

CANON INC
Form 6-K
January 30, 2007

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**FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the month of January, 2007
CANON INC.**

(Translation of registrant's name into English)
30-2, Shimomaruko 3-Chome, Ohta-ku, Tokyo 146-8501, Japan

(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F

Form 40-F

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-_____

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SIGNATURES

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

CANON INC.
(Registrant)

Date **January 29, 2007**

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 materials are included.

1. Results For The Fourth Quarter And The Fiscal Year Ended December 31, 2006
 2. Notice Regarding Partial Amendment to Articles of Incorporation
 3. Canon Inc. to Delist Shares from the Frankfurt Stock Exchange
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January 29, 2007

**RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 31, 2006****CONSOLIDATED RESULTS**

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

| | Year ended December 31, 2006 | Actual | | | Year ended December 31, 2006 | Projected | |
|---|---------------------------------------|---------------------------------------|-----------|---------------|---------------------------------------|--|-----------|
| | | Year ended December 31, 2005 | Change(%) | | | Year ending December 31, 2007 | Change(%) |
| Net sales | 4 156,759 | ¥ 3,754,191 | + 10.7 | \$ 34,930,748 | 4 450,000 | + 7.1 | |
| Operating profit | 707,033 | 583,043 | + 21.3 | 5,941,454 | 765,000 | + 8.2 | |
| Income before income taxes and minority interests | 719,143 | 612,004 | + 17.5 | 6,043,218 | 775,000 | + 7.8 | |
| Net income | ¥455,325 | ¥ 384,096 | + 18.5 | \$ 3,826,261 | ¥495,000 | + 8.7 | |
| Net income per share: | | | | | | | |
| - Basic | ¥ 341.95 | ¥ 288.63 | + 18.5 | \$ 2.87 | ¥ 371.72 | + 8.7 | |
| - Diluted | 341.84 | 288.36 | + 18.5 | 2.87 | | | |

| | As of December 31, 2006 | Actual | | | As of December 31, 2006 |
|---------------------|-------------------------------|-------------------------------|-----------|---------------|-------------------------------|
| | | As of December 31, 2005 | Change(%) | | |
| Total assets | ¥4,521,915 | ¥ 4,043,553 | + 11.8 | \$ 37,999,286 | |
| Stockholders equity | ¥2,986,606 | ¥ 2,604,682 | + 14.7 | \$ 25,097,529 | |

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

2. U.S. dollar amounts are translated from

yen at the rate of JPY119= U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 29, 2006, solely for the convenience of the reader.

3. Canon has made a three-for-two stock split on July 1, 2006.
4. The per share information has been calculated based on the number of outstanding shares following the implementation of the stock split.

NON-CONSOLIDATED RESULTS

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

| | Actual | | | Projected | | |
|------------------------------|------------------------------|------------------------------|-----------|------------------------------|-------------------------------|-----------|
| | Year ended December 31, 2006 | Year ended December 31, 2005 | Change(%) | Year ended December 31, 2006 | Year ending December 31, 2007 | Change(%) |
| Net sales | ¥2,729,657 | ¥ 2,481,481 | + 10.0 | \$ 22,938,294 | ¥2,930,000 | + 7.3 |
| Operating profit | 511,157 | 416,517 | + 22.7 | 4,295,437 | 551,000 | + 7.8 |
| Ordinary profit | 523,996 | 440,711 | + 18.9 | 4,403,328 | 565,000 | + 7.8 |
| Net income | ¥ 337,520 | ¥ 289,294 | + 16.7 | \$ 2,836,303 | ¥ 370,000 | + 9.6 |
| Net income per share: | | | | | | |
| - Basic | ¥ 253.48 | ¥ 325.83 | | \$ 2.13 | ¥ 277.85 | + 9.6 |
| - Diluted | 253.39 | 325.52 | | 2.13 | | |
| Dividend per share | 100.00 | 100.00 | | 0.84 | 100.00 | |

| | As of December 31, 2006 | Actual As of December 31, 2005 | Change(%) | As of December 31, 2006 |
|---------------------|-------------------------------|---|-----------|-------------------------------|
| Total assets | ¥ 2,938,072 | ¥ 2,652,847 | + 10.8 | \$ 24,689,681 |
| Net assets | ¥ 2,109,283 | ¥ 1,875,433 | + 12.5 | \$ 17,725,067 |

Notes: 1. U.S. dollar amounts are translated from yen at the rate of JPY119= U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 29, 2006, solely for the convenience of the reader.

2. The per share information for fiscal 2006 and projection for fiscal 2007 has been calculated based on the number of outstanding shares following the implementation of the stock split. The per share information for fiscal 2005 is stated in pre-stock split basis.

3. The dividend per share for fiscal 2006 and fiscal 2005

calculated on
the basis that
the stock split
was made at the
beginning of
fiscal 2005, are
JPY83.33 and
JPY66.67,
respectively.

Canon Inc.
Headquarter office

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Tokyo 146-8501, Japan
Phone: +81-3-3758-2111

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Management Policy

Basic Policy

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

Management goals

Based on this basic management policy, Canon launched two consecutive five-year management plans Phase I of its Excellent Global Corporation Plan in 1996 and Phase II in 2001 with the aim of becoming a truly excellent global corporation. Through these two five-year management plans, the company promoted a range of management reforms, thoroughly strengthening its product competitiveness and financial base. Since 2006, under a new five-year management plan Phase III, which targets further growth and improved corporate value, Canon has started to pursue

Sound Growth by making use of the solid management foundation achieved through the two five-year plans and further expanding its corporate scale while maintaining a high level of profitability. In particular, the company is focusing on the following five important management objectives.

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

Mid- to long-term management strategies

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

- 1) Achieving the overwhelming No. 1 position worldwide in all current core businesses

In order to realize our objective of obtaining the No. 1 market share position for all of our core products, Canon is focusing on thoroughly enhancing each business's product development capabilities and product price competitiveness. Furthermore, in order to realize our objective of becoming No. 1 in each of our businesses, we are carrying out the following measures.

As for copying machines and laser beam printers, in line with growing demand for color output in the office, we are applying Canon proprietary technology to actively launch competitive new products that are differentiated by their performance capabilities. In 2006, we launched six new color office-copying machines and are now prepared to expand our market share. Furthermore, we are taking advantage of changes in the office network environment due to the spread of broadband networks and aim to get a jump on the competition with the development of a new-concept multifunction device that maximizes the functionality of each device connected to a network. Also, to satisfy the various needs of our customers, we are actively promoting expansion of our solutions business through the use of our platform architecture, which makes possible expanded functionality, and by supplying software and services, while entering the so call POD (Print on Demand) or light production segment. Furthermore, going forward, we aim to launch products with improved price competitiveness in emerging markets, which are expected to grow significantly, capitalizing on underlying demand to raise our market share.

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

In the digital camera segment, through the timely launch of competitive products that capitalize on our expertise in optical and image-processing technologies, we are further solidifying our top market share position. Especially in the

expanding market for digital SLR cameras, we are aiming to expand our market share even further by taking advantage of our strong product lineup, spanning the range from professional

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to affordable models, along with strengthening such proprietary imaging technologies as CMOS image sensors and the DIGIC digital imaging engine, which support the differentiation of Canon products.

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

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

With regard to semiconductor production equipment, we aim to raise our competitiveness in the market by concentrating on the early development of state-of-the-art lithography equipment that employs such leading-edge technologies as liquid immersion technology. As for mirror projection mask aligners for LCDs, we are aiming to maintain our strong market share position for large substrate equipment.

2) Enhancing cost competitiveness

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

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

For a company to continue growing while maintaining profitability, it is essential to make the most of growth areas and increase competitiveness in such areas. To this end, we are working to move ahead of the competition in the development of leading-edge technologies by pursuing partnerships with the world's top research facilities and universities, aimed at actively promoting the creation of next-generation business domains and develop leading-edge technologies.

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

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

By steadily implementing these management strategies, we are working to further enhance growth and profitability for the Canon Group and to continuously improve its corporate value.

Business challenges and countermeasures

At Canon, the creation of new businesses and maintaining our high profitability structure represent two very important management objectives to ensure continuous future growth. As for the creation of new businesses, we will promote research into leading-edge technologies, using our specialty technologies, in such areas of expertise as displays, biotechnology, nanotechnology and life sciences. Also, to early establish new business segments, we will take advantage of M&A opportunities and business tie-ups.

With regard to maintaining our high profitability structure, in order to effectively respond to the intensifying price competition centered on the consumer goods market and the investment burden that

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accompanies the launch of new businesses, we believe that it is important to further improve the profit-earning ability of our current businesses. To facilitate this, we are promoting the development of new products and actively pursue cost-reduction activities.

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

Basic policy regarding share trading unit

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

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

Basic policy regarding profit distribution

With regard to returning profits to shareholders, Canon has worked to raise its dividend per share in accordance with the company's policy of providing a stable dividend. Under the new policy, Canon will actively work to return profits to shareholders, mainly through the distribution of dividends, taking into consideration planned future investments, free cash flow, and its consolidated business performance.

Specifically, the mid- to long-term objective is to strive to raise the consolidated shareholder return ratio to around 30 percent.

In accordance with this policy, Canon raised its full-year per-share dividend from 65 yen in 2004, to 100 yen in 2005. And for the period ended December 2006, to further enhance shareholder return, in addition to the interim dividend of 50 yen (already distributed), Canon plans to pay a year-end dividend of 50 yen (post stock-split basis). Calculated on a pre-stock-split basis, the year-end dividend would be 75 yen per share, equivalent to a full-year dividend of 125 yen per share, which is an increase of 25 yen per share compared to 2005.

Matters regarding the parent company, etc.

Canon does not have a parent company.

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

Looking back at the global economy in 2006, in the United States, despite a decrease in housing investment, the economy continued to display growth with healthy employment conditions and continued growth in consumer spending, along with an increase in corporate capital investment. In Europe, while exports appeared somewhat sluggish due to the appreciation of the euro, the region indicated a trend toward moderate recovery as domestic demand expanded in major European countries, boosted by such factors as increased consumer spending owing to improvements in the employment environment. Within Asia, the Chinese economy maintained a high growth rate while other economies in the region also enjoyed generally favorable conditions. In Japan, although consumer spending has yet to fully regain its strength, the economy maintained a trend toward recovery amid increased capital spending fueled by strong corporate performances.

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 as the office market moved toward color and multifunctionality. As for computer peripherals, including printers, although demand grew for color as well as monochrome laser beam printers, 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 demand for projection aligners, which are used to produce liquid crystal display (LCD) panels, declined due to restrained investment by LCD manufacturers, demand for steppers, used in the production of semiconductors, was strong, supported by increased investment by manufacturers. The average value of the yen for the year was ¥116.43 to the U.S. dollar and ¥146.51 to the euro, representing year-on-year decreases of about 5% against the U.S. dollar, and 7% against the euro.

Amid these conditions, Canon's consolidated net sales in 2006 increased by 10.7% from the year-ago period to ¥4,156.8 billion (U.S.\$34,931 million), boosted by a solid rise in sales of digital cameras, color network MFDs, and laser beam printers, along with the positive effects of the depreciation of the yen. In 2006, the first year of a new five-year management plan Phase III of Canon's Excellent Global Corporation Plan net income increased by 18.5% year on year to ¥455.3 billion (U.S.\$3,826 million), marking all-time highs for both net sales and net income, and the seventh consecutive year of sales and profit growth. The gross profit ratio improved 1.1 points year on year to reach 49.6%. The improved gross profit ratio was mainly the result of such factors as the introduction of automated production lines, and the in-house manufacturing of key components and key devices, in addition to cost-reduction efforts realized through ongoing production-reform and procurement-reform activities, which absorbed the negative effects of severe price competition in the consumer product market. As for operating expenses, while R&D expenditures grew by ¥21.8 billion (U.S.\$183 million) from the year-ago period to ¥308.3 billion (U.S.\$2,591 million), the operating expense to net sales ratio improved 0.4 points year on year. This was achieved by limiting growth in selling, general and administrative expenses, with the exception of a temporary increase in expenses related to the relocation of operation bases. Consequently, operating profit in 2006 totaled ¥707.0 billion (U.S.\$5,941 million), a year-on-year increase of 21.3%, and the operating profit ratio improved 1.5 points year on year to reach 17.0%. Other income (deductions) declined ¥16.9 billion (U.S.\$142 million) due to an increase in currency exchange losses and 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 2006 totaled ¥719.1 billion (U.S.\$6,043 million), a year-on-year increase of 17.5%, while net income for the year totaled ¥455.3 billion (U.S.\$3,826 million), a year-on-year increase of 18.5%.

Basic net income per share for the year was ¥341.95 (U.S.\$2.87), a year-on-year increase of ¥53.32 (U.S.\$0.45). (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.)

Results by Product Segment

In the business machine segment, sales of color network digital MFDs, which are grouped in the office imaging products sub-segment, recorded significant growth with the launch of such new models as the mid to high-speed office-use iR C5180 series, the low-power-consumption iR C3380 series, and the high-image-quality imagePRESS C1

for commercial printing. Among monochrome network digital MFDs, while the launch of such models as the new high-speed iR7105 contributed to the maintaining of sales

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levels in the U.S. market, sales of monochrome models declined in other markets as demand shifted toward color models. Overall, sales of office imaging products in 2006 realized a year-on-year increase of 2.8%. In the field of computer peripherals, laser beam printers enjoyed a year-on-year increase in unit sales, with color models growing more than 50% and monochrome machines, particularly low-end models, also recording growth of over 10%. Sales in value terms also rose significantly. As for inkjet printers, despite a decline in demand for single-function models and severe price competition in the market, sales in value terms increased along with unit sales. Sales performance was boosted by the introduction of 24 new models 13 single-function models and 11 multifunction models including the high-speed user-friendly PIXMA MP600 and overseas entry-level-model PIXMA MP160 all-in-ones, which contributed to a stronger product lineup while also supporting favorable sales growth for consumables. As a result, sales of computer peripherals for the year realized a year-on-year increase of 12.3%. Within the field of business information products, demand for document scanners grew, contributing to a sales increase of 2.4%. Collectively, sales of business machines for the year totaled ¥2,691.1 billion (U.S.\$22,614 million), a year-on-year increase of 7.5%. Operating profit for the business machines segment totaled ¥599.2 billion (U.S.\$5,036 million), an increase of 10.6% year on year, lifted by active efforts to reduce costs as a means of limiting the decline in sales price amid severe price competition, as well as efforts to curtail expenses. The operating profit ratio was 22.3%, a year-on-year improvement of 0.6 points from the year-ago period.

Within the camera segment, strong demand for digital SLR cameras has fueled continued growth with particularly strong sales for the advanced-amateur-model EOS 30D, launched in the first half of 2006, and the EOS DIGITAL REBEL XTi, launched in the second half. This, in turn, led to expanded sales of interchangeable lenses for SLR cameras. Sales of compact digital cameras also continued to expand steadily with the introduction of 16 new models in 2006, including six stylish ELPH-series models and 10 PowerShot-series models that cater to a diverse range of shooting styles. As a result, unit sales of digital cameras for the year increased by more than 20% from the year-ago period. In the field of digital video camcorders, the launch of consumer-market HDV models equipped with Canon HD CMOS sensors contributed to expanded sales, filling out the company's digital camcorder lineup along with MiniDV and DVD models. Consequently, camera sales surpassed the ¥1,000.0 billion mark for the first time, achieving total sales of ¥1,041.9 billion (U.S.\$8,755 million), a year-on-year increase of 18.5%. The gross profit ratio for the camera segment also rose considerably, boosted by such factors as substantially increased sales of new products and cost reduction efforts. As a result, operating profit for the camera segment increased by a substantial 54.7% year on year to ¥268.7 billion (U.S.\$2,258 million).

In the optical and other products segment, while steppers, used in the production of semiconductors, enjoyed steady demand due to a significant increase in investment by manufacturers, sales of optical products decreased amid declining demand for aligners, used to produce LCD panels, due to restrained investment by LCD manufacturers. As for the other products included in the segment, the newly consolidated subsidiaries last year contributed to significant sales growth. As a result, sales for the segment totaled ¥423.8 billion (U.S.\$3,561 million), a year-on-year increase of 13.7%. Operating profit for the segment grew by 6.8% year on year to ¥41.5 billion (U.S.\$349 million).

Cash Flow

In the twelve months ended December 31, 2006, Canon generated cash flow from operating activities of ¥695.2 billion (U.S.\$5,842 million), a year-on-year increase of ¥89.6 billion (U.S.\$753 million), reflecting a significant increase in net income. Cash flow from investing activities totaled ¥460.8 billion (U.S.\$3,872 million), a year-on-year increase of ¥59.7 billion (U.S.\$501 million), due to a combination of factors, including a ¥424.9 billion (U.S.\$3,570 million) capital expenditure, which was used mainly to expand production capabilities in Japan and overseas regions and to bolster the company's R&D-related infrastructure. As a result, free cash flow surpassed ¥200.0 billion for the fifth consecutive year, totaling positive ¥234.4 billion (U.S.\$1,970 million), an improvement of ¥29.9 billion (U.S.\$252 million) from the year-ago period.

Cash flow from financing activities recorded an outlay of ¥107.5 billion (U.S.\$903 million), mainly resulting from an increase of ¥40.0 billion (U.S.\$336 million) in the dividend payout. Consequently, cash and cash equivalents totaled ¥1,155.6 billion (U.S.\$9,711 million), a year-on-year increase of ¥150.7 billion (U.S.\$1,266 million), including the impact of currency exchange rates.

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Non-consolidated Results

Canon Inc.'s non-consolidated net sales in 2006 grew by 10.0% to ¥2,729.7 billion (U.S.\$22,938 million) while ordinary profit increased by a substantial 18.9% to ¥524.0 billion (U.S.\$4,403 million). Non-consolidated net income also increased by 16.7% to ¥337.5 billion (U.S.\$2,836 million), marking all-time highs for both net sales and net income, and the seventh consecutive year of sales and profit growth, as was also the case with Canon's consolidated performance.

Outlook

Regarding the outlook for the global economy, although there are concerns over such issues as currency exchange rates, interest rates, and pricing of raw materials, 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 in the digital-camera market is expected to continue expanding, fueled by high growth in emerging markets. As for network digital MFDs and laser beam printers, while demand is projected to continue for full-color models, severe price competition and shifting demand toward lower-priced models is expected to adversely affect sales. Within the semiconductor-production equipment market, while there is a possibility that demand for steppers will decline somewhat in the first half, indications for the full-year point to a trend toward moderate recovery. In the market for projection aligners used in the production of LCD panels, demand is expected to decline due to restrained investment by LCD manufacturers.

In fiscal 2007 Canon anticipates consolidated net sales of ¥4,450.0 billion (U.S.\$37,395 million), consolidated income before income taxes of ¥775.0 billion (U.S.\$6,513 million), and consolidated net income of ¥495.0 billion (U.S.\$4,160 million). The company also forecasts non-consolidated net sales of ¥2,930.0 billion (U.S.\$24,622 million), non-consolidated ordinary profit of ¥565.0 billion (U.S.\$4,748 million), and non-consolidated net income of ¥370.0 billion (U.S.\$3,109 million), anticipating its eighth consecutive year of increased consolidated and non-consolidated sales and profit. These forecasts assume currency exchange rates of ¥115 to the U.S. dollar and ¥150 to the euro, representing a slight appreciation of the yen against the U.S. dollar, and a slight depreciation against the euro compared with 2006.

Other information

Canon has decided to purchase from Toshiba Corporation (Toshiba) all of Toshiba's outstanding shares of SED Inc., a Canon subsidiary. On completion of the purchase, SED Inc. will become a wholly owned subsidiary of Canon, effective January 29, 2007.

In accordance with this decision, which was based on the assumption of prolonged litigation pending against Canon in the United States with respect to SED technology, Canon will carry out the SED panel business independently in order to facilitate the earliest possible launch of a commercial SED television business.

Canon, with the necessary cooperation from Toshiba, will make every effort for the smooth launch of its television business based on the high image quality achieved by SED technology.

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

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

GROUP POSITION1. NUMBER OF GROUP COMPANIES

| | December 31, 2006 | December 31, 2005 | Change |
|----------------------|-------------------|-------------------|--------|
| Subsidiaries | 219 | 200 | 19 |
| Affiliated Companies | 14 | 13 | 1 |
| Total | 233 | 213 | 20 |

2. GROUP STRUCTURE AND MAJOR GROUP COMPANIES

Outside Customers

S a l e s C o m p a n i e s Japan Americas Europe Other Canon Europa N.V.
 Canon Australia Pty.Ltd. Canon U.S.A., Inc. Canon (UK) Ltd. Canon Singapore Pte.Ltd. Canon
 Marketing Japan Inc. Canon Canada, Inc. Canon France S.A.S. Canon Hongkong Co., Ltd. Canon System
 & Support Inc. Canon Latin America, Inc. Canon Deutschland Canon (China) Co., Ltd. etc. etc.
 GmbH , etc. , etc.

Canon Inc.

Domestic Manufacturers Overseas Manufacturers Business Machines Business Machines
 Canon Electronics Inc., Canon Finetech Inc. Canon Virginia, Inc., Canon Giessen GmbH Nisca
 Corporation, Canon Chemicals Inc. Canon Bretagne S.A.S., Canon Dalian Business Nagahama Canon
 Inc., Canon Precision Inc. Machines, Inc. Canon Components, Inc. Canon Zhuhai, Inc., Canon Hi-Tech
 (Thailand) Ltd. Oita Canon Materials Inc. Canon Electronic Business Machines (H.K.) Co., Ueno Canon
 Materials Inc. Ltd. Fukushima Canon Inc. , etc. Canon Zhongshan Business Machines Co., Ltd. Canon
 Vietnam Co., Ltd., Canon (Suzhou) Inc. *Canon Korea Business Solutions Inc., etc.
 Cameras Cameras Oita Canon Inc. , etc. Canon Inc., Taiwan Canon Opto (Malaysia) Sdn. Bhd.
 Canon Zhuhai, Inc. , etc. Optical and Other Products Canon Electronics Inc., Canon Precision Inc. Other
 Companies Canon Components, Inc. Canon Semiconductor Equipment Inc. Canon Ecology Industry Inc.
 Canon Machinery Inc. Canon ANELVA Corporation SED Inc. , etc. Canon Software Inc., e-System
 Corporation Canon Technology Europe Ltd. Canon Research Centre France S.A.S. Canon Development
 Americas, Inc. Canon Information Systems Research Australia Pty.Ltd. *TECH Semiconductor
 Singapore Pte.Ltd. , etc. Product Supply Parts Supply

Notes: 1. The companies

with (*) are
 affiliated
 companies
 (equity
 method).

2. Following
 subsidiaries are
 listed on
 domestic stock
 exchange.

Tokyo Stock
 Exchange (1st
 section): Canon

Marketing
Japan Inc.,
Canon
Electronics
Inc., Canon
Finetech Inc.
Tokyo Stock
Exchange (2nd
section): Canon
Software Inc.
Osaka Stock
Exchange (2nd
section): Canon
Machinery Inc.,
Osaka Stock
Exchange
(Hercules):
e-System
Corporation
JASDAQ:
Nisca
Corporation.

3. Canon Sales
Co., Inc.
changed its
corporate name
to Canon
Marketing
Japan Inc. as of
April 1, 2006.

Lotte Canon
Co., Ltd.
changed its
corporate name
to Canon Korea
Business
Solutions Inc.
as of March 3,
2006.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

1. CONSOLIDATED STATEMENTS OF INCOME

| Result for the fourth quarter | Millions of yen | | | Thousands of U.S. dollars |
|---|---|--------------------------------------|-----------|---|
| | Three months ended December 31, 2006 | Three months ended December 31, 2005 | Change(%) | Three months ended December 31, 2006 |
| Net sales | ¥ 1,216,535 | ¥ 1,119,848 | + 8.6 | \$ 10,222,983 |
| Cost of sales | 622,809 | 580,697 | | 5,233,689 |
| Gross profit | 593,726 | 539,151 | + 10.1 | 4,989,294 |
| Selling, general and administrative expenses | 306,768 | 284,786 | | 2,577,882 |
| Research and development expenses | 91,088 | 85,076 | | 765,446 |
| | 397,856 | 369,862 | | 3,343,328 |
| Operating profit | 195,870 | 169,289 | + 15.7 | 1,645,966 |
| Other income (deductions): | | | | |
| Interest and dividend income | 8,711 | 4,709 | | 73,202 |
| Interest expense | (1,005) | (601) | | (8,445) |
| Other, net | (5,804) | (438) | | (48,773) |
| | 1,902 | 3,670 | | 15,984 |
| Income before income taxes and minority interests | 197,772 | 172,959 | + 14.3 | 1,661,950 |
| Income taxes | 68,388 | 60,241 | | 574,689 |
| Income before minority interests | 129,384 | 112,718 | | 1,087,261 |
| Minority interests | 3,820 | 4,507 | | 32,101 |
| Net income | ¥ 125,564 | ¥ 108,211 | + 16.0 | \$ 1,055,160 |

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, change in minimum pension liability adjustments and change in pension liability adjustment. Comprehensive income for the three months ended December 31, 2006 and 2005 were JPY133,418 million (U.S.\$1,121,160 thousand) and JPY155,175 million, respectively.

| Result for the fiscal year | Millions of yen | | | Thousands of U.S. dollars |
|-----------------------------------|-------------------|------------|-----------|---------------------------|
| | Year ended | Year ended | Change(%) | Year ended |

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| | December 31, 2006 | December 31, 2005 | | December 31, 2006 |
|---|------------------------------|----------------------|--------|------------------------------|
| Net sales | ¥4,156,759 | ¥ 3,754,191 | + 10.7 | \$ 34,930,748 |
| Cost of sales | 2,096,279 | 1,935,148 | | 17,615,790 |
| Gross profit | 2,060,480 | 1,819,043 | + 13.3 | 17,314,958 |
| Selling, general and administrative expenses | 1,045,140 | 949,524 | | 8,782,689 |
| Research and development expenses | 308,307 | 286,476 | | 2,590,815 |
| | 1,353,447 | 1,236,000 | | 11,373,504 |
| Operating profit | 707,033 | 583,043 | + 21.3 | 5,941,454 |
| Other income (deductions): | | | | |
| Interest and dividend income | 27,153 | 14,252 | | 228,176 |
| Interest expense | (2,190) | (1,741) | | (18,403) |
| Other, net | (12,853) | 16,450 | | (108,009) |
| | 12,110 | 28,961 | | 101,764 |
| Income before income taxes and minority interests | 719,143 | 612,004 | + 17.5 | 6,043,218 |
| Income taxes | 248,233 | 212,785 | | 2,085,991 |
| Income before minority interests | 470,910 | 399,219 | | 3,957,227 |
| Minority interests | 15,585 | 15,123 | | 130,966 |
| Net income | ¥ 455,325 | ¥ 384,096 | + 18.5 | \$ 3,826,261 |

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 and change in pension liability adjustment. Comprehensive income for the years ended December 31, 2006 and 2005 were JPY486,255 million (U.S.\$4,086,176 thousand) and JPY457,196 million, respectively.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

2. DETAILS OF SALES**Result for the fourth quarter**

Millions of yen

Thousands of
U.S. dollars

| Sales by product | Three months ended December 31, 2006 | Three months ended December 31, 2005 | Change(%) | Three months ended December 31, 2006 |
|--------------------------------------|---|--------------------------------------|-----------|---|
| Business machines: | | | | |
| <i>Office imaging products</i> | ¥ 330,505 | ¥ 310,104 | + 6.6 | \$ 2,777,353 |
| <i>Computer peripherals</i> | 405,955 | 367,308 | + 10.5 | 3,411,387 |
| <i>Business information products</i> | 28,535 | 29,773 | - 4.2 | 239,789 |
| | 764,995 | 707,185 | + 8.2 | 6,428,529 |
| Cameras | 346,439 | 296,874 | + 16.7 | 2,911,252 |
| Optical and other products | 105,101 | 115,789 | - 9.2 | 883,202 |
| Total | ¥ 1,216,535 | ¥ 1,119,848 | + 8.6 | \$ 10,222,983 |

Millions of yen

Thousands of
U.S. dollars

| Sales by region | Three months ended December 31, 2006 | Three months ended December 31, 2005 | Change(%) | Three months ended December 31, 2006 |
|------------------------|---|--------------------------------------|-----------|---|
| Japan | ¥ 266,741 | ¥ 244,767 | + 9.0 | \$ 2,241,521 |
| Overseas: | | | | |
| <i>Americas</i> | 389,362 | 353,647 | + 10.1 | 3,271,950 |
| <i>Europe</i> | 405,600 | 358,971 | + 13.0 | 3,408,403 |
| <i>Other areas</i> | 154,832 | 162,463 | - 4.7 | 1,301,109 |
| | 949,794 | 875,081 | + 8.5 | 7,981,462 |
| Total | ¥ 1,216,535 | ¥ 1,119,848 | + 8.6 | \$ 10,222,983 |

Result for the fiscal year

Millions of yen

Thousands of
U.S. dollars

| Sales by product | Year ended December 31, 2006 | Year ended December 31, 2005 | Change(%) | Year ended December 31, 2006 |
|--------------------------------|-------------------------------------|------------------------------|-----------|-------------------------------------|
| Business machines: | | | | |
| <i>Office imaging products</i> | ¥ 1,185,925 | ¥ 1,153,240 | + 2.8 | \$ 9,965,756 |

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| | | | | |
|--------------------------------------|-------------------|-------------|--------|----------------------|
| <i>Computer peripherals</i> | 1,398,408 | 1,244,906 | + 12.3 | 11,751,328 |
| <i>Business information products</i> | 106,754 | 104,255 | + 2.4 | 897,092 |
| | 2,691,087 | 2,502,401 | + 7.5 | 22,614,176 |
| Cameras | 1,041,865 | 879,186 | + 18.5 | 8,755,168 |
| Optical and other products | 423,807 | 372,604 | + 13.7 | 3,561,404 |
| Total | ¥4,156,759 | ¥ 3,754,191 | + 10.7 | \$ 34,930,748 |

| Sales by region | Millions of yen | | | Thousands of U.S. dollars |
|--------------------|------------------------------|------------------------------|-----------|------------------------------|
| | Year ended December 31, 2006 | Year ended December 31, 2005 | Change(%) | Year ended December 31, 2006 |
| Japan | ¥ 932,290 | ¥ 856,205 | + 8.9 | \$ 7,834,370 |
| Overseas: | | | | |
| <i>Americas</i> | 1,283,646 | 1,145,950 | + 12.0 | 10,786,941 |
| <i>Europe</i> | 1,314,305 | 1,181,258 | + 11.3 | 11,044,580 |
| <i>Other areas</i> | 626,518 | 570,778 | + 9.8 | 5,264,857 |
| | 3,224,469 | 2,897,986 | + 11.3 | 27,096,378 |
| Total | ¥4,156,759 | ¥ 3,754,191 | + 10.7 | \$ 34,930,748 |

Notes: 1. The primary products included in each of the product segments are as follows:

Business machines:

Office imaging products : Office network digital multifunction devices (MFDs) / Color network digital MFDs / Office copying machines / Personal-use copying machines / Full-color copying machines / etc.

Computer peripherals : Laser beam printers / Single function inkjet printers / Inkjet multifunction peripherals / Image scanners / etc.

Business information products : Computer information systems / Document scanner / Personal information products / etc.

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

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

2. The principal countries and regions included in each regional category are as follows:

Americas: United States of America, Canada, Latin America / Europe: England, Germany, France, Netherlands /

Other Areas: Asian regions, China, Oceania

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

3. SEGMENT INFORMATION BY PRODUCT

| Result for the fourth quarter | Millions of yen | | | | Thousands of U.S. dollars |
|--------------------------------------|---|--------------------------------------|-----------|---|---------------------------|
| | Three months ended December 31, 2006 | Three months ended December 31, 2005 | Change(%) | Three months ended December 31, 2006 | |
| Business machines | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 764,995 | ¥ 707,185 | + 8.2 | \$ 6,428,529 | |
| Intersegment | | | | | |
| Total | 764,995 | 707,185 | + 8.2 | 6,428,529 | |
| Operating cost and expenses | 599,430 | 556,989 | + 7.6 | 5,037,226 | |
| Operating profit | 165,565 | 150,196 | + 10.2 | 1,391,303 | |
| Cameras | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 346,439 | ¥ 296,874 | + 16.7 | \$ 2,911,252 | |
| Intersegment | | | | | |
| Total | 346,439 | 296,874 | + 16.7 | 2,911,252 | |
| Operating cost and expenses | 253,827 | 233,817 | + 8.6 | 2,133,000 | |
| Operating profit | 92,612 | 63,057 | + 46.9 | 778,252 | |
| Optical and other products | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 105,101 | ¥ 115,789 | - 9.2 | \$ 883,202 | |
| Intersegment | 52,102 | 44,575 | + 16.9 | 437,832 | |
| Total | 157,203 | 160,364 | - 2.0 | 1,321,034 | |
| Operating cost and expenses | 153,282 | 151,811 | + 1.0 | 1,288,084 | |
| Operating profit | 3,921 | 8,553 | - 54.2 | 32,950 | |

Corporate and Eliminations

| | | | | | |
|-----------------------------|---|-----------------|---|----------|------------------|
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | | ¥ | | \$ |
| Intersegment | | (52,102) | | (44,575) | (437,832) |
| Total | | (52,102) | | (44,575) | (437,832) |
| Operating cost and expenses | | 14,126 | | 7,942 | 118,707 |
| Operating profit | | (66,228) | | (52,517) | (556,539) |

Consolidated

| | | | | | |
|-----------------------------|---|------------------|---|-----------|-------------------------|
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | 1,216,535 | ¥ | 1,119,848 | + 8.6 \$ |
| Intersegment | | | | | 10,222,983 |
| Total | | 1,216,535 | | 1,119,848 | + 8.6 10,222,983 |
| Operating cost and expenses | | 1,020,665 | | 950,559 | + 7.4 8,577,017 |
| Operating profit | | 195,870 | | 169,289 | + 15.7 1,645,966 |

Note: General corporate expenses of JPY66,324 million (U.S.\$557,345 thousand) and JPY52,512 million in the three months ended December 31, 2006 and 2005, respectively, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

| Result for the fiscal year | Millions of yen | | | Thousands of U.S. dollars | |
|-----------------------------------|------------------------------------|------------------------------------|-----------|------------------------------------|--|
| | Year ended December 31, 2006 | Year ended December 31, 2005 | Change(%) | Year ended December 31, 2006 | |
| Business Machines | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 2,691,087 | ¥ 2,502,401 | + 7.5 | \$ 22,614,176 | |
| Intersegment | | | | | |
| Total | 2,691,087 | 2,502,401 | + 7.5 | 22,614,176 | |
| Operating cost and expenses | 2,091,858 | 1,960,373 | + 6.7 | 17,578,638 | |
| Operating profit | 599,229 | 542,028 | + 10.6 | 5,035,538 | |
| Assets | | | | | |
| Depreciation and amortization | 1,617,198 | 1,427,277 | + 13.3 | 13,589,899 | |
| Capital expenditure | 127,873 | 123,037 | + 3.9 | 1,074,563 | |
| | 154,259 | 201,887 | - 23.6 | 1,296,294 | |
| Cameras | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 1,041,865 | ¥ 879,186 | + 18.5 | \$ 8,755,168 | |
| Intersegment | | | | | |
| Total | 1,041,865 | 879,186 | + 18.5 | 8,755,168 | |
| Operating cost and expenses | 773,127 | 705,480 | + 9.6 | 6,496,865 | |
| Operating profit | 268,738 | 173,706 | + 54.7 | 2,258,303 | |
| Assets | | | | | |
| Depreciation and amortization | 542,866 | 480,957 | + 12.9 | 4,561,899 | |
| Capital expenditure | 28,756 | 27,662 | + 4.0 | 241,647 | |
| | 31,517 | 57,678 | - 45.4 | 264,849 | |
| Optical and Other Products | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 423,807 | ¥ 372,604 | + 13.7 | \$ 3,561,404 | |
| Intersegment | 190,687 | 158,114 | + 20.6 | 1,602,411 | |
| Total | 614,494 | 530,718 | + 15.8 | 5,163,815 | |

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| | | | | | |
|-------------------------------|----------------|---------|---|-------|------------------|
| Operating cost and expenses | 573,019 | 491,898 | + | 16.5 | 4,815,286 |
| Operating profit | 41,475 | 38,820 | + | 6.8 | 348,529 |
| Assets | 501,008 | 517,527 | - | 3.2 | 4,210,151 |
| Depreciation and amortization | 37,018 | 28,011 | + | 32.2 | 311,076 |
| Capital expenditure | 36,272 | 15,955 | + | 127.3 | 304,807 |

Corporate and Eliminations

Net sales:

| | | | | | |
|------------------------|------------------|-----------|--|--|--------------------|
| Unaffiliated customers | ¥ | ¥ | | | \$ |
| Intersegment | (190,687) | (158,114) | | | (1,602,411) |
| Total | (190,687) | (158,114) | | | (1,602,411) |

| | | | | | |
|-------------------------------|------------------|-----------|---|------|--------------------|
| Operating cost and expenses | 11,722 | 13,397 | | | 98,505 |
| Operating profit | (202,409) | (171,511) | | | (1,700,916) |
| Assets | 1,860,843 | 1,617,792 | + | 15.0 | 15,637,337 |
| Depreciation and amortization | 68,647 | 47,231 | + | 45.3 | 576,865 |
| Capital expenditure | 157,609 | 108,264 | + | 45.6 | 1,324,445 |

Consolidated

Net sales:

| | | | | | |
|------------------------|--------------------|-------------|---|------|----------------------|
| Unaffiliated customers | ¥ 4,156,759 | ¥ 3,754,191 | + | 10.7 | \$ 34,930,748 |
| Intersegment | | | | | |

| | | | | | |
|-------|------------------|-----------|---|------|-------------------|
| Total | 4,156,759 | 3,754,191 | + | 10.7 | 34,930,748 |
|-------|------------------|-----------|---|------|-------------------|

| | | | | | |
|-----------------------------|------------------|-----------|---|-----|-------------------|
| Operating cost and expenses | 3,449,726 | 3,171,148 | + | 8.8 | 28,989,294 |
|-----------------------------|------------------|-----------|---|-----|-------------------|

| | | | | | |
|------------------|----------------|---------|---|------|------------------|
| Operating profit | 707,033 | 583,043 | + | 21.3 | 5,941,454 |
|------------------|----------------|---------|---|------|------------------|

| | | | | | |
|-------------------------------|------------------|-----------|---|------|-------------------|
| Assets | 4,521,915 | 4,043,553 | + | 11.8 | 37,999,286 |
| Depreciation and amortization | 262,294 | 225,941 | + | 16.1 | 2,204,151 |
| Capital expenditure | 379,657 | 383,784 | - | 1.1 | 3,190,395 |

- Notes: 1. General corporate expenses of JPY202,328 million (U.S.\$1,700,235 thousand) and JPY171,522 million in the years ended December 31, 2006 and 2005, respectively, are included in Corporate and Eliminations.
2. Corporate assets of JPY1,860,933 million (U.S.\$15,638,092 thousand) and JPY1,239,255 million as of December 31, 2006 and 2005, respectively, which mainly consist of cash and cash equivalents, marketable securities, investments and corporate properties, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

4. SEGMENT INFORMATION BY GEOGRAPHIC AREA

| Result for the fiscal year | Millions of yen | | | Thousands of U.S. dollars |
|-----------------------------------|---|------------------------------------|-----------|---|
| | Year ended December 31, 2006 | Year ended December 31, 2005 | Change(%) | Year ended December 31, 2006 |
| Japan | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 1,037,657 | ¥ 979,748 | + 5.9 | \$ 8,719,807 |
| Intersegment | 2,311,482 | 2,046,173 | + 13.0 | 19,424,218 |
| Total | 3,349,139 | 3,025,921 | + 10.7 | 28,144,025 |
| Operating cost and expenses | 2,558,685 | 2,362,019 | + 8.3 | 21,501,554 |
| Operating profit | 790,454 | 663,902 | + 19.1 | 6,642,471 |
| Assets | 2,644,116 | 2,419,012 | + 9.3 | 22,219,462 |
| Americas | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 1,277,867 | ¥ 1,139,784 | + 12.1 | \$ 10,738,378 |
| Intersegment | 4,764 | 7,424 | 35.8 | 40,034 |
| Total | 1,282,631 | 1,147,208 | + 11.8 | 10,778,412 |
| Operating cost and expenses | 1,236,138 | 1,110,415 | + 11.3 | 10,387,715 |
| Operating profit | 46,493 | 36,793 | + 26.4 | 390,697 |
| Assets | 432,001 | 406,101 | + 6.4 | 3,630,261 |
| Europe | | | | |
| Net sales: | | | | |
| Unaffiliated customers | ¥ 1,313,919 | ¥ 1,178,672 | + 11.5 | \$ 11,041,336 |
| Intersegment | 3,586 | 2,206 | + 62.6 | 30,135 |
| Total | 1,317,505 | 1,180,878 | + 11.6 | 11,071,471 |
| Operating cost and expenses | 1,272,463 | 1,147,658 | + 10.9 | 10,692,967 |
| Operating profit | 45,042 | 33,220 | + 35.6 | 378,504 |

| | | | | | |
|-----------------------------------|--------------------|-------------|---|------|----------------------|
| Assets | 682,381 | 569,750 | + | 19.8 | 5,734,294 |
| Others | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 527,316 | ¥ 455,987 | + | 15.6 | \$ 4,431,227 |
| Intersegment | 792,018 | 646,530 | + | 22.5 | 6,655,613 |
| Total | 1,319,334 | 1,102,517 | + | 19.7 | 11,086,840 |
| Operating cost and expenses | 1,275,817 | 1,071,155 | + | 19.1 | 10,721,151 |
| Operating profit | 43,517 | 31,362 | + | 38.8 | 365,689 |
| Assets | 339,314 | 312,472 | + | 8.6 | 2,851,378 |
| Corporate and Eliminations | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ | ¥ | | | \$ |
| Intersegment | (3,111,850) | (2,702,333) | | | (26,150,000) |
| Total | (3,111,850) | (2,702,333) | | | (26,150,000) |
| Operating cost and expenses | (2,893,377) | (2,520,099) | | | (24,314,093) |
| Operating profit | (218,473) | (182,234) | | | (1,835,907) |
| Assets | 424,103 | 336,218 | + | 26.1 | 3,563,891 |
| Consolidated | | | | | |
| Net sales: | | | | | |
| Unaffiliated customers | ¥ 4,156,759 | ¥ 3,754,191 | + | 10.7 | \$ 34,930,748 |
| Intersegment | | | | | |
| Total | 4,156,759 | 3,754,191 | + | 10.7 | 34,930,748 |
| Operating cost and expenses | 3,449,726 | 3,171,148 | + | 8.8 | 28,989,294 |
| Operating profit | 707,033 | 583,043 | + | 21.3 | 5,941,454 |
| Assets | 4,521,915 | 4,043,553 | + | 11.8 | 37,999,286 |

Notes: 1. General corporate expenses of JPY202,328 million (U.S.\$1,700,235 thousand) and

JPY171,522 million in the years ended December 31, 2006 and 2005, respectively, are included in Corporate and Eliminations.

2. Corporate assets of JPY1,860,933 million (U.S.\$15,638,092 thousand) and JPY1,239,255 million as of December 31, 2006 and 2005, respectively, which mainly consist of cash and cash equivalents, marketable securities, investments and corporate properties, are included in Corporate and Eliminations.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

5. CONSOLIDATED BALANCE SHEETS

| | Millions of yen | | | Thousands of U.S. dollars |
|---|----------------------------------|----------------------------------|-----------|----------------------------------|
| | As of December 31, 2006 | As of December 31, 2005 | Change | As of December 31, 2006 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | ¥1,155,626 | ¥ 1,004,953 | ¥ 150,673 | \$ 9,711,143 |
| Marketable securities | 10,445 | 172 | 10,273 | 87,773 |
| Trade receivables, net | 761,947 | 689,427 | 72,520 | 6,402,916 |
| Inventories | 539,057 | 510,195 | 28,862 | 4,529,891 |
| Prepaid expenses and other current assets | 315,274 | 253,822 | 61,452 | 2,649,361 |
| Total current assets | 2,782,349 | 2,458,569 | 323,780 | 23,381,084 |
| Noncurrent receivables | 14,335 | 14,122 | 213 | 120,462 |
| Investments | 110,418 | 104,486 | 5,932 | 927,882 |
| Property, plant and equipment, net | 1,266,425 | 1,148,821 | 117,604 | 10,642,227 |
| Other assets | 348,388 | 317,555 | 30,833 | 2,927,631 |
| Total assets | ¥4,521,915 | ¥ 4,043,553 | ¥ 478,362 | \$ 37,999,286 |
| LIABILITIES AND STOCKHOLDERS | | | | |
| EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term loans and current portion of long-term debt | ¥ 15,362 | ¥ 5,059 | ¥ 10,303 | \$ 129,092 |
| Trade payables | 493,058 | 505,126 | (12,068) | 4,143,345 |
| Income taxes | 133,745 | 110,844 | 22,901 | 1,123,908 |
| Accrued expenses | 303,353 | 248,205 | 55,148 | 2,549,185 |
| Other current liabilities | 217,789 | 209,394 | 8,395 | 1,830,159 |
| Total current liabilities | 1,163,307 | 1,078,628 | 84,679 | 9,775,689 |
| Long-term debt, excluding current installments | 15,789 | 27,082 | (11,293) | 132,681 |
| Accrued pension and severance cost | 83,876 | 80,430 | 3,446 | 704,840 |
| Other noncurrent liabilities | 55,536 | 52,395 | 3,141 | 466,689 |
| Total liabilities | 1,318,508 | 1,238,535 | 79,973 | 11,079,899 |
| Minority interests | 216,801 | 200,336 | 16,465 | 1,821,858 |
| Stockholders' equity: | | | | |
| Common stock | 174,603 | 174,438 | 165 | 1,467,252 |
| Additional paid-in capital | 403,510 | 403,246 | 264 | 3,390,840 |

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| | | | | |
|---|-------------------|-------------|----------|----------------------|
| Legal reserve | 43,600 | 42,331 | 1,269 | 366,386 |
| Retained earnings | 2,368,047 | 2,018,289 | 349,758 | 19,899,555 |
| Accumulated other comprehensive income (loss) | 2,718 | (28,212) | 30,930 | 22,840 |
| Treasury stock | (5,872) | (5,410) | (462) | (49,344) |
| Total stockholders' equity | 2,986,606 | 2,604,682 | 381,924 | 25,097,529 |
| Total liabilities and stockholders' equity | ¥4,521,915 | ¥ 4,043,553 | ¥478,362 | \$ 37,999,286 |

| | Millions of yen | | Thousands of U.S. dollars |
|--|-------------------------|-------------------------|---------------------------|
| | As of December 31, 2006 | As of December 31, 2005 | As of December 31, 2006 |
| Allowance for doubtful receivables | ¥ 13,849 | ¥ 11,728 | \$ 116,378 |
| Accumulated depreciation | 1,382,944 | 1,272,163 | 11,621,378 |
| Accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | 22,858 | (25,772) | 192,084 |
| Net unrealized gains and losses on securities | 8,065 | 6,073 | 67,773 |
| Net gains and losses on derivative financial instruments | (1,663) | (1,174) | (13,975) |
| Minimum pension liability adjustments | | (7,339) | |
| Pension liability adjustment | (26,542) | | (223,042) |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

6. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Millions of yen

| | Common Stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total stockholders' equity |
|---|-----------------|----------------------------------|------------------|----------------------|---|-------------------|----------------------------------|
| Balance at December 31, 2005 | ¥ 174,438 | ¥ 403,246 | ¥ 42,331 | ¥ 2,018,289 | ¥ (28,212) | ¥ (5,410) | ¥ 2,604,682 |
| Conversion of convertible debt and other | 165 | 264 | | | | | 429 |
| Cash dividends | | | | (104,298) | | | (104,298) |
| Transfers to legal reserve | | | 1,269 | (1,269) | | | - |
| Comprehensive income | | | | | | | |
| Net income | | | | 455,325 | | | 455,325 |
| Other comprehensive income (loss), net of tax | | | | | | | |
| Foreign currency translation adjustments | | | | | 48,630 | | 48,630 |
| Net unrealized gains and losses on securities | | | | | 1,992 | | 1,992 |
| Net gains and losses on derivative instruments | | | | | (489) | | (489) |
| Minimum pension liability adjustments | | | | | 7,339 | | 7,339 |
| Pension liability adjustment | | | | | (26,542) | | (26,542) |

| | | | | | | | |
|---|------------------|------------------|-----------------|--------------------|----------------|------------------|--------------------|
| Total comprehensive income | | | | | | | 486,255 |
| Repurchase of treasury stock, net | | | | | | (462) | (462) |
| Balance at December 31, 2006 | ¥ 174,603 | ¥ 403,510 | ¥ 43,600 | ¥ 2,368,047 | ¥ 2,718 | ¥ (5,872) | ¥ 2,986,606 |
| 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 | 574 | 574 | | | | | 1,148 |
| Capital transaction by consolidated subsidiaries and affiliated companies | | 899 | | | | | 899 |
| Cash dividends | | | | (64,310) | | | (64,310) |
| Transfers to legal reserve | | | 1,131 | (1,131) | | | - |
| Comprehensive income | | | | | | | |
| Net income | | | | 384,096 | | | 384,096 |
| Other comprehensive income (loss), net of tax | | | | | | | |
| Foreign currency translation adjustments | | | | | 53,979 | | 53,979 |
| Net unrealized gains and losses on securities | | | | | (1,397) | | (1,397) |
| Net gains and losses on derivative instruments | | | | | (481) | | (481) |
| Minimum pension liability adjustments | | | | | 20,999 | | 20,999 |

| | | | | | | | |
|--|--------------------|--------------------|------------------|---------------------|--------------------|-------------------|---------------------------|
| Total comprehensive income | | | | | | | 457,196 |
| Repurchase of treasury stock, net | | | | | | (147) | (147) |
| Balance at December 31, 2005 | ¥ 174,438 | ¥ 403,246 | ¥ 42,331 | ¥ 2,018,289 | ¥ (28,212) | ¥ (5,410) | ¥ 2,604,682 |
| | | | | | | | Thousands of U.S. dollars |
| Balance at December 31, 2005 | \$1,465,865 | \$3,388,622 | \$355,722 | \$16,960,412 | \$(237,075) | \$(45,462) | \$21,888,084 |
| Conversion of convertible debt and other | 1,387 | 2,218 | | | | | 3,605 |
| Cash dividends | | | | (876,454) | | | (876,454) |
| Transfers to legal reserve | | | 10,664 | (10,664) | | | - |
| Comprehensive income | | | | | | | |
| Net income | | | | 3,826,261 | | | 3,826,261 |
| Other comprehensive income (loss), net of tax | | | | | | | |
| Foreign currency translation adjustments | | | | | 408,655 | | 408,655 |
| Net unrealized gains and losses on securities | | | | | 16,739 | | 16,739 |
| Net gains and losses on derivative instruments | | | | | (4,109) | | (4,109) |
| Minimum pension liability adjustments | | | | | 61,672 | | 61,672 |
| Pension liability adjustment | | | | | (223,042) | | (223,042) |
| | | | | | | | 4,086,176 |

**Total
comprehensive
income**

**Repurchase of
treasury stock,
net**

(3,882) (3,882)

**Balance at
December 31,
2006**

\$1,467,252 \$3,390,840 \$366,386 \$19,899,555 \$ 22,840 \$(49,344) \$25,097,529

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Millions of yen | | Thousands of U.S. dollars |
|--|---------------------------------------|------------------------------------|------------------------------------|
| | Year ended December 31, 2006 | Year ended December 31, 2005 | Year ended December 31, 2006 |
| Cash flows from operating activities: | | | |
| Net income | ¥ 455,325 | ¥ 384,096 | \$ 3,826,261 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 262,294 | 225,941 | 2,204,151 |
| Loss on disposal of property, plant and equipment | 16,182 | 13,784 | 135,983 |
| Deferred income taxes | (6,945) | (766) | (58,361) |
| Increase in trade receivables | (40,969) | (48,391) | (344,277) |
| (Increase) decrease in inventories | (5,542) | 27,558 | (46,571) |
| (Decrease) increase in trade payables | (2,313) | 16,018 | (19,437) |
| Increase in income taxes | 22,657 | 1,998 | 190,395 |
| Increase in accrued expenses | 36,165 | 31,241 | 303,908 |
| Decrease in accrued pension and severance cost | (20,309) | (16,221) | (170,664) |
| Other, net | (21,304) | (29,580) | (179,027) |
| Net cash provided by operating activities | 695,241 | 605,678 | 5,842,361 |
| Cash flows from investing activities: | | | |
| Purchases of fixed assets | (424,862) | (395,055) | (3,570,269) |
| Proceeds from sale of fixed assets | 12,507 | 14,827 | 105,101 |
| Purchases of available-for-sale securities | (7,768) | (5,680) | (65,277) |
| Proceeds from sale of available-for-sale securities | 4,047 | 12,337 | 34,008 |
| Acquisitions of subsidiaries, net of cash acquired | (2,485) | (17,657) | (20,882) |
| Purchases of other investments | (8,911) | (19,531) | (74,882) |
| Other, net | (33,333) | 9,618 | (280,110) |
| Net cash used in investing activities | (460,805) | (401,141) | (3,872,311) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt | 1,053 | 1,716 | 8,849 |
| Repayments of long-term debt | (5,861) | (15,187) | (49,252) |
| Decrease in short-term loans | (828) | (12,011) | (6,958) |
| Dividends paid | (104,298) | (64,310) | (876,454) |
| Other, net | 2,447 | (4,147) | 20,563 |
| Net cash used in financing activities | (107,487) | (93,939) | (903,252) |
| | 23,724 | 6,581 | 199,362 |

Effect of exchange rate changes on cash and cash equivalents

| | | | | | |
|--|--------------------|---|-----------|----|------------------|
| Net increase in cash and cash equivalents | 150,673 | | 117,179 | | 1,266,160 |
| Cash and cash equivalents at beginning of year | 1,004,953 | | 887,774 | | 8,444,983 |
| Cash and cash equivalents at end of year | ¥ 1,155,626 | ¥ | 1,004,953 | \$ | 9,711,143 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

8. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**(1) CHANGES IN GROUP OF ENTITIES**

Subsidiaries

Addition: 31 companies

Removal: 12 companies

Affiliates (Carried at Equity Basis)

Addition: 2 companies

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.

1. Marketable Securities and Investments

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

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

2. Inventories

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

3. Depreciation

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

4. Accrued pension and severance cost

Canon has been adopting Statement of Financial Accounting Standards No.87, Employer's Accounting for Pensions. Statement of Financial Accounting Standards No.158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

Accounting Change

On December 31, 2006, Canon adopted SFAS 158. As a result, Canon recognized the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the December 31, 2006 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax. The adjustment to accumulated other comprehensive income (loss) at adoption represents the unrecognized actuarial loss, unrecognized prior service cost, unrecognized net transition obligation, all of which were previously netted against the plans' funded status in the consolidated balance sheet pursuant to the provision of SFAS 87.

9. SIGNIFICANT SUBSEQUENT EVENTS

Effective January 1, 2007, Canon and its certain domestic subsidiaries have amended their defined benefit pension plans, and also have partially implemented a defined contribution pension plan for part of their future pension benefit. As a result of this amendment, the projected benefit obligation has decreased by JPY101,620 million (U.S.\$ 853,950 thousand). This decreased amount is accounted for as prior service cost, and will be amortized and recognized as a gain in each fiscal period, over the employees' average remaining service period.

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

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

| | Millions of yen | | | | | |
|---------------------------|-------------------------|-----------|--------------|-------------------------|-----------|--------------|
| | As of December 31, 2006 | | | As of December 31, 2005 | | |
| | Acquisition | Estimated | Unrealized | Acquisition | Estimated | Unrealized |
| | Cost | Fair | Holding | Cost | Fair | Holding |
| | | Value | Gains/Losses | | Value | Gains/Losses |
| Current: | | | | | | |
| Available-for-sale: | | | | | | |
| Governmental bonds | ¥ 224 | ¥ 224 | ¥ - | ¥ - | ¥ - | ¥ - |
| Bank debt securities | 71 | 70 | (1) | 71 | 71 | - |
| Equity securities | - | - | - | 101 | 101 | - |
| Held-to-maturity: | | | | | | |
| Corporate debt securities | 10,151 | 10,151 | - | - | - | - |
| | ¥ 10,446 | ¥ 10,445 | ¥ (1) | ¥ 172 | ¥ 172 | ¥ - |
| Noncurrent: | | | | | | |
| Available-for-sale: | | | | | | |
| Governmental bonds | ¥ 335 | ¥ 320 | ¥ (15) | ¥ 525 | ¥ 532 | ¥ 7 |
| Corporate debt securities | 4,090 | 4,124 | 34 | 85 | 88 | 3 |
| Fund trust | 4,072 | 5,607 | 1,535 | 4,553 | 5,999 | 1,446 |
| Equity securities | 12,648 | 29,852 | 17,204 | 11,373 | 26,449 | 15,076 |
| Held-to-maturity: | | | | | | |
| Corporate debt securities | 10,311 | 10,311 | - | 20,961 | 20,961 | - |
| | ¥ 31,456 | ¥ 50,214 | ¥ 18,758 | ¥ 37,497 | ¥ 54,029 | ¥ 16,532 |

Thousands of U.S. dollars

As of December 31, 2006

| | Acquisition | Estimated | Unrealized |
|---------------------------|-------------|-----------|--------------|
| | Cost | Fair | Holding |
| | | Value | Gains/Losses |
| Current: | | | |
| Available-for-sale: | | | |
| Governmental bonds | \$ 1,882 | \$ 1,882 | \$ - |
| Bank debt securities | 596 | 588 | (8) |
| Held-to-maturity: | | | |
| Corporate debt securities | 85,303 | 85,303 | - |
| | \$ 87,781 | \$ 87,773 | \$ (8) |

Noncurrent:

Available-for-sale:

| | | | |
|---------------------------|------------|------------|------------|
| Governmental bonds | \$ 2,815 | \$ 2,689 | \$ (126) |
| Corporate debt securities | 34,370 | 34,655 | 285 |
| Fund trust | 34,218 | 47,118 | 12,900 |
| Equity securities | 106,286 | 250,857 | 144,571 |
| Held-to-maturity: | | | |
| Corporate debt securities | 86,647 | 86,647 | - |
| | \$ 264,336 | \$ 421,966 | \$ 157,630 |

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CANON INC. AND SUBSIDIARIES

CONSOLIDATED

(2) DERIVATIVE CONTRACTS

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|-------------------------|
| | As of December 31, 2006 | | As of December 31, 2005 | | As of December 31, 2006 | |
| | Contract Amount | Estimated Fair Value | Contract Amount | Estimated Fair Value | Contract Amount | Estimated Fair Value |
| Trade receivables and anticipated sales transactions: | | | | | | |
| To sell foreign currencies | ¥ 717,136 | ¥ (15,755) | ¥645,188 | ¥(6,640) | \$6,026,353 | \$(132,395) |
| To buy foreign currencies | 51,189 | (1,472) | 46,424 | (1,172) | 430,160 | (12,370) |

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CANON INC.

NON-CONSOLIDATED

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

| | Millions of yen | | |
|--|---|---------------------------------------|-----------|
| | Year ended December 31, 2006 | Year ended December 31, 2005 | Change(%) |
| Net sales | ¥ 2,729,657 | ¥ 2,481,481 | + 10.0 |
| Cost of sales | 1,703,615 | 1,571,561 | |
| Gross profit | 1,026,042 | 909,920 | + 12.8 |
| Selling, general and administrative expenses | 514,885 | 493,403 | |
| Operating profit | 511,157 | 416,517 | + 22.7 |
| Other income (deductions): | | | |
| Interest and dividend income | 16,868 | 10,979 | |
| Interest expense | (134) | (57) | |
| Other, net | (3,895) | 13,272 | |
| | 12,839 | 24,194 | |
| Ordinary profit | 523,996 | 440,711 | + 18.9 |
| Non-ordinary gain(loss), net | (14,516) | (957) | |
| Income before income taxes | 509,480 | 439,754 | |
| Income taxes | 171,960 | 150,460 | |
| Net income | ¥ 337,520 | ¥ 289,294 | + 16.7 |

2. DETAILS OF SALES**(Parent company only)****Sales by product**

| | Millions of yen | | |
|--------------------------------|---|---------------------------------------|-----------|
| | Year ended December 31, 2006 | Year ended December 31, 2005 | Change(%) |
| Business machines: | | | |
| <i>Office Imaging Products</i> | ¥ 522,024 | ¥ 509,260 | + 2.5 |
| <i>Computer peripherals</i> | 1,242,807 | 1,085,616 | + 14.5 |
| | 1,764,831 | 1,594,876 | + 10.7 |
| Cameras | 760,081 | 663,062 | + 14.6 |

| | | | | |
|----------------------------|-------------------|-------------|---|------|
| Optical and other products | 204,745 | 223,543 | - | 8.4 |
| Total | ¥2,729,657 | ¥ 2,481,481 | + | 10.0 |

Sales by region

| | Millions of yen | | Change(%) | |
|--------------------|-------------------------------------|------------------------------|-----------|------|
| | Year ended December 31, 2006 | Year ended December 31, 2005 | | |
| Japan | ¥ 392,855 | ¥ 367,271 | + | 7.0 |
| Overseas: | | | | |
| <i>Americas</i> | 965,502 | 852,063 | + | 13.3 |
| <i>Europe</i> | 929,330 | 840,786 | + | 10.5 |
| <i>Other areas</i> | 441,970 | 421,361 | + | 4.9 |
| | 2,336,802 | 2,114,210 | + | 10.5 |
| Total | ¥2,729,657 | ¥ 2,481,481 | + | 10.0 |

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CANON INC.

NON-CONSOLIDATED

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

| | As of December 31, 2006 | Millions of yen As of December 31, 2005 | Change |
|---|----------------------------------|---|-----------|
| ASSETS | | | |
| Current assets: | | | |
| Cash | ¥ 324,053 | ¥ 261,680 | ¥ 62,373 |
| Trade receivables | 917,518 | 845,977 | 71,541 |
| Inventories | 205,993 | 189,699 | 16,294 |
| Prepaid expenses and other current assets | 174,739 | 163,909 | 10,830 |
| Allowance for doubtful accounts | (22) | (383) | 361 |
| Total current assets | 1,622,281 | 1,460,882 | 161,399 |
| Fixed assets: | | | |
| Property, plant and equipment, net | 818,094 | 713,960 | 104,134 |
| Intangibles | 34,480 | 27,123 | 7,357 |
| Investments and other fixed assets | 463,313 | 450,979 | 12,334 |
| Allowance for doubtful receivables-noncurrent | (96) | (97) | 1 |
| Total fixed assets | 1,315,791 | 1,191,965 | 123,826 |
| Total assets | ¥ 2,938,072 | ¥ 2,652,847 | ¥ 285,225 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Trade payables | ¥ 409,019 | ¥ 363,375 | ¥ 45,644 |
| Short-term loans | 36,452 | 33,159 | 3,293 |
| Accrued income taxes | 103,871 | 84,172 | 19,699 |
| Accrued warranty expenses | 3,171 | | 3,171 |
| Accrued bonus | 5,656 | 4,759 | 897 |
| Accrued directors' bonus | 295 | | 295 |
| Other current liabilities | 212,157 | 213,666 | (1,509) |
| Total current liabilities | 770,621 | 699,131 | 71,490 |
| Convertible debenture | 318 | 649 | (331) |
| Accrued pension and severance cost | 52,376 | 76,386 | (24,010) |
| Accrued directors' retirement benefits | 1,209 | 1,248 | (39) |
| Reserve for environmental provision | 4,265 | | 4,265 |
| Total noncurrent liabilities | 58,168 | 78,283 | (20,115) |

| | | | |
|--|--------------------|-------------|---------------|
| Total liabilities | 828,789 | 777,414 | 51,375 |
| Stockholders' equity: | | | |
| Common stock | | 174,438 | (174,438) |
| Capital surplus | | 305,966 | (305,966) |
| Retained earnings | | 1,393,662 | (1,393,662) |
| Net unrealized gains on securities | | 6,777 | (6,777) |
| Treasury stock | | (5,410) | (5,410) |
| Total stockholders' equity | | 1,875,433 | (1,875,433) |
| Total liabilities and stockholders' equity | | ¥ 2,652,847 | ¥ (2,652,847) |
| Net assets | | | |
| Stockholders' equity: | 2,101,545 | | 2,101,545 |
| Difference of appreciation and conversion | 7,738 | | 7,738 |
| Total net assets | 2,109,283 | | 2,109,283 |
| Total liabilities and net assets | ¥ 2,938,072 | | ¥ 2,938,072 |

| | As of December 31, 2006 | As of December 31, 2005 |
|---|--|--|
| 1,Accumulated depreciation | ¥ 741,115 | ¥ 690,581 |
| Accumulated impairment loss | ¥ 494 | ¥ 11,361 |
| 2,Cautiory obligation and other Cautiory obligation contract | ¥ 25,986 | ¥ 29,937 |
| 3,Issuance of new stock capitalised those due to conversion of convertible bond (Those capitalised) | ¥ 330 (165) | ¥ 1,146 (573) |
| Those due to conversion of convertible bond (Those capitalised) | ¥ 330 (165) | ¥ 1,146 (573) |
| 4,Number of stock newly issued (Thousand shares) | 261 | 766 |
| Those due to conversion of convertible bond | 261 | 766 |

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CANON INC.

NON-CONSOLIDATED

4. NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**(Parent company only)**

| | Capital surplus | | Legal reserve | Reserve for special depreciation | Stockholders equity | | Retained earnings brought forward | Treasury stock | Total stockholders equity | (Million Difference of appreciation and conversion) | |
|--------------|----------------------------|-----------------------|---------------|----------------------------------|--|------------------|-----------------------------------|----------------|---------------------------|---|------------------------------------|
| | Additional paid-in capital | Other capital surplus | | | Other retained earnings Reserve for deferral of capital gain on property | Special reserves | | | | Retained earnings | Net unrealized gains on securities |
| Common stock | ¥174,438 | ¥305,965 | ¥ 1 | ¥22,114 | ¥13,337 | ¥ 5 | ¥1,068,828 | ¥ 289,378 | ¥(5,410) | ¥1,868,656 | ¥6,777 |
| | 165 | 165 | | | | | | | | 330 | |
| | | | | | 9,065 | | | | | (9,065) | |
| | | | | | (9,917) | | | | | 9,917 | |
| | | | | | | 1,335 | | | | (1,335) | |

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(48) 48

181,100 (181,100)

(222) (222)

(104,298) (104,298)

337,520 337,520

(488) (488)

21 26 47

2,122 (1,161)

165 165 21 (852) 1,287 181,100 51,465 (462) 232,889 2,122 (1,161)

¥174,603 ¥306,130 ¥22 ¥22,114 ¥12,485 ¥1,292 ¥1,249,928 ¥ 340,843 ¥(5,872) ¥2,101,545 ¥8,899 ¥(1,161)

1. Number of issued shares of year end

1,333,445,830

2. Classes and number of treasury stock

| Classes of stock | Balance as of | Increase | Decrease | (shares) Balance as of |
|------------------|---------------|----------|----------|---------------------------|
|------------------|---------------|----------|----------|---------------------------|

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| | December 31, 2005 | | | December 31, 2006 |
|--------------|----------------------|---------|-------|----------------------|
| common stock | 1,145,682 | 656,152 | 7,444 | 1,794,390 |

3. Dividend from surplus

| Decision | Cash dividend (Millions of yen) | Dividend per share(yen) | Base date | Effective date |
|---|--|----------------------------|----------------------|--------------------|
| March 30, 2006 Annual meeting of stockholders | 59,912 | 67.50 | December 31, 2005 | March 31, 2006 |
| July 27, 2006 Board of directors meeting | 44,386 | 50.00 | June 30, 2006 | August 25, 2006 |

| Scheduled | Cash dividend (Millions of yen) | Dividend per share(yen) | Base date | Effective date |
|---|--|----------------------------|----------------------|-------------------|
| March 29, 2007 Annual meeting of stockholders | 66,583 | 50.00 | December 31, 2006 | March 30, 2007 |

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NON-CONSOLIDATED

Directors

(1) Candidates for Directors to be promoted

| | | |
|--------------------------|---------------------|--|
| Executive Vice President | Toshizo Tanaka | (Senior Managing Director, Group Executive, Finance & Accounting Headquarters (present)) |
| Managing Director | Tomonori Iwashita | (Director, Chief Executive, Image Communication Products Operations (present)) |
| Managing Director | Masahiro Osawa | (Director, Group Executive, Global Procurement Headquarters (present)) |
| Managing Director | Shigeyuki Matsumoto | (Director, Group Executive, Device Technology Development Headquarters (present)) |

(2) Candidates for new Directors to be appointed

| | | |
|----------|-----------------|---|
| Director | Kazunori Fukuma | (Executive Officer & Corporate Vice President, Toshiba Corporation (present) and President, SED Inc. (present)) |
| | | * Scheduled to be hired by Canon as an adviser on January 30, 2007 |
| Director | Hideki Ozawa | (President, Canon (China) Co., Ltd. (present)) |
| Director | Masaya Maeda | (Group Executive, Digital Imaging Business Group (present)) |

(3) Directors to be retired

| | | |
|-------------------|-------------------|--|
| Managing Director | Hironori Yamamoto | (Executive Vice President, Canon Electronics Inc. to be appointed) |
| Director | Shigeru Imaiida | (Executive Vice President, Canon Mold Co., Ltd. to be appointed) |

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January 29, 2007

CONSOLIDATED FINANCIAL RESULTS FOR THE FOURTH QUARTER
AND THE FISCAL YEAR ENDED DECEMBER 31, 2006
SUPPLEMENTARY REPORT
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| 18. NUMBER OF EMPLOYEES | S 7 |

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

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Canon Inc.

1. SALES BY REGION AND PRODUCT (2006)

(Millions of yen)

| | 2006 | | 2005 | | Change year over year | |
|-------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Japan | | | | | | |
| Business machines | 177,294 | 619,713 | 169,499 | 612,832 | +4.6% | +1.1% |
| Office imaging products | 93,838 | 359,935 | 84,885 | 357,689 | +10.5% | +0.6% |
| Computer peripherals | 66,209 | 190,981 | 64,627 | 183,727 | +2.4% | +3.9% |
| Business information products | 17,247 | 68,797 | 19,987 | 71,416 | -13.7% | -3.7% |
| Cameras | 40,676 | 139,625 | 36,220 | 127,886 | +12.3% | +9.2% |
| Optical and other products | 48,771 | 172,952 | 39,048 | 115,487 | +24.9% | +49.8% |
| Total | 266,741 | 932,290 | 244,767 | 856,205 | +9.0% | +8.9% |
| Overseas | | | | | | |
| Business machines | 587,701 | 2,071,374 | 537,686 | 1,889,569 | +9.3% | +9.6% |
| Office imaging products | 236,667 | 825,990 | 225,219 | 795,551 | +5.1% | +3.8% |
| Computer peripherals | 339,746 | 1,207,427 | 302,681 | 1,061,179 | +12.2% | +13.8% |
| Business information products | 11,288 | 37,957 | 9,786 | 32,839 | +15.3% | +15.6% |
| Cameras | 305,763 | 902,240 | 260,654 | 751,300 | +17.3% | +20.1% |
| Optical and other products | 56,330 | 250,855 | 76,741 | 257,117 | -26.6% | -2.4% |
| Total | 949,794 | 3,224,469 | 875,081 | 2,897,986 | +8.5% | +11.3% |
| Americas | | | | | | |
| Business machines | 239,816 | 865,697 | 224,815 | 795,268 | +6.7% | +8.9% |
| Office imaging products | 99,908 | 361,328 | 99,491 | 353,384 | +0.4% | +2.2% |
| Computer peripherals | 134,218 | 484,624 | 120,750 | 425,877 | +11.2% | +13.8% |
| Business information products | 5,690 | 19,745 | 4,574 | 16,007 | +24.4% | +23.4% |
| Cameras | 133,312 | 362,104 | 115,569 | 308,667 | +15.4% | +17.3% |
| Optical and other products | 16,234 | 55,845 | 13,263 | 42,015 | +22.4% | +32.9% |
| Total | 389,362 | 1,283,646 | 353,647 | 1,145,950 | +10.1% | +12.0% |
| Europe | | | | | | |
| Business machines | 272,115 | 916,108 | 243,712 | 838,081 | +11.7% | +9.3% |
| Office imaging products | 111,718 | 369,709 | 103,566 | 357,188 | +7.9% | +3.5% |
| Computer peripherals | 155,646 | 531,224 | 135,618 | 466,965 | +14.8% | +13.8% |
| | 4,751 | 15,175 | 4,528 | 13,928 | +4.9% | +9.0% |

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| | | | | | | |
|-------------------------------|------------------|------------------|------------------|------------------|---------------|---------------|
| Business information products | | | | | | |
| Cameras | 122,190 | 362,670 | 106,227 | 316,769 | +15.0% | +14.5% |
| Optical and other products | 11,295 | 35,527 | 9,032 | 26,408 | +25.1% | +34.5% |
| Total | 405,600 | 1,314,305 | 358,971 | 1,181,258 | +13.0% | +11.3% |
| Other areas | | | | | | |
| Business machines | 75,770 | 289,569 | 69,159 | 256,220 | +9.6% | +13.0% |
| Office imaging products | 25,041 | 94,953 | 22,162 | 84,979 | +13.0% | +11.7% |
| Computer peripherals | 49,882 | 191,579 | 46,313 | 168,337 | +7.7% | +13.8% |
| Business information products | 847 | 3,037 | 684 | 2,904 | +23.8% | +4.6% |
| Cameras | 50,261 | 177,466 | 38,858 | 125,864 | +29.3% | +41.0% |
| Optical and other products | 28,801 | 159,483 | 54,446 | 188,694 | -47.1% | -15.5% |
| Total | 154,832 | 626,518 | 162,463 | 570,778 | -4.7% | +9.8% |
| Total | | | | | | |
| Business machines | 764,995 | 2,691,087 | 707,185 | 2,502,401 | +8.2% | +7.5% |
| Office imaging products | 330,505 | 1,185,925 | 310,104 | 1,153,240 | +6.6% | +2.8% |
| Computer peripherals | 405,955 | 1,398,408 | 367,308 | 1,244,906 | +10.5% | +12.3% |
| Business information products | 28,535 | 106,754 | 29,773 | 104,255 | -4.2% | +2.4% |
| Cameras | 346,439 | 1,041,865 | 296,874 | 879,186 | +16.7% | +18.5% |
| Optical and other products | 105,101 | 423,807 | 115,789 | 372,604 | -9.2% | +13.7% |
| Total | 1,216,535 | 4,156,759 | 1,119,848 | 3,754,191 | +8.6% | +10.7% |

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Canon Inc.

2. SALES BY REGION AND PRODUCT (2007/Projection)**(1) Sales by product**

(Millions of yen)

| | 2007 (P) | | | | 1st quarter | 2006 | | | Change year over year | | |
|--|-------------|-----------|-----------|-----------|----------------|-----------|-----------|-----------|-----------------------|-------------|-------------|
| | 1st quarter | 1st half | 2nd half | Year | | 1st half | 2nd half | Year | 1st quarter | 1st half | 2nd half |
| | 690,200 | 1,402,700 | 1,497,500 | 2,900,200 | 631,153 | 1,286,596 | 1,404,491 | 2,691,087 | +9.4% | +9.0% | +6.6% |
| | 299,300 | 616,000 | 661,000 | 1,277,000 | 286,488 | 585,437 | 600,488 | 1,185,925 | +4.5% | +5.2% | +10.1% |
| | 362,600 | 731,000 | 780,000 | 1,511,000 | 316,796 | 646,663 | 751,745 | 1,398,408 | +14.5% | +13.0% | +3.8% |
| | 28,300 | 55,700 | 56,500 | 112,200 | 27,869 | 54,496 | 52,258 | 106,754 | +1.5% | +2.2% | +8.1% |
| | 210,700 | 496,200 | 619,600 | 1,115,800 | 192,061 | 460,285 | 581,580 | 1,041,865 | +9.7% | +7.8% | +6.5% |
| | 99,100 | 201,100 | 232,900 | 434,000 | 100,058 | 205,374 | 218,433 | 423,807 | -1.0% | -2.1% | +6.6% |
| | 1,000,000 | 2,100,000 | 2,350,000 | 4,450,000 | 923,272 | 1,952,255 | 2,204,504 | 4,156,759 | +8.3% | +7.6% | +6.6% |

(P)=Projection

(2) Sales by region

(Millions of yen)

| | 2007 (P) | | | | 1st quarter | 2006 | | | Change year over year | | |
|--|-------------|-----------|-----------|-----------|----------------|-----------|-----------|-----------|-----------------------|-------------|-------------|
| | 1st quarter | 1st half | 2nd half | Year | | 1st half | 2nd half | Year | 1st quarter | 1st half | 2nd half |
| | 222,000 | 463,500 | 508,900 | 972,400 | 213,694 | 446,298 | 485,992 | 932,290 | +3.9% | +3.9% | +4.7% |
| | 778,000 | 1,636,500 | 1,841,100 | 3,477,600 | 709,578 | 1,505,957 | 1,718,512 | 3,224,469 | +9.6% | +8.7% | +7.1% |
| | 297,600 | 634,400 | 710,800 | 1,345,200 | 285,067 | 594,473 | 689,173 | 1,283,646 | +4.4% | +6.7% | +3.1% |
| | 326,600 | 694,200 | 751,400 | 1,445,600 | 281,621 | 610,943 | 703,362 | 1,314,305 | +16.0% | +13.6% | +6.8% |
| | 153,800 | 307,900 | 378,900 | 686,800 | 142,890 | 300,541 | 325,977 | 626,518 | +7.6% | +2.4% | +16.2% |
| | 1,000,000 | 2,100,000 | 2,350,000 | 4,450,000 | 923,272 | 1,952,255 | 2,204,504 | 4,156,759 | +8.3% | +7.6% | +6.6% |

(P)=Projection

*With regard to projected net sales, due to the difficulty involved in providing detailed breakdowns by product within each region, beginning in fiscal 2007 Canon will only disclose projected net sales totals by product segment and by region.

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Table of Contents**3. SEGMENT INFORMATION BY PRODUCT (2006)**

Canon Inc.

(Millions of yen)

| | 2006 | | 2005 | | Change year over year | |
|-----------------------------------|-------------|-----------|-------------|-----------|-----------------------|--------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Business machines | | | | | | |
| Unaffiliated customers | 764,995 | 2,691,087 | 707,185 | 2,502,401 | +8.2% | +7.5% |
| Intersegment | | | | | | |
| Total sales | 764,995 | 2,691,087 | 707,185 | 2,502,401 | +8.2% | +7.5% |
| Operating profit | 165,565 | 599,229 | 150,196 | 542,028 | +10.2% | +10.6% |
| % of sales | 21.6% | 22.3% | 21.2% | 21.7% | | |
| Cameras | | | | | | |
| Unaffiliated customers | 346,439 | 1,041,865 | 296,874 | 879,186 | +16.7% | +18.5% |
| Intersegment | | | | | | |
| Total sales | 346,439 | 1,041,865 | 296,874 | 879,186 | +16.7% | +18.5% |
| Operating profit | 92,612 | 268,738 | 63,057 | 173,706 | +46.9% | +54.7% |
| % of sales | 26.7% | 25.8% | 21.2% | 19.8% | | |
| Optical and other products | | | | | | |
| Unaffiliated customers | 105,101 | 423,807 | 115,789 | 372,604 | -9.2% | +13.7% |
| Intersegment | 52,102 | 190,687 | 44,575 | 158,114 | +16.9% | +20.6% |
| Total sales | 157,203 | 614,494 | 160,364 | 530,718 | -2.0% | +15.8% |
| Operating profit | 3,921 | 41,475 | 8,553 | 38,820 | -54.2% | +6.8% |
| % of sales | 2.5% | 6.7% | 5.3% | 7.3% | | |
| Corporate and Eliminations | | | | | | |
| Unaffiliated customers | | | | | | |
| Intersegment | -52,102 | -190,687 | -44,575 | -158,114 | | |
| Total sales | -52,102 | -190,687 | -44,575 | -158,114 | | |
| Operating profit | -66,228 | -202,409 | -52,517 | -171,511 | | |
| Consolidated | | | | | | |
| Unaffiliated customers | 1,216,535 | 4,156,759 | 1,119,848 | 3,754,191 | +8.6% | +10.7% |
| Intersegment | | | | | | |
| Total sales | 1,216,535 | 4,156,759 | 1,119,848 | 3,754,191 | +8.6% | +10.7% |
| Operating profit | 195,870 | 707,033 | 169,289 | 583,043 | +15.7% | +21.3% |
| % of sales | 16.1% | 17.0% | 15.1% | 15.5% | | |

4. OTHER INCOME / DEDUCTIONS (2006)

(Millions of yen)

| | 2006 | | 2005 | | Change year over year | |
|---|----------------|---------|----------------|--------|-----------------------|---------|
| | 4th quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Interest and dividend, net | 7,706 | 24,963 | 4,108 | 12,511 | +3,598 | +12,452 |
| Forex gain / loss | -8,737 | -25,804 | -2,262 | -3,710 | -6,475 | -22,094 |
| Equity earnings / loss of affiliated companies | 1,428 | 4,237 | 174 | 1,646 | +1,254 | +2,591 |
| Other, net | 1,505 | 8,714 | 1,650 | 18,514 | -145 | -9,800 |
| Total | 1,902 | 12,110 | 3,670 | 28,961 | -1,768 | -16,851 |

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Canon Inc.

5. SEGMENT INFORMATION BY PRODUCT (2007/Projection)

(Millions of yen)

| 1st quarter | 2007 (P) | | | 1st quarter | 2006 | | | Change year over year | | |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------------|----------|----------|
| | 1st half | 2nd half | Year | | 1st half | 2nd half | Year | 1st quarter | 1st half | 2nd half |
| 690,200 | 1,402,700 | 1,497,500 | 2,900,200 | 631,153 | 1,286,596 | 1,404,491 | 2,691,087 | +9.4% | +9.0% | +9.0% |
| 690,200 | 1,402,700 | 1,497,500 | 2,900,200 | 631,153 | 1,286,596 | 1,404,491 | 2,691,087 | +9.4% | +9.0% | +9.0% |
| 155,000 22.5% | 311,800 22.2% | 328,200 21.9% | 640,000 22.1% | 152,168 24.1% | 294,565 22.9% | 304,664 21.7% | 599,229 22.3% | +1.9% | +5.9% | +5.9% |
| 210,700 | 496,200 | 619,600 | 1,115,800 | 192,061 | 460,285 | 581,580 | 1,041,865 | +9.7% | +7.8% | +7.8% |
| 210,700 | 496,200 | 619,600 | 1,115,800 | 192,061 | 460,285 | 581,580 | 1,041,865 | +9.7% | +7.8% | +7.8% |
| 54,500 25.9% | 125,500 25.3% | 162,300 26.2% | 287,800 25.8% | 44,039 22.9% | 108,736 23.6% | 160,002 27.5% | 268,738 25.8% | +23.8% | +15.4% | +15.4% |
| 99,100 | 201,100 | 232,900 | 434,000 | 100,058 | 205,374 | 218,433 | 423,807 | -1.0% | -2.1% | -2.1% |
| 44,000 | 92,900 | 105,800 | 198,700 | 41,397 | 88,706 | 101,981 | 190,687 | +6.3% | +4.7% | +4.7% |
| 143,100 | 294,000 | 338,700 | 632,700 | 141,455 | 294,080 | 320,414 | 614,494 | +1.2% | -0.0% | -0.0% |
| 20,500 14.3% | 28,700 9.8% | 25,500 7.5% | 54,200 8.6% | 14,526 10.3% | 23,195 7.9% | 18,280 5.7% | 41,475 6.7% | +41.1% | +23.7% | +23.7% |
| -44,000 | -92,900 | -105,800 | -198,700 | -41,397 | -88,706 | -101,981 | -190,687 | | | |
| -44,000 | -92,900 | -105,800 | -198,700 | -41,397 | -88,706 | -101,981 | -190,687 | | | |

| | | | | | | | | | | |
|-----------|-----------|-----------|-----------|---------|-----------|-----------|-----------|-------|-------|---|
| -45,000 | -98,000 | -119,000 | -217,000 | -40,598 | -88,019 | -114,390 | -202,409 | | | |
| 1,000,000 | 2,100,000 | 2,350,000 | 4,450,000 | 923,272 | 1,952,255 | 2,204,504 | 4,156,759 | +8.3% | +7.6% | + |
| 1,000,000 | 2,100,000 | 2,350,000 | 4,450,000 | 923,272 | 1,952,255 | 2,204,504 | 4,156,759 | +8.3% | +7.6% | + |
| 185,000 | 368,000 | 397,000 | 765,000 | 170,135 | 338,477 | 368,556 | 707,033 | +8.7% | +8.7% | + |
| 18.5% | 17.5% | 16.9% | 17.2% | 18.4% | 17.3% | 16.7% | 17.0% | | | |

(P)=Projection

6. OTHER INCOME / DEDUCTIONS (2007/Projection)

(Millions of yen)

| | 2007 (P) | | | | 2006 | | | | Change year over year | | | |
|------------|-------------|----------|----------|---------|-------------|----------|----------|---------|-----------------------|----------|----------|--------|
| | 1st quarter | 1st half | 2nd half | Year | 1st quarter | 1st half | 2nd half | Year | 1st quarter | 1st half | 2nd half | Year |
| Interest | | | | | | | | | | | | |
| Dividend | | | | | | | | | | | | |
| Net gain | 6,200 | 13,500 | 13,500 | 27,000 | 4,607 | 10,518 | 14,445 | 24,963 | +1,593 | +2,982 | -945 | +2,030 |
| Loss | -8,300 | -13,000 | -11,300 | -24,300 | -8,084 | -14,639 | -11,165 | -25,804 | -216 | +1,639 | -135 | +1,500 |
| Equity | | | | | | | | | | | | |
| Earnings / | | | | | | | | | | | | |
| Loss of | | | | | | | | | | | | |
| Affiliated | | | | | | | | | | | | |
| Companies | 1,400 | 2,900 | 2,800 | 5,700 | 1,541 | 2,094 | 2,143 | 4,237 | -141 | +806 | +657 | +1,460 |
| Other, net | 700 | 3,600 | -2,000 | 1,600 | 1,392 | 4,595 | 4,119 | 8,714 | -692 | -995 | -6,119 | -7,110 |
| Total | 0 | 7,000 | 3,000 | 10,000 | -544 | 2,568 | 9,542 | 12,110 | +544 | +4,432 | -6,542 | -2,110 |

(P)=Projection

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Canon Inc.

7. SALES COMPOSITION BY PRODUCT

| | 2007 (P) | | | | 2006 | | | | 2005 | |
|--|-------------|----------|----------|------|-------------|----------|----------|------|-------------|------|
| | 1st quarter | 1st half | 2nd half | Year | 4th quarter | 1st half | 2nd half | Year | 4th quarter | Year |
| Office imaging products | | | | | | | | | | |
| Monochrome copying machines | 48% | 48% | 46% | 47% | 49% | 53% | 50% | 52% | 55% | 56% |
| Color copying machines | 34% | 34% | 36% | 35% | 34% | 30% | 32% | 31% | 29% | 28% |
| Others | 18% | 18% | 18% | 18% | 17% | 17% | 18% | 17% | 16% | 16% |
| Computer peripherals | | | | | | | | | | |
| Laser beam printers | 75% | 74% | 70% | 72% | 68% | 75% | 72% | 73% | 67% | 71% |
| Inkjet printers (includes inkjet MFPs) | 24% | 25% | 29% | 27% | 31% | 24% | 27% | 26% | 32% | 27% |
| Others | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | 2% |
| Business information products | | | | | | | | | | |
| Personal computers | 67% | 66% | 65% | 66% | 61% | 66% | 63% | 64% | 69% | 69% |
| Others | 33% | 34% | 35% | 34% | 39% | 34% | 37% | 36% | 31% | 31% |
| Cameras | | | | | | | | | | |
| Film cameras / Lenses | 17% | 15% | 15% | 15% | 14% | 16% | 15% | 15% | 15% | 16% |
| Digital cameras | 72% | 74% | 75% | 75% | 76% | 74% | 75% | 75% | 74% | 72% |
| Video cameras | 11% | 11% | 10% | 10% | 10% | 10% | 10% | 10% | 11% | 12% |
| Optical and other products | | | | | | | | | | |
| Semiconductor production equipment | 49% | 47% | 52% | 50% | 53% | 52% | 52% | 52% | 58% | 64% |
| Others | 51% | 53% | 48% | 50% | 47% | 48% | 48% | 48% | 42% | 36% |

(P)=Projection

* Certain figures within the camera segment have been adjusted for fiscal year 2005 following a review of product categories.

8. SALES GROWTH IN LOCAL CURRENCY

| | 2007 (P) | | | | 2006 | | | |
|--------------------------|-------------|----------|----------|------|-------------|----------|----------|------|
| | 1st quarter | 1st half | 2nd half | Year | 4th quarter | 1st half | 2nd half | Year |
| Business machines | | | | | | | | |

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| | | | | | | | | |
|-----------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Japan | | | | | +4.6% | -0.9% | +3.1% | +1.1% |
| Overseas | | | | | +5.8% | +2.9% | +4.3% | +3.6% |
| Total | +7.2% | +7.2% | +8.1% | +7.7% | +5.5% | +1.9% | +4.0% | +3.0% |
| Cameras | | | | | | | | |
| Japan | | | | | +12.3% | +11.5% | +7.2% | +9.2% |
| Overseas | | | | | +13.1% | +15.5% | +12.6% | +13.8% |
| Total | +6.8% | +5.5% | +8.2% | +7.0% | +13.0% | +14.9% | +11.8% | +13.1% |
| Optical and other products | | | | | | | | |
| Japan | | | | | +24.9% | +48.9% | +50.5% | +49.8% |
| Overseas | | | | | -28.1% | -4.1% | -6.8% | -5.5% |
| Total | -1.5% | -2.6% | +7.0% | +2.4% | -10.2% | +11.7% | +11.6% | +11.7% |
| Total | | | | | | | | |
| Japan | +3.9% | +3.9% | +4.7% | +4.3% | +9.0% | +7.3% | +10.4% | +8.9% |
| Overseas | +6.9% | +6.3% | +9.0% | +7.8% | +5.0% | +5.3% | +5.7% | +5.5% |
| Americas | +4.4% | +6.4% | +5.8% | +6.1% | +9.7% | +5.5% | +7.5% | +6.6% |
| Europe | +9.1% | +8.4% | +7.9% | +8.1% | +5.2% | +5.1% | +3.7% | +4.3% |
| Other areas | +7.4% | +1.9% | +18.1% | +10.4% | -5.5% | +5.1% | +6.1% | +5.6% |
| Total | +6.2% | +5.8% | +8.1% | +7.0% | +5.9% | +5.7% | +6.7% | +6.3% |

(P)=Projection

*With regard to projected net sales, due to the difficulty involved in providing detailed breakdowns by product within each region, beginning in fiscal 2007 Canon will only disclose projected net sales totals by product segment and by region.

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Canon Inc.

(Millions of yen)

| | 2007 (P) | 2006 | Change year over year |
|---|-------------|-------------|-----------------------------|
| | 1st quarter | 1st quarter | |
| Net sales | 1,000,000 | 923,272 | +8.3% |
| Operating profit | 185,000 | 170,135 | +8.7% |
| Income before income taxes and minority interests | 185,000 | 169,591 | +9.1% |
| Net income | 120,000 | 108,269 | +10.8% |

(P)=Projection

10. PROFITABILITY

| | 2007 (P) | 2006 | 2005 |
|-----|----------|-------|-------|
| | Year | Year | Year |
| ROE | 15.6% | 16.3% | 16.0% |
| ROA | 10.5% | 10.6% | 10.1% |

(P)=Projection

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

(Yen)

| | 2007 (P) | | 2006 | | 2005 | |
|----------|----------------|--------|----------------|--------|----------------|--------|
| | 1st quarter | Year | 4th quarter | Year | 4th quarter | Year |
| Yen/US\$ | 117.00 | 115.00 | 117.81 | 116.43 | 117.39 | 110.58 |
| Yen/Euro | 152.00 | 150.00 | 151.89 | 146.51 | 139.46 | 137.04 |

(P)=Projection

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

(Billions of yen)

| | 2007 (P) | | 2006 | |
|------------------|----------------|-------|----------------|--------|
| | 1st quarter | Year | 4th quarter | Year |
| US\$ | +0.2 | -22.3 | -1.3 | +67.8 |
| Euro | +18.3 | +25.8 | +26.3 | +65.9 |
| Other currencies | +0.3 | +0.6 | +1.0 | +5.0 |
| Total | +18.8 | +4.1 | +26.0 | +138.7 |

(P)=Projection

(3) Impact of foreign exchange rates per yen

(Billions of yen)

2007 (P)
Year

| | 1st quarter | |
|---------------------|----------------|------|
| On sales | | |
| US\$ | 3.5 | 15.5 |
| Euro | 1.6 | 7.6 |
| On operating profit | | |
| US\$ | 2.1 | 9.0 |
| Euro | 1.2 | 5.6 |

(P)=Projection

12. STATEMENTS OF CASH FLOWS

(Millions of yen)

| | 2007 (P) | 2006 | | 2005 | |
|--|-----------|-------------|-----------|-------------|-----------|
| | Year | 4th quarter | Year | 4th quarter | Year |
| Net cash provided by operating activities | | | | | |
| Net income | 495,000 | 125,564 | 455,325 | 108,211 | 384,096 |
| Depreciation and amortization | 300,000 | 74,371 | 262,294 | 67,321 | 225,941 |
| Other, net | -35,000 | 35,552 | -22,378 | 61,483 | -4,359 |
| Total | 760,000 | 235,487 | 695,241 | 237,015 | 605,678 |
| Net cash used in investing activities | -495,000 | -132,528 | -460,805 | -112,812 | -401,141 |
| Free cash flow | 265,000 | 102,959 | 234,436 | 124,203 | 204,537 |
| Net cash used in financing activities | -180,500 | -1,621 | -107,487 | -18,924 | -93,939 |
| Effect of exchange rate changes on cash and cash equivalents | -25,000 | 29,800 | 23,724 | -3,432 | 6,581 |
| Net change in cash and cash equivalents | 59,500 | 131,138 | 150,673 | 101,847 | 117,179 |
| Cash and cash equivalents at end of period | 1,215,100 | 1,155,626 | 1,155,626 | 1,004,953 | 1,004,953 |

(P)=Projection

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Table of Contents**13. R&D EXPENDITURE**

Canon Inc.

(Millions of yen)

| | 2007 (P) Year | 2006 Year | 2005 Year |
|----------------------------|------------------|--------------|--------------|
| Business machines | | 113,770 | 117,219 |
| Cameras | | 41,122 | 39,746 |
| Optical and other products | | 153,415 | 129,511 |
| Total | 345,000 | 308,307 | 286,476 |
| % of sales | 7.8% | 7.4% | 7.6% |

(P)=Projection

14. CAPITAL EXPENDITURE & DEPRECIATION AND AMORTIZATION

(Millions of yen)

| | 2007 (P) Year | 2006 Year | 2005 Year |
|--------------------------------------|------------------|--------------|--------------|
| Capital expenditure | | | |
| Business machines | | 154,259 | 201,887 |
| Cameras | | 31,517 | 57,678 |
| Optical and other products | | 36,272 | 15,955 |
| Corporate and eliminations | | 157,609 | 108,264 |
| Total | 480,000 | 379,657 | 383,784 |
| Depreciation and amortization | | | |
| Business machines | | 127,873 | 123,037 |
| Cameras | | 28,756 | 27,662 |
| Optical and other products | | 37,018 | 28,011 |
| Corporate and eliminations | | 68,647 | 47,231 |
| Total | 300,000 | 262,294 | 225,941 |

(P)=Projection

15. INVENTORIES**(1) Inventories**

(Millions of yen)

| | 2006 Dec.31 | 2005 Dec.31 | Difference |
|----------------------------|----------------|----------------|------------|
| Business machines | 288,815 | 267,121 | +21,694 |
| Cameras | 87,515 | 88,831 | -1,316 |
| Optical and other products | 162,727 | 154,243 | +8,484 |
| Total | 539,057 | 510,195 | +28,862 |

(2) Inventories/Sales*

| | (Days) | | |
|----------------------------|--------|--------|------------|
| | 2006 | 2005 | |
| | Dec.31 | Dec.31 | Difference |
| Business machines | 38 | 37 | +1 |
| Cameras | 27 | 32 | -5 |
| Optical and other products | 136 | 146 | -10 |
| Total | 45 | 47 | -2 |

* Index based on the previous six months sales.

16. DEBT RATIO

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

17. OVERSEAS PRODUCTION RATIO

| | 2006 | 2005 |
|---------------------------|------|------|
| | Year | Year |
| Overseas production ratio | 39% | 40% |

18. NUMBER OF EMPLOYEES

| | 2006 | 2005 | |
|----------|---------|---------|------------|
| | Dec.31 | Dec.31 | Difference |
| Japan | 50,753 | 48,637 | +2,116 |
| Overseas | 67,746 | 66,946 | +800 |
| Total | 118,499 | 115,583 | +2,916 |

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January 29, 2007

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

Inquiries:
Toshizo Tanaka
Senior Managing Director & Group Executive,
Finance & Accounting Headquarters
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Notice Regarding Partial Amendment to Articles of Incorporation

Canon Inc. (the Company) announced today that, at the meeting of the Board of Directors held on January 29, 2007, the Company resolved to propose a Partial Amendment to its Articles of Incorporation at the Ordinary General Meeting of Shareholders for the 106th Business Term scheduled to be held on March 29, 2007, as described below.

1. Reasons for Amendment

(1) In accordance with the enforcement of the Corporation Law (Law No. 86, 2005) as of May 1, 2006, the Company will amend the current Articles of Incorporation as follows:

- (i) In order to clarify the items which are deemed to be specified in the Articles of Incorporation in accordance with the enforcement of the Corporation Law (the establishment of Board of Directors, Corporate Auditors, Board of Corporate Auditors and Accounting Auditors, the issuance of share certificates representing issued shares, and the establishment of a manager of the Register of Shareholders), the Company will make such amendments as establishment of new provisions or revisions of provisions (proposed amendments of Article 4, Article 7 and Article 10).
- (ii) For the purpose of improving the efficiency of the management of less-than-one-unit shares, the Company will establish a new provision specifying the exercisable rights regarding less-than-one-unit shares (proposed amendment of Article 9).
- (iii) As for the exercise of voting rights by proxy, in order to clarify the number of proxies who may attend the general meeting of shareholders, the Company will stipulate it to be a single proxy (proposed amendment of Article 17).

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- (iv) In order to improve the flexibility of operation of the Board of Directors, the Company will establish a new provision allowing resolutions of meetings of the Board of Directors in writing (proposed amendment of Article 25).
 - (v) In addition to the above, the Company will make necessary amendments throughout the Articles of Incorporation, such as additions and deletions of provisions, revisions to wording and adjustments to the numbering of articles.
- (2) With the aim of realizing the establishment of high-quality and effective infrastructure at the Canon Group companies, the Company plans to strengthen its capabilities to design and supervise construction works for the buildings of the Canon Group companies. Therefore, the Company believes it beneficial to set up a registered architect's office composed of the Company's qualified staff, and will accordingly make the necessary amendment to its business objects (proposed amendment of Article 2).

2. Substance of Amendment

The substance of the amendment is as shown in the attached document.

3. Schedule of Amendment

Date of the general meeting of shareholders for the amendment to the Articles of Incorporation: March 29, 2007 (scheduled)

Date when the amendment to the Article of Incorporation comes into effect: March 29, 2007 (scheduled)

Note: Certain minor or typographical changes made to the original Japanese Articles of Incorporation are not reflected in this English translation. The underlined parts do not always correspond to the amended parts in the original Japanese Articles of Incorporation.

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(The amended parts are underlined.)

Current Articles of Incorporation

Proposed Amendment

Chapter I. General Provisions

Chapter I. General Provisions

Trade Name

Article 1. The Company shall be called **CANON KABUSHIKI KAISHA**, which shall be indicated in English as **CANON INC.**

Trade Name

Article 1. The Company shall be called **CANON KABUSHIKI KAISHA**, which shall be indicated in English as **CANON INC.**

Objects

Article 2. The objects of the Company shall be to engage in the following business:

Objects

Article 2. The objects of the Company shall be to engage in the following business:

- | | |
|---|-----|
| (1) Manufacture and sale of optical machineries and instruments of various kinds. | (1) |
| (2) Manufacture and sale of acoustic, electrical and electronic machineries and instruments of various kinds. | (2) |
| (3) Manufacture and sale of precision machineries and instruments of various kinds. | (3) |
| (4) Manufacture and sale of medical machineries and instruments of various kinds. | (4) |
| (5) Manufacture and sale of general machineries, instruments and equipments of various kinds. | (5) |
| (6) Manufacture and sale of parts, materials, etc. relative to the products mentioned in each of the preceding items. | (6) |
| (7) Production and sale of software products. | (7) |
| (8) Manufacture and sale of pharmaceutical products. | (8) |
| (9) Telecommunications business, and information service business such as | (9) |

} (Same as present text)

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information processing service business,
information providing

service business, information providing

(10) Contracting for telecommunications works, electrical works and machinery and equipment installation works. (10) } (Same as present text)

(11) Sale, purchase and leasing of real properties and contracting for architectural works. (11) Sale, purchase, leasing of real properties, contracting for construction works, design of buildings and supervision of construction works.

(12) Manpower providing business, property leasing business and travel business. (12)

(13) Business relative to investigation, analysis of the environment and purification process of soil, water, etc. (13) } (Same as present text)

(14) Any and all business relative to each of the preceding items. (14)

Location of Head Office

Article 3. The Company shall have its head office in Ohta-ku, Tokyo.

(New)

Location of Head Office

Article 3. The Company shall have its head office in Ohta-ku, Tokyo.

Corporate Organizations

Article 4. The Company shall have the following corporate organizations as well as a general meeting of shareholders and Directors:

- (1) Board of Directors;
- (2) Corporate Auditors;
- (3) Board of Corporate Auditors; and
- (4) Accounting Auditors.

Method of Giving Public Notice

Article 4. The public notice of the Company shall be given in the Nihon Keizai Shimbun published in Tokyo.

Method of Giving Public Notice

Article 5. Public notices of the Company shall be given in the Nihon Keizai Shimbun.

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Chapter II. Shares

Chapter II. Shares

Total Number of Shares

Article 5. The total number of shares to be issued by the Company shall be 3,000,000,000 shares.

(New)

Number of Shares to Constitute One Unit

Article 6. One hundred (100) shares of the Company shall constitute one unit of shares.

2. The Company will not issue stock certificates as to shares of less-than-one-unit (hereinafter Less-than-one-unit Shares), unless the Company deems it necessary for the shareholder.

3. Shareholders (including beneficial owners; hereinafter the same shall apply) who own Less-than-one-unit Shares of the Company may request that the Company sell a number of shares which, when added to the Less-than-one-unit Shares, would equal one unit of shares; provided, however, that the Company is not obliged to do so if the Company does not own its own shares in the number which it is requested to sell.

Number of Shares Issuable

Article 6. The number of shares issuable by the Company shall be 3,000,000,000 shares.

Issuance of Share Certificates

Article 7. The Company shall issue share certificates representing issued shares.

Number of Shares Constituting One Unit

Article 8. Number of shares constituting one unit of the Company shall be one hundred (100) shares.

2. Notwithstanding the preceding article, the Company will not issue share certificates for shares of less-than-one-unit (hereinafter Less-than-one-unit Shares), unless the Company deems it necessary for the shareholder.

3. Shareholders (including beneficial owners; hereinafter the same shall apply) who own Less-than-one-unit Shares of the Company may request that the Company sell a number of shares which, when added to the Less-than-one-unit Shares, would equal the number of shares constituting one unit; provided, however, that the Company is not obliged to do so if the Company does not own its own shares in the number which it is requested to sell.

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(New) **Rights Regarding Less-than-one-unit Shares**
Article 9. Shareholders of the Company are not entitled to exercise any rights regarding their Less-than-one-unit Shares other than the rights described below:
(1) The rights provided in each item of paragraph 2, Article 189 of the Corporation Law; and
(2) The rights to request the sale of Less-than-one-unit Shares as provided in paragraph 3 of the preceding article.

Transfer Agent

Article 7. The Company shall have a transfer agent with respect to its shares.

2. The transfer agent and its place of handling business shall be selected by resolution of the Board of Directors and a public notice shall be given of such matters.

3. The register of shareholders of the Company (including the beneficial owners list; hereinafter the same shall apply) and the register of loss of share certificates shall be kept at the transfer agent's place of handling business and the business relating to shares, such as transfer of shares on the register of shareholders, registration of pledges, indication of trust property or cancellation of such

Manager of the Register of Shareholders

Article 10. The Company shall have a manager of the register of shareholders.

2. The manager of the register of shareholders and its place of handling business shall be designated by resolution of the Board of Directors and a public notice shall be given of such matters.

3. The preparation and keeping of the register of shareholders (including the beneficial owners list; hereinafter the same shall apply), the register of stock acquisition rights and the register of loss of share certificates of the Company, and other operations relating to the register of shareholders, the register of stock acquisition rights and the register of loss of share certificates shall be

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registration or indication, delivery of share certificates, acceptance of notification, registration of loss of share certificates, purchase and sale of less-than-one-unit shares, etc. shall be caused to be handled by the transfer agent and shall not be handled by the Company.

Regulations for Handling of Shares

Article 8. The denomination of share certificates of the Company, transfer of shares on the register of shareholders, registration of pledges, indication of trust property or cancellation of such registration or indication, delivery of share certificates, acceptance of notifications, registration of loss of stock certificates, purchase and sale of less-than-one-unit shares and other procedures and fees relating to shares shall be governed by the regulations for handling of shares to be established by the Board of Directors.

Record Date

Article 9. The Company shall regard the shareholders (including the beneficial owners; hereinafter the same shall apply) entitled to vote and written or recorded in the register of shareholders as of the last day of each business year as the shareholders who are entitled to exercise the right as shareholders at the ordinary general meeting of shareholders for such business year.

2. In addition to the preceding paragraph, the Company may, whenever the needs arise, regard the

delegated to the manager of the register of shareholders and shall not be handled by the Company.

Regulations for Handling of Shares

Article 11. Handling business and handling fees relating to shares of the Company shall be governed by the regulations for the handling of shares to be established by the Board of Directors.

(Deleted)

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shareholders or registered pledgees written or recorded in the register of shareholders as of a certain date as shareholders or pledgees who are entitled to exercise the right thereof, by giving public notice thereof in advance.

Acquisition of the Company's Own Shares

Article 10. Pursuant to the provision of paragraph 1, item (2) of Article 211-3 of the Commercial Code, the Company may purchase the Company's own shares by a resolution of the Board of Directors.

Chapter III. General Meeting of Shareholders

Convocation

Article 11. The ordinary general meeting of shareholders shall be convened in March each year and the extraordinary general meeting of shareholders shall be convened whenever needs arise.

2. Unless otherwise provided by laws or ordinances, a general meeting of shareholders shall be convened by the C h a i r m a n - a n d - D i r e c t o r or the P r e s i d e n t - a n d - D i r e c t o r in accordance with the resolution of the Board of Directors.

3. If the C h a i r m a n - a n d - D i r e c t o r and the P r e s i d e n t - a n d - D i r e c t o r are unable to act, such meeting shall be convened by another R e p r e s e n t a t i v e Director in

Acquisition of the Company's Own Shares

Article 12. Pursuant to the provision of paragraph 2, Article 165 of the Corporation Law, the Company may acquire the Company's own shares by means of market transaction, etc. by resolution of the Board of Directors.

Chapter III. General Meeting of Shareholders

Convocation

Article 13. The ordinary general meeting of shareholders shall be convened in March each year and the extraordinary general meeting of shareholders shall be convened whenever necessary.

2. Unless otherwise provided by laws or ordinances, a general meeting of shareholders shall be convened by the C h a i r m a n - a n d - D i r e c t o r or the P r e s i d e n t - a n d - D i r e c t o r in accordance with a resolution of the Board of Directors.

3. If the C h a i r m a n - a n d - D i r e c t o r and the P r e s i d e n t - a n d - D i r e c t o r are unable to act, such meeting shall be convened by another Director in

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accordance with the order prescribed in advance by the Board of Directors.

(New)

Chairmanship

Article 12. The chairmanship of a general meeting of shareholders shall be assumed by the Chairman-and-Director or the President-and-Director.

2. If the Chairman-and-Director and the President-and-Director are unable to act, such chairmanship shall be assumed by another Director in accordance with the order prescribed in advance by the Board of Directors.

Method of Adopting Resolutions

Article 13. Unless otherwise provided by laws or ordinances or by these Articles of Incorporation, resolutions at a general meeting of shareholders shall be adopted by a majority of the votes of the shareholders present at the meeting.

accordance with the order prescribed in advance by the Board of Directors.

Record Date for Ordinary General Meeting of Shareholders

Article 14 The Company shall regard the shareholders entitled to vote and written or recorded in the final register of shareholders as of the last day of each business year as the shareholders who are entitled to exercise their rights as shareholders at the ordinary general meeting of shareholders for such business year.

Chairmanship

Article 15. The chairmanship of a general meeting of shareholders shall be assumed by the Chairman-and-Director or the President-and-Director.

2. If the Chairman-and-Director and the President-and-Director are unable to act, such chairmanship shall be assumed by another Director in accordance with the order prescribed in advance by the Board of Directors.

Method of Adopting Resolutions

Article 16. Unless otherwise provided by laws or ordinances or by these Articles of Incorporation, resolutions at a general meeting of shareholders shall be adopted by a majority of the votes of the shareholders entitled to exercise voting rights who are present at the meeting.

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2. As to the resolutions under Article 343 of the Commercial Code, they shall be adopted by the vote of two-third or more of the voting rights at a general meeting of shareholders where the shareholders holding one-third or more of the voting rights of all shareholders are present.

Exercise of Voting Rights by Proxy

Article 14. Shareholders may exercise their votes by proxy. Provided, however, that such proxy shall be a shareholder of the Company entitled to vote.

Chapter IV. Director and Board of Directors

Number

Article 15. The Company shall have thirty (30) Directors or less.

Method of Election

Article 16. The Directors shall be elected at a general meeting of shareholders where the shareholders holding one-third or more of the voting rights of all shareholders are present.

2. The election of Directors shall not be made by cumulative voting.

Term of Office

2. As to the resolutions under paragraph 2, Article 309 of the Corporation Law, they shall be adopted by a vote of two-thirds or more of the voting rights at a general meeting of shareholders where the shareholders holding one-third or more of the voting rights of shareholders entitled to exercise voting rights at the general meeting of shareholders are present.

Exercise of Voting Rights by Proxy

Article 17. Shareholders may exercise their votes by proxy. Provided, however, that such proxy shall be a single shareholder of the Company entitled to vote.

Chapter IV. Director and Board of Directors

Number

Article 18. The Company shall have thirty (30) Directors or less.

Method of Election

Article 19. The Directors shall be elected by resolution of a general meeting of shareholders where the shareholders holding one-third or more of the voting rights of shareholders entitled to exercise voting rights are present.

2. The election of Directors shall not be made by cumulative voting.

Term of Office

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Article 17. The term of office of Directors shall expire at the end of the ordinary general meeting of shareholders for the final settlement date within one (1) year after their assumption of office.

2. The term of office of the Director elected by reason of increase in number or in order to fill the vacancy shall expire with the expiration of the remaining term of office of the other Directors presently in office.

Representative Directors

Article 18. Directors to represent the Company shall be elected by resolution of the Board of Directors.

Directors with Specific Titles

Article 19. By resolution of the Board of Directors, the Company shall have a Chairman-and-Director, a President-and-Director and other Directors with specific titles.

Convening and Presiding of the Board of Directors

Article 20. Unless otherwise provided by laws or ordinances, a meeting of the Board of Directors shall be convened and presided over by the Chairman-and-Director or the President-and-Director.

2. If the Chairman-and-Director and the President-and-Director are unable to act, such meeting shall be convened and presided over by another Director in accordance with the order prescribed in advance by the Board of Directors.

Article 20. The term of office of Directors shall expire at the end of the ordinary general meeting of shareholders for the business year ending within one (1) year after their election.

(Deleted)

Representative Directors

Article 21. Directors to represent the Company shall be selected by resolution of the Board of Directors.

Directors with Specific Titles

Article 22. By resolution of the Board of Directors, the Company shall select a Chairman-and-Director, a President-and-Director and other Directors with specific titles.

Convening and Presiding of the Board of Directors

Article 23. Unless otherwise provided by laws or ordinances, a meeting of the Board of Directors shall be convened and presided over by the Chairman-and-Director or the President-and-Director.

2. If the Chairman-and-Director and the President-and-Director are unable to act, such meeting shall be convened and presided over by another Director in accordance with the order prescribed in advance by the Board of Directors.

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3. Notice of convocation of a meeting of the Board of Directors shall be dispatched to each Director and each Statutory Auditor at least three (3) days before the date of such meeting; provided, however that such period may be shortened in case of urgency.

Board of Directors

Article 21. The Board of Directors shall be composed of the Directors and, in addition to the matters provided by laws or ordinances or by these Articles of Incorporation, shall make decision on the execution of important business of the Company.

2. The Corporate Auditors of the Company are required to attend the Board meetings and express their opinions when they deem it necessary.

(New)

Regulations of the Board of Directors

Article 22. The procedure for convening a meeting of the Board of Directors, method of adopting resolutions, etc. shall be governed, in addition to the matters provided by laws or ordinances or by these Articles

3. Notice of convocation of a meeting of the Board of Directors shall be dispatched to each Director and each Statutory Auditor at least three (3) days before the date of such meeting; provided, however that such period may be shortened in case of urgency.

Board of Directors

Article 24. The Board of Directors shall be organized by all the Directors and, in addition to the matters provided by laws or ordinances or by these Articles of Incorporation, shall make decisions on the execution of important business of the Company.

2. The Corporate Auditors of the Company are required to attend the Board meetings and express their opinions when they deem it necessary.

Omission of Resolution of Board of Directors

Article 25. The Company shall deem that a resolution of the Board of Directors is adopted when it meets the requirements provided in Article 370 of the Corporation Law.

Regulations of the Board of Directors

Article 26. The procedure for convening a meeting of the Board of Directors, method of adopting resolutions, etc. shall be governed, in addition to the matters provided by laws or ordinances or by these

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of Incorporation, by the Regulations of the Board of Directors to be established by the Board of Directors.

Remuneration

Article 23. The remuneration of Directors shall be determined by resolution of a general meeting of shareholders.

Chapter V. Corporate Auditor
and Board of Corporate Auditors

Number

Article 24. The Company shall have five (5) Corporate Auditors or less.

Method of Election

Article 25. The Corporate Auditors shall be elected at a general meeting of shareholders where the shareholders holding one-third or more of the voting rights of all shareholders are present.

Term of Office

Article 26. The term of office of Corporate Auditors shall expire at the end of the ordinary general meeting of shareholders for the final settlement date within four (4) years after their assumption of office.

2. The term of office of the Corporate Auditor elected to fill the vacancy

Articles of Incorporation, by the Regulations of the Board of Directors to be established by the Board of Directors.

Remuneration, etc.

Article 27. The remuneration, bonuses and other financial benefits given by the Company in consideration of the performance of the duties (hereinafter Remuneration, etc.) of the Directors shall be determined by resolution of a general meeting of shareholders.

Chapter V. Corporate Auditor
and Board of Corporate Auditors

Number

Article 28. The Company shall have five (5) Corporate Auditors or less.

Method of Election

Article 29. The Corporate Auditors shall be elected by resolution of a general meeting of shareholders where shareholders holding one-third or more of the voting rights of shareholders entitled to exercise voting rights are present.

Term of Office

Article 30. The term of office of Corporate Auditors shall expire at the end of the ordinary general meeting of shareholders for the last business year ending within four (4) years after their election.

2. The term of office of a Corporate Auditor elected to fill a vacancy shall

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shall expire with the expiration of the remaining term of office of the retired Corporate Auditor.

Full-Time Corporate Auditors

Article 27. The Corporate Auditors shall elect a full-time Corporate Auditor or Auditors by mutual votes.

Convening of the Board of Corporate Auditors

Article 28. Notice of convocation of a meeting of the Board of Corporate Auditors shall be despatched to each Corporate Auditor at least three (3) days before the date of such meeting; provided, however that such period may be shortened in case of urgency.

Board of Corporate Auditors

Article 29. The Board of Corporate Auditors shall be composed of all the Corporate Auditors and, in addition to the matters provided by laws, shall make decision on the matters relating to the execution of the duties of the Corporate Auditors except to the extent that such decisions might impair any of the power of the Corporate Auditors.

Regulations of the Board of Corporate Auditors

Article 30. The procedure for convening a meeting of the Board of Corporate Auditors, method of adopting resolutions, etc. shall be governed, in addition to the matters provided by laws or ordinances or by

expire with the expiration of the remaining term of office of the retired Corporate Auditor.

Full-Time Corporate Auditors

Article 31. The Board of Corporate Auditors shall select from among the Corporate Auditors a full-time Corporate Auditor or Auditors.

Convening of the Board of Corporate Auditors

Article 32. Notice of convocation of a meeting of the Board of Corporate Auditors shall be dispatched to each Corporate Auditor at least three (3) days before the date of such meeting; provided, however that such period may be shortened in case of urgency.

Board of Corporate Auditors

Article 33. The Board of Corporate Auditors shall be organized by all the Corporate Auditors and, in addition to the matters provided by laws, shall make decisions on matters relating to the execution of the duties of the Corporate Auditors except to the extent that such decisions might impair any of the power of the Corporate Auditors.

Regulations of the Board of Corporate Auditors

Article 34. The procedure for convening a meeting of the Board of Corporate Auditors, method of adopting resolutions, etc. shall be governed, in addition to the matters provided by laws or ordinances or by

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these articles of Incorporation, by the Regulations of the Board of Corporate Auditors to be established by the Board of Corporate Auditors.

Remuneration

Article 31. The remuneration of Corporate Auditors shall be determined by resolution of a general meeting of shareholders.

Chapter VI. Accounting

Business year

Article 32. The business year of the Company shall be from January 1 to December 31 each year, and the settlement of accounts of the Company shall be made at the end of the business year.

Dividends of profits

Article 33. Dividends of profits shall be paid to the shareholders or registered pledgees written or recorded in the register of shareholders as of the last day of each business year.

(New)

Interim dividends

Article 34. By resolution of the

these Articles of Incorporation, by the Regulations of the Board of Corporate Auditors to be established by the Board of Corporate Auditors.

Remuneration, etc.

Article 35. The Remuneration, etc. of Corporate Auditors shall be determined by resolution of a general meeting of shareholders.

Chapter VI. Accounting

Business Year

Article 36. The business year of the Company shall be from January 1 to December 31 each year.

Dividends from Surplus

Article 37. The Company shall pay year-end dividends to the shareholders or registered pledgees written or recorded in the final register of shareholders as of the last day of each business year.

2. By resolution of the Board of Directors, the Company may distribute interim dividends to the shareholders or registered pledges written or recorded in the final register of shareholders as of June 30 each year.

(Deleted)

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Board of Directors, the Company may distribute interim dividends to the shareholders or registered pledges written or recorded in the register of shareholders as of June 30 each year.

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January 29, 2007

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

Inquiries:
Toshizo Tanaka
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+81-3-3758-2111

Canon Inc. to Delist Shares from the Frankfurt Stock Exchange

At the Board of Directors meeting held on January 29, 2007 Canon Inc. (the Company) resolved to submit an application to the Frankfurt Stock Exchange for the delisting of the Company's shares (depository receipts) as follows.

1. Reason for delisting

Trading volume of the Company's shares (depository receipts) on the Frankfurt Stock Exchange has been low. Therefore, the Company believes that this delisting would cause little inconvenience to shareholders and investors, and has decided to submit an application to delist its shares from the above-mentioned stock exchange.

2. Stock exchanges on which the Company will continue to list its shares

In Japan: Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange, Sapporo Securities Exchange, and Fukuoka Stock Exchange

Overseas: New York Stock Exchange

3. Schedule

Application for the delisting of the Company's shares will be submitted to the Frankfurt Stock Exchange in February 2007. The Company expects to complete delisting procedures in June 2007.