

CANON INC
Form 6-K
April 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 **April, 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 **April 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. Consolidated Results For The First Quarter Ended March 31, 2006
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THE FIRST QUARTER ENDED MARCH 31, 2006**

April 27, 2006

CONSOLIDATED RESULTS

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

| | Actual | | | Projected | | |
|---|---|---|-----------|---|-------------------------------|-----------|
| | Three months ended March 31, 2006 (Unaudited) | Three months ended March 31, 2005 (Unaudited) | Change(%) | Three months ended March 31, 2006 (Unaudited) | Year ending December 31, 2006 | Change(%) |
| Net sales | ¥ 923,272 | ¥ 843,367 | + 9.5 | \$ 7,891,214 | ¥ 4,140,000 | + 10.3 |
| Operating profit | 170,135 | 143,282 | + 18.7 | 1,454,145 | 686,000 | + 17.7 |
| Income before income taxes and minority interests | 169,591 | 149,451 | + 13.5 | 1,449,496 | 690,000 | + 12.7 |
| Net income | ¥ 108,269 | ¥ 93,057 | + 16.3 | \$ 925,376 | ¥ 432,000 | + 12.5 |
| Net income per share: | | | | | | |
| - Basic | ¥ 121.98 | ¥ 104.93 | + 16.2 | \$ 1.04 | ¥ 486.70 | + 12.4 |
| - Diluted | 121.92 | 104.79 | + 16.3 | 1.04 | | |

| | Actual | | | | |
|---------------------|----------------------------------|-------------------------|-----------|---------------|--|
| | As of March 31, 2006 (Unaudited) | As of December 31, 2005 | Change(%) | | |
| Total assets | ¥ 3,976,513 | ¥ 4,043,553 | - 1.7 | \$ 33,987,291 | |
| Stockholders equity | ¥ 2,658,810 | ¥ 2,604,682 | + 2.1 | \$ 22,724,872 | |

- 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 JPY117 = U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2006, solely for the convenience of the reader.

Canon Inc.
Headquarter office

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

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Operating Results and Financial Conditions

2006 First Quarter in Review

Looking back at the global economy in the first quarter of 2006, economic expansion was fairly steady despite worldwide concern over the economic impact of high crude oil prices and the escalating costs of raw materials. The U.S. economy continued to display growth despite anxiety over the effects of rising interest rates and climbing gasoline prices, with private sector spending and corporate capital expenditure continuing to grow. In Europe, growth in the production sector amid strong exports indicates a trend toward recovery. As for Asia, China and India continued to realize high growth and other Asian economies also enjoyed generally favorable performances. In Japan, the economy has finally emerged from its malaise and has fully entered a recovery phase, which has led to a rise in consumer spending.

As for the markets in which the Canon Group operates, within the camera segment demand for digital single-lens-reflex (SLR) cameras and compact digital cameras continued to realize healthy growth in overseas markets during the term. Within the office imaging product market, demand for network digital multifunction devices (MFDs) remained solid amid the shift toward color models and advanced functionality. For sales of computer peripherals, including printers, while demand for laser beam printers grew for color models, and a shift in demand was present from single-function printers to multifunctional models for inkjet printers, the segment suffered amid severe price competition. In the optical equipment segment, while demand for steppers, used in the production of semiconductors, has entered a recovery phase, 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 for the quarter was ¥116.96 to the U.S. dollar and ¥140.71 to the euro, representing a year-on-year decrease of about 12% against the U.S. dollar, and a decrease of about 3% against the euro.

Amid these conditions, Canon's consolidated net sales for the first quarter increased by 9.5% from the year-ago period to ¥923.3 billion (U.S.\$7,891 million), boosted by a favorable rise in sales of digital cameras, color network MFDs and printers, along with the positive effect of currency exchange rates. The gross profit ratio for the quarter recorded a quarterly high level of 50.7%, a year-on-year increase of 2.1 points. The increase in the gross profit ratio was mainly the result of such factors as suppressing price decline through the launch of new products, and cost reduction efforts realized through ongoing production-reform and procurement-reform activities. These absorbed the effects of escalating crude oil and raw material costs, as well as severe price competition in the consumer product market. Owing to an increase in sales and an improvement in the gross profit ratio, first-quarter gross profit increased by 14.4% to ¥468.5 billion (U.S.\$4,004 million). While first-quarter R&D expenditures grew by ¥8.0 billion (U.S.\$68 million) from ¥59.2 billion for the year-ago period to ¥67.2 billion (U.S.\$574 million), along with the negative effect of the translation of foreign currencies, other selling, general and administrative expenses increased slightly compared with the first quarter of the previous year. Consequently, operating profit in the first quarter totaled ¥170.1 billion (U.S.\$1,454 million), a substantial year-on-year increase of 18.7%. Other income (deductions) declined by ¥6.7 billion (U.S.\$57 million) mainly due to an increase in currency exchange losses on foreign-currency-denominated trade receivables, despite an increase in interest income accompanying the rise in the interest rate. As a result, income before income taxes and minority interests in the first quarter totaled ¥169.6 billion (U.S.\$1,449 million), a year-on-year increase of 13.5%. The effective tax rate during the quarter was 1.0 point lower compared with the previous year. Consequently, first-quarter net income recorded an all-time high of ¥108.3 billion (U.S.\$925 million).

Basic net income per share for the quarter was ¥121.98 (U.S.\$1.04), a year-on-year increase of ¥17.05 (U.S.\$0.15).

Table of Contents**Results by Product Segment**

In the business machine segment, demand for network digital MFDs, which are grouped in the office imaging products sub-segment, indicates a shift toward color models in the U.S. and European markets, as well as in the domestic Japanese market. Additionally, among color network digital MFDs, 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 quarter realized a year-on-year increase of 4.1%. In the field of computer peripherals, laser beam printers enjoyed a year-on-year increase in unit sales, with color models growing more than 60% and sales of supplies also recording healthy growth. Sales in value terms also rose, increasing 11.3% despite the effect of the shift in market demand toward lower priced models. For inkjet printers, while high-speed multifunctional models, such as the PIXMA MP500, recorded a significant increase in unit sales, sales in terms of value increased only slightly due to such factors as a decline in unit sales of single-function printers and severe price competition. As a result, sales of computer peripherals for the quarter increased 8.4% year on year. Sales of business information products increased by 6.5%, mainly due to growing sales of an expanded lineup of document scanners. Collectively, sales of business machines for the quarter totaled ¥631.2 billion (U.S.\$5,394 million), a year-on-year increase of 6.3%. Operating profit for the quarter totaled ¥152.2 billion (U.S.\$1,301 million), a year-on-year increase of 8.1%, supported by such factors as restrained expense spending and an increase in the gross profit accompanying the sales growth.

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 SD600, PowerShot SD550 and PowerShot SD450 models. Accordingly, unit sales of digital cameras for the quarter recorded growth of approximately 20% from the year-ago period. In the field of digital video camcorders, newly introduced Mini DV and DVD models, including the ZR700/600/500 and the DC40, delivered strong performances. As a result, overall camera sales for the first quarter increased by 20.1% from the year-ago period to ¥192.1 billion (U.S.\$1,642 million). The gross profit ratio for the camera segment also rose substantially, boosted by such factors as favorable sales in high value-added products, including newly introduced products, and cost-reduction efforts realized through production-reform and procurement-reform activities. As a result, operating profit for the camera segment increased by 84.9% year on year to ¥44.0 billion (U.S.\$376 million). In the optical and other products segment, while steppers, used in the production of semiconductors, have entered a recovery phase, sales of aligners, used to produce LCD, decreased substantially due to restrained investment by LCD manufacturers. The subsidiary that the company acquired last year contributed with significant sales growth and, as a result, first-quarter sales for the segment totaled ¥100.0 billion (U.S.\$855 million), a year-on-year increase of 11.3%. Operating profit for the segment grew year-on-year by 14.6% to ¥14.5 billion (U.S.\$124 million), boosted by an increase in the gross profit accompanying the increase in sales.

Cash Flow

In the first quarter of 2006, Canon maintained cash flow from operating activities of ¥114.9 billion (U.S.\$982 million), a year-on-year increase of ¥38.2 billion (U.S.\$327 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 ¥109.8 billion (U.S.\$939 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 ¥124.1 billion (U.S.\$1,060 million). As a result, free cash flow, or cash flow from operating activities minus cash flow from investing activities, totaled negative ¥9.2 billion (U.S.\$78 million) mainly due to corporate tax payments. Although negative, first-quarter free cash flow improved by ¥11.7 billion (U.S.\$100 million) from ¥20.9 billion for the year-ago period.

Cash flow from financing activities recorded an outlay of ¥56.4 billion (U.S.\$482 million), mainly resulting from the dividend payout of ¥59.9 billion (U.S.\$512 million), an increase of ¥24.4 billion (U.S.\$209 million) over the previous year. Consequently, cash and cash equivalents, which totaled ¥937.4 billion (U.S.\$8,012 million), although

representing a ¥67.6 billion (U.S.\$578 million) decrease from the end of the previous year, remained at a high level.

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Outlook

As for the outlook for the global economy in the second quarter and thereafter, although there are concerns due to such factors as the increasing prices of crude oil and raw materials, as well as rising interest rates in the U.S. 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 SLR cameras is expected to continue enjoying robust growth primarily in overseas markets. As for network digital MFDs and laser beam printers, while additional demand is projected for full-color models, severe price competition and shifting demand toward lower-priced models are expected to continue. Within the semiconductor-production equipment market, demand for steppers indicates a trend toward 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.

The company has revised upward its forecasts for the 2006 fiscal year and now anticipates consolidated net sales of ¥4,140.0 billion (U.S.\$35,385 million), consolidated income before income taxes and minority interests of ¥690.0 billion (U.S.\$5,897 million), and consolidated net income of ¥432.0 billion (U.S.\$3,692 million). The company also projects non-consolidated net sales of ¥2,700.0 billion (U.S.\$23,077 million), non-consolidated ordinary profit of ¥489.0 billion (U.S.\$4,179 million), and non-consolidated net income of ¥313.0 billion (U.S.\$2,675 million). Although uncertainty surrounds several factors that could affect currency exchange rates, significant changes in rates are not anticipated. These forecasts assume currency exchange rates of ¥117 to the U.S. dollar and ¥138 to the euro, representing an approximately 4% depreciation of the yen against the U.S. dollar, and the same level against the euro compared with previous year.

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Consolidated Outlook

| 1st Half | Millions of yen | | | | | Six months ended June 30, 2005 | Change (%) |
|--|----------------------------|------------------------|----------|-------------|-------------|--------------------------------------|---------------|
| | Six months ending | | | Change | Results (C) | | |
| | June 30, 2006 | | (B - A) | | | | |
| | Previous Outlook (A) | Revised Outlook (B) | | | | | |
| Net sales | ¥ 1,910,000 | ¥ 1,960,000 | ¥ 50,000 | ¥ 1,755,840 | + | 11.6% | |
| Income before income taxes and minority interests | 303,000 | 323,000 | 20,000 | 283,733 | + | 13.8% | |
| Net income | 187,000 | 201,000 | 14,000 | 175,268 | + | 14.7% | |

| Fiscal year | Millions of yen | | | | | Year ended December 31, 2005 | Change (%) |
|--|----------------------------|------------------------|----------|-------------|-------------|------------------------------------|---------------|
| | Year ending | | | Change | Results (C) | | |
| | December 31, 2006 | | (B - A) | | | | |
| | Previous Outlook (A) | Revised Outlook (B) | | | | | |
| Net sales | ¥ 4,060,000 | ¥ 4,140,000 | ¥ 80,000 | ¥ 3,754,191 | + | 10.3% | |
| Income before income taxes and minority interests | 665,000 | 690,000 | 25,000 | 612,004 | + | 12.7% | |
| Net income | 415,000 | 432,000 | 17,000 | 384,096 | + | 12.5% | |

Non-consolidated Outlook

| 1st Half | Millions of yen | | | | | Six months ended June 30, 2005 | Change (%) |
|-----------------|----------------------------|------------------------|----------|-------------|-------------|--------------------------------------|---------------|
| | Six months ending | | | Change | Results (C) | | |
| | June 30, 2006 | | (B - A) | | | | |
| | Previous Outlook (A) | Revised Outlook (B) | | | | | |
| Net sales | ¥ 1,210,000 | ¥ 1,245,000 | ¥ 35,000 | ¥ 1,158,478 | + | 7.5% | |
| Ordinary profit | 220,000 | 232,000 | 12,000 | 210,125 | + | 10.4% | |
| Net income | 143,000 | 146,000 | 3,000 | 137,938 | + | 5.8% | |

| Fiscal year | Millions of yen | | | | | Year ended December 31, 2005 | Change (%) |
|--------------------|---------------------|------------------------|---------|--------|-------------|------------------------------------|---------------|
| | Year ending | | | Change | Results (C) | | |
| | December 31, 2006 | | (B - A) | | | | |
| | Previous Outlook | Revised Outlook (B) | | | | | |

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| | (A) | | | | | | |
|-----------------|-------------|---|-----------|---|--------|-------------|---------|
| Net sales | ¥ 2,660,000 | ¥ | 2,700,000 | ¥ | 40,000 | ¥ 2,481,481 | + 8.8% |
| Ordinary profit | 475,000 | | 489,000 | | 14,000 | 440,711 | + 11.0% |
| Net income | 307,000 | | 313,000 | | 6,000 | 289,294 | + 8.2% |

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

1. CONSOLIDATED STATEMENTS OF INCOME

| | Millions of yen | | | Thousands of U.S. dollars |
|--|--|---|------------|--|
| | Three months ended March 31, 2006 (Unaudited) | Three months ended March 31, 2005 (Unaudited) | Change (%) | Three months ended March 31, 2006 (Unaudited) |
| Net sales | ¥923,272 | ¥ 843,367 | + 9.5 | \$ 7,891,214 |
| Cost of sales | 454,754 | 433,703 | | 3,886,787 |
| Gross profit | 468,518 | 409,664 | + 14.4 | 4,004,427 |
| Selling, general and administrative expenses | 298,383 | 266,382 | | 2,550,282 |
| Operating profit | 170,135 | 143,282 | + 18.7 | 1,454,145 |
| Other income (deductions): | | | | |
| Interest and dividend income | 4,988 | 2,681 | | 42,632 |
| Interest expense | (381) | (468) | | (3,256) |
| Other, net | (5,151) | 3,956 | | (44,025) |
| | (544) | 6,169 | | (4,649) |
| Income before income taxes and minority interests | 169,591 | 149,451 | + 13.5 | 1,449,496 |
| Income taxes | 57,829 | 52,394 | | 494,265 |
| Income before minority interests | 111,762 | 97,057 | | 955,231 |
| Minority interests | 3,493 | 4,000 | | 29,855 |
| Net income | ¥108,269 | ¥ 93,057 | + 16.3 | \$ 925,376 |

Notes: 1. Research and development expenses included in selling, general and administrative expenses for the three months ended March 31, 2006 and 2005 were JPY67,150 million (U.S.\$573,932 thousand) and JPY59,169 million, respectively.

2. 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 March 31, 2006 and 2005 were JPY114,057 million (U.S.\$974,846 thousand) and JPY102,525 million, respectively.

2. DETAILS OF SALES

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

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| Sales by product | ended March 31, 2006 (Unaudited) | ended March 31, 2005 (Unaudited) | Change (%) | ended March 31, 2006 (Unaudited) |
|--------------------------------------|---|---|-------------------|---|
| Business machines: | | | | |
| <i>Office imaging products</i> | ¥ 286,488 | ¥ 275,083 | + 4.1 | \$ 2,448,615 |
| <i>Computer peripherals</i> | 316,796 | 292,292 | + 8.4 | 2,707,658 |
| <i>Business information products</i> | 27,869 | 26,179 | + 6.5 | 238,197 |
| | 631,153 | 593,554 | + 6.3 | 5,394,470 |
| Cameras | 192,061 | 159,911 | + 20.1 | 1,641,547 |
| Optical and other products | 100,058 | 89,902 | + 11.3 | 855,197 |
| Total | ¥ 923,272 | ¥ 843,367 | + 9.5 | \$ 7,891,214 |

| Sales by region | Millions of yen | | | Thousands of U.S. dollars |
|------------------------|--|--|-------------------|--|
| | Three months ended March 31, 2006 (Unaudited) | Three months ended March 31, 2005 (Unaudited) | Change (%) | Three months ended March 31, 2006 (Unaudited) |
| Japan | ¥ 213,694 | ¥ 208,094 | + 2.7 | \$ 1,826,444 |
| Overseas: | | | | |
| <i>Americas</i> | 285,067 | 248,723 | + 14.6 | 2,436,470 |
| <i>Europe</i> | 281,621 | 257,336 | + 9.4 | 2,407,017 |
| <i>Other areas</i> | 142,890 | 129,214 | + 10.6 | 1,221,283 |
| | 709,578 | 635,273 | + 11.7 | 6,064,770 |
| Total | ¥ 923,272 | ¥ 843,367 | + 9.5 | \$ 7,891,214 |

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:

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 | | | Thousands of U.S. dollars |
|-----------------------------------|--|---|------------|--|
| | Three months ended March 31, 2006 (Unaudited) | Three months ended March 31, 2005 (Unaudited) | Change (%) | Three months ended March 31, 2006 (Unaudited) |
| Business Machines | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 631,153 | ¥ 593,554 | + 6.3 | \$ 5,394,470 |
| Intersegment | | | | |
| Total | 631,153 | 593,554 | + 6.3 | 5,394,470 |
| Operating cost and expenses | 478,985 | 452,726 | + 5.8 | 4,093,889 |
| Operating profit | 152,168 | 140,828 | + 8.1 | 1,300,581 |
| Cameras | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 192,061 | ¥ 159,911 | + 20.1 | \$ 1,641,547 |
| Intersegment | | | | |
| Total | 192,061 | 159,911 | + 20.1 | 1,641,547 |
| Operating cost and expenses | 148,022 | 136,096 | + 8.8 | 1,265,145 |
| Operating profit | 44,039 | 23,815 | + 84.9 | 376,402 |
| Optical and other products | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 100,058 | ¥ 89,902 | + 11.3 | \$ 855,197 |
| Intersegment | 41,397 | 35,181 | + 17.7 | 353,820 |
| Total | 141,455 | 125,083 | + 13.1 | 1,209,017 |
| Operating cost and expenses | 126,929 | 112,404 | + 12.9 | 1,084,863 |
| Operating profit | 14,526 | 12,679 | + 14.6 | 124,154 |
| Corporate and Eliminations | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ | ¥ | | \$ |
| Intersegment | (41,397) | (35,181) | | (353,820) |

| | | | | | |
|-----------------------------|-----------------|----------|--|--|------------------|
| Total | (41,397) | (35,181) | | | (353,820) |
| Operating cost and expenses | (799) | (1,141) | | | (6,828) |
| Operating profit | (40,598) | (34,040) | | | (346,992) |

Consolidated

Net sales:

| | | | | | |
|------------------------|-----------------|-----------|---|-----|---------------------|
| Unaffiliated customers | ¥923,272 | ¥ 843,367 | + | 9.5 | \$ 7,891,214 |
| Intersegment | | | | | |

| | | | | | |
|-----------------------------|----------------|---------|---|------|------------------|
| Total | 923,272 | 843,367 | + | 9.5 | 7,891,214 |
| Operating cost and expenses | 753,137 | 700,085 | + | 7.6 | 6,437,069 |
| Operating profit | 170,135 | 143,282 | + | 18.7 | 1,454,145 |

Note: General corporate expenses of JPY40,510 million (U.S.\$346,239 thousand) and JPY34,039 million in the three months ended March 31, 2006 and 2005, respectively, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. CONSOLIDATED BALANCE SHEETS

| | As of | Millions of yen As of | | Thousands of U.S. dollars As of |
|--|----------------------------------|--------------------------|------------|---------------------------------------|
| | March 31, 2006 (Unaudited) | December 31, 2005 | Change | March 31, 2006 (Unaudited) |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥ 937,367 | ¥ 1,004,953 | ¥ (67,586) | \$ 8,011,684 |
| Marketable securities | 71 | 172 | (101) | 607 |
| Trade receivables, net | 607,684 | 689,427 | (81,743) | 5,193,880 |
| Inventories | 545,074 | 510,195 | 34,879 | 4,658,752 |
| Prepaid expenses and other current assets | 271,852 | 253,822 | 18,030 | 2,323,521 |
| Total current assets | 2,362,048 | 2,458,569 | (96,521) | 20,188,444 |
| Noncurrent receivables | 14,486 | 14,122 | 364 | 123,812 |
| Investments | 114,638 | 104,486 | 10,152 | 979,812 |
| Property, plant and equipment, net | 1,167,435 | 1,148,821 | 18,614 | 9,978,077 |
| Other assets | 317,906 | 317,555 | 351 | 2,717,146 |
| Total assets | ¥ 3,976,513 | ¥ 4,043,553 | ¥ (67,040) | \$ 33,987,291 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term loans and current portion of long-term debt | ¥ 4,483 | ¥ 5,059 | ¥ (576) | \$ 38,316 |
| Trade payables | 469,593 | 505,126 | (35,533) | 4,013,615 |
| Income taxes | 62,697 | 110,844 | (48,147) | 535,872 |
| Accrued expenses | 245,927 | 248,205 | (2,278) | 2,101,940 |
| Other current liabilities | 173,989 | 209,394 | (35,405) | 1,487,086 |
| Total current liabilities | 956,689 | 1,078,628 | (121,939) | 8,176,829 |
| Long-term debt, excluding current installments | 26,525 | 27,082 | (557) | 226,709 |
| Accrued pension and severance cost | 73,197 | 80,430 | (7,233) | 625,615 |
| Other noncurrent liabilities | 52,014 | 52,395 | (381) | 444,565 |
| Total liabilities | 1,108,425 | 1,238,535 | (130,110) | 9,473,718 |
| Minority interests | 209,278 | 200,336 | 8,942 | 1,788,701 |
| Stockholders equity: | | | | |
| Common stock | 174,446 | 174,438 | 8 | 1,490,991 |
| Additional paid-in capital | 403,258 | 403,246 | 12 | 3,446,650 |
| Retained earnings | 2,108,977 | 2,060,620 | 48,357 | 18,025,444 |

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| | | | | |
|---|--------------------|-------------|------------|----------------------|
| Accumulated other comprehensive income (loss) | (22,424) | (28,212) | 5,788 | (191,658) |
| Treasury stock | (5,447) | (5,410) | (37) | (46,555) |
| Total stockholders' equity | 2,658,810 | 2,604,682 | 54,128 | 22,724,872 |
| Total liabilities and stockholders' equity | ¥ 3,976,513 | ¥ 4,043,553 | ¥ (67,040) | \$ 33,987,291 |

| | Millions of yen | | Thousands of U.S. dollars |
|--|------------------|--------------|---------------------------|
| | As of | As of | As of |
| | March 31, | December 31, | March 31, |
| | 2006 | 2005 | 2006 |
| | (Unaudited) | | (Unaudited) |
| Allowance for doubtful receivables | ¥ 12,813 | ¥ 11,728 | \$ 109,513 |
| Accumulated depreciation | 1,299,439 | 1,272,163 | 11,106,316 |
| Accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (21,976) | (25,772) | (187,829) |
| Net unrealized gains (losses) on securities | 7,210 | 6,073 | 61,624 |
| Net gains (losses) on derivative financial instruments | (319) | (1,174) | (2,726) |
| Minimum pension liability adjustments | (7,339) | (7,339) | (62,727) |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars |
|--|--|---|--|
| | Three months ended March 31, 2006 (Unaudited) | Three months ended March 31, 2005 (Unaudited) | Three months ended March 31, 2006 (Unaudited) |
| Cash flows from operating activities: | | | |
| Net income | ¥ 108,269 | ¥ 93,057 | \$ 925,376 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 53,331 | 46,631 | 455,821 |
| Loss on disposal of property, plant and equipment | 5,311 | 1,580 | 45,393 |
| Deferred income taxes | 1,047 | 2,163 | 8,949 |
| Decrease in trade receivables | 85,512 | 61,465 | 730,872 |
| Increase in inventories | (31,396) | (22,620) | (268,342) |
| Decrease in trade payables | (22,503) | (4,460) | (192,333) |
| Decrease in income taxes | (47,569) | (53,712) | (406,573) |
| Increase (decrease) in accrued expenses | (2,833) | 931 | (24,214) |
| Decrease in accrued pension and severance cost | (7,523) | (4,245) | (64,299) |
| Other, net | (26,747) | (44,101) | (228,607) |
| Net cash provided by operating activities | 114,899 | 76,689 | 982,043 |
| Cash flows from investing activities: | | | |
| Purchases of fixed assets | (109,829) | (96,360) | (938,709) |
| Proceeds from sale of fixed assets | 4,557 | 5,040 | 38,949 |
| Purchases of available-for-sale securities | (5,255) | (2,464) | (44,915) |
| Proceeds from sale of available-for-sale securities | 1,004 | 417 | 8,581 |
| Purchases of other investments | (6,556) | (4,194) | (56,034) |
| Other, net | (7,980) | (17) | (68,205) |
| Net cash used in investing activities | (124,059) | (97,578) | (1,060,333) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt | 555 | 147 | 4,744 |
| Repayments of long-term debt | (2,120) | (2,075) | (18,120) |
| Increase (decrease) in short-term loans | (68) | 1,445 | (581) |
| Dividends paid | (59,912) | (35,475) | (512,068) |
| Other, net | 5,111 | (1,508) | 43,683 |
| Net cash used in financing activities | (56,434) | (37,466) | (482,342) |
| | (1,992) | 7,728 | (17,026) |

Effect of exchange rate changes on cash and cash equivalents

| | | | |
|--|------------------|-----------|---------------------|
| Net decrease in cash and cash equivalents | (67,586) | (50,627) | (577,658) |
| Cash and cash equivalents at beginning of period | 1,004,953 | 887,774 | 8,589,342 |
| Cash and cash equivalents at end of period | ¥ 937,367 | ¥ 837,147 | \$ 8,011,684 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

| | March 31, 2006 | December 31, 2005 | Change |
|--------------|-------------------|----------------------|--------|
| Subsidiaries | 217 | 200 | 17 |
| Affiliates | 13 | 13 | |
| Total | 230 | 213 | 17 |

CHANGES IN GROUP OF ENTITIES

| | |
|--------------|--------------|
| Subsidiaries | |
| Addition: | 19 companies |
| Removal: | 2 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.

7. OTHER

We have engaged Ernst & Young ShinNihon to complete a review of the consolidated statements of income, the consolidated balance sheets and the consolidated statements of cash flows as of and for the three months ended March 31, 2006 based upon Statement of Auditing Standards No.100, Interim Financial Information, established by the American Institute of Certified Public Accountants.

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CONSOLIDATED FINANCIAL RESULTS FOR
THE FIRST QUARTER ENDED MARCH 31, 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)

| | 1st quarter | 2006 2nd quarter (P) | Year (P) | 1st quarter | 2005 2nd quarter | Year | Change year over year | | |
|-------------------------------|----------------|----------------------------|-------------|----------------|---------------------|-----------|-----------------------|----------------|--------|
| | | | | | | | 1st quarter | 2nd quarter | Year |
| Japan | | | | | | | | | |
| Business machines | 147,297 | 161,703 | 636,200 | 153,968 | 150,541 | 612,832 | -4.3% | +7.4% | +3.8% |
| Office imaging products | 90,216 | 94,684 | 377,600 | 95,563 | 89,981 | 357,689 | -5.6% | +5.2% | +5.6% |
| Computer peripherals | 37,954 | 45,546 | 188,300 | 39,377 | 43,532 | 183,727 | -3.6% | +4.6% | +2.5% |
| Business information products | 19,127 | 21,473 | 70,300 | 19,028 | 17,028 | 71,416 | +0.5% | +26.1% | -1.6% |
| Cameras | 27,798 | 35,102 | 136,800 | 26,583 | 31,416 | 127,886 | +4.6% | +11.7% | +7.0% |
| Optical and other products | 38,599 | 49,001 | 181,500 | 27,543 | 26,067 | 115,487 | +40.1% | +88.0% | +57.2% |
| Total | 213,694 | 245,806 | 954,500 | 208,094 | 208,024 | 856,205 | +2.7% | +18.2% | +11.5% |
| Overseas | | | | | | | | | |
| Business machines | 483,856 | 511,944 | 2,098,100 | 439,586 | 452,936 | 1,889,569 | +10.1% | +13.0% | +11.0% |
| Office imaging products | 196,272 | 219,028 | 861,700 | 179,520 | 202,735 | 795,551 | +9.3% | +8.0% | +8.3% |
| Computer peripherals | 278,842 | 284,258 | 1,200,200 | 252,915 | 241,913 | 1,061,179 | +10.3% | +17.5% | +13.1% |
| Business information products | 8,742 | 8,658 | 36,200 | 7,151 | 8,288 | 32,839 | +22.2% | +4.5% | +10.2% |
| Cameras | 164,263 | 216,637 | 843,400 | 133,328 | 187,825 | 751,300 | +23.2% | +15.3% | +12.3% |
| Optical and other products | 61,459 | 62,341 | 244,000 | 62,359 | 63,688 | 257,117 | -1.4% | -2.1% | -5.1% |
| Total | 709,578 | 790,922 | 3,185,500 | 635,273 | 704,449 | 2,897,986 | +11.7% | +12.3% | +9.9% |
| Americas | | | | | | | | | |
| Business machines | 207,570 | 214,130 | 888,200 | 187,548 | 187,418 | 795,268 | +10.7% | +14.3% | +11.7% |
| Office imaging products | 87,979 | 98,121 | 386,600 | 76,866 | 88,903 | 353,384 | +14.5% | +10.4% | +9.4% |

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| | | | | | | | | | |
|-------------------------------|----------------|----------------|------------------|----------------|----------------|------------------|---------------|---------------|---------------|
| Computer peripherals | 115,138 | 112,162 | 484,000 | 107,126 | 94,660 | 425,877 | +7.5% | +18.5% | +13.6% |
| Business information products | 4,453 | 3,847 | 17,600 | 3,556 | 3,855 | 16,007 | +25.2% | -0.2% | +10.0% |
| Cameras | 64,672 | 86,828 | 352,300 | 52,037 | 72,528 | 308,667 | +24.3% | +19.7% | +14.1% |
| Optical and other products | 12,825 | 15,275 | 62,900 | 9,138 | 9,457 | 42,015 | +40.3% | +61.5% | +49.7% |
| Total | 285,067 | 316,233 | 1,303,400 | 248,723 | 269,403 | 1,145,950 | +14.6% | +17.4% | +13.7% |
| Europe | | | | | | | | | |
| Business machines | 208,852 | 225,948 | 920,900 | 193,422 | 204,604 | 838,081 | +8.0% | +10.4% | +9.9% |
| Office imaging products | 86,223 | 95,877 | 377,700 | 82,557 | 93,515 | 357,188 | +4.4% | +2.5% | +5.7% |
| Computer peripherals | 119,009 | 126,191 | 528,000 | 107,902 | 107,498 | 466,965 | +10.3% | +17.4% | +13.1% |
| Business information products | 3,620 | 3,880 | 15,200 | 2,963 | 3,591 | 13,928 | +22.2% | +8.0% | +9.1% |
| Cameras | 64,647 | 89,753 | 327,900 | 57,331 | 84,502 | 316,769 | +12.8% | +6.2% | +3.5% |
| Optical and other products | 8,122 | 7,478 | 34,000 | 6,583 | 5,224 | 26,408 | +23.4% | +43.1% | +28.7% |
| Total | 281,621 | 323,179 | 1,282,800 | 257,336 | 294,330 | 1,181,258 | +9.4% | +9.8% | +8.6% |
| Other areas | | | | | | | | | |
| Business machines | 67,434 | 71,866 | 289,000 | 58,616 | 60,914 | 256,220 | +15.0% | +18.0% | +12.8% |
| Office imaging products | 22,070 | 25,030 | 97,400 | 20,097 | 20,317 | 84,979 | +9.8% | +23.2% | +14.6% |
| Computer peripherals | 44,695 | 45,905 | 188,200 | 37,887 | 39,755 | 168,337 | +18.0% | +15.5% | +11.8% |
| Business information products | 669 | 931 | 3,400 | 632 | 842 | 2,904 | +5.9% | +10.6% | +17.1% |
| Cameras | 34,944 | 40,056 | 163,200 | 23,960 | 30,795 | 125,864 | +45.8% | +30.1% | +29.7% |
| Optical and other products | 40,512 | 39,588 | 147,100 | 46,638 | 49,007 | 188,694 | -13.1% | -19.2% | -22.0% |
| Total | 142,890 | 151,510 | 599,300 | 129,214 | 140,716 | 570,778 | +10.6% | +7.7% | +5.0% |
| Total | | | | | | | | | |
| Business machines | 631,153 | 673,647 | 2,734,300 | 593,554 | 603,477 | 2,502,401 | +6.3% | +11.6% | +9.3% |

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| | | | | | | | | | |
|-------------------------------|---------|-----------|-----------|---------|---------|-----------|--------|--------|--------|
| Office imaging products | 286,488 | 313,712 | 1,239,300 | 275,083 | 292,716 | 1,153,240 | +4.1% | +7.2% | +7.5% |
| Computer peripherals | 316,796 | 329,804 | 1,388,500 | 292,292 | 285,445 | 1,244,906 | +8.4% | +15.5% | +11.5% |
| Business information products | 27,869 | 30,131 | 106,500 | 26,179 | 25,316 | 104,255 | +6.5% | +19.0% | +2.2% |
| Cameras | 192,061 | 251,739 | 980,200 | 159,911 | 219,241 | 879,186 | +20.1% | +14.8% | +11.5% |
| Optical and other products | 100,058 | 111,342 | 425,500 | 89,902 | 89,755 | 372,604 | +11.3% | +24.1% | +14.2% |
| Total | 923,272 | 1,036,728 | 4,140,000 | 843,367 | 912,473 | 3,754,191 | +9.5% | +13.6% | +10.3% |

(P)=Projection

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Canon Inc.

2. SEGMENT INFORMATION BY PRODUCT

(Millions of yen)

| | 2006 | | | 2005 | | | Change year over year | | |
|-------------------------------------|-------------|--------------------|-------------|-------------|-------------|-----------|-----------------------|----------------|--------|
| | 1st quarter | 2nd quarter (P) | Year (P) | 1st quarter | 2nd quarter | Year | 1st quarter | 2nd quarter | Year |
| Business machines | | | | | | | | | |
| Unaffiliated customers Intersegment | 631,153 | 673,647 | 2,734,300 | 593,554 | 603,477 | 2,502,401 | +6.3% | +11.6% | +9.3% |
| Total sales | 631,153 | 673,647 | 2,734,300 | 593,554 | 603,477 | 2,502,401 | +6.3% | +11.6% | +9.3% |
| Operating profit | 152,168 | 141,732 | 619,800 | 140,828 | 118,625 | 542,028 | +8.1% | +19.5% | +14.3% |
| % of sales | 24.1% | 21.0% | 22.7% | 23.7% | 19.7% | 21.7% | | | |
| Cameras | | | | | | | | | |
| Unaffiliated customers Intersegment | 192,061 | 251,739 | 980,200 | 159,911 | 219,241 | 879,186 | +20.1% | +14.8% | +11.5% |
| Total sales | 192,061 | 251,739 | 980,200 | 159,911 | 219,241 | 879,186 | +20.1% | +14.8% | +11.5% |
| Operating profit | 44,039 | 46,461 | 211,100 | 23,815 | 38,039 | 173,706 | +84.9% | +22.1% | +21.5% |
| % of sales | 22.9% | 18.5% | 21.5% | 14.9% | 17.4% | 19.8% | | | |
| Optical and other products | | | | | | | | | |
| Unaffiliated customers Intersegment | 100,058 | 111,342 | 425,500 | 89,902 | 89,755 | 372,604 | +11.3% | +24.1% | +14.2% |
| Intersegment | 41,397 | 42,603 | 170,000 | 35,181 | 36,637 | 158,114 | +17.7% | +16.3% | +7.5% |
| Total sales | 141,455 | 153,945 | 595,500 | 125,083 | 126,392 | 530,718 | +13.1% | +21.8% | +12.2% |
| Operating profit | 14,526 | 8,674 | 45,700 | 12,679 | 8,360 | 38,820 | +14.6% | +3.8% | +17.7% |
| % of sales | 10.3% | 5.6% | 7.7% | 10.1% | 6.6% | 7.3% | | | |
| Corporate and Eliminations | | | | | | | | | |
| Unaffiliated customers Intersegment | -41,397 | -42,603 | -170,000 | -35,181 | -36,637 | -158,114 | | | |
| Total sales | -41,397 | -42,603 | -170,000 | -35,181 | -36,637 | -158,114 | | | |

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| | | | | | | | | | |
|------------------------|---------|-----------|-----------|---------|---------|-----------|--------|--------|--------|
| Operating profit | -40,598 | -47,002 | -190,600 | -34,040 | -38,117 | -171,511 | | | |
| Consolidated | | | | | | | | | |
| Unaffiliated customers | 923,272 | 1,036,728 | 4,140,000 | 843,367 | 912,473 | 3,754,191 | +9.5% | +13.6% | +10.3% |
| Intersegment | | | | | | | | | |
| Total sales | 923,272 | 1,036,728 | 4,140,000 | 843,367 | 912,473 | 3,754,191 | +9.5% | +13.6% | +10.3% |
| Operating profit | 170,135 | 149,865 | 686,000 | 143,282 | 126,907 | 583,043 | +18.7% | +18.1% | +17.7% |
| % of sales | 18.4% | 14.5% | 16.6% | 17.0% | 13.9% | 15.5% | | | |

(P)=Projection

3. OTHER INCOME / DEDUCTIONS

(Millions of yen)

| | 1st quarter | 2006 | Year (P) | 1st quarter | 2005 | Year | Change year over year | | |
|--|----------------|-----------------------|-------------|----------------|----------------|--------|-----------------------|----------------|---------|
| | | 2nd quarter (P) | | | 2nd quarter | | 1st quarter | 2nd quarter | Year |
| Interest and dividend, net | 4,607 | 5,193 | 19,600 | 2,213 | 2,986 | 12,511 | +2,394 | +2,207 | +7,089 |
| Forex gain / loss | -8,084 | -4,616 | -24,400 | 741 | -1,639 | -3,710 | -8,825 | -2,977 | -20,690 |
| Equity earnings / loss of affiliated companies | 1,541 | 359 | 2,800 | 1,153 | 908 | 1,646 | +388 | -549 | +1,154 |
| Other, net | 1,392 | 2,608 | 6,000 | 2,062 | 5,120 | 18,514 | -670 | -2,512 | -12,514 |
| Total | -544 | 3,544 | 4,000 | 6,169 | 7,375 | 28,961 | -6,713 | -3,831 | -24,961 |

(P)=Projection

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Canon Inc.

4. SALES COMPOSITION BY PRODUCT

| | 1st quarter | 2006 2nd quarter (P) | Year (P) | 1st quarter | 2005 2nd quarter | Year |
|---|----------------|-------------------------------|-------------|----------------|------------------------|------|
| Office imaging products | | | | | | |
| Monochrome copying machines | 53% | 54% | 52% | 57% | 56% | 56% |
| Color copying machines | 30% | 30% | 31% | 26% | 29% | 28% |
| Others | 17% | 16% | 17% | 17% | 15% | 16% |
| Computer peripherals | | | | | | |
| Laser beam printers | 75% | 72% | 70% | 73% | 71% | 71% |
| Inkjet printers (includes inkjet MFPs) | 24% | 27% | 29% | 25% | 27% | 27% |
| Others | 1% | 1% | 1% | 2% | 2% | 2% |
| Business information products | | | | | | |
| Personal computers | 68% | 72% | 67% | 72% | 68% | 69% |
| Others | 32% | 28% | 33% | 28% | 32% | 31% |
| Cameras | | | | | | |
| Film cameras / Lenses | 16% | 15% | 15% | 15% | 16% | 17% |
| Digital cameras | 73% | 73% | 73% | 72% | 72% | 72% |
| Video cameras | 11% | 12% | 12% | 13% | 12% | 11% |
| Optical and other products | | | | | | |
| Semiconductor production equipment | 52% | 54% | 52% | 69% | 66% | 64% |
| Others | 48% | 46% | 48% | 31% | 34% | 36% |

(P)=Projection

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

| | 1st quarter | 2006 2nd quarter (P) | Year (P) |
|--------------------------|----------------|----------------------------|-------------|
| Business machines | | | |
| Japan | -4.3% | +7.4% | +3.8% |
| Overseas | +1.5% | +6.5% | +6.6% |
| Total | 0.0% | +6.7% | +5.9% |
| Cameras | | | |
| Japan | +4.6% | +11.7% | +7.0% |
| Overseas | +14.5% | +9.4% | +8.6% |

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| | | | |
|-----------------------------------|--------|--------|--------|
| Total | +12.8% | +9.7% | +8.3% |
| Optical and other products | | | |
| Japan | +40.1% | +88.0% | +57.2% |
| Overseas | -6.0% | -5.6% | -8.0% |
| Total | +8.1% | +21.6% | +12.2% |
| Total | | | |
| Japan | +2.7% | +18.2% | +11.5% |
| Overseas | +3.5% | +6.2% | +5.8% |
| Americas | +2.5% | +8.2% | +7.7% |
| Europe | +4.9% | +6.6% | +6.5% |
| Other areas | +2.5% | +1.5% | +0.5% |
| Total | +3.3% | +8.9% | +7.1% |

(P)=Projection

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Canon Inc.

6. P&L SUMMARY (2nd Quarter 2006/Projection)

(Millions of yen)

| | 2006 2nd quarter (P) | 2005 2nd quarter | Change year over year |
|---|----------------------------|---------------------|-----------------------------|
| Net sales | 1,036,728 | 912,473 | +13.6% |
| Operating profit | 149,865 | 126,907 | +18.1% |
| Income before income taxes and minority interests | 153,409 | 134,282 | +14.2% |
| Net income | 92,731 | 82,211 | +12.8% |

(P)=Projection

7. PROFITABILITY

| | 2006 | | 2005 | |
|-----|----------------|----------|----------------|-------|
| | 1st quarter | Year (P) | 1st quarter | Year |
| ROE | 16.5% | 15.6% | 16.6% | 16.0% |
| ROA | 10.8% | 10.1% | 10.4% | 10.1% |

(P)=Projection

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

(Yen)

| | 2006 | | | 2005 | |
|----------|----------------|---------------------------|----------|----------------|--------|
| | 1st quarter | 2nd-4th quarter (P) | Year (P) | 1st quarter | Year |
| Yen/US\$ | 116.96 | 117.00 | 116.99 | 104.58 | 110.58 |
| Yen/Euro | 140.71 | 138.00 | 138.59 | 137.04 | 137.04 |

(P)=Projection

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

(Billions of yen)

| | 2006 | |
|------------------|----------------|----------|
| | 1st quarter | Year (P) |
| US\$ | +34.8 | +85.5 |
| Euro | +5.6 | +11.2 |
| Other currencies | +2.4 | +6.9 |
| Total | +42.8 | +103.6 |

(P)=Projection

(3) Impact of foreign exchange rates per yen

(Billions of yen)

2006

| | |
|---------------------|------------------------|
| | 2nd-4th quarter (P) |
| On sales | |
| US\$ | 11.0 |
| Euro | 5.8 |
| On operating profit | |
| US\$ | 6.1 |
| Euro | 4.3 |
| | (P)=Projection |

9. STATEMENTS OF CASH FLOWS

(Millions of yen)

| | 2006 | | 2005 | |
|--|-------------|-----------|-------------|-----------|
| | 1st quarter | Year (P) | 1st quarter | Year |
| Net cash provided by operating activities | | | | |
| Net income | 108,269 | 432,000 | 93,057 | 384,096 |
| Depreciation and amortization | 53,331 | 240,000 | 46,631 | 225,941 |
| Other, net | -46,701 | 18,000 | -62,999 | -4,359 |
| Total | 114,899 | 690,000 | 76,689 | 605,678 |
| Net cash used in investing activities | -124,059 | -500,000 | -97,578 | -401,141 |
| Free cash flow | -9,160 | 190,000 | -20,889 | 204,537 |
| Net cash used in financing activities | -56,434 | -107,000 | -37,466 | -93,939 |
| Effect of exchange rate changes on cash and cash equivalents | -1,992 | -5,000 | 7,728 | 6,581 |
| Net change in cash and cash equivalents | -67,586 | 78,000 | -50,627 | 117,179 |
| Cash and cash equivalents at end of period | 937,367 | 1,083,000 | 837,147 | 1,004,953 |

(P)=Projection

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Canon Inc.

10. R&D EXPENDITURE

(Millions of yen)

| | 2006 | | 2005 | |
|----------------------------|----------------|----------|----------------|---------|
| | 1st quarter | Year (P) | 1st quarter | Year |
| Business machines | 25,321 | | 25,012 | 117,219 |
| Cameras | 9,962 | | 9,452 | 39,746 |
| Optical and other products | 31,867 | | 24,705 | 129,511 |
| Total | 67,150 | 325,000 | 59,169 | 286,476 |
| % of sales | 7.3% | 7.9% | 7.0% | 7.6% |

(P)=Projection

11. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION

(Millions of yen)

| | 2006 | | 2005 | |
|-------------------------------|----------------|----------|----------------|---------|
| | 1st quarter | Year (P) | 1st quarter | Year |
| Capital expenditure | 72,552 | 470,000 | 91,776 | 383,784 |
| Depreciation and amortization | 53,331 | 240,000 | 46,631 | 225,941 |

(P)=Projection

12. INVENTORIES**(1) Inventories**

(Millions of yen)

| | 2006 | 2005 | Difference |
|----------------------------|---------|---------|------------|
| | Mar.31 | Dec.31 | |
| Business machines | 283,810 | 267,121 | +16,689 |
| Cameras | 105,676 | 88,831 | +16,845 |
| Optical and other products | 155,588 | 154,243 | +1,345 |
| Total | 545,074 | 510,195 | +34,879 |

(2) Inventories/Sales*

(Days)

| | 2006 | 2005 | Difference |
|----------------------------|--------|--------|------------|
| | Mar.31 | Dec.31 | |
| Business machines | 39 | 37 | +2 |
| Cameras | 39 | 32 | +7 |
| Optical and other products | 131 | 146 | -15 |
| Total | 49 | 47 | +2 |

*Index based on the previous six months sales.

13. DEBT RATIO

| | 2006 Mar.31 | 2005 Dec.31 | Difference |
|---------------------------|----------------|----------------|------------|
| Total debt / Total assets | 0.8% | 0.8% | 0.0% |

14. OVERSEAS PRODUCTION RATIO

| | 2006 1st quarter | 2005 Year |
|---------------------------|---------------------|--------------|
| Overseas production ratio | 41% | 40% |

15. NUMBER OF EMPLOYEES

| | 2006 Mar.31 | 2005 Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan | 48,709 | 48,637 | +72 |
| Overseas | 69,219 | 66,946 | +2,273 |
| Total | 117,928 | 115,583 | +2,345 |

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