

CANON INC  
Form 6-K  
August 28, 2006

**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 August, 2006

**CANON INC.**

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

(Address of principal executive offices)

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

Form 20-F  Form 40-F

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

Yes  No

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

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SIGNATURES

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

**CANON INC.**

(Registrant)

Date August 25, 2006

By /s/ Hiroshi Kawashimo

(Signature)\*

Hiroshi Kawashimo  
General Manager, Finance Division  
Canon Inc.

\*Print the name and title of the signing officer under his signature.

The following materials are included.

1. Interim Report For The 106th Business Term From January 1,2006 to June 30,2006 Canon Inc.
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To Our Shareholders

We are pleased to present our report for the first half of our 106th business term (from January 1, 2006 to June 30, 2006).

Reviewing conditions in both the domestic and overseas economies during the first half of the current business term, the U.S. economy continued to expand due to strong personal consumption and capital investment. European economies continued their mild recovery supported by increased exports driven by expanding external demand. And Asian economies maintained their strong growth rate particularly in China. The Japanese economy sustained its recovery trend with strong capital investment supported by improved business profits and employment situation. In the foreign exchange markets, the yen weakened against the U.S. dollar and the euro over the first half of 2006, compared to the first half of 2005.

Regarding markets in which the Canon Group operates, demand for digital cameras continued to expand in both the domestic and overseas markets, while demand for networked multifunctional devices and printers grew significantly for color-capable devices. In the market for semiconductor production equipment, demand entered a recovery trend. As for mirror projection mask aligners for LCDs, however, demand declined as LCD panel manufacturers entered a capital investment adjustment phase.

Under these business conditions, the Canon Group embarked on Phase III (2006 to 2010) of our Excellent Global Corporation Plan and implemented various measures in order to achieve further sound growth by using the business resources we had built up. In particular, toward establishing new production systems capable of maintaining our global competitiveness, we concentrated on promoting factory automation and in-house building of its necessary production facilities. Additionally, we significantly strengthened the development of key components aimed to further enhance the added value of our products, and we also reaffirmed that product quality could be fatal for a manufacturer and took steps to further raise our product quality.

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As to the earnings for the first half of the current business term, on a consolidated basis, we recorded net sales of 1,952.3 billion yen (up 11.2% from the first half of 2005), income before income taxes and minority interests of 341.0 billion yen (up 20.2%), and net income of 214.2 billion yen (up 22.2%). Also, on a non-consolidated basis, we recorded net sales of 1,266.0 billion yen (up 9.3%), ordinary profit of 246.1 billion yen (up 17.1%), and net income of 155.5 billion yen (up 12.8%). All of these figures were record highs.

We have decided to pay an interim dividend of 50.0 yen per share (up 17.50 yen from the interim dividend for the previous business term) from August 25.

In addition, to establish an environment that will make our shares more accessible to a broader range of potential shareholders, we implemented a stock split on a 3-for-2 basis for record date shareholders as of June 30, 2006.

Looking ahead to the second half of the current business term, we expect the global economy to continue growing steadily, but also believe that factors such as sudden rise in crude oil prices and intensifying market competition will keep our business environment to be uncertain. Under these conditions, the Canon Group will work together as a single unit to achieve better business performance.

We look forward to your continued support and encouragement in the future.

August 2006

FUJIO MITARAI  
*Chairman & CEO*  
TSUNEJI UCHIDA  
*President & COO*

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Change in Profits

**Net Sales (Consolidated)**

100 MILLIONS OF YEN

**Net Sales (Non-Consolidated)**

100 MILLIONS OF YEN

**Income before Income Taxes and  
Minority Interests (Consolidated)**

100 MILLIONS OF YEN

**Ordinary Profit (Non-Consolidated)**

100 MILLIONS OF YEN

**Net Income (Consolidated)**

100 MILLIONS OF YEN

**Net Income (Non-Consolidated)**

100 MILLIONS OF YEN

Business Conditions by Operations  
**on Sales by Operations**  
**Consolidated**

Operations	Sales (100 millions of yen)	Change from the First Half of Fiscal 2005(%)
<b>Business Machines</b>	<b>12,866</b>	<b>7.5</b>
Office Imaging Products	5,854	3.1
Computer Peripherals	6,467	11.9
Business Information Products	545	5.8
<b>Cameras</b>	<b>4,603</b>	<b>21.4</b>
<b>Optical and Other Products</b>	<b>2,054</b>	<b>14.3</b>
<b>Total</b>	<b>19,523</b>	<b>11.2</b>

**Non-Consolidated**

Operations	Sales (100 millions of yen)	Change from the First Half of Fiscal 2005 (%)
<b>Business Machines</b>	<b>8,338</b>	<b>9.1</b>
Office Imaging Products	2,553	(0.9)
Computer Peripherals	5,785	14.2
<b>Cameras</b>	<b>3,305</b>	<b>18.2</b>
<b>Optical and Other Products</b>	<b>1,017</b>	<b>(11.4)</b>
<b>Total</b>	<b>12,660</b>	<b>9.3</b>

**Consolidated**

**Non-Consolidated**

Note:

Regarding the segment of Business Information Products within the Business Machines category in the consolidated information above, there were no sales on a non-consolidated basis.



**n Business Machines Operations**  
**Office Imaging Products**

Regarding digital networked multifunctional devices, office-use color machines in our imageRUNNER series kept solid sales revenue amid intensifying market competition among color devices, due to continuing favorable sales of our iR C6870/C5870 series of high-speed color devices equipped with our proprietary Multifunctional Embedded Application Platform ( MEAP ), which offers users an expanded range of functions, and our medium-speed iR C3170/C2570 series equipped with the New Color iR Controller featuring improved image processing capabilities. As for office-use black-and-white machines, amid an ongoing shift to color devices, we increased sales of the high-speed multifunctional iR6570/5570 series introduced last year. We also introduced in the U.S. market and worked to increase sales of such machines as the high-speed iR7095/7086/7105 series with improved productivity and reliability which match needs for high-volume printing. In addition, we continued to aggressively promote sales of the medium-speed machines such as the iR4570/3570/2870/2270 series.

In the solutions business, we worked to make proposals that improve customer operational efficiency by, for example, applying MEAP and enhancing our software lineup of imageWARE series, which helped to boost sales of the imageRUNNER series.

In the multifunctional devices for individuals and small-business owners of which market is expanding in Japan and overseas, though competition was intensifying due to price deduction, we worked to increase sales by introducing to the Japanese market such products as the Satera MF7240 black-and-white machine for A3-size printing and the Satera MF8180 multifunctional and compact color machine for A4-size printing.

As a result of these activities, sales for this segment grew by 3.1% on a consolidated basis, and fell by 0.9% on a non-consolidated basis, both in comparison to the first half of 2005.

**Change in Sales**  
100 MILLIONS OF YEN  
**Consolidated**  
**Non-Consolidated**

### **Computer Peripherals**

Concerning inkjet printers, demand continued to shift from single-function to multifunctional machines, but market growth slowed down. Under these circumstances, we worked to achieve product differentiation from competitors through our proprietary FINE high-precision print head technology, and ChromaLife100 technology which delivers both high image quality and preservation through the combination of our high coloration dye inks and genuine photo paper. Regarding multifunctional machines, sales maintained strong due to such factors as the favorable sales of our standard PIXUS MP500. Also we worked to expand the product lineup through steps such as the release of the PIXUS MP830 high-image-quality and all-in-one printer with duplex scanning function. In addition, in the single-function machines, we introduced new products such as the PIXUS iX5000, which covers various types of office work and is capable of printing A3 wide-size paper. As a result, we were able to increase both printer unit sales and market share of inkjet printers.

In the laser beam printers, we recorded solidly higher unit sales for both black-and-white and color OEM-brand products primarily in the low-end machines, which led to solid sales revenue. As for Canon-brand products, we strengthened our offerings in the solutions business through the introduction of the Satera LBP3950/3900, the high-speed black-and-white printer capable of printing A3-size paper equipped with the MEAP-Lite, which allows flexible system expansion in conformity with customer work flows. Also we expanded our product lineup by introducing Satera LBP3300 for business application capable of printing A4-size paper and equipped with duplex printing as standard function. Additionally, in the color machines of which market is expanding, affordable Satera LBP5000 capable of A4-size printing and equipped with high-speed and compact tandem engines continued to show strong sales.

As for image scanners, though we worked to increase sales of stylish CanoScan LiDE series employing contact image sensors, unit sales declined as the market shrunk due to the shift to multifunctional machines.

As a result of these activities, sales for this segment grew by 11.9% on a consolidated basis and by 14.2% on a non-consolidated basis, both in comparison to the first half of 2005.

**Change in Sales**  
100 MILLIONS OF YEN  
**Consolidated**  
**Non-Consolidated**

### **Business Information Products**

The market for business-use document scanners handled by Canon Electronics Inc. has further expanded as demand for digitization of documents has accelerated due to the need to comply with various laws related to the management of information. Under these conditions, in the DR Scanner series, we achieved solid sales increase as a result of the launch of DR-1210C, a new product of the affordable segment of which market is expanding and worked to increase sales together with the DR-2580C/2050C introduced last year.

Regarding the calculators handled by Canon Electronic Business Machines (H.K.) Co., Ltd., we introduced the LS-Smart, a stylish calculator with a mirrored front panel, in the Japanese market and worked to increase its sales. Also printing calculators continued to enjoy a favorable reception in the U.S. market and gained a larger share. However, sales declined due to the overall market contracting. On the other hand, regarding the electronic dictionaries handled by that company for the Japanese market, sales increased through the introduction of the wordtank V90, a model featuring an enhanced pronunciation function for those studying Chinese, and the compact wordtank C35, a model for high school students.

As for servers and personal computers handled by Canon Marketing Japan Inc., single product sales fell as that company promoted to shift toward the solutions business.

As a result of these activities, sales for this segment grew by 5.8% on a consolidated basis in comparison to the first half of 2005. For this segment, there were no sales on a non-consolidated basis.

**Change in Sales**  
100 MILLIONS OF YEN  
**Consolidated**

## n Camera Operations

In digital cameras, the small, light-weight, portable and mobile EOS Kiss Digital N continued to enjoy a favorable response in the single lens reflex (SLR) market, which is experiencing extremely growing demand. We also released the EOS 30D, a high-end amateur model offering great mobility and image quality, and worked to increase sales together with the EOS 5D, a high-end amateur model that was introduced last year and is equipped with a full-size 35mm, approximately 12.8-megapixel CMOS sensor, and our flagship EOS-1D Mark II N. Sales increased significantly as a result. Our EF lens series of interchangeable lenses products also enjoyed higher sales as a consequence.

In the area of compact digital cameras, we introduced three new products, including the IXY DIGITAL 800 IS equipped with an image stabilizer function and the IXY DIGITAL 80 equipped with a 3.0 inch LCD monitor, in our compact and stylish IXY DIGITAL series. We also introduced six new products, including the PowerShot A700 and PowerShot A540, in our PowerShot series, which features steady handhold. We enjoyed strong sales growth as a result.

In the compact photo printer market, we strengthened our product lineup by introducing the SELPHY CP730 equipped with a 2.0 inch color LCD monitor in our dye sublimation SELPHY series.

In digital video cameras, we enhanced our MiniDV, HDV and DVD recording format lineups by introducing new products such as the FV M300 wide-screen-TV-compatible MiniDV model and DC40 DVD model equipped with a 4.3-megapixel CCD sensor, in addition to the popular HD high-resolution XL H1.

In LCD projectors, we worked to increase sales by releasing five products, including the Power Projector SX6, which is equipped with AISYS, our new optical engine, and offers high brightness, contrast and resolution.

As a result of these activities, sales for this segment grew by 21.4% on a consolidated basis and by 18.2% on a non-consolidated basis, both in comparison to the first half of 2005.

**Change in Sales**  
100 MILLIONS OF YEN  
**Consolidated**  
**Non-Consolidated**



### **n Optical and Other Products Operations**

In semiconductor production equipment, thanks to the spread of products using semiconductors such as cell phones, flat-screen TVs and MP3 players, market conditions have begun to improve. Under these circumstances, we introduced the FPA-6000ES5a, a new KrF (krypton fluoride) stepper, and worked to expand sales together with the FPA-5500iZa i-line stepper, which led to sales increase.

Regarding mirror projection mask aligners for LCDs, sales remained strong through the previous term thanks to the ongoing aggressive capital investment by LCD panel manufacturers with the expanding market for LCD TVs and other products that use LCD panels. However, the market of such aligners has entered an adjustment phase in the current business term. Under these conditions, we aggressively marketed the MPA-8800 eighth-generation mirror projection mask aligners for LCDs which we introduced last year, the MPA-8000 sixth-generation mirror projection mask aligners for LCDs, and also such products as the MPA-8500 seventh-generation mirror projection mask aligners for LCDs. Despite those efforts, however, unit sales and sales revenue both declined.

In the area of broadcast-use television lenses, we introduced our KH21e'5.7 high-power zoom lens for affordable HD cameras, and worked to expand sales together with such products as the HJ17e'7.6B portable High Definition Television (HDTV) camera lens and YJ20'8.5B SDTV camera lens. As a result, strong sales increases were recorded in the North American, European and Chinese markets.

In medical equipment, we recorded a strong increase in sales by introducing the new CXDI-50C and CXDI-40EC, both of which use our own Flat Panel X-Ray Image Sensor, in our CXDI series of X-ray digital cameras. In ophthalmic equipment, the CR-DGi digital non-mydratic retinal camera enjoyed strong sales thanks to spread of medical examinations for the prevention of lifestyle-related diseases.

Sales for this segment grew by 14.3% on a consolidated basis due to additional sales revenue of the newly consolidated company, but fell by 11.4% on a non-consolidated basis, both in comparison to the first half of 2005.

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**Change in Sales**

100 MILLIONS OF YEN

**Consolidated**

**Non-Consolidated**

Note:

The products mentioned above may have different names in other areas.

**Consolidated Financial Statements**

*Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.*

**Consolidated Balance Sheets**

<b>ASSETS</b>	Millions of yen	
	<b>As of June 30, 2006 (Unaudited)</b>	As of Dec. 31, 2005
<b>Current assets:</b>		
Cash and cash equivalents	1,055,163	1,004,953
Marketable securities	10,373	172
Trade receivables, net	637,624	689,427
Inventories	533,468	510,195
Prepaid expenses and other current assets	247,908	253,822
<b>Total current assets</b>	<b>2,484,536</b>	<b>2,458,569</b>
Noncurrent receivables	14,708	14,122
Investments	104,068	104,486
Property, plant and equipment, net	1,185,913	1,148,821
Other assets	318,141	317,555
<b>Total assets</b>	<b>4,107,366</b>	<b>4,043,553</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	Millions of yen	
	<b>As of June 30, 2006 (Unaudited)</b>	As of Dec. 31, 2005
<b>Current liabilities:</b>		
Short-term loans and current portion of long-term debt	14,564	5,059
Trade payables	481,476	505,126
Income taxes	101,485	110,844
Accrued expenses	229,739	248,205
Other current liabilities	174,327	209,394
<b>Total current liabilities</b>	<b>1,001,591</b>	<b>1,078,628</b>
Long-term debt, excluding current installments	16,199	27,082
Accrued pension and severance cost	66,724	80,430
Other noncurrent liabilities	47,042	52,395
<b>Total liabilities</b>	<b>1,131,556</b>	<b>1,238,535</b>
<b>Minority interests</b>	<b>213,430</b>	<b>200,336</b>

**Commitment and contingent liabilities****Stockholders equity:**

Common stock	174,543	174,438
[Authorized shares] (share)	[3,000,000,000]	[3,000,000,000]
[Issued shares] (share)	[1,333,325,590]	[1,333,114,169]
Additional paid-in capital	403,355	403,246
Legal reserve	43,201	42,331
Retained earnings	2,171,681	2,018,289
Accumulated other comprehensive income (loss)	(24,911)	(28,212)
Treasury stock	(5,489)	(5,410)
[Treasury shares] (share)	[1,733,020]	[1,718,523]
<b>Total stockholders equity</b>	<b>2,762,380</b>	<b>2,604,682</b>
<b>Total liabilities and stockholders equity</b>	<b>4,107,366</b>	<b>4,043,553</b>

Notes:

1. Allowance for doubtful receivables 13,722 million yen
2. Accumulated depreciation of property, plant and equipment 1,319,695 million yen
3. Accumulated other comprehensive income (loss) include foreign currency translation adjustments, net unrealized gains on losses on securities, net gains and losses on derivative financial instruments and minimum pension liability adjustments.
4. Collateral assets 2,887 million yen
5. Guarantees of bank borrowings by employees and affiliated companies 36,749 million yen
6. Number of consolidated subsidiaries and affiliated companies accounted for under equity method is 216 and 13

respectively.

7. Canon has made a 3- for -2 stock split on July 1, 2006, for shareholders recorded in the shareholders register as of June 30, 2006. Number of authorized shares, issued shares and treasury shares are based on the number of issued shares following the implementation of the stock split.

**Consolidated Statements of Income**

	<b>Six months ended June 30, 2006 (Unaudited)</b>	Millions of yen Six months ended June 30, 2005 (Unaudited)
<b>Net sales</b>	<b>1,952,255</b>	<b>1,755,840</b>
Cost of sales	973,542	905,800
<b>Gross profit</b>	<b>978,713</b>	<b>850,040</b>
Selling, general and administrative expenses	493,709	443,465
Research and development expenses	146,527	136,386
<b>Operating profit</b>	<b>338,477</b>	<b>270,189</b>
<b>Other income (deductions):</b>	<b>2,568</b>	<b>13,544</b>
Interest and dividend income	11,143	5,970
Interest expense	(625)	(771)
Other, net	(7,950)	8,345
<b>Income before income taxes and minority interests</b>	<b>341,045</b>	<b>283,733</b>
Income taxes	118,814	101,268
<b>Income before minority interests</b>	<b>222,231</b>	<b>182,465</b>
Minority interests	8,057	7,197
<b>Net income</b>	<b>214,174</b>	<b>175,268</b>

## Notes:

- Net income per share
 

Basic	160.85 yen
Diluted	160.79 yen
- Canon has made a 3- for -2 stock split on July 1, 2006, for shareholders recorded in the shareholders register as of June 30, 2006. The basic net income per share and diluted net income per share have been calculated based on the number of issued shares following the implementation of the stock split.

**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
<b>Balances at December 31, 2005</b>	<b>174,438</b>	<b>403,246</b>	<b>42,331</b>	<b>2,018,289</b>	<b>(28,212)</b>	<b>(5,410)</b>	<b>2,604,682</b>
Conversion of convertible debt and other	105	109					214
Cash dividends				(59,912)			(59,912)
Transfers to legal reserve			870	(870)			
Comprehensive income (loss)							
Net income				214,174			214,174
Foreign currency translation adjustments					2,193		2,193
Net unrealized gains and losses on securities					252		252
Net gains and losses on derivative instruments					619		619
Minimum pension liability adjustments					237		237
<b>Total comprehensive income (loss)</b>							<b>217,475</b>
Repurchase of treasury stock, net						(79)	(79)
<b>Balances at June 30, 2006 (Unaudited)</b>	<b>174,543</b>	<b>403,355</b>	<b>43,201</b>	<b>2,171,681</b>	<b>(24,911)</b>	<b>(5,489)</b>	<b>2,762,380</b>



**Non-Consolidated Financial Statements**  
**Non-Consolidated Balance Sheets**

<b>ASSETS</b>	<b>As of June 30, 2006</b>	Millions of yen  As of Dec. 31, 2005
<b>Current Assets</b>	<b>1,431,664</b>	<b>1,460,882</b>
Cash and deposits	314,452	261,680
Notes receivable	247,754	277,707
Accounts receivable	513,394	568,270
Finished goods	113,766	108,311
Work in process	82,993	77,630
Raw materials and supplies	4,777	3,758
Deferred tax assets	22,434	24,372
Short-term loans receivable	24,894	25,584
Other current assets	107,266	113,953
Allowance for doubtful receivables	(66)	(383)
 <b>Fixed Assets</b>	 <b>1,241,837</b>	 <b>1,191,965</b>
<b>Property, Plant And Equipment</b>	<b>744,329</b>	<b>713,960</b>
Buildings	367,479	358,845
Machinery	153,709	145,319
Vehicles	305	323
Tools and equipment	55,201	51,282
Land	109,149	110,448
Construction in progress	58,486	47,743
<b>Intangibles</b>	<b>29,042</b>	<b>27,123</b>
Industrial property rights	1,110	705
Facility utility rights	1,009	1,015
Software	26,923	25,403
<b>Investments</b>	<b>468,466</b>	<b>450,882</b>
Marketable securities-noncurrent	35,594	34,153
Investment in affiliated companies	352,140	335,424
Long-term loans receivable	3,064	5,907
Long-term pre-paid expenses	13,089	10,361
Deferred tax assets-noncurrent	58,133	60,699
Guarantees	2,234	2,371
Other noncurrent assets	4,309	2,064
Allowance for doubtful receivables-noncurrent	(97)	(97)
 <b>TOTAL ASSETS</b>	 <b>2,673,501</b>	 <b>2,652,847</b>



<b>LIABILITIES AND NET ASSETS (STOCKHOLDERS EQUITY)</b>	<b>As of June 30, 2006</b>	Millions of yen As of Dec. 31, 2005
<b>Current Liabilities</b>	<b>636,774</b>	<b>699,131</b>
Notes payable	2,307	2,337
Accounts payable	350,454	361,038
Short-term loans	37,084	33,159
Other payable	76,107	112,812
Accrued expenses	62,520	80,591
Accrued income taxes	79,150	84,172
Deposits	10,377	8,871
Accrued bonuses for employees	4,796	4,759
Accrued bonuses for directors	112	
Other current liabilities	13,867	11,392
<b>Noncurrent Liabilities</b>	<b>65,961</b>	<b>78,283</b>
Convertible debentures	438	649
Accrued pension and severance cost	64,415	76,386
Accrued directors' retirement benefit	1,108	1,248
<b>TOTAL LIABILITIES</b>	<b>702,735</b>	<b>777,414</b>
<b>Stockholders' Equity</b>	<b>1,964,205</b>	<b>1,868,656</b>
<b>Common Stock</b>	<b>174,543</b>	<b>174,438</b>
<b>Capital Surplus</b>	<b>306,075</b>	<b>305,966</b>
Additional paid-in capital	306,070	305,965
Other capital surplus	5	1
<b>Retained Earnings</b>	<b>1,489,076</b>	<b>1,393,662</b>
Legal reserve	22,114	22,114
Other retained earnings	1,466,962	1,371,548
Reserve for special depreciation	15,185	13,337
Reserve for deferral of capital gain on property	732	5
Special reserves	1,249,928	1,068,828
Retained earnings brought forward	201,117	289,378
<b>Treasury Stock</b>	<b>(5,489)</b>	<b>(5,410)</b>
<b>Difference Of Appreciation And Conversion</b>	<b>6,561</b>	<b>6,777</b>
<b>Net Unrealized Gains (Losses) On Securities</b>	<b>7,116</b>	<b>6,777</b>
<b>Net Deferred Profits (Losses) On Hedges</b>	<b>(555)</b>	
<b>TOTAL NET ASSETS (STOCKHOLDERS EQUITY)</b>	<b>1,970,766</b>	<b>1,875,433</b>
<b>TOTAL LIABILITIES AND NET ASSETS (STOCKHOLDERS EQUITY)</b>	<b>2,673,501</b>	<b>2,652,847</b>



**Non-Consolidated Statements of Income**

	<b>Six months ended June 30, 2006</b>	Millions of yen Six months ended June 30, 2005
<b>Net sales</b>	<b>1,266,000</b>	<b>1,158,478</b>
<b>Cost of sales</b>	<b>785,624</b>	<b>741,242</b>
<b>Gross profit</b>	<b>480,376</b>	<b>417,236</b>
<b>Selling, general and administrative expenses</b>	<b>239,954</b>	<b>225,089</b>
<b>Operating profit</b>	<b>240,422</b>	<b>192,147</b>
<b>Other Income</b>	<b>41,114</b>	<b>37,951</b>
Interest income	769	404
Dividend income	2,572	7,223
Rental income	17,405	12,626
Patent royalties	14,864	10,920
Miscellaneous income	5,504	6,778
<b>Other Expense</b>	<b>35,435</b>	<b>19,973</b>
Interest expense	34	33
Depreciation of rental assets	15,661	11,496
Loss on disposal and write-off of inventories	4,334	2,775
Foreign exchange loss	11,402	1,390
Miscellaneous loss	4,004	4,279
<b>Ordinary profit</b>	<b>246,101</b>	<b>210,125</b>
<b>Non-Ordinary Income</b>	<b>335</b>	<b>1,835</b>
Gain on sales of fixed assets	335	28
Gain on sales of marketable securities-noncurrent		1,797
Gain on sales of investments in affiliated companies		10
<b>Non-Ordinary Loss</b>	<b>8,299</b>	<b>2,150</b>
Loss on sales and disposal of fixed assets	2,975	2,150
Loss on impairment of fixed assets	5,218	
Loss on sales of marketable securities-noncurrent	34	
Loss on sales of investments in affiliated companies	72	
<b>Income before income taxes</b>	<b>238,137</b>	<b>209,810</b>
Income taxes    Current	77,942	64,322
Deferred	4,647	7,550

**Net income**

**155,548**

**137,938**

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**Notes to Non-Consolidated Balance Sheets**

1. Current receivable from affiliated companies	850,229 million yen
Noncurrent receivable from affiliated companies	3,064 million yen
Current payable to affiliated companies	314,988 million yen
2. Accumulated depreciation of property, plant and equipment	719,744 million yen
3. Contingent liabilities	
Guarantees	27,860 million yen
4. Accounting Standards for Presentation of Net Assets in the Balance Sheet (The Accounting Standards Board of Japan (ASBJ) Statement No.5, December 9, 2005) and Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No.8, December 9, 2005) have been adopted from the first half of 2006. Total amount of conventional stockholders' equity as of June 30, 2006 was 1,971,321 million yen.	

**Notes to Non-Consolidated Statements of Income**

1. Transactions with affiliated companies:	Sales	1,233,402 million yen
	Purchase	736,220 million yen
	Other transaction	30,684 million yen
2. Net income per share		175.23 yen
		21

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**Non-Consolidated Statements of changes in Stockholders Equity**

	Stockholders equity				
	Common stock	Capital surplus	Additional paid-in capital	Other capital surplus	Retained earnings
				Legal reserve	Reserve for special depreciation
Balance of December 31, 2005	174,438	305,965	1	22,114	13,337
Changes in the term					
Issuance of new shares					
Conversion of convertible debentures	105	105			
Transfer to reserve for special depreciation					8,358
Reversal of reserve for special depreciation					(6,510)
Transfer to reserve for deferral of capital gain on property					
Reversal of reserve for deferral of capital gain on property					
Transfer to special reserves					
Bonus of directors and corporate auditors					
Dividends from surplus					
Net income					
Purchase of treasury stock					
Disposal of treasury stock				4	
Net change of items other than stockholders equity					
Total changes in the term	105	105	4		1,848
Balance of June 30, 2006	174,543	306,070	5	22,114	15,185

## Notes:

- The number of total outstanding shares as of June 30, 2006 was 888,883,727 shares.
- Type and number of treasury shares

Type of share	Number of Treasury Shares as of December 31, 2005	Number of Treasury Shares increased in the first half of 2006	Number of Treasury Shares decreased in the first half of 2006	Number of Treasury Shares as of June 30, 2006
Common stock	1,145,682 shares	10,864 shares	1,199 shares	1,155,347 shares

Increase and decrease of treasury shares in the first half of 2006 reflect the purchase and sales of less-than-one-unit shares.



Millions of yen

Reserve for	Stockholders equity			Total stockholders equity	Difference of appreciation and conversion		Total net assets
	Retained earnings	Other retained earnings	Retained earnings brought forward		Net unrealized gains (losses) on securities	Net Deferred profits (losses) on hedges	
deferral of capital gain on property	Special reserves		Treasury stock				
5	1,068,828	289,378	(5,410)	1,868,656	6,777		1,875,433
				210			210
		(8,358)					
		6,510					
744		(744)					
(17)		17					
	181,100	(181,100)					
		(222)		(222)			(222)
		(59,912)		(59,912)			(59,912)
		155,548		155,548			155,548
			(85)	(85)			(85)
			6	10			10
					339	(555)	(216)
727	181,100	(88,261)	(79)	95,549	339	(555)	95,333
732	1,249,928	201,117	(5,489)	1,964,205	7,116	(555)	1,970,766

## 3. Dividend

Resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
The ordinary general meeting of shareholders held on March 30, 2006	59,912	67.50	December 31, 2005	March 31, 2006
Board of Directors held on July 27, 2006	44,386	50.00	June 30, 2006	August 25, 2006



COMPANY PROFILE

*(The following statements are the status as of June 30, 2006, if not specified otherwise.)*

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**n Canon Group Global Network**  
**(1) Major Overseas Bases**

Name [Location]

**R&D**

Canon Development Americas, Inc. [U.S.A.]  
 Canon Technology Europe Ltd. [U.K.]  
 Canon Research Centre France S.A.S. [France]  
 Canon Information Systems Research Australia Pty. Ltd. [Australia]

**Manufacturing**

Canon Virginia, Inc. [U.S.A.]  
 Canon Giessen GmbH [Germany]  
 Canon Bretagne S.A.S. [France]  
 Canon Dalian Business Machines, Inc. [China]  
 Canon Zhuhai, Inc. [China]  
 Canon Zhongshan Business Machines Co., Ltd. [China]  
 Canon (Suzhou) Inc. [China]  
 Canon Inc., Taiwan [Taiwan]  
 Canon Hi-Tech (Thailand) Ltd. [Thailand]  
 Canon Vietnam Co., Ltd. [Vietnam]  
 Canon Opto (Malaysia) Sdn. Bhd. [Malaysia]

**Marketing**

Canon U.S.A., Inc. [U.S.A.]  
 Canon Canada, Inc. [Canada]  
 Canon Latin America, Inc. [U.S.A.]  
 Canon Europa N.V. [Netherlands]  
 Canon (UK) Ltd. [U.K.]  
 Canon France S.A.S. [France]  
 Canon Deutschland GmbH [Germany]  
 Canon North-East Oy [Finland]  
 Canon (China) Co., Ltd. [China]  
 Canon Hongkong Co., Ltd. [Hong Kong]  
 Canon Singapore Pte. Ltd. [Singapore]  
 Canon Australia Pty. Ltd. [Australia]  
 Canon do Brasil Indústria e Comércio Limitada [Brazil]  
 Canon Chile, S.A. [Chile]  
 Canon South Africa Pty. Ltd. [South Africa]

**R&D, Manufacturing and Marketing**

Canon Electronic Business Machines (H.K.) Co., Ltd. [Hong Kong]

**(2) Major Domestic Bases**

Name [Location]

**Canon Inc.,**

Headquarters [Tokyo]  
Ayase Office [Kanagawa Pref.]  
Hiratsuka Development Center [Kanagawa Pref.]  
Ami Plant [Ibaraki Pref.]  
Optics R&D Center [Tochigi Pref.]  
Toride Plant [Ibaraki Pref.]  
Kosugi Office [Kanagawa Pref.]  
Fuji-Susono Research Park [Shizuoka Pref.]  
Yako Office [Kanagawa Pref.]  
Tamagawa Plant [Kanagawa Pref.]  
Utsunomiya Plant [Tochigi Pref.]  
Utsunomiya Optical Products Plant [Tochigi Pref.]

**Manufacturing**

Oita Canon Inc. [Oita Pref.]  
Canon Chemicals Inc. [Ibaraki Pref.]  
Nagahama Canon Inc. [Shiga Pref.]  
Fukushima Canon Inc. [Fukushima Pref.]

**Marketing**

Canon Marketing Japan Inc. [Tokyo]  
Canon Software Inc. [Tokyo]

**R&D, Manufacturing and Marketing**

Canon Electronics Inc. [Saitama Pref.]  
Canon Finetech Inc. [Ibaraki Pref.]  
Canon Machinery Inc. [Shiga Pref.]  
Nisca Corporation [Yamanashi Pref.]  
Canon ANELVA Corporation [Tokyo]

Note:

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

**on Main Activities of the Canon Group**

Canon Group is engaged in the manufacture and sales of the following products.

**Operations**

**Business Machines**

Office Imaging Products

Computer Peripherals

Business Information Products

**Main Products**

Digital Multifunctional Devices,  
Copying Machines,  
Laser Facsimiles

Laser Beam Printers,  
Inkjet Printers,  
Inkjet Multifunctional Devices,  
Inkjet Facsimiles,  
Image Scanners

Computers,  
  
Document Scanners,  
Microfilm Equipment,  
Handy Terminals,  
Calculators,  
Electronic Dictionaries

**Cameras**

Digital Cameras,  
Film Cameras,  
Digital Video Cameras,  
Interchangeable Lenses,  
LCD Projectors

**Optical and Other Products**

Semiconductor Production Equipment,  
Mirror Projection Mask Aligners for LCDs,  
Broadcast-use Television Lenses,  
Medical Image Recording Equipment,  
Vacuum Equipment for Electronic Components

**n Employees of the Canon Group****Consolidated**

Number of employees	121,588 persons
	(Increase of 6,005 persons from the end of the previous term)
Americas	10,108 persons
Europe	11,647 persons
Japan	50,534 persons
Others	49,299 persons

## Note:

The number of employees represents the total number of employees excluding those who do not work full-time.

**Non-Consolidated**

Number of employees	20,389 persons
Increase from the end of the previous term	682 persons
Average age	39.2 years
Average years of service	16.2 years

## Notes:

1. The number of employees represents the total number of employees excluding those who do not work full-time.
2. The number of employees does not include those who have been dispatched to affiliated companies, etc. (2,158 persons).

**n Shares and Convertible Debentures****(1) Shares**

**Number of Shares Issuable**      **2,000,000,000 shares**  
**Outstanding Shares, Capital Stock and Number of Shareholders**

	<b>As of the end of the Previous Term</b>	<b>Increase during this Half-Term</b>	<b>As of the end of this Half-Term</b>
Outstanding Shares (share)	888,742,779	140,948	888,883,727
Capital Stock (yen)	174,437,728,297	105,570,052	174,543,298,349
Number of Shareholders (person)	77,008	31,676	108,684

## Notes:

1. The increase of the outstanding shares and capital stock during this half-term reflect the conversion of convertible debentures into shares.
2. Based on the resolution of the Board of Directors on May 11, 2006, Canon has made a 3- for -2 stock split on July 1, 2006. As a result, outstanding shares increased by 444,441,863 shares. Canon has also amended its Articles of Incorporation and, as a result, number of shares issuable increased by 1,000,000,000 shares from 2,000,000,000 to 3,000,000,000 shares.

**(2) Shareholding by Category**

	Number of Shareholders	Number of Shares
Banking Companies	363	347,637,616
Securities Underwriting Companies	50	27,825,255
Other Domestic Companies	1,312	29,736,313
Foreign Companies, etc.	1,187	421,291,166
Individual and Others	105,771	61,238,030
Treasury Shares	1	1,155,347
Total	108,684	888,883,727

Shareholding Ratio

**(3) Convertible Debentures**

The third series of Unsecured Convertible Debentures Due 2008

millions of yen  
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**n Directors and Corporate Auditors**

Directors

<b>Position</b>	<b>Name</b>	<b>Business in Charge or Representatives of other Organization, etc.</b>
Chairman & CEO	Fujio Mitarai	
President & COO	Tsuneji Uchida	
Senior Managing Director	Toshizo Tanaka	Group Executive of Finance & Accounting Headquarters
Senior Managing Director	Nobuyoshi Tanaka	Group Executive of Corporate Intellectual Property and Legal Headquarters
Senior Managing Director	Junji Ichikawa	Chief Executive of Optical Products Operations
Senior Managing Director	Hajime Tsuruoka	President of Canon Europa N.V.
Managing Director	Akiyoshi Moroe	Group Executive of General Affairs Headquarters and Group Executive of External Relations Headquarters
Managing Director	Kunio Watanabe	Group Executive of Corporate Planning Development Headquarters
Managing Director	Hironori Yamamoto	Group Executive of Global Environment Promotion Headquarters and Group Executive of Production Engineering Headquarters
Managing Director	Yoroku Adachi	President & CEO of Canon U.S.A., Inc.
Managing Director	Yasuo Mitsuhashi	Chief Executive of Peripheral Products Operations
Director	Katsuichi Shimizu	Chief Executive of Inkjet Products Operations
Director	Ryoichi Bamba	Executive Vice President of Canon U.S.A., Inc.
Director	Tomonori Iwashita	Chief Executive of Image Communication Products Operations
Director	Toshio Homma	Group Executive of L Printer Business Promotion Headquarters
Director	Shigeru Imaiida	Senior Managing Director of Canon ANELVA Corporation
Director	Masahiro Osawa	Group Executive of Global Procurement Headquarters
Director	Keijiro Yamazaki	Group Executive of Human Resources Management & Organization Headquarters
Director	Shunichi Uzawa	Group Executive of Core Technology Development Headquarters
Director	Masaki Nakaoka	Chief Executive of Office Imaging Products Operations

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Director	Toshiyuki Komatsu	Group Executive of Leading-Edge Technology Development Headquarters
Director	Shigeyuki Matsumoto	Group Executive of Device Technology Development Headquarters
Director	Haruhisa Honda	Chief Executive of Chemical Products Operations
Director	*Tetsuro Tahara	Group Executive of Global Manufacturing & Logistics Headquarters
Director	*Seijiro Sekine	Group Executive of Information & Communication Systems Headquarters and Deputy Group Executive of Global Manufacturing & Logistics Headquarters
Director	*Shunji Onda	Deputy Group Executive of Finance & Accounting Headquarters

Corporate Auditors

Position	Name	Business in Charge or Representatives of other Organization, etc.
Corporate Auditor	Teruomi Takahashi	
Corporate Auditor	Kunihiro Nagata	
Corporate Auditor	Tadashi Ohe	Attorney
Corporate Auditor	*Yoshinobu Shimizu	Certified Public Accountant
Corporate Auditor	*Minoru Shishikura	

Notes:

1. Directors and Corporate Auditors with asterisk were newly elected at the Ordinary General Meeting of Shareholders for the 105th Business Term held on March 30, 2006 and assumed their respective offices.
2. Directors Mr. Yukio Yamashita and Mr. Yusuke Emura and Corporate Auditor Mr. Tetsuo Yoshizawa retired at the end of the Ordinary General Meeting of Shareholders for the 105th Business Term

held on  
March 30, 2006,  
as their terms of  
offices expired.

3. Corporate  
Auditors  
Mr. Tadashi  
Ohe,  
Mr. Yoshinobu  
Shimizu and  
Mr. Minoru  
Shishikura are  
Outside  
Corporate  
Auditors  
defined by  
Article 2, item  
16 of the  
Corporation  
Law.

**n Accounting Auditor**

**Ernst & Young ShinNihon**

Hibiya Kokusai Building

2-3, Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo

INFORMATION ON SHARES

**Business term:**

From January 1 to December 31 of each year

**Ordinary general meeting of shareholders:**

March of each year

**Record date for above:**

December 31 of each year

**Record date for interim dividends:**

June 30 of each year

**Transfer agent:**

Mizuho Trust & Banking Co., Ltd.  
2-1, Yaesu 1-chome, Chuo-ku, Tokyo

**Business handling place of the agent:**

Stock Transfer Agency Department, Head Office  
Mizuho Trust & Banking Co., Ltd.

**Mailing address and telephone number of the agent:**

Business Office of Stock Transfer Agency Department  
Mizuho Trust & Banking Co., Ltd.  
17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722  
Telephone: 0120-288-324 (toll free)  
03-5213-5213

**Intermediary office:**

Branches of Mizuho Trust & Banking Co., Ltd.  
Head Office and Branches of Mizuho Investors Securities Co., Ltd.

**Number of shares constituting one unit:**

100 shares

**Newspaper in which public notice is inserted:**

The Nihon Keizai Shimbun published in Tokyo

**Stock exchange listings:**

Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, New York and Frankfurt am Main

**Fee for issuing share certificate:**

The amount equivalent to stamp duty for issue of each new share certificate

**Canon Inc., Headquarters 30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501 Telephone:  
03-3758-2111 URL Canon Inc. [canon.jp](http://canon.jp) Canon Worldwide Network [www.canon.com](http://www.canon.com)**