

CANON INC  
Form 6-K  
October 27, 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 October, 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

CONSOLIDATED RESULTS FOR THE THIRD QUARTER AND THE NINE MONTHS ENDED  
SEPTEMBER 30, 2006

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CANON INC.**  
(Registrant)

Date **October 26, 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 Third Quarter And The Nine Months Ended September 30, 2006

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THE NINE MONTHS ENDED SEPTEMBER 30, 2006**

October 26, 2006

**CONSOLIDATED RESULTS FOR THE THIRD QUARTER**

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

|   | Actual  |   |           |  | Three months ended September 30, 2006 (Unaudited) |
|---|---|---|-----------|--|---|
|   | Three months ended September 30, 2006 (Unaudited) | Three months ended September 30, 2005 (Unaudited) | Change(%) |  |   |
| Net sales   | ¥ 987,969   | ¥ 878,503   | + 12.5    |  | \$ 8,372,619                                      |
| Operating profit                                  | 172,686   | 143,565   | + 20.3    |  | 1,463,441   |
| Income before income taxes and minority interests | 180,326   | 155,312   | + 16.1    |  | 1,528,186   |
| Net income  | ¥ 115,587   | ¥ 100,617   | + 14.9    |  | \$ 979,551  |
| Net income per share:                             |   |   |           |  |   |
| - Basic   | ¥ 86.80   | ¥ 75.60   | + 14.8    |  | \$ 0.74   |
| - Diluted   | 86.78   | 75.54   | + 14.9    |  | 0.74  |

**CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006**

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

|   | Actual   |  |           | Projected  |                               |           |
|---|--|--|-----------|--|-------------------------------|-----------|
|   | Nine months ended September 30, 2006 (Unaudited) | Nine months ended September 30, 2005 (Unaudited) | Change(%) | Nine months ended September 30, 2006 (Unaudited) | Year ending December 31, 2006 | Change(%) |
| Net sales   | ¥ 2,940,224                                      | ¥ 2,634,343                                      | + 11.6    | \$ 24,917,153                                    | ¥ 4,140,000                   | + 10.3    |
| Operating profit                                  | 511,163  | 413,754  | + 23.5    | 4,331,890  | 691,000                       | + 18.5    |
| Income before income taxes and minority interests | 521,371  | 439,045  | + 18.8    | 4,418,398  | 700,000                       | + 14.4    |
| Net income  | ¥ 329,761  | ¥ 275,885  | + 19.5    | \$ 2,794,585                                     | ¥ 440,000                     | + 14.6    |
| Net income per share:                             |  |  |           |  |                               |           |
| - Basic   | ¥ 247.66   | ¥ 207.34   | + 19.4    | \$ 2.10  | ¥ 330.43                      | + 14.5    |
| - Diluted   | 247.57   | 207.12   | + 19.5    | 2.10   |                               |           |

Actual

As of                      As of                      As of

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|                            | <b>September<br/>30, 2006<br/>(Unaudited)</b> | December 31,<br>2005 | Change(%) | <b>September 30,<br/>2006<br/>(Unaudited)</b> |
|----------------------------|---|----------------------|-----------|---|
| <b>Total assets</b>        | <b>¥4,239,166</b>                             | ¥ 4,043,553          | + 4.8     | <b>\$ 35,925,136</b>                          |
| <b>Stockholders equity</b> | <b>¥2,853,200</b>                             | ¥ 2,604,682          | + 9.5     | <b>\$ 24,179,661</b>                          |

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 JPY118=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of September 29, 2006, solely for the convenience of the reader.

3. Based on the resolution of Board of Director's meeting held on May 11, 2006, Canon has made a three-for-two stock split on July 1, 2006, for shareholders recorded in the shareholders' register as of June 30, 2006. The basic net income per share, diluted net income per share, and projected net income per share has been calculated based on the number of outstanding shares following the implementation of the stock split. The per share information for the prior periods has been restated.

Canon Inc.  
Headquarter office

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

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**Table of Contents****Operating Results and Financial Conditions****2006 Third Quarter in Review**

Looking back at the global economy in the third quarter of 2006, in the United States, despite signs that the economy slowed down somewhat, domestic demand expanded as crude oil prices and interest rates stabilized, leading to increased private-sector spending and corporate capital investment. In Europe, in addition to gradually expanding domestic demand centered on consumer spending, exports also showed signs of moderate recovery. Within Asia, China maintained a high growth rate while other economies in the region also enjoyed generally favorable performances. In Japan, the economy maintained a trend toward recovery amid increases in capital spending fueled by strong corporate performances, as well as favorable employment conditions.

As for the markets in which the Canon Group operates, within the camera segment demand for digital single-lens reflex (SLR) cameras and compact digital cameras continued to realize healthy growth during the term. Within the office imaging product market, demand for network digital multifunction devices (MFDs) remained solid amid the shift toward color. As for computer peripherals, including printers, while demand within the laser beam printer market grew for color models, and shifted rapidly within the inkjet printer market from single-function to multifunction models, the segment suffered amid severe price competition. In the optical equipment segment, although the market for projection aligners, which are used to produce liquid crystal display (LCD) panels, declined due to restrained investment by LCD manufacturers, the market for steppers, used in the production of semiconductors, indicated a trend toward moderate recovery. The average value of the yen for the third quarter was ¥116.29 to the U.S. dollar and ¥148.19 to the euro, representing year-on-year decreases of about 5% against the U.S. dollar, and 9% against the euro. Amid these conditions, Canon's consolidated net sales for the third quarter increased by 12.5% from the year-ago period to ¥988.0 billion (U.S.\$8,373 million), boosted by a solid rise in sales of digital cameras and laser beam printers, along with the positive effects of the depreciation of the yen. The gross profit ratio improved 0.5 points year on year to reach 49.4%. The improved gross profit ratio was mainly the result of such factors as the in-house manufacturing of key components and key devices, cost-reduction efforts realized through ongoing production-reform and procurement-reform activities, and favorable sales of new high value-added products, which absorbed the negative effects of severe price competition in the consumer product market. Owing to the increase in sales and improved gross profit ratio, gross profit in the third quarter increased by 13.5% to ¥488.0 billion (U.S.\$4,136 million). As for operating expenses, while third quarter R&D expenditures grew by ¥5.7 billion (U.S.\$48 million) from the year-ago period to ¥70.7 billion (U.S.\$599 million), the operating expense to net sales ratio improved 0.7 points year on year. This was achieved by limiting growth in selling, general and administrative expenses at the same basic level as for the corresponding period of last year, with the exception of a temporary increase in expenses related to the relocation of operation bases. Consequently, operating profit in the third quarter totaled ¥172.7 billion (U.S.\$1,463 million), a year-on-year increase of 20.3%, and the operating profit ratio improved 1.2 points year on year to reach 17.5%. Other income (deductions) declined ¥4.1 billion (U.S.\$35 million) due to a decrease in gains on sales of securities although interest income grew in line with the rise in the interest rate. Income before income taxes and minority interests in the third quarter totaled ¥180.3 billion (U.S.\$1,528 million), a year-on-year increase of 16.1%, while third-quarter net income totaled ¥115.6 billion (U.S.\$980 million), a year-on-year increase of 14.9%, representing all-time highs for both items on a quarterly basis.

Basic net income per share for the third quarter was ¥86.80 (U.S.\$0.74), a year-on-year increase of ¥11.20 (U.S.\$0.09). (Note: The basic net income per share calculation is based on the number of outstanding shares following the implementation of the stock split executed on July 1, 2006.)

**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, continued to shift toward color models in the overseas market, as well as in the domestic Japanese market. Amid these conditions, in addition to low growth for color network digital MFDs due to a delay in launching new models, sales of monochrome network digital MFDs declined as demand shifted toward color models. Overall, sales of office imaging products for the third quarter dipped slightly, decreasing 1.9% year on year. In the field of computer peripherals, sales of laser beam printers were strong for color models and low-end monochrome models, while sales of consumables also recorded healthy growth, resulting in a year-on-year sales increase of 17.6%. As for inkjet printers, despite a decline in the unit sales of single-function models and severe price competition in the market, sales in value terms increased by 10.0% thanks to such factors as a significant increase in unit sales of multifunction models, such as the mid-level PIXMA MP500 and overseas new entry-level-model PIXMA MP160, as well as favorable sales growth for consumables. As a result, sales of computer peripherals for the third quarter increased 15.3% year on year. Within the field of business information products, demand for document scanners grew moderately, contributing to a sales increase of 3.2%. Collectively, sales of business machines for the third quarter totaled ¥639.5 billion (U.S.\$5,419 million), a year-on-year increase of 6.9%. Operating profit for the business machines segment totaled ¥139.1 billion (U.S.\$1,179 million) for the third quarter, an increase of 5.1% year on year, supported by such factors as an improvement in the expense ratio and an increase in gross profit accompanying the growth in sales.

In the camera segment, among digital SLR cameras, the new model EOS DIGITAL REBEL XT<sub>i</sub> has been well received while sales of interchangeable lenses increased significantly. Sales of compact-model digital cameras also continued to expand steadily, with healthy demand for the PowerShot SD700 IS, PowerShot SD630, and PowerShot SD600 models launched in the first half. Accordingly, unit sales of digital cameras for the third quarter expanded nearly 30% compared with the year-ago period. In the field of digital video camcorders, newly introduced HDV models for consumer use delivered strong performances, as did Mini DV and DVD models. As a result, camera sales overall for the third quarter increased by 15.7% from the year-ago period to ¥235.1 billion (U.S.\$1,993 million). The gross profit ratio for the camera segment also rose substantially, boosted by such factors as favorable sales of high value-added products, along with the in-house manufacturing of key components and key devices and cost-reduction efforts realized through production-reform and procurement-reform activities. As a result, operating profit in the camera segment for the third quarter increased by 38.1% year on year to ¥67.4 billion (U.S.\$571 million).

In the optical and other products segment, sales of optical products overall grew as steppers, used in the production of semiconductors, enjoyed steady demand. As for the other products included in the segment, the subsidiaries that were acquired last year contributed to significant sales growth. As a result, third quarter sales for the optical and other products segment totaled ¥113.3 billion (U.S.\$960 million), a year-on-year increase of 46.9%. Operating profit for the segment for the third quarter grew by 55.6% year on year to ¥14.4 billion (U.S.\$122 million), boosted by the increase in gross profit accompanying the increase in sales.

**Cash Flow**

In the nine months ended September 30, 2006, Canon generated cash flow from operating activities of ¥459.8 billion (U.S.\$3,896 million), a year-on-year increase of ¥91.1 billion (U.S.\$772 million), reflecting the substantial growth in sales and increased cash proceeds from sales, combined with a significant increase in net income. Capital expenditures totaled ¥318.8 billion (U.S.\$2,702 million), which were 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 ¥328.3 billion (U.S.\$2,782 million). As a result, free cash flow totaled ¥131.5 billion (U.S.\$1,114 million), an improvement of ¥51.2 billion (U.S.\$433 million) from the year-ago period.

Cash flow from financing activities recorded an outlay of ¥105.9 billion (U.S.\$897 million), mainly resulting from the dividend payout of ¥104.3 billion (U.S.\$884 million), an increase of ¥40.0 billion (U.S.\$339 million) compared with the previous year. Consequently, cash and cash equivalents remained at a high level, totaling ¥1,024.5 billion (U.S.\$8,682 million), an increase of ¥19.5 billion (U.S.\$166 million) from the end of the previous year.



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**Outlook**

As for the outlook for the global economy in the fourth quarter, although there are concerns over such issues as currency exchange rates, interest rates in major countries, and pricing of raw materials, as well as rising tensions in the Korean Peninsula, crude oil prices appear to have stabilized for the time being and the global economy is expected to continue recording favorable growth.

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

In light of the latest business performance, the company has revised its forecasts for the 2006 fiscal year and now anticipates consolidated net sales of ¥4,140.0 billion (U.S.\$35,085 million) while maintaining its forecasts for consolidated income before income taxes and minority interests of ¥700.0 billion (U.S.\$5,932 million), and consolidated net income of ¥440.0 billion (U.S.\$3,729 million). As for non-consolidated forecasts, the company has revised its projections for non-consolidated net sales to ¥2,722.0 billion (U.S.\$23,068 million), non-consolidated ordinary profit to ¥510.0 billion (U.S.\$4,322 million), and non-consolidated net income to ¥325.0 billion (U.S.\$2,754 million). These forecasts assume currency exchange rates of ¥115 to the U.S. dollar and ¥148 to the euro, representing an approximately 2% appreciation of the yen against the U.S. dollar, and an approximately 6% depreciation of the yen against the euro compared with the previous year.

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Fiscal year**

|  | Millions of yen            |                        |          | Year ended<br>December<br>31, 2005 | Change<br>(%) |
|--|----------------------------|------------------------|----------|------------------------------------|---------------|
|  | Year ending                |                        | Change   |                                    |               |
|  | December 31, 2006          |                        |          |                                    |               |
|  | Previous<br>Outlook<br>(A) | Revised Outlook<br>(B) |          |                                    |               |
| Net sales  | ¥ 4,130,000                | ¥ 4,140,000            | ¥ 10,000 | ¥ 3,754,191                        | + 10.3%       |
| Income before income taxes and<br>minority interests | 700,000                    | 700,000                |          | 612,004                            | + 14.4%       |
| Net income   | 440,000                    | 440,000                |          | 384,096                            | + 14.6%       |

**Non-consolidated Outlook  
Fiscal year**

|                 | Millions of yen            |                        |          | Year ended<br>December<br>31, 2005 | Change<br>(%) |
|-----------------|----------------------------|------------------------|----------|------------------------------------|---------------|
|                 | Year ending                |                        | Change   |                                    |               |
|                 | December 31, 2006          |                        |          |                                    |               |
|                 | Previous<br>Outlook<br>(A) | Revised Outlook<br>(B) |          |                                    |               |
| Net sales       | ¥ 2,700,000                | ¥ 2,722,000            | ¥ 22,000 | ¥ 2,481,481                        | + 9.7%        |
| Ordinary profit | 500,000                    | 510,000                | 10,000   | 440,711                            | + 15.7%       |
| Net income      | 316,000                    | 325,000                | 9,000    | 289,294                            | + 12.3%       |

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

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

|  | Millions of yen  |   |           | Thousands of<br>U.S. dollars   |
|--|--|---|-----------|--|
|  | <b>Three<br/>months<br/>ended<br/>September<br/>30, 2006<br/>(Unaudited)</b> | Three months<br>ended<br>September 30,<br>2005<br>(Unaudited) | Change(%) | <b>Three months<br/>ended<br/>September 30,<br/>2006<br/>(Unaudited)</b> |
| Net sales  | ¥987,969   | ¥ 878,503   | + 12.5    | \$ 8,372,619   |
| Cost of sales  | 499,928  | 448,651   |           | 4,236,678  |
| Gross profit   | 488,041  | 429,852   | + 13.5    | 4,135,941  |
| Selling, general and administrative<br>expenses      | 244,663  | 221,273   |           | 2,073,415  |
| Research and development expenses                    | 70,692   | 65,014  |           | 599,085  |
|  | 315,355  | 286,287   |           | 2,672,500  |
| Operating profit                                     | 172,686  | 143,565   | + 20.3    | 1,463,441  |
| Other income (deductions):                           |  |   |           |  |
| Interest and dividend income                         | 7,299  | 3,573   |           | 61,856   |
| Interest expense                                     | (560)  | (369)   |           | (4,746)  |
| Other, net   | 901  | 8,543   |           | 7,635  |
|  | 7,640  | 11,747  |           | 64,745   |
| Income before income taxes and minority<br>interests | 180,326  | 155,312   | + 16.1    | 1,528,186  |
| Income taxes   | 61,031   | 51,276  |           | 517,211  |
| Income before minority interests                     | 119,295  | 104,036   |           | 1,010,975  |
| Minority interests                                   | 3,708  | 3,419   |           | 31,424   |
| Net income   | ¥115,587   | ¥ 100,617   | + 14.9    | \$ 979,551   |

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains (losses) on securities, change in net gains (losses) on derivative financial instruments and change in minimum pension liability adjustments. Comprehensive income for the three months ended September 30, 2006 and 2005 were JPY135,362 million (U.S.\$1,147,136 thousand) and JPY112,928 million, respectively.

**Results for the nine months**

Millions of yen

Thousands of  
U.S. dollars

|   | <b>Nine<br/>months<br/>ended<br/>September<br/>30, 2006<br/>(Unaudited)</b> | Nine months<br>ended<br>September 30,<br>2005<br>(Unaudited) | Change(%) | <b>Nine months<br/>ended<br/>September 30,<br/>2006<br/>(Unaudited)</b> |
|---|---|--|-----------|---|
| Net sales   | ¥ <b>2,940,224</b>  | ¥ 2,634,343  | + 11.6    | \$ <b>24,917,153</b>  |
| Cost of sales                                     | <b>1,473,470</b>  | 1,354,451  |           | <b>12,487,034</b>   |
| Gross profit                                      | <b>1,466,754</b>  | 1,279,892  | + 14.6    | <b>12,430,119</b>   |
| Selling, general and administrative expenses      | <b>738,372</b>  | 664,738  |           | <b>6,257,390</b>  |
| Research and development expenses                 | <b>217,219</b>  | 201,400  |           | <b>1,840,839</b>  |
|   | <b>955,591</b>  | 866,138  |           | <b>8,098,229</b>  |
| Operating profit                                  | <b>511,163</b>  | 413,754  | + 23.5    | <b>4,331,890</b>  |
| Other income (deductions):                        |   |  |           |   |
| Interest and dividend income                      | <b>18,442</b>   | 9,543  |           | <b>156,288</b>  |
| Interest expense                                  | <b>(1,185)</b>  | (1,140)  |           | <b>(10,042)</b>   |
| Other, net  | <b>(7,049)</b>  | 16,888   |           | <b>(59,738)</b>   |
|   | <b>10,208</b>   | 25,291   |           | <b>86,508</b>   |
| Income before income taxes and minority interests | <b>521,371</b>  | 439,045  | + 18.8    | <b>4,418,398</b>  |
| Income taxes                                      | <b>179,845</b>  | 152,544  |           | <b>1,524,110</b>  |
| Income before minority interests                  | <b>341,526</b>  | 286,501  |           | <b>2,894,288</b>  |
| Minority interests                                | <b>11,765</b>   | 10,616   |           | <b>99,703</b>   |
| Net income  | ¥ <b>329,761</b>  | ¥ 275,885  | + 19.5    | \$ <b>2,794,585</b>   |

Note: Canon's comprehensive income consists of net income, change in foreign currency translation adjustments, change in net unrealized gains (losses) on securities, change in net gains (losses) on derivative financial instruments and change in minimum pension liability adjustments. Comprehensive income for the nine months ended September 30, 2006 and 2005 were JPY352,837 million (U.S.\$2,990,144 thousand) and JPY302,021 million, respectively.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**2. DETAILS OF SALES****Results for the third quarter**

| Sales by product                     | Millions of yen  |   |           | Thousands of<br>U.S. dollars                                  |
|--------------------------------------|--|---|-----------|---|
|                                      | Three<br>months<br>ended<br>September<br>30, 2006<br>(Unaudited) | Three months<br>ended<br>September 30,<br>2005<br>(Unaudited) | Change(%) | Three months<br>ended<br>September 30,<br>2006<br>(Unaudited) |
| Business machines:                   |  |   |           |   |
| <i>Office imaging products</i>       | ¥ 269,983  | ¥ 275,337   | 1.9       | \$ 2,287,992  |
| <i>Computer peripherals</i>          | 345,790  | 299,861   | + 15.3    | 2,930,424   |
| <i>Business information products</i> | 23,723   | 22,987  | + 3.2     | 201,042   |
|                                      | 639,496  | 598,185   | + 6.9     | 5,419,458   |
| Cameras                              | 235,141  | 203,160   | + 15.7    | 1,992,720   |
| Optical and other products           | 113,332  | 77,158  | + 46.9    | 960,441   |
| Total                                | ¥ 987,969  | ¥ 878,503   | + 12.5    | \$ 8,372,619  |

| Sales by region    | Millions of yen  |   |           | Thousands of<br>U.S. dollars                                  |
|--------------------|--|---|-----------|---|
|                    | Three<br>months<br>ended<br>September<br>30, 2006<br>(Unaudited) | Three months<br>ended<br>September 30,<br>2005<br>(Unaudited) | Change(%) | Three months<br>ended<br>September 30,<br>2006<br>(Unaudited) |
| Japan              | ¥ 219,251  | ¥ 195,320   | + 12.3    | \$ 1,858,059  |
| Overseas:          |  |   |           |   |
| <i>Americas</i>    | 299,811  | 274,177   | + 9.3     | 2,540,771   |
| <i>Europe</i>      | 297,762  | 270,621   | + 10.0    | 2,523,407   |
| <i>Other areas</i> | 171,145  | 138,385   | + 23.7    | 1,450,382   |
|                    | 768,718  | 683,183   | + 12.5    | 6,514,560   |
| Total              | ¥ 987,969  | ¥ 878,503   | + 12.5    | \$ 8,372,619  |

**Results for the nine months**

|  | Millions of yen |             | Thousands of<br>U.S. dollars |
|--|-----------------|-------------|------------------------------|
|  | Nine<br>months  | Nine months | Nine months                  |

| <b>Sales by product</b>              | <b>ended<br/>September<br/>30, 2006<br/>(Unaudited)</b> | <b>ended<br/>September 30,<br/>2005<br/>(Unaudited)</b> | <b>Change(%)</b> | <b>ended<br/>September 30,<br/>2006<br/>(Unaudited)</b> |
|--------------------------------------|---|---|------------------|---|
| Business machines:                   |   |   |                  |   |
| <i>Office imaging products</i>       | ¥ 855,420   | ¥ 843,136   | + 1.5            | \$ 7,249,322  |
| <i>Computer peripherals</i>          | 992,453   | 877,598   | + 13.1           | 8,410,619   |
| <i>Business information products</i> | 78,219  | 74,482  | + 5.0            | 662,873   |
|                                      | <b>1,926,092</b>  | <b>1,795,216</b>  | <b>+ 7.3</b>     | <b>16,322,814</b>                                       |
| Cameras                              | 695,426   | 582,312   | + 19.4           | 5,893,441   |
| Optical and other products           | 318,706   | 256,815   | + 24.1           | 2,700,898   |
| Total                                | ¥ 2,940,224   | ¥ 2,634,343   | + 11.6           | \$ 24,917,153   |

| <b>Sales by region</b> | Millions of yen   |   |                  | Thousands of<br>U.S. dollars  |
|------------------------|---|---|------------------|---|
|                        | <b>Nine<br/>months<br/>ended<br/>September<br/>30, 2006<br/>(Unaudited)</b> | <b>Nine months<br/>ended<br/>September 30,<br/>2005<br/>(Unaudited)</b> | <b>Change(%)</b> | <b>Nine months<br/>ended<br/>September 30,<br/>2006<br/>(Unaudited)</b> |
| Japan                  | ¥ 665,549   | ¥ 611,438   | + 8.8            | \$ 5,640,246  |
| Overseas:              |   |   |                  |   |
| <i>Americas</i>        | 894,284   | 792,303   | + 12.9           | 7,578,678   |
| <i>Europe</i>          | 908,705   | 822,287   | + 10.5           | 7,700,890   |
| <i>Other areas</i>     | 471,686   | 408,315   | + 15.5           | 3,997,339   |
|                        | <b>2,274,675</b>  | <b>2,022,905</b>  | <b>+ 12.4</b>    | <b>19,276,907</b>   |
| Total                  | ¥ 2,940,224   | ¥ 2,634,343   | + 11.6           | \$ 24,917,153   |

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.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**3. SEGMENT INFORMATION BY PRODUCT****Results for the third quarter**

|                                   | Millions of yen  |   |           | Thousands of<br>U.S. dollars                                  |
|-----------------------------------|--|---|-----------|---|
|                                   | Three<br>months<br>ended<br>September<br>30, 2006<br>(Unaudited) | Three months<br>ended<br>September 30,<br>2005<br>(Unaudited) | Change(%) | Three months<br>ended<br>September 30,<br>2006<br>(Unaudited) |
| <b>Business machines</b>          |  |   |           |   |
| Net sales:                        |  |   |           |   |
| Unaffiliated customers            | ¥ 639,496  | ¥ 598,185   | + 6.9     | \$ 5,419,458  |
| Intersegment                      |  |   |           |   |
| Total                             | 639,496  | 598,185   | + 6.9     | 5,419,458   |
| Operating cost and expenses       | 500,397  | 465,806   | + 7.4     | 4,240,653   |
| Operating profit                  | 139,099  | 132,379   | + 5.1     | 1,178,805   |
| <b>Cameras</b>                    |  |   |           |   |
| Net sales:                        |  |   |           |   |
| Unaffiliated customers            | ¥ 235,141  | ¥ 203,160   | + 15.7    | \$ 1,992,720  |
| Intersegment                      |  |   |           |   |
| Total                             | 235,141  | 203,160   | + 15.7    | 1,992,720   |
| Operating cost and expenses       | 167,751  | 154,365   | + 8.7     | 1,421,618   |
| Operating profit                  | 67,390   | 48,795  | + 38.1    | 571,102   |
| <b>Optical and other products</b> |  |   |           |   |
| Net sales:                        |  |   |           |   |
| Unaffiliated customers            | ¥ 113,332  | ¥ 77,158  | + 46.9    | \$ 960,441  |
| Intersegment                      | 49,879   | 41,721  | + 19.6    | 422,703   |
| Total                             | 163,211  | 118,879   | + 37.3    | 1,383,144   |
| Operating cost and expenses       | 148,852  | 109,651   | + 35.8    | 1,261,458   |
| Operating profit                  | 14,359   | 9,228   | + 55.6    | 121,686   |
| <b>Corporate and Eliminations</b> |  |   |           |   |
| Net sales:                        |  |   |           |   |
| Unaffiliated customers            | ¥  | ¥   |           | \$  |
| Intersegment                      | (49,879)   | (41,721)  |           | (422,703)   |

|                             |                 |          |  |                  |
|-----------------------------|-----------------|----------|--|------------------|
| Total                       | <b>(49,879)</b> | (41,721) |  | <b>(422,703)</b> |
| Operating cost and expenses | <b>(1,717)</b>  | 5,116    |  | <b>(14,551)</b>  |
| Operating profit            | <b>(48,162)</b> | (46,837) |  | <b>(408,152)</b> |

**Consolidated**

Net sales:

|                        |                  |           |        |                     |
|------------------------|------------------|-----------|--------|---------------------|
| Unaffiliated customers | ¥ <b>987,969</b> | ¥ 878,503 | + 12.5 | \$ <b>8,372,619</b> |
| Intersegment           |                  |           |        |                     |

|                             |                |         |        |                  |
|-----------------------------|----------------|---------|--------|------------------|
| Total                       | <b>987,969</b> | 878,503 | + 12.5 | <b>8,372,619</b> |
| Operating cost and expenses | <b>815,283</b> | 734,938 | + 10.9 | <b>6,909,178</b> |
| Operating profit            | <b>172,686</b> | 143,565 | + 20.3 | <b>1,463,441</b> |

Note: General corporate expenses of JPY48,073 million (U.S.\$407,398 thousand) and JPY46,850 million in the three months ended September 30, 2006 and 2005, respectively, are included in Corporate and Eliminations.

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

**Results for the nine months**

|                                   | Millions of yen   |  |           | Thousands of<br>U.S. dollars  |
|-----------------------------------|---|--|-----------|---|
|                                   | <b>Nine<br/>months<br/>ended<br/>September<br/>30, 2006<br/>(Unaudited)</b> | Nine months<br>ended<br>September 30,<br>2005<br>(Unaudited) | Change(%) | <b>Nine months<br/>ended<br/>September 30,<br/>2006<br/>(Unaudited)</b> |
| <b>Business machines</b>          |   |  |           |   |
| Net sales:                        |   |  |           |   |
| Unaffiliated customers            | ¥ <b>1,926,092</b>  | ¥ 1,795,216  | + 7.3     | \$ <b>16,322,814</b>  |
| Intersegment                      |   |  |           |   |
| Total                             | <b>1,926,092</b>  | 1,795,216  | + 7.3     | <b>16,322,814</b>   |
| Operating cost and expenses       | <b>1,492,428</b>  | 1,403,384  | + 6.3     | <b>12,647,695</b>   |
| Operating profit                  | <b>433,664</b>  | 391,832  | + 10.7    | <b>3,675,119</b>  |
| <b>Cameras</b>                    |   |  |           |   |
| Net sales:                        |   |  |           |   |
| Unaffiliated customers            | ¥ <b>695,426</b>  | ¥ 582,312  | + 19.4    | \$ <b>5,893,441</b>   |
| Intersegment                      |   |  |           |   |
| Total                             | <b>695,426</b>  | 582,312  | + 19.4    | <b>5,893,441</b>  |
| Operating cost and expenses       | <b>519,300</b>  | 471,663  | + 10.1    | <b>4,400,848</b>  |
| Operating profit                  | <b>176,126</b>  | 110,649  | + 59.2    | <b>1,492,593</b>  |
| <b>Optical and other products</b> |   |  |           |   |
| Net sales:                        |   |  |           |   |
| Unaffiliated customers            | ¥ <b>318,706</b>  | ¥ 256,815  | + 24.1    | \$ <b>2,700,898</b>   |
| Intersegment                      | <b>138,585</b>  | 113,539  | + 22.1    | <b>1,174,449</b>  |
| Total                             | <b>457,291</b>  | 370,354  | + 23.5    | <b>3,875,347</b>  |
| Operating cost and expenses       | <b>419,737</b>  | 340,087  | + 23.4    | <b>3,557,093</b>  |
| Operating profit                  | <b>37,554</b>   | 30,267   | + 24.1    | <b>318,254</b>  |

**Corporate and Eliminations**

|                             |           |           |  |             |
|-----------------------------|-----------|-----------|--|-------------|
| Net sales:                  |           |           |  |             |
| Unaffiliated customers      | ¥         | ¥         |  | \$          |
| Intersegment                | (138,585) | (113,539) |  | (1,174,449) |
| Total                       | (138,585) | (113,539) |  | (1,174,449) |
| Operating cost and expenses | (2,404)   | 5,455     |  | (20,373)    |
| Operating profit            | (136,181) | (118,994) |  | (1,154,076) |

**Consolidated**

|                             |            |             |   |               |
|-----------------------------|------------|-------------|---|---------------|
| Net sales:                  |            |             |   |               |
| Unaffiliated customers      | ¥2,940,224 | ¥ 2,634,343 | + | 11.6          |
| Intersegment                |            |             |   | \$ 24,917,153 |
| Total                       | 2,940,224  | 2,634,343   | + | 11.6          |
| Operating cost and expenses | 2,429,061  | 2,220,589   | + | 9.4           |
| Operating profit            | 511,163    | 413,754     | + | 23.5          |

Note: General corporate expenses of JPY136,004 million (U.S.\$1,152,576 thousand) and JPY119,010 million in the nine months ended September 30, 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<br>September<br>30,<br>2006<br>(Unaudited) | Millions of yen<br>As of<br>December<br>31,<br>2005 | Change    | Thousands of<br>U.S. dollars<br>As of<br>September<br>30,<br>2006<br>(Unaudited) |
|---|--|---|-----------|--|
| <b>ASSETS</b>   |  |   |           |  |
| Current assets:   |  |   |           |  |
| Cash and cash equivalents                                 | ¥ 1,024,488                                      | ¥ 1,004,953   | ¥ 19,535  | \$ 8,682,102   |
| Marketable securities                                     | 10,297   | 172   | 10,125    | 87,263   |
| Trade receivables, net                                    | 656,481  | 689,427   | (32,946)  | 5,563,398  |
| Inventories   | 580,638  | 510,195   | 70,443    | 4,920,661  |
| Prepaid expenses and other current assets                 | 282,385  | 253,822   | 28,563    | 2,393,093  |
| Total current assets                                      | 2,554,289  | 2,458,569   | 95,720    | 21,646,517   |
| Noncurrent receivables                                    | 14,594   | 14,122  | 472       | 123,678  |
| Investments   | 105,014  | 104,486   | 528       | 889,949  |
| Property, plant and equipment, net                        | 1,240,075  | 1,148,821   | 91,254    | 10,509,110   |
| Other assets  | 325,194  | 317,555   | 7,639     | 2,755,882  |
| Total assets  | ¥ 4,239,166                                      | ¥ 4,043,553   | ¥ 195,613 | \$ 35,925,136  |
| <b>LIABILITIES AND STOCKHOLDERS</b>                       |  |   |           |  |
| <b>EQUITY</b>   |  |   |           |  |
| Current liabilities:                                      |  |   |           |  |
| Short-term loans and current portion of<br>long-term debt | ¥ 13,896   | ¥ 5,059   | ¥ 8,837   | \$ 117,763   |
| Trade payables  | 485,819  | 505,126   | (19,307)  | 4,117,110  |
| Income taxes  | 74,504   | 110,844   | (36,340)  | 631,390  |
| Accrued expenses  | 261,887  | 248,205   | 13,682    | 2,219,381  |
| Other current liabilities                                 | 207,228  | 209,394   | (2,166)   | 1,756,170  |
| Total current liabilities                                 | 1,043,334  | 1,078,628   | (35,294)  | 8,841,814  |
| Long-term debt, excluding current installments            | 15,457   | 27,082  | (11,625)  | 130,992  |
| Accrued pension and severance cost                        | 63,128   | 80,430  | (17,302)  | 534,983  |
| Other noncurrent liabilities                              | 48,517   | 52,395  | (3,878)   | 411,160  |
| Total liabilities   | 1,170,436  | 1,238,535   | (68,099)  | 9,918,949  |
| Minority interests  | 215,530  | 200,336   | 15,194    | 1,826,526  |
| Stockholders' equity:                                     |  |   |           |  |
| Common stock  | 174,560  | 174,438   | 122       | 1,479,322  |
| Additional paid-in capital                                | 403,392  | 403,246   | 146       | 3,418,576  |

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|   |                   |             |          |                      |
|---|-------------------|-------------|----------|----------------------|
| Legal reserve                                 | <b>43,300</b>     | 42,331      | 969      | <b>366,949</b>       |
| Retained earnings                             | <b>2,242,783</b>  | 2,018,289   | 224,494  | <b>19,006,636</b>    |
| Accumulated other comprehensive income (loss) | <b>(5,136)</b>    | (28,212)    | 23,076   | <b>(43,525)</b>      |
| Treasury stock                                | <b>(5,699)</b>    | (5,410)     | (289)    | <b>(48,297)</b>      |
| Total stockholders' equity                    | <b>2,853,200</b>  | 2,604,682   | 248,518  | <b>24,179,661</b>    |
| Total liabilities and stockholders' equity    | <b>¥4,239,166</b> | ¥ 4,043,553 | ¥195,613 | <b>\$ 35,925,136</b> |

|  | Millions of yen                      |                         | Thousands of U.S. dollars            |
|--|--------------------------------------|-------------------------|--------------------------------------|
|  | As of September 30, 2006 (Unaudited) | As of December 31, 2005 | As of September 30, 2006 (Unaudited) |
| Allowance for doubtful receivables             | ¥ 13,714                             | ¥ 11,728                | \$ 116,220                           |
| Accumulated depreciation                       | <b>1,361,129</b>                     | 1,272,163               | <b>11,534,992</b>                    |
| Accumulated other comprehensive income (loss): |                                      |                         |                                      |
| Foreign currency translation adjustments       | <b>(2,640)</b>                       | (25,772)                | <b>(22,373)</b>                      |
| Net unrealized gains and losses on securities  | <b>6,609</b>                         | 6,073                   | <b>56,008</b>                        |
| Net gains and losses on derivative instruments | <b>(2,037)</b>                       | (1,174)                 | <b>(17,263)</b>                      |
| Minimum pension liability adjustments          | <b>(7,068)</b>                       | (7,339)                 | <b>(59,897)</b>                      |

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

Millions of yen

|   | Common<br>Stock  | Additional<br>paid-in<br>capital | Legal<br>reserve | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Treasury<br>stock | Total<br>stockholders'<br>equity |
|---|------------------|----------------------------------|------------------|----------------------|---|-------------------|----------------------------------|
| <b>Balance at<br/>December 31, 2005</b>                             | <b>¥ 174,438</b> | <b>¥ 403,246</b>                 | <b>¥ 42,331</b>  | <b>¥ 2,018,289</b>   | <b>¥ (28,212)</b>   | <b>¥ (5,410)</b>  | <b>¥ 2,604,682</b>               |
| <b>Conversion of<br/>convertible debt<br/>and other</b>             | <b>122</b>       | <b>136</b>                       |                  |                      |   |                   | <b>258</b>                       |
| <b>Capital<br/>transaction by<br/>consolidated<br/>subsidiaries</b> |                  | <b>10</b>                        |                  |                      |   |                   | <b>10</b>                        |
| <b>Cash dividends</b>   |                  |                                  |                  | <b>(104,298)</b>     |   |                   | <b>(104,298)</b>                 |
| <b>Transfers to legal<br/>reserve</b>                               |                  |                                  | <b>969</b>       | <b>(969)</b>         |   |                   |                                  |
| <b>Comprehensive<br/>income</b>                                     |                  |                                  |                  |                      |   |                   |                                  |
| <b>Net income</b>   |                  |                                  |                  | <b>329,761</b>       |   |                   | <b>329,761</b>                   |
| <b>Other<br/>comprehensive<br/>income (loss), net<br/>of tax</b>    |                  |                                  |                  |                      |   |                   |                                  |
| <b>Foreign currency<br/>translation<br/>adjustments</b>             |                  |                                  |                  |                      | <b>23,132</b>   |                   | <b>23,132</b>                    |
| <b>Net unrealized<br/>gains and losses on<br/>securities</b>        |                  |                                  |                  |                      | <b>536</b>  |                   | <b>536</b>                       |
| <b>Net gains and<br/>losses on<br/>derivative<br/>instruments</b>   |                  |                                  |                  |                      | <b>(863)</b>  |                   | <b>(863)</b>                     |
| <b>Minimum pension<br/>liability<br/>adjustments</b>                |                  |                                  |                  |                      | <b>271</b>  |                   | <b>271</b>                       |
| <b>Total<br/>comprehensive<br/>income</b>                           |                  |                                  |                  |                      |   |                   | <b>352,837</b>                   |

|  |  |  |  |  |  |  |  |              |              |
|--|--|--|--|--|--|--|--|--------------|--------------|
| <b>Repurchase of treasury stock, net</b> |  |  |  |  |  |  |  | <b>(289)</b> | <b>(289)</b> |
|--|--|--|--|--|--|--|--|--------------|--------------|

|  |                 |                  |                 |                    |                  |                  |                    |  |  |
|--|-----------------|------------------|-----------------|--------------------|------------------|------------------|--------------------|--|--|
| <b>Balance at September 30, 2006 (Unaudited)</b> | <b>¥174,560</b> | <b>¥ 403,392</b> | <b>¥ 43,300</b> | <b>¥ 2,242,783</b> | <b>¥ (5,136)</b> | <b>¥ (5,699)</b> | <b>¥ 2,853,200</b> |  |  |
|--|-----------------|------------------|-----------------|--------------------|------------------|------------------|--------------------|--|--|

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

|  |     |     |  |  |  |  |  |  |     |
|--|-----|-----|--|--|--|--|--|--|-----|
| Conversion of convertible debt and other | 410 | 410 |  |  |  |  |  |  | 820 |
|--|-----|-----|--|--|--|--|--|--|-----|

|  |  |      |  |  |  |  |  |  |      |
|--|--|------|--|--|--|--|--|--|------|
| Capital transaction by consolidated subsidiaries |  | (80) |  |  |  |  |  |  | (80) |
|--|--|------|--|--|--|--|--|--|------|

|                |  |  |  |          |  |  |  |  |          |
|----------------|--|--|--|----------|--|--|--|--|----------|
| Cash dividends |  |  |  | (64,310) |  |  |  |  | (64,310) |
|----------------|--|--|--|----------|--|--|--|--|----------|

|                            |  |  |     |       |  |  |  |  |  |
|----------------------------|--|--|-----|-------|--|--|--|--|--|
| Transfers to legal reserve |  |  | 848 | (848) |  |  |  |  |  |
|----------------------------|--|--|-----|-------|--|--|--|--|--|

|                      |  |  |  |         |  |  |  |  |         |
|----------------------|--|--|--|---------|--|--|--|--|---------|
| Comprehensive income |  |  |  |         |  |  |  |  |         |
| Net income           |  |  |  | 275,885 |  |  |  |  | 275,885 |

|   |  |  |  |  |  |        |  |  |        |
|---|--|--|--|--|--|--------|--|--|--------|
| Other comprehensive income (loss), net of tax |  |  |  |  |  |        |  |  |        |
| Foreign currency translation adjustments      |  |  |  |  |  | 28,570 |  |  | 28,570 |

|   |  |  |  |  |  |         |  |  |         |
|---|--|--|--|--|--|---------|--|--|---------|
| Net unrealized gains and losses on securities |  |  |  |  |  | (2,825) |  |  | (2,825) |
|---|--|--|--|--|--|---------|--|--|---------|

|  |  |  |  |  |  |       |  |  |       |
|--|--|--|--|--|--|-------|--|--|-------|
| Net gains and losses on derivative instruments |  |  |  |  |  | (428) |  |  | (428) |
|--|--|--|--|--|--|-------|--|--|-------|

|                                       |  |  |  |  |  |     |  |  |     |
|---------------------------------------|--|--|--|--|--|-----|--|--|-----|
| Minimum pension liability adjustments |  |  |  |  |  | 819 |  |  | 819 |
|---------------------------------------|--|--|--|--|--|-----|--|--|-----|

|                            |  |  |  |  |  |  |  |  |         |
|----------------------------|--|--|--|--|--|--|--|--|---------|
| Total comprehensive income |  |  |  |  |  |  |  |  | 302,021 |
|----------------------------|--|--|--|--|--|--|--|--|---------|

|                                   |           |           |          |             |            |           |             |       |       |
|-----------------------------------|-----------|-----------|----------|-------------|------------|-----------|-------------|-------|-------|
| Repurchase of treasury stock, net |           |           |          |             |            |           |             | (105) | (105) |
|                                   | ¥ 174,274 | ¥ 402,103 | ¥ 42,048 | ¥ 1,910,361 | ¥ (75,176) | ¥ (5,368) | ¥ 2,448,242 |       |       |

Balance at  
September 30, 2005  
(Unaudited)

Thousands of U.S. dollars

|   |                     |                     |                   |                      |                     |                    |                      |
|---|---------------------|---------------------|-------------------|----------------------|---------------------|--------------------|----------------------|
| <b>Balance at<br/>December 31,<br/>2005</b>                         | <b>\$ 1,478,288</b> | <b>\$ 3,417,339</b> | <b>\$ 358,737</b> | <b>\$ 17,104,144</b> | <b>\$ (239,084)</b> | <b>\$ (45,847)</b> | <b>\$ 22,073,577</b> |
| <b>Conversion of<br/>convertible debt<br/>and other</b>             | <b>1,034</b>        | <b>1,153</b>        |                   |                      |                     |                    | <b>2,187</b>         |
| <b>Capital<br/>transaction by<br/>consolidated<br/>subsidiaries</b> |                     | <b>84</b>           |                   |                      |                     |                    | <b>84</b>            |
| <b>Cash dividends</b>   |                     |                     |                   | <b>(883,881)</b>     |                     |                    | <b>(883,881)</b>     |
| <b>Transfers to legal<br/>reserve</b>                               |                     |                     | <b>8,212</b>      | <b>(8,212)</b>       |                     |                    |                      |
| <b>Comprehensive<br/>income</b>                                     |                     |                     |                   |                      |                     |                    |                      |
| <b>Net income</b>   |                     |                     |                   | <b>2,794,585</b>     |                     |                    | <b>2,794,585</b>     |
| <b>Other<br/>comprehensive<br/>income (loss), net<br/>of tax</b>    |                     |                     |                   |                      |                     |                    |                      |
| <b>Foreign currency<br/>translation<br/>adjustments</b>             |                     |                     |                   |                      | <b>196,034</b>      |                    | <b>196,034</b>       |
| <b>Net unrealized<br/>gains and losses<br/>on securities</b>        |                     |                     |                   |                      | <b>4,542</b>        |                    | <b>4,542</b>         |
| <b>Net gains and<br/>losses on<br/>derivative<br/>instruments</b>   |                     |                     |                   |                      | <b>(7,314)</b>      |                    | <b>(7,314)</b>       |
| <b>Minimum<br/>pension liability<br/>adjustments</b>                |                     |                     |                   |                      | <b>2,297</b>        |                    | <b>2,297</b>         |
| <b>Total<br/>comprehensive<br/>income</b>                           |                     |                     |                   |                      |                     |                    | <b>2,990,144</b>     |
| <b>Repurchase of<br/>treasury stock,<br/>net</b>                    |                     |                     |                   |                      |                     | <b>(2,450)</b>     | <b>(2,450)</b>       |
|   | <b>\$ 1,479,322</b> | <b>\$ 3,418,576</b> | <b>\$ 366,949</b> | <b>\$ 19,006,636</b> | <b>\$ (43,525)</b>  | <b>\$ (48,297)</b> | <b>\$ 24,179,661</b> |

**Balance at  
September 30,  
2006 (Unaudited)**

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

|  | Millions of yen   |  | Thousands of<br>U.S. dollars                                 |
|--|---|--|--|
|  | Nine<br>months<br>ended<br>September<br>30, 2006<br>(Unaudited) | Nine months<br>ended<br>September 30,<br>2005<br>(Unaudited) | Nine months<br>ended<br>September 30,<br>2006<br>(Unaudited) |
| Cash flows from operating activities:  |   |  |  |
| Net income   | ¥ 329,761   | ¥ 275,885  | \$ 2,794,585   |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |   |  |  |
| Depreciation and amortization  | 187,923   | 158,620  | 1,592,568  |
| Loss on disposal of property, plant and equipment                                    | 8,619   | 7,288  | 73,042   |
| Deferred income taxes  | 8,531   | 7,307  | 72,297   |
| Decrease in trade receivables  | 49,294  | 52,001   | 417,746  |
| Increase in inventories  | (57,873)  | (27,332)   | (490,449)  |
| Decrease in trade payables   | (16,387)  | (10,438)   | (138,873)  |
| Decrease in income taxes   | (36,088)  | (47,186)   | (305,831)  |
| Increase in accrued expenses   | 6,455   | 15,044   | 54,703   |
| Decrease in accrued pension and severance cost                                       | (19,110)  | (10,496)   | (161,949)  |
| Other, net   | (1,371)   | (52,030)   | (11,619)   |
| Net cash provided by operating activities  | 459,754   | 368,663  | 3,896,220  |
| Cash flows from investing activities:  |   |  |  |
| Purchases of fixed assets  | (318,790)   | (289,031)  | (2,701,610)  |
| Proceeds from sale of fixed assets   | 12,233  | 7,469  | 103,669  |
| Purchases of available-for-sale securities   | (7,497)   | (1,591)  | (63,534)   |
| Proceeds from sale of available-for-sale securities                                  | 3,046   | 11,090   | 25,814   |
| Acquisitions of subsidiaries, net of cash acquired                                   | (605)   | (11,779)   | (5,127)  |
| Purchases of other investments   | (7,407)   | (5,137)  | (62,771)   |
| Other, net   | (9,257)   | 650  | (78,449)   |
| Net cash used in investing activities  | (328,277)   | (288,329)  | (2,782,008)  |
| Cash flows from financing activities:  |   |  |  |
| Proceeds from issuance of long-term debt   | 943   | 964  | 7,992  |
| Repayments of long-term debt   | (4,514)   | (9,673)  | (38,254)   |
| Increase (decrease) in short-term loans  | (692)   | 1,501  | (5,864)  |
| Dividends paid   | (104,298)   | (64,310)   | (883,881)  |
| Other, net   | 2,695   | (3,497)  | 22,838   |

|  |                    |           |                     |
|--|--------------------|-----------|---------------------|
| Net cash used in financing activities                        | <b>(105,866)</b>   | (75,015)  | <b>(897,169)</b>    |
| Effect of exchange rate changes on cash and cash equivalents | <b>(6,076)</b>     | 10,013    | <b>(51,492)</b>     |
| Net increase in cash and cash equivalents                    | <b>19,535</b>      | 15,332    | <b>165,551</b>      |
| Cash and cash equivalents at beginning of period             | <b>1,004,953</b>   | 887,774   | <b>8,516,551</b>    |
| Cash and cash equivalents at end of period                   | <b>¥ 1,024,488</b> | ¥ 903,106 | <b>\$ 8,682,102</b> |

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## CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

|              | September 30,<br>2006 | December 31,<br>2005 | Change |
|--------------|-----------------------|----------------------|--------|
| Subsidiaries | 214                   | 200                  | 14     |
| Affiliates   | 12                    | 13                   | (1)    |
| Total        | 226                   | 213                  | 13     |

**CHANGES IN GROUP OF ENTITIES**

## Subsidiaries

Addition:

21 Companies

Removal:

7 Companies

## Affiliates (Carried at Equity Basis)

Removal:

1 Company

**(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.

**8. OTHER**

We have engaged Ernst & Young ShinNihon to perform a review of the consolidated statements of income, the consolidated balance sheets, the consolidated statements of the stockholders' equity and the consolidated statements of cash flows as of and for the three and nine months ended September 30, 2006. This review engagement was partially performed in accordance with Statement of Auditing Standards No.100, Interim Financial Information (SAS 100), established by the American Institute of Certified Public Accountants, and the consolidated interim financial information does not include certain disclosures, such as notes to financial statements, compared with that required under U.S. generally accepted accounting principles and by the United States Securities and Exchange Commission.

**Table of Contents**Canon Inc.  
October 26, 2006

CONSOLIDATED FINANCIAL RESULTS FOR  
THE THIRD QUARTER ENDED SEPTEMBER 30, 2006  
SUPPLEMENTARY REPORT  
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This document contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as anticipate, believe, estimate, expect, intend, may, or should and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this document. A detailed description of these and other risk factors is included in Canon's annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

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Canon Inc.

**1. SALES BY REGION AND PRODUCT**

(Millions of yen)

|                               | 2006           |                    |             | 2005           |             |           | Change year over year |                |        |
|-------------------------------|----------------|--------------------|-------------|----------------|-------------|-----------|-----------------------|----------------|--------|
|                               | 3rd<br>quarter | 4th quarter<br>(P) | Year<br>(P) | 3rd<br>quarter | 4th quarter | Year      | 3rd<br>quarter        | 4th<br>quarter | Year   |
| <b>Japan</b>                  |                |                    |             |                |             |           |                       |                |        |
| Business machines             | 140,645        | 176,881            | 619,300     | 138,824        | 169,499     | 612,832   | +1.3%                 | +4.4%          | +1.1%  |
| Office imaging products       | 87,242         | 96,703             | 362,800     | 87,260         | 84,885      | 357,689   | -0.0%                 | +13.9%         | +1.4%  |
| Computer peripherals          | 37,972         | 62,928             | 187,700     | 36,191         | 64,627      | 183,727   | +4.9%                 | -2.6%          | +2.2%  |
| Business information products | 15,431         | 17,250             | 68,800      | 15,373         | 19,987      | 71,416    | +0.4%                 | -13.7%         | -3.7%  |
| Cameras                       | 34,275         | 41,151             | 140,100     | 33,667         | 36,220      | 127,886   | +1.8%                 | +13.6%         | +9.6%  |
| Optical and other products    | 44,331         | 54,019             | 178,200     | 22,829         | 39,048      | 115,487   | +94.2%                | +38.3%         | +54.3% |
| Total                         | 219,251        | 272,051            | 937,600     | 195,320        | 244,767     | 856,205   | +12.3%                | +11.1%         | +9.5%  |
| <b>Overseas</b>               |                |                    |             |                |             |           |                       |                |        |
| Business machines             | 498,851        | 573,327            | 2,057,000   | 459,361        | 537,686     | 1,889,569 | +8.6%                 | +6.6%          | +8.9%  |
| Office imaging products       | 182,741        | 241,077            | 830,400     | 188,077        | 225,219     | 795,551   | -2.8%                 | +7.0%          | +4.4%  |
| Computer peripherals          | 307,818        | 321,219            | 1,188,900   | 263,670        | 302,681     | 1,061,179 | +16.7%                | +6.1%          | +12.0% |
| Business information products | 8,292          | 11,031             | 37,700      | 7,614          | 9,786       | 32,839    | +8.9%                 | +12.7%         | +14.8% |
| Cameras                       | 200,866        | 296,723            | 893,200     | 169,493        | 260,654     | 751,300   | +18.5%                | +13.8%         | +18.9% |
| Optical and other products    | 69,001         | 57,675             | 252,200     | 54,329         | 76,741      | 257,117   | +27.0%                | -24.8%         | -1.9%  |
| Total                         | 768,718        | 927,725            | 3,202,400   | 683,183        | 875,081     | 2,897,986 | +12.5%                | +6.0%          | +10.5% |
| <b>Americas</b>               |                |                    |             |                |             |           |                       |                |        |
| Business machines             | 211,464        | 232,019            | 857,900     | 195,487        | 224,815     | 795,268   | +8.2%                 | +3.2%          | +7.9%  |
| Office imaging                | 81,700         | 102,480            | 363,900     | 88,124         | 99,491      | 353,384   | -7.3%                 | +3.0%          | +3.0%  |

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|                               |                |                |                  |                |                |                  |               |              |               |
|-------------------------------|----------------|----------------|------------------|----------------|----------------|------------------|---------------|--------------|---------------|
| products                      |                |                |                  |                |                |                  |               |              |               |
| Computer peripherals          | 125,150        | 124,394        | 474,800          | 103,341        | 120,750        | 425,877          | +21.1%        | +3.0%        | +11.5%        |
| Business information products | 4,614          | 5,145          | 19,200           | 4,022          | 4,574          | 16,007           | +14.7%        | +12.5%       | +19.9%        |
| Cameras                       | 75,304         | 128,708        | 357,500          | 68,533         | 115,569        | 308,667          | +9.9%         | +11.4%       | +15.8%        |
| Optical and other products    | 13,043         | 16,289         | 55,900           | 10,157         | 13,263         | 42,015           | +28.4%        | +22.8%       | +33.0%        |
| <b>Total</b>                  | <b>299,811</b> | <b>377,016</b> | <b>1,271,300</b> | <b>274,177</b> | <b>353,647</b> | <b>1,145,950</b> | <b>+9.3%</b>  | <b>+6.6%</b> | <b>+10.9%</b> |
| <b>Europe</b>                 |                |                |                  |                |                |                  |               |              |               |
| Business machines             | 212,212        | 265,507        | 909,500          | 196,343        | 243,712        | 838,081          | +8.1%         | +8.9%        | +8.5%         |
| Office imaging products       | 77,285         | 112,909        | 370,900          | 77,550         | 103,566        | 357,188          | -0.3%         | +9.0%        | +3.8%         |
| Computer peripherals          | 131,983        | 147,622        | 523,200          | 115,947        | 135,618        | 466,965          | +13.8%        | +8.9%        | +12.0%        |
| Business information products | 2,944          | 4,976          | 15,400           | 2,846          | 4,528          | 13,928           | +3.4%         | +9.9%        | +10.6%        |
| Cameras                       | 77,472         | 119,120        | 359,600          | 68,709         | 106,227        | 316,769          | +12.8%        | +12.1%       | +13.5%        |
| Optical and other products    | 8,078          | 9,868          | 34,100           | 5,569          | 9,032          | 26,408           | +45.1%        | +9.3%        | +29.1%        |
| <b>Total</b>                  | <b>297,762</b> | <b>394,495</b> | <b>1,303,200</b> | <b>270,621</b> | <b>358,971</b> | <b>1,181,258</b> | <b>+10.0%</b> | <b>+9.9%</b> | <b>+10.3%</b> |
| <b>Other areas</b>            |                |                |                  |                |                |                  |               |              |               |
| Business machines             | 75,175         | 75,801         | 289,600          | 67,531         | 69,159         | 256,220          | +11.3%        | +9.6%        | +13.0%        |
| Office imaging products       | 23,756         | 25,688         | 95,600           | 22,403         | 22,162         | 84,979           | +6.0%         | +15.9%       | +12.5%        |
| Computer peripherals          | 50,685         | 49,203         | 190,900          | 44,382         | 46,313         | 168,337          | +14.2%        | +6.2%        | +13.4%        |
| Business information products | 734            | 910            | 3,100            | 746            | 684            | 2,904            | -1.6%         | +33.0%       | +6.7%         |
| Cameras                       | 48,090         | 48,895         | 176,100          | 32,251         | 38,858         | 125,864          | +49.1%        | +25.8%       | +39.9%        |
| Optical and other products    | 47,880         | 31,518         | 162,200          | 38,603         | 54,446         | 188,694          | +24.0%        | -42.1%       | -14.0%        |
| <b>Total</b>                  | <b>171,145</b> | <b>156,214</b> | <b>627,900</b>   | <b>138,385</b> | <b>162,463</b> | <b>570,778</b>   | <b>+23.7%</b> | <b>-3.8%</b> | <b>+10.0%</b> |
| <b>Total</b>                  | <b>639,496</b> | <b>750,208</b> | <b>2,676,300</b> | <b>598,185</b> | <b>707,185</b> | <b>2,502,401</b> | <b>+6.9%</b>  | <b>+6.1%</b> | <b>+6.9%</b>  |

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|                               |         |           |           |         |           |           |        |        |        |
|-------------------------------|---------|-----------|-----------|---------|-----------|-----------|--------|--------|--------|
| Business machines             |         |           |           |         |           |           |        |        |        |
| Office imaging products       | 269,983 | 337,780   | 1,193,200 | 275,337 | 310,104   | 1,153,240 | -1.9%  | +8.9%  | +3.5%  |
| Computer peripherals          | 345,790 | 384,147   | 1,376,600 | 299,861 | 367,308   | 1,244,906 | +15.3% | +4.6%  | +10.6% |
| Business information products | 23,723  | 28,281    | 106,500   | 22,987  | 29,773    | 104,255   | +3.2%  | -5.0%  | +2.2%  |
| Cameras                       | 235,141 | 337,874   | 1,033,300 | 203,160 | 296,874   | 879,186   | +15.7% | +13.8% | +17.5% |
| Optical and other products    | 113,332 | 111,694   | 430,400   | 77,158  | 115,789   | 372,604   | +46.9% | -3.5%  | +15.5% |
| Total                         | 987,969 | 1,199,776 | 4,140,000 | 878,503 | 1,119,848 | 3,754,191 | +12.5% | +7.1%  | +10.3% |

(P)=Projection

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**Table of Contents****2. SEGMENT INFORMATION BY PRODUCT**

Canon Inc.

(Millions of yen)

|                                     | 2006        |             |           | 2005        |             |           | Change year over year |             |        |
|-------------------------------------|-------------|-------------|-----------|-------------|-------------|-----------|-----------------------|-------------|--------|
|                                     | 3rd quarter | 4th quarter | Year      | 3rd quarter | 4th quarter | Year      | 3rd quarter           | 4th quarter | Year   |
| <b>Business machines</b>            |             |             |           |             |             |           |                       |             |        |
| Unaffiliated customers Intersegment | 639,496     | 750,208     | 2,676,300 | 598,185     | 707,185     | 2,502,401 | +6.9%                 | +6.1%       | +6.9%  |
| Total sales                         | 639,496     | 750,208     | 2,676,300 | 598,185     | 707,185     | 2,502,401 | +6.9%                 | +6.1%       | +6.9%  |
| Operating profit                    | 139,099     | 159,336     | 593,000   | 132,379     | 150,196     | 542,028   | +5.1%                 | +6.1%       | +9.4%  |
| % of sales                          | 21.8%       | 21.2%       | 22.2%     | 22.1%       | 21.2%       | 21.7%     |                       |             |        |
| <b>Cameras</b>                      |             |             |           |             |             |           |                       |             |        |
| Unaffiliated customers Intersegment | 235,141     | 337,874     | 1,033,300 | 203,160     | 296,874     | 879,186   | +15.7%                | +13.8%      | +17.5% |
| Total sales                         | 235,141     | 337,874     | 1,033,300 | 203,160     | 296,874     | 879,186   | +15.7%                | +13.8%      | +17.5% |
| Operating profit                    | 67,390      | 79,974      | 256,100   | 48,795      | 63,057      | 173,706   | +38.1%                | +26.8%      | +47.4% |
| % of sales                          | 28.7%       | 23.7%       | 24.8%     | 24.0%       | 21.2%       | 19.8%     |                       |             |        |
| <b>Optical and other products</b>   |             |             |           |             |             |           |                       |             |        |
| Unaffiliated customers Intersegment | 113,332     | 111,694     | 430,400   | 77,158      | 115,789     | 372,604   | +46.9%                | -3.5%       | +15.5% |
| Intersegment                        | 49,879      | 45,015      | 183,600   | 41,721      | 44,575      | 158,114   | +19.6%                | +1.0%       | +16.1% |
| Total sales                         | 163,211     | 156,709     | 614,000   | 118,879     | 160,364     | 530,718   | +37.3%                | -2.3%       | +15.7% |
| Operating profit                    | 14,359      | 9,846       | 47,400    | 9,228       | 8,553       | 38,820    | +55.6%                | +15.1%      | +22.1% |
| % of sales                          | 8.8%        | 6.3%        | 7.7%      | 7.8%        | 5.3%        | 7.3%      |                       |             |        |
| <b>Corporate and Eliminations</b>   |             |             |           |             |             |           |                       |             |        |
| Unaffiliated customers Intersegment | -49,879     | -45,015     | -183,600  | -41,721     | -44,575     | -158,114  |                       |             |        |
| Total sales                         | -49,879     | -45,015     | -183,600  | -41,721     | -44,575     | -158,114  |                       |             |        |



|                                     |         |           |           |         |           |           |        |       |        |
|-------------------------------------|---------|-----------|-----------|---------|-----------|-----------|--------|-------|--------|
| Operating profit                    | -48,162 | -69,319   | -205,500  | -46,837 | -52,517   | -171,511  |        |       |        |
| <b>Consolidated</b>                 |         |           |           |         |           |           |        |       |        |
| Unaffiliated customers Intersegment | 987,969 | 1,199,776 | 4,140,000 | 878,503 | 1,119,848 | 3,754,191 | +12.5% | +7.1% | +10.3% |
| Total sales                         | 987,969 | 1,199,776 | 4,140,000 | 878,503 | 1,119,848 | 3,754,191 | +12.5% | +7.1% | +10.3% |
| Operating profit                    | 172,686 | 179,837   | 691,000   | 143,565 | 169,289   | 583,043   | +20.3% | +6.2% | +18.5% |
| % of sales                          | 17.5%   | 15.0%     | 16.7%     | 16.3%   | 15.1%     | 15.5%     |        |       |        |

(P)=Projection

**3. OTHER INCOME / DEDUCTIONS**

(Millions of yen)

|  | 2006        |                 |          | 2005        |             |        | Change year over year |             |         |
|--|-------------|-----------------|----------|-------------|-------------|--------|-----------------------|-------------|---------|
|  | 3rd quarter | 4th quarter (P) | Year (P) | 3rd quarter | 4th quarter | Year   | 3rd quarter           | 4th quarter | Year    |
| Interest and dividend, net                     | 6,739       | 5,943           | 23,200   | 3,204       | 4,108       | 12,511 | +3,535                | +1,835      | +10,689 |
| Forex gain / loss                              | -2,428      | -9,033          | -26,100  | -550        | -2,262      | -3,710 | -1,878                | -6,771      | -22,390 |
| Equity earnings / loss of affiliated companies | 715         | 91              | 2,900    | -589        | 174         | 1,646  | +1,304                | -83         | +1,254  |
| Other, net                                     | 2,614       | 1,791           | 9,000    | 9,682       | 1,650       | 18,514 | -7,068                | +141        | -9,514  |
| Total  | 7,640       | -1,208          | 9,000    | 11,747      | 3,670       | 28,961 | -4,107                | -4,878      | -19,961 |

(P)=Projection

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**Table of Contents****4. SALES COMPOSITION BY PRODUCT**

|   | 3rd<br>quarter | 2006<br>4th<br>quarter<br>(P) | Year<br>(P) | 3rd<br>quarter | 2005<br>4th<br>quarter | Year |
|---|----------------|-------------------------------|-------------|----------------|------------------------|------|
| <b>Office imaging products</b>            |                |                               |             |                |                        |      |
| Monochrome copying machines               | 52%            | 49%                           | 52%         | 56%            | 55%                    | 56%  |
| Color copying machines                    | 30%            | 34%                           | 31%         | 29%            | 29%                    | 28%  |
| Others                                    | 18%            | 17%                           | 17%         | 15%            | 16%                    | 16%  |
| <b>Computer peripherals</b>               |                |                               |             |                |                        |      |
| Laser beam printers                       | 76%            | 67%                           | 73%         | 75%            | 67%                    | 71%  |
| Inkjet printers<br>(includes inkjet MFPs) | 23%            | 32%                           | 26%         | 24%            | 32%                    | 27%  |
| Others                                    | 1%             | 1%                            | 1%          | 1%             | 1%                     | 2%   |
| <b>Business information products</b>      |                |                               |             |                |                        |      |
| Personal computers                        | 65%            | 64%                           | 65%         | 67%            | 69%                    | 69%  |
| Others                                    | 35%            | 36%                           | 35%         | 33%            | 31%                    | 31%  |
| <b>Cameras</b>                            |                |                               |             |                |                        |      |
| Film cameras / Lenses                     | 16%            | 15%                           | 16%         | 18%            | 17%                    | 17%  |
| Digital cameras                           | 74%            | 75%                           | 74%         | 70%            | 72%                    | 72%  |
| Video cameras                             | 10%            | 10%                           | 10%         | 12%            | 11%                    | 11%  |
| <b>Optical and other products</b>         |                |                               |             |                |                        |      |
| Semiconductor production equipment        | 52%            | 50%                           | 51%         | 62%            | 58%                    | 64%  |
| Others                                    | 48%            | 50%                           | 49%         | 38%            | 42%                    | 36%  |

(P)=Projection

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

|                                   | 3rd quarter | 2006<br>4th quarter<br>(P) | Year<br>(P) |
|-----------------------------------|-------------|----------------------------|-------------|
| <b>Business machines</b>          |             |                            |             |
| Japan                             | +1.3%       | +4.4%                      | +1.1%       |
| Overseas                          | +2.6%       | +5.8%                      | +3.6%       |
| Total                             | +2.3%       | +5.4%                      | +3.0%       |
| <b>Cameras</b>                    |             |                            |             |
| Japan                             | +1.8%       | +13.6%                     | +9.6%       |
| Overseas                          | +11.7%      | +12.5%                     | +13.6%      |
| Total                             | +10.1%      | +12.6%                     | +13.0%      |
| <b>Optical and other products</b> |             |                            |             |
| Japan                             | +94.2%      | +38.3%                     | +54.3%      |

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|              |        |        |        |
|--------------|--------|--------|--------|
| Overseas     | +23.3% | -25.4% | -4.7%  |
| Total        | +44.3% | -3.9%  | +13.6% |
| <b>Total</b> |        |        |        |
| Japan        | +12.3% | +11.1% | +9.5%  |
| Overseas     | +6.5%  | +5.0%  | +5.5%  |
| Americas     | +4.6%  | +8.8%  | +6.3%  |
| Europe       | +1.7%  | +4.9%  | +4.3%  |
| Other areas  | +19.7% | -2.9%  | +6.4%  |
| Total        | +7.8%  | +6.4%  | +6.4%  |

(P)=Projection

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**Table of Contents****6. P&L SUMMARY (4th Quarter 2006/Projection)**

Canon Inc.

(Millions of yen)

|   | 2006           | 2005        | Change<br>year<br>over year |
|---|----------------|-------------|-----------------------------|
|   | 4th quarter(P) | 4th quarter |                             |
| Net sales   | 1,199,776      | 1,119,848   | +7.1%                       |
| Operating profit                                  | 179,837        | 169,289     | +6.2%                       |
| Income before income taxes and minority interests | 178,629        | 172,959     | +3.3%                       |
| Net income  | 110,239        | 108,211     | +1.9%                       |

(P)=Projection

**7. PROFITABILITY**

|     | 2006               |         | 2005               |       |
|-----|--------------------|---------|--------------------|-------|
|     | 1st-3rd<br>quarter | Year(P) | 1st-3rd<br>quarter | Year  |
| ROE | 16.1%              | 15.8%   | 15.8%              | 16.0% |
| ROA | 10.6%              | 10.3%   | 10.0%              | 10.1% |

(P)=Projection

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

(Yen)

|          | 2006        |                   |         | 2005        |             |        |
|----------|-------------|-------------------|---------|-------------|-------------|--------|
|          | 3rd quarter | 4th<br>quarter(P) | Year(P) | 3rd quarter | 4th quarter | Year   |
| Yen/US\$ | 116.29      | 115.00            | 115.61  | 111.23      | 117.39      | 110.58 |
| Yen/Euro | 148.19      | 148.00            | 145.35  | 135.73      | 139.46      | 137.04 |

(P)=Projection

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

(Billions of yen)

|                  | 2006        |                   |         |
|------------------|-------------|-------------------|---------|
|                  | 3rd quarter | 4th<br>quarter(P) | Year(P) |
| US\$             | +16.3       | -10.1             | +59.0   |
| Euro             | +18.4       | +18.1             | +57.7   |
| Other currencies | +1.4        | +0.5              | +4.5    |
| Total            | +36.1       | +8.5              | +121.2  |

(P)=Projection

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

(Billions of yen)

2006  
4th  
quarter(P)

|                     |                |
|---------------------|----------------|
| On sales            |                |
| US\$                | 4.2            |
| Euro                | 2.2            |
| On operating profit |                |
| US\$                | 2.4            |
| Euro                | 1.7            |
|                     | (P)=Projection |

**9. STATEMENTS OF CASH FLOWS**

(Millions of yen)

|  | 2006        |           | 2005        |                |
|--|-------------|-----------|-------------|----------------|
|  | 3rd quarter | Year(P)   | 3rd quarter | Year           |
| Net cash provided by operating activities                    |             |           |             |                |
| Net income   | 115,587     | 440,000   | 100,617     | 384,096        |
| Depreciation and amortization                                | 79,768      | 245,000   | 60,064      | 225,941        |
| Other, net   | -59,479     | 5,000     | -49,979     | -4,359         |
| Total  | 135,876     | 690,000   | 110,702     | 605,678        |
| Net cash used in investing activities                        | -117,980    | -430,000  | -107,273    | -401,141       |
| Free cash flow   | 17,896      | 260,000   | 3,429       | 204,537        |
| Net cash used in financing activities                        | -48,034     | -105,400  | -36,606     | -93,939        |
| Effect of exchange rate changes on cash and cash equivalents | -537        | -5,200    | 362         | 6,581          |
| Net change in cash and cash equivalents                      | -30,675     | 149,400   | -32,815     | 117,179        |
| Cash and cash equivalents at end of period                   | 1,024,488   | 1,154,400 | 903,106     | 1,004,953      |
|  |             |           |             | (P)=Projection |

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Canon Inc.

**10. R&D EXPENDITURE**

(Millions of yen)

|                            | 2006        |                |         | 2005        |             |         |
|----------------------------|-------------|----------------|---------|-------------|-------------|---------|
|                            | 3rd quarter | 4th quarter(P) | Year(P) | 3rd quarter | 4th quarter | Year    |
| Business machines          | 23,869      |                |         | 25,359      | 34,136      | 117,219 |
| Cameras                    | 10,487      |                |         | 9,932       | 10,855      | 39,746  |
| Optical and other products | 36,336      |                |         | 29,723      | 40,085      | 129,511 |
| Total                      | 70,692      | 96,781         | 314,000 | 65,014      | 85,076      | 286,476 |
| % of sales                 | 7.2%        | 8.1%           | 7.6%    | 7.4%        | 7.6%        | 7.6%    |

(P)=Projection

**11. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION**

(Millions of yen)

|                               | 2006        |                |         | 2005        |             |         |
|-------------------------------|-------------|----------------|---------|-------------|-------------|---------|
|                               | 3rd quarter | 4th quarter(P) | Year(P) | 3rd quarter | 4th quarter | Year    |
| Capital expenditure           | 120,256     | 131,448        | 405,000 | 109,044     | 97,470      | 383,784 |
| Depreciation and amortization | 79,768      | 57,077         | 245,000 | 60,064      | 67,321      | 225,941 |

(P)=Projection

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

(Millions of yen)

|                            | 2006    | 2005    | Difference |
|----------------------------|---------|---------|------------|
|                            | Sep.30  | Dec.31  |            |
| Business machines          | 313,717 | 267,121 | +46,596    |
| Cameras                    | 111,394 | 88,831  | +22,563    |
| Optical and other products | 155,527 | 154,243 | +1,284     |
| Total                      | 580,638 | 510,195 | +70,443    |

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

(Days)

|                            | 2006   | 2005   | Difference |
|----------------------------|--------|--------|------------|
|                            | Sep.30 | Dec.31 |            |
| Business machines          | 44     | 37     | +7         |
| Cameras                    | 40     | 32     | +8         |
| Optical and other products | 130    | 146    | -16        |
| Total                      | 53     | 47     | +6         |

\*Index based on the previous six months sales.

**13. DEBT RATIO**

|                           | 2006<br>Sep.30 | 2005<br>Dec.31 | Difference |
|---------------------------|----------------|----------------|------------|
| Total debt / Total assets | 0.7%           | 0.8%           | -0.1%      |

**14. OVERSEAS PRODUCTION RATIO**

|                           | 2006<br>1st-3rd<br>quarter | 2005<br>Year |
|---------------------------|----------------------------|--------------|
| Overseas production ratio | 40%                        | 40%          |

**15. NUMBER OF EMPLOYEES**

|          | 2006<br>Sep.30 | 2005<br>Dec.31 | Difference |
|----------|----------------|----------------|------------|
| Japan    | 50,443         | 48,637         | +1,806     |
| Overseas | 72,814         | 66,946         | +5,868     |
| Total    | 123,257        | 115,583        | +7,674     |

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