes: 1. The companies with (*) are affiliated companies (equity method).

2. Following subsidiaries are listed on domestic stock exchange.

Tokyo Stock Exchange (1st section): Canon Sales Co., Inc., Canon Electronics Inc., Canon Finetech Inc.

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

Osaka Stock Exchange (2nd section): Canon Machinery Corporation

JASDAQ: Nisca Corporation.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

1. CONSOLIDATED STATEMENTS OF INCOME**Result for the fourth quarter**

	Millions of yen			Thousands of U.S. dollars
	Three months ended December 31, 2005	Three months ended December 31, 2004	Change(%)	Three months ended December 31, 2005
Net sales	¥ 1,119,848	¥ 981,129	+ 14.1	\$ 9,490,237
Cost of sales	580,697	503,343		4,921,161
Gross profit	539,151	477,786	+ 12.8	4,569,076
Selling, general and administrative expenses	369,862	345,668		3,134,423
Operating profit	169,289	132,118	+ 28.1	1,434,653
Other income (deductions):				
Interest and dividend income	4,709	2,401		39,907
Interest expense	(601)	(780)		(5,093)
Other, net	(438)	(4,226)		(3,713)
	3,670	(2,605)		31,101
Income before income taxes and minority interests	172,959	129,513	+ 33.5	1,465,754
Income taxes	60,241	45,362		510,517
Income before minority interests	112,718	84,151		955,237
Minority interests	4,507	3,363		38,195
Net income	¥ 108,211	¥ 80,788	+ 33.9	\$ 917,042

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains (losses) on securities, change in net gains (losses) on derivative financial instruments and change in minimum pension liability adjustments. Comprehensive income for the three months ended December 31, 2005 and 2004 were JPY155,175 million (U.S.\$1,315,042 thousand) and JPY70,967 million, respectively.

Result for the fiscal year

	Millions of yen			Thousands of U.S. dollars
	Year ended December 31, 2005	Year ended December 31, 2004	Change(%)	Year ended December 31, 2005

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Net sales	¥3,754,191	¥	3,467,853	+	8.3	\$	31,815,178
Cost of sales	1,935,148		1,754,510				16,399,559
Gross profit	1,819,043						