



# Canon Inc.

## First Half 2006 Results

July 27, 2006

**Toshizo Tanaka**

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This presentation 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," "plan," "project" 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 presentation. 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.

July 27, 2006 Canon Inc.



# Agenda

 2Q&1H 2006 Results P3-11

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# Summary of Results

2Q&1H 2006 Actual

(Billions of yen)

2006				2005		% Change	
Actual	% sales	Projection	% sales	Actual	% sales	Projection	Actual

2Q	Net sales	1,029.0		1,036.7		912.5		-0.7%	+12.8%
	Gross profit	510.2	49.6%	506.5	48.9%	440.4	48.3%	+0.7%	+15.9%
	Op. profit	168.3	16.4%	149.9	14.5%	126.9	13.9%	+12.3%	+32.6%
	Net income	105.9	10.3%	92.7	8.9%	82.2	9.0%	+14.2%	+28.8%
	Yen-1USD	114.44		117.00		107.71			
	Yen-1EURO	143.81		138.00		135.37			

1H	Net sales	1,952.3		1,960.0		1,755.8		-0.4%	+11.2%
	Gross profit	978.7	50.1%	975.0	49.7%	850.0	48.4%	+0.4%	+15.1%
	Op. profit	338.5	17.3%	320.0	16.3%	270.2	15.4%	+5.8%	+25.3%
	Net income	214.2	11.0%	201.0	10.3%	175.3	10.0%	+6.6%	+22.2%
	Yen-1USD	115.63		116.98		106.18			
	Yen-1EURO	142.36		139.25		136.14			

# Transition in Sales and Op. Profit

2Q 2006 Actual v. 2Q 2006 Projection

(Billions of yen)

	2Q 2006	
	Sales	Op. Profit
Projection (April 27, 2006)	1,036.7	149.9
Foreign exchange impact [net sales, cost of sales, expenses]	0.0	+1.7
Sales volume impact		
Office Imaging Products	-12.8	
Computer Peripherals	+2.8	
Business Information Products	-1.7	
Cameras	+17.7	
Optical and Other Products	-6.5	
Total	-0.5	-0.7
Others	-7.2	+17.4
Total Change	-7.7	+18.4
Actual	1,029.0	168.3

#### Change in Exchange Rate

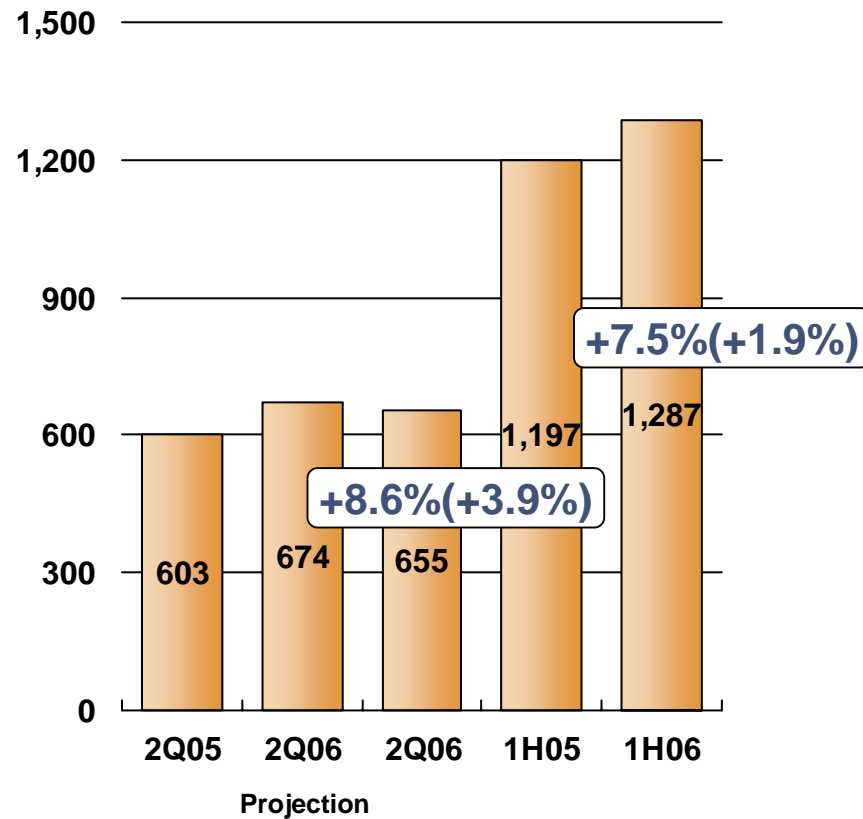
- 1USD: 117.00 to 114.44 yen
- 1EURO: 138.00 to 143.81 yen

# Business Machines

2Q&1H 2006 Actual

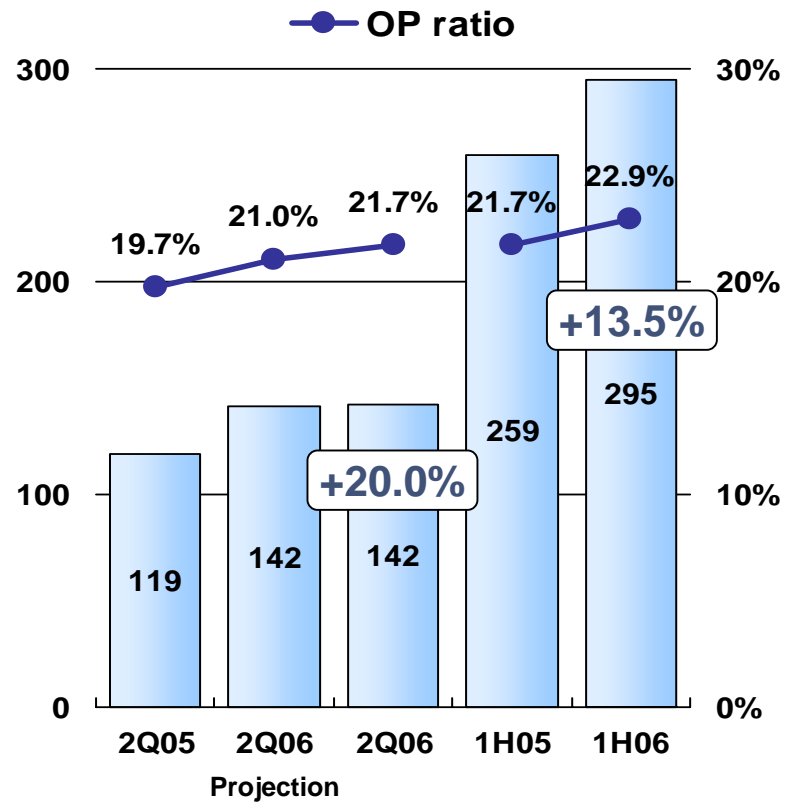
## Sales

(Billions of yen) Growth rate y/y  
( ) Local currency base



## Operating Profit

(Billions of yen)

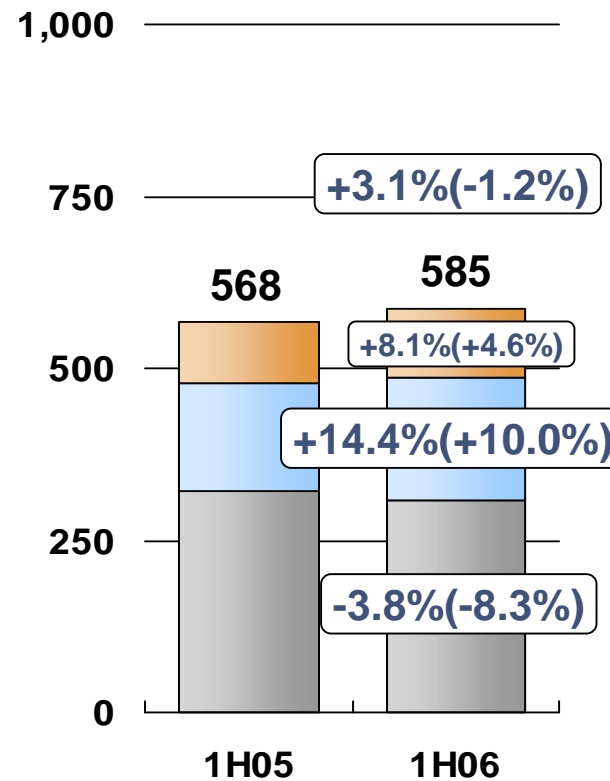
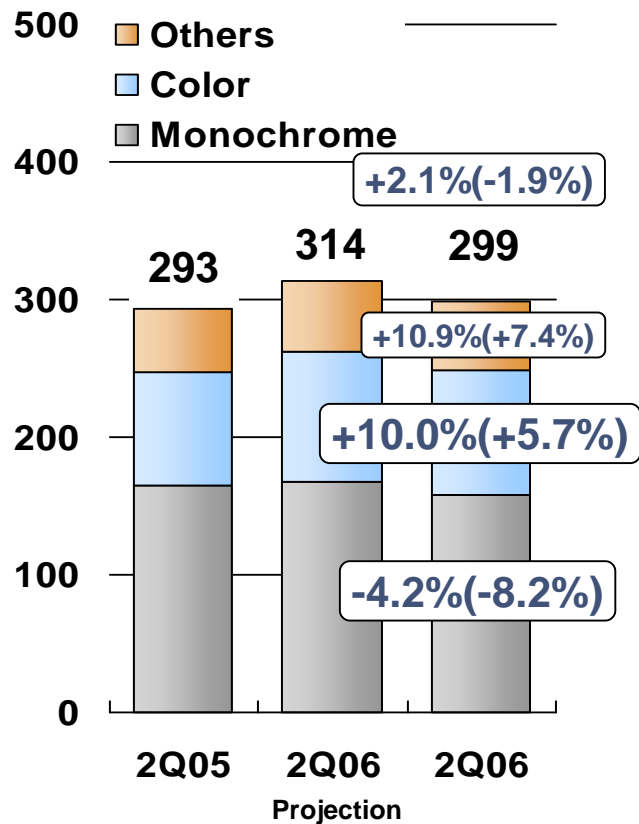


# Office Imaging Products

2Q&1H 2006 Actual

## Sales

(Billions of yen) Growth rate y/y  
( ) Local currency base



Growth rate y/y (Unit base)		
Copying machines		
	2Q	1H
Color	+0%	+11%
Mono-chrome	-3%	-4%
Total	-3%	-2%

### Color ratio (Copying machines)

	2Q	1H
Value base*	37%	37%
Unit base	12%	13%

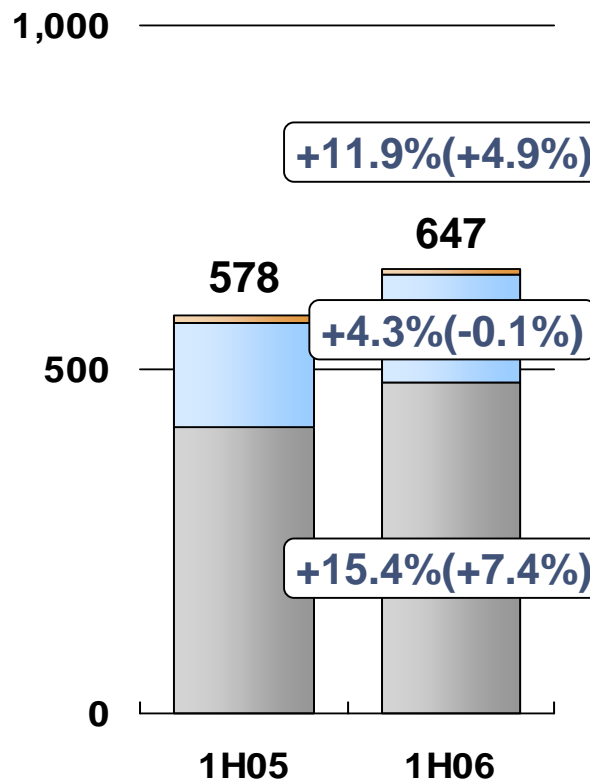
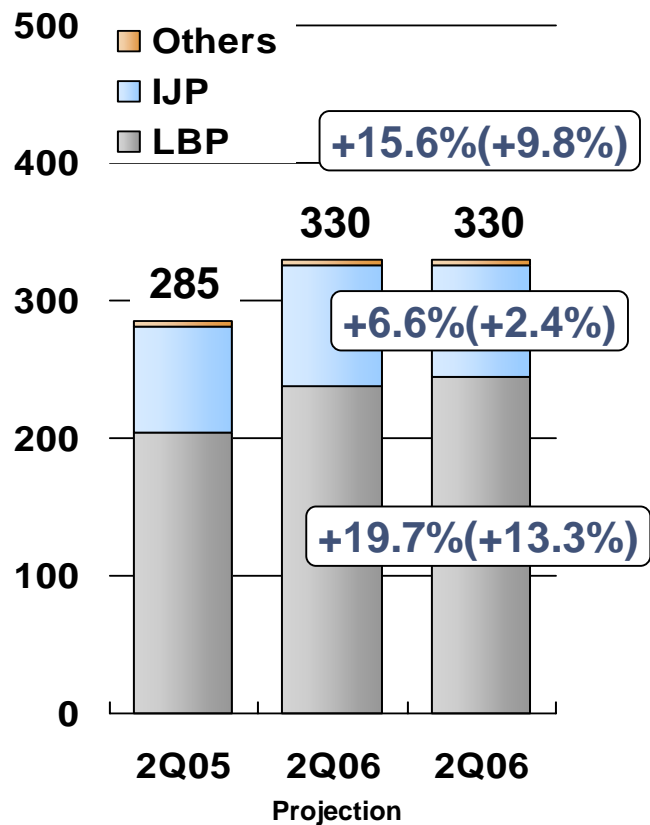
\*Includes consumables

# Computer Peripherals

2Q&1H 2006 Actual

## Sales

(Billions of yen) Growth rate y/y  
( ) Local currency base



### Growth rate y/y (Unit base)

LBP	2Q	1H
Color	+41%	+51%
Mono-chrome	+8%	+2%
Total	+12%	+7%

### Color ratio (LBP)

	2Q	1H
Value base*	34%	34%
Unit base	15%	14%

\*Includes consumables

### Growth rate y/y (Unit base)

IJP	2Q	1H
SFP	-25%	-22%
MFP	+90%	+103%
Total	-2%	+2%

### MFP ratio (IJP)

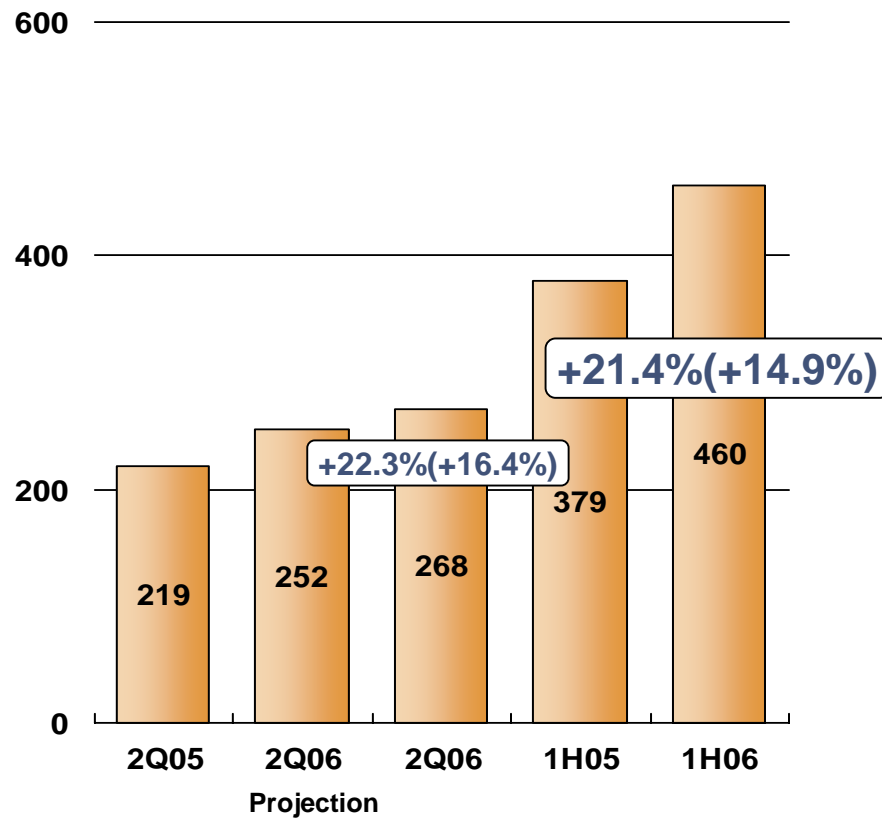
	2Q	1H
Unit base	39%	37%

# Cameras

2Q&1H 2006 Actual

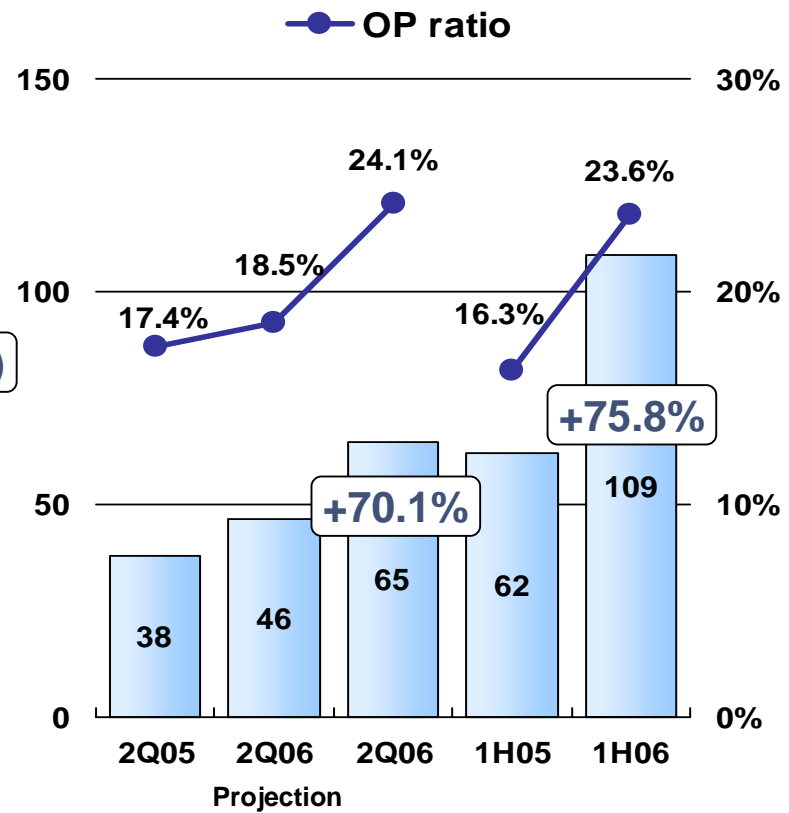
## Sales

(Billions of yen) Growth rate y/y  
( ) Local currency base



## Operating Profit

(Billions of yen)



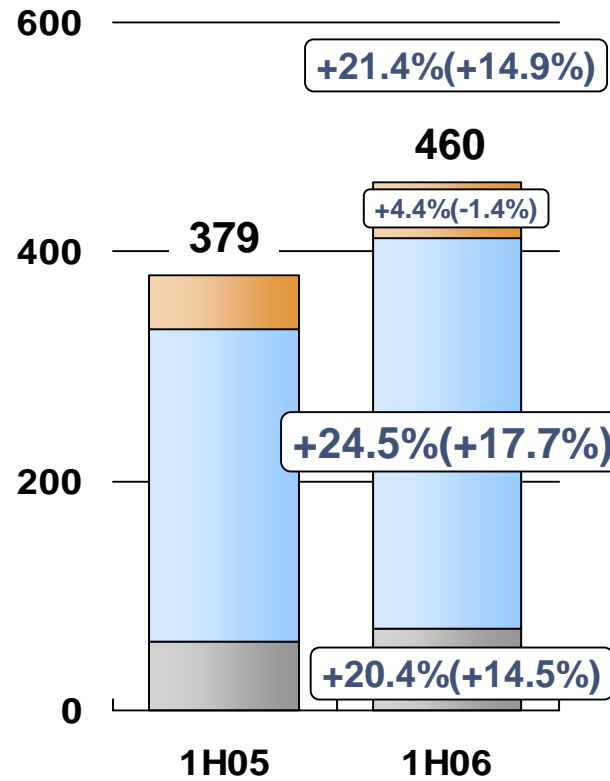
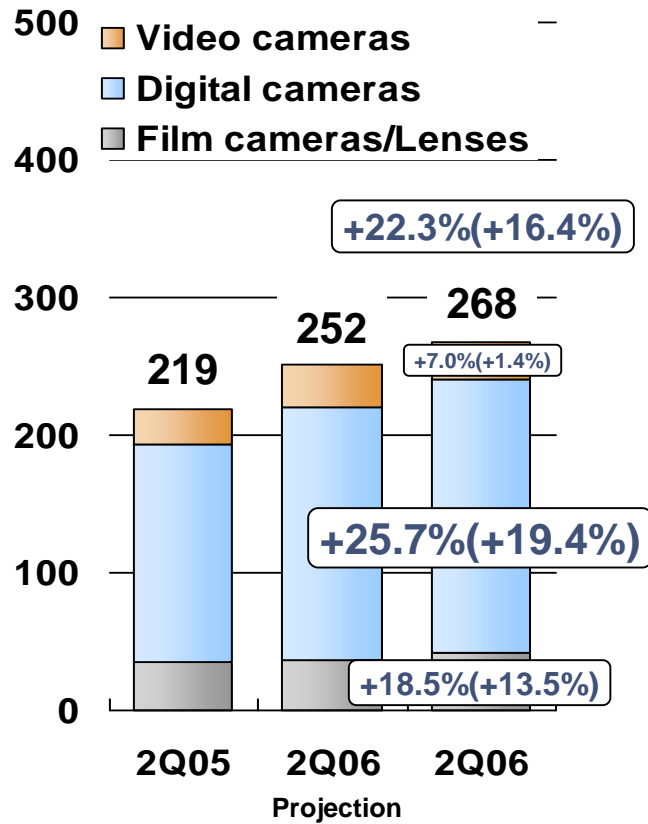


# Cameras

2Q&1H 2006 Actual

## Sales

(Billions of yen) Growth rate y/y  
( ) Local currency base



Growth rate y/y (Unit base)		
Digital cameras	2Q	1H
Digital cameras	+29%	+25%

### D SLR ratio\*

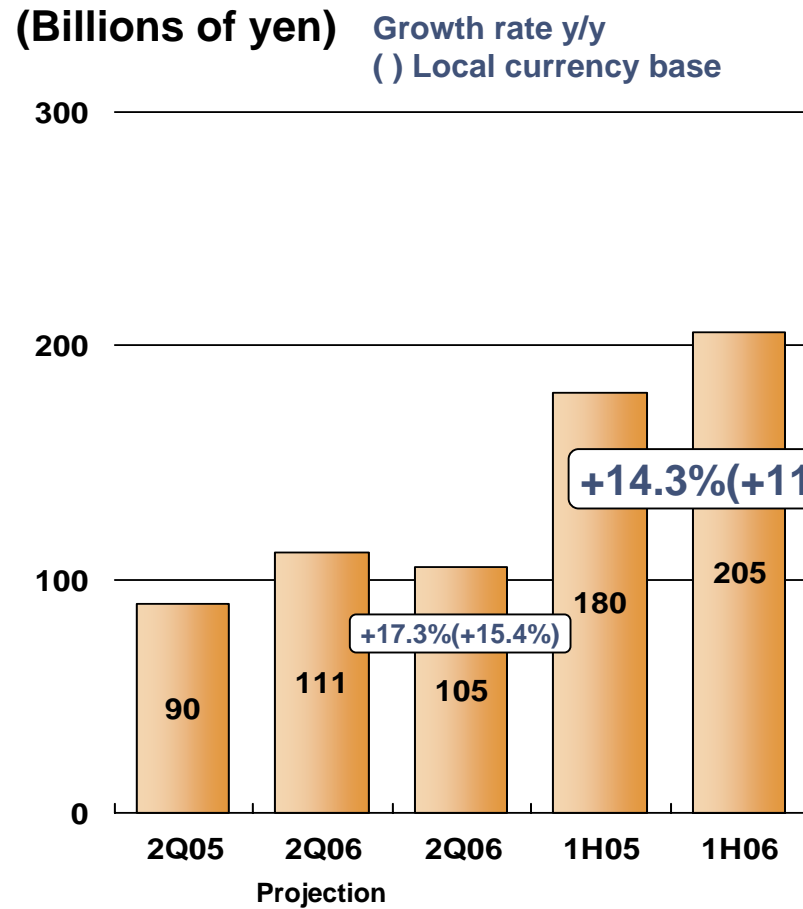
	2Q	1H
Value base	35%	37%
Unit base	11%	12%

\* Percentage of digital cameras sales attributable to SLRs

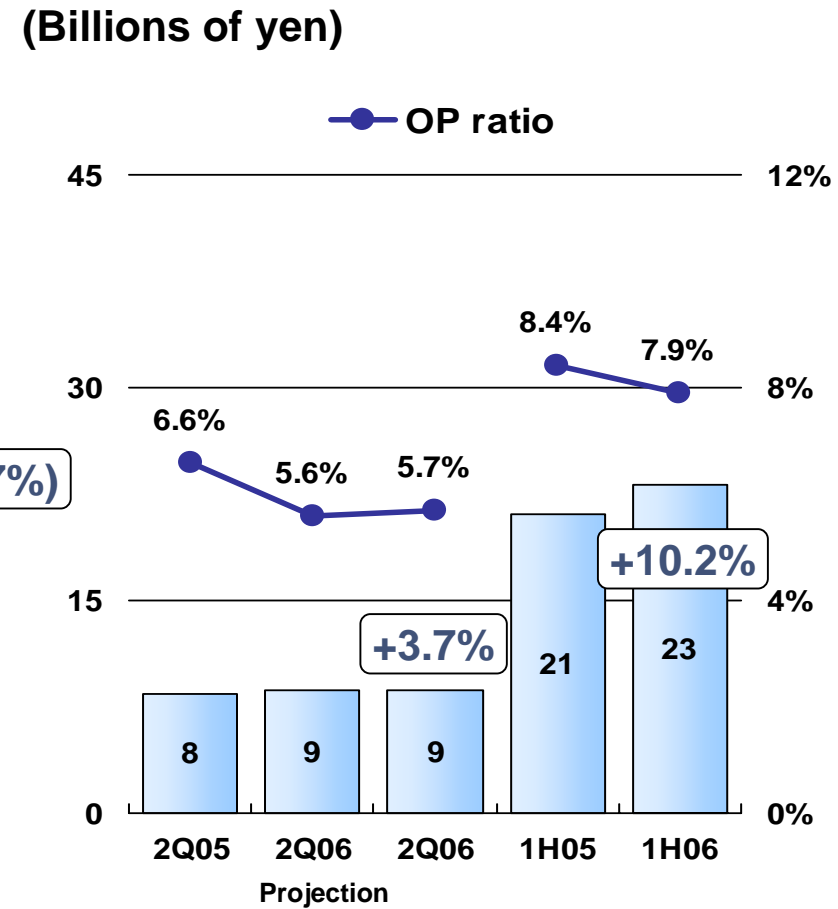
# Optical and Other Products

2Q&1H 2006 Actual

## Sales



## Operating Profit



\*Excluding inter-segment sales

\*Calculation of operating profit margin includes inter-segment sales

# Optical and Other Products

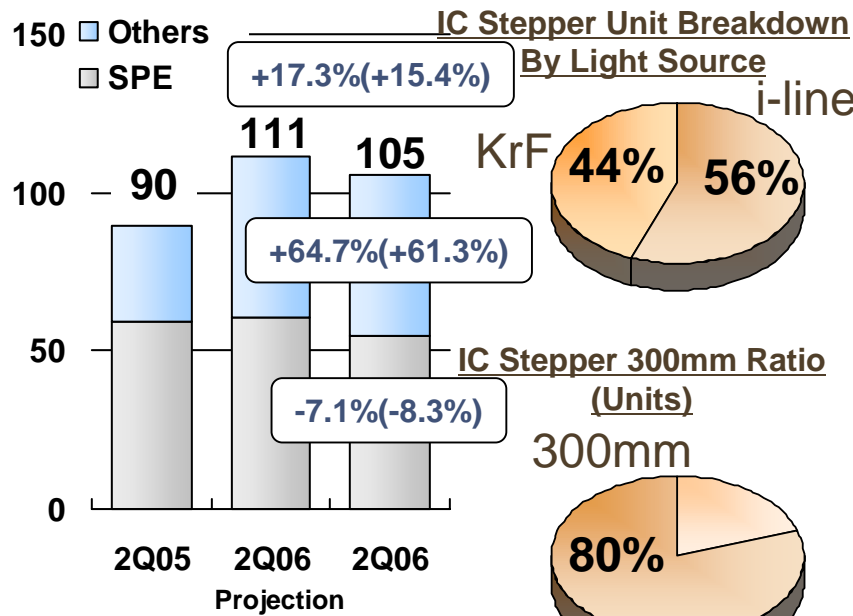
2Q&1H 2006 Actual

## Sales

(Billions of yen)

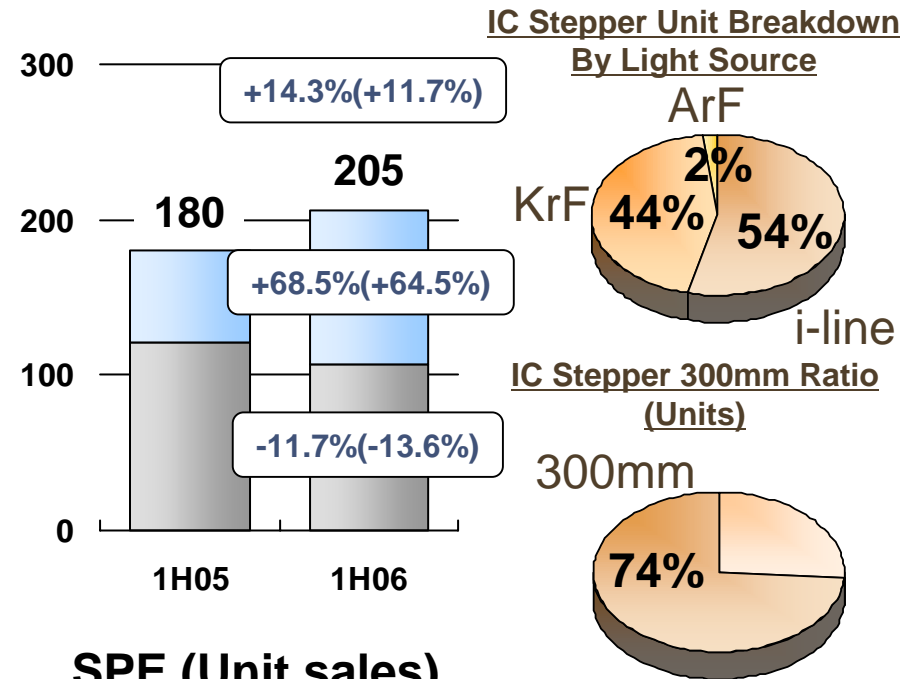
Growth rate y/y  
( ) Local currency base

(Billions of yen)



### SPE (Unit sales)

	2Q05	2Q06 Projection	2Q06
IC	33	39	41
LCD	30	23	20
TTL	63	62	61



### SPE (Unit sales)

	1H05	1H06
IC	77	85
LCD	59	31
TTL	136	116

# Assumptions

2H 2006

Average Exchange Rate	2H06	FY06	FY05
■ Yen-1USD	114.00 yen	114.76 yen	110.58 yen
■ Yen-1EURO	143.00 yen	142.70 yen	137.04 yen

## Impact of Exchange Rate Movement (2H impact given a one yen change)

	Net sales	Operating profit
■ USD	7.6 billion yen	4.2 billion yen
■ EURO	3.8 billion yen	2.8 billion yen

# Summary of Projected Results

FY 2006 Current Projection v. FY 2005 Actual

(Billions of yen)

	2006 Current projection			2005 Actual			% Change		
	1H Actual	2H Projection	FY Projection	1H	2H	FY	1H	2H	FY
Net sales	1,952.3	2,177.7	4,130.0	1,755.8	1,998.4	3,754.2	+11.2%	+9.0%	+10.0%
Gross profit	978.7	1,070.3	2,049.0	850.0	969.0	1,819.0	+15.1%	+10.5%	+12.6%
[% sales]	50.1%	49.1%	49.6%	48.4%	48.5%	48.5%			
Op. profit	338.5	351.5	690.0	270.2	312.9	583.0	+25.3%	+12.4%	+18.3%
[% sales]	17.3%	16.1%	16.7%	15.4%	15.7%	15.5%			
Net income	214.2	225.8	440.0	175.3	208.8	384.1	+22.2%	+8.1%	+14.6%
[% sales]	11.0%	10.4%	10.7%	10.0%	10.5%	10.2%			
Foreign exchange rate									
Yen – 1USD	115.63	114.00	114.76	106.18	114.55	110.58			
Yen – 1EURO	142.36	143.00	142.70	136.14	137.83	137.04			

# Transition in Sales and Op. Profit

2H 2006 Current Projection v. 2H 2006 Previous Projection

(Billions of yen)

	2H 2006	
	Sales	Op. Profit
Previous projection (April 27, 2006)	2,180.0	366.0
Foreign exchange impact [net sales, cost of sales, expenses]	-8.5	-3.8
Sales volume impact		
Office Imaging Products	-18.4	
Computer Peripherals	-0.7	
Business Information Products	+1.4	
Cameras	+16.6	
Optical and Other Products	+11.1	
Total	+10.0	+2.8
Others	-3.8	-13.5
Total Change	-2.3	-14.5
Current projection (July 27, 2006)	2,177.7	351.5

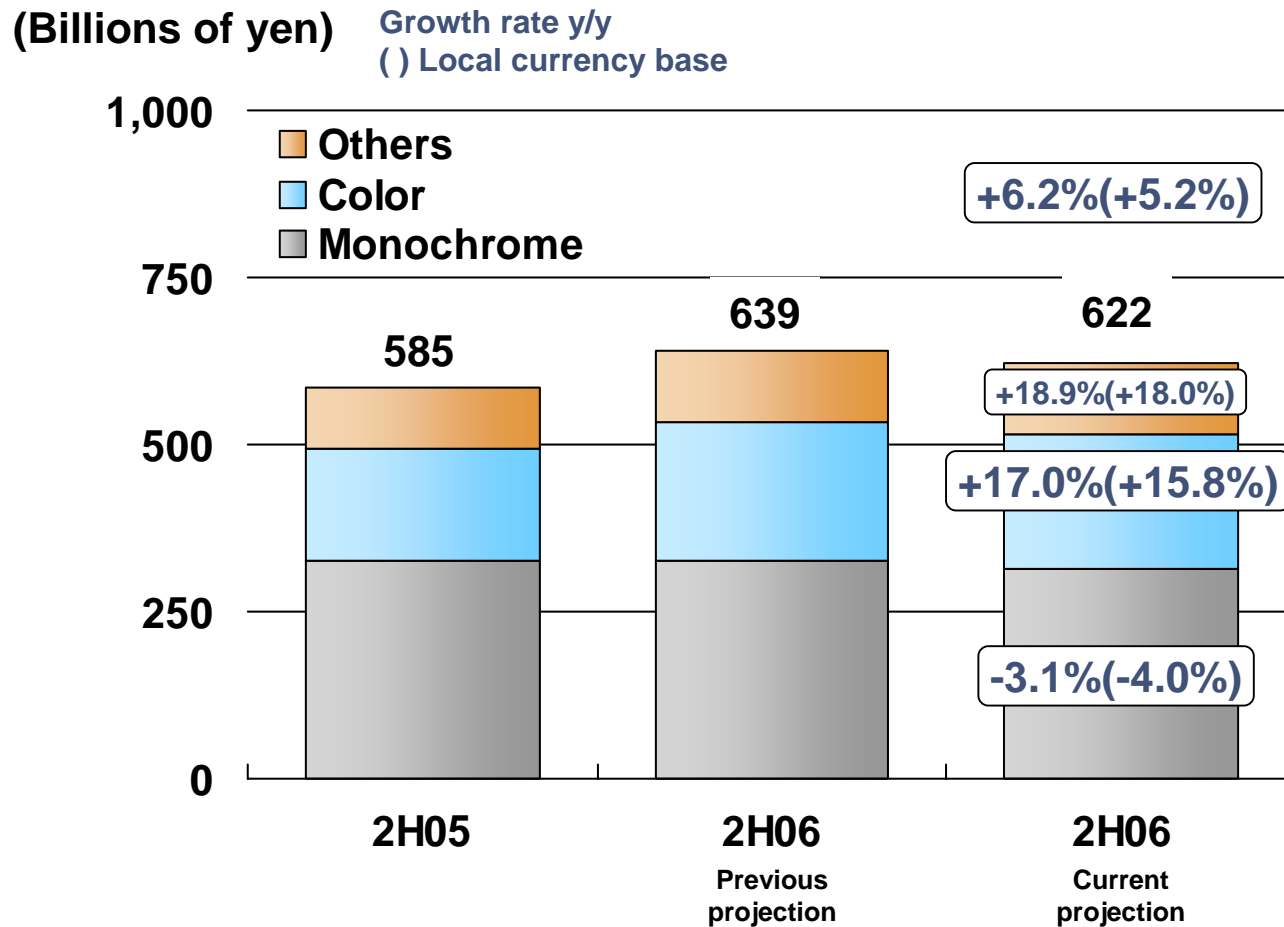
**Change in Exchange Rate**

- 1USD: 117.00 to 114.00 yen
- 1EURO: 138.00 to 143.00 yen

# Office Imaging Products

2H 2006 Current Projection

## Sales






Growth rate y/y (Unit base)	
Copying machines	
2H	
Color	+18%
Monochrome	-5%
Total	-2%

### Color ratio (Copying machines)

2H	
Value base*	39%
Unit base	14%

\*Includes consumables

# 2H 2006 New Product Launch

For Office-Use	Medium- to High-speed Models	<p><b>imageRUNNER C5180/N</b> (Color 51/Mono 51 ppm)</p> <p><b>imageRUNNER C4580/F</b> (40/45 ppm)</p> <p><b>imageRUNNER C3880/F</b> (36/38 ppm)</p> 	<ul style="list-style-type: none"> <li>• Third-generation iR Controller</li> <li>• Enhanced security function</li> </ul>
For Digital Commercial Printing	Graphic Use	<p><b>imagePRESS C1</b> (Color 14/Mono 60 ppm)</p> 	<ul style="list-style-type: none"> <li>• High image-quality</li> <li>• Wide color gamut</li> <li>• imagePRESS Controller</li> </ul>
For Digital Commercial Printing	POD	<p><b>imagePRESS C7000VP</b> (Color 70 / Mono 70 ppm)</p> 	<ul style="list-style-type: none"> <li>• High productivity</li> <li>• High image-quality</li> <li>• imagePRESS Controller</li> </ul>

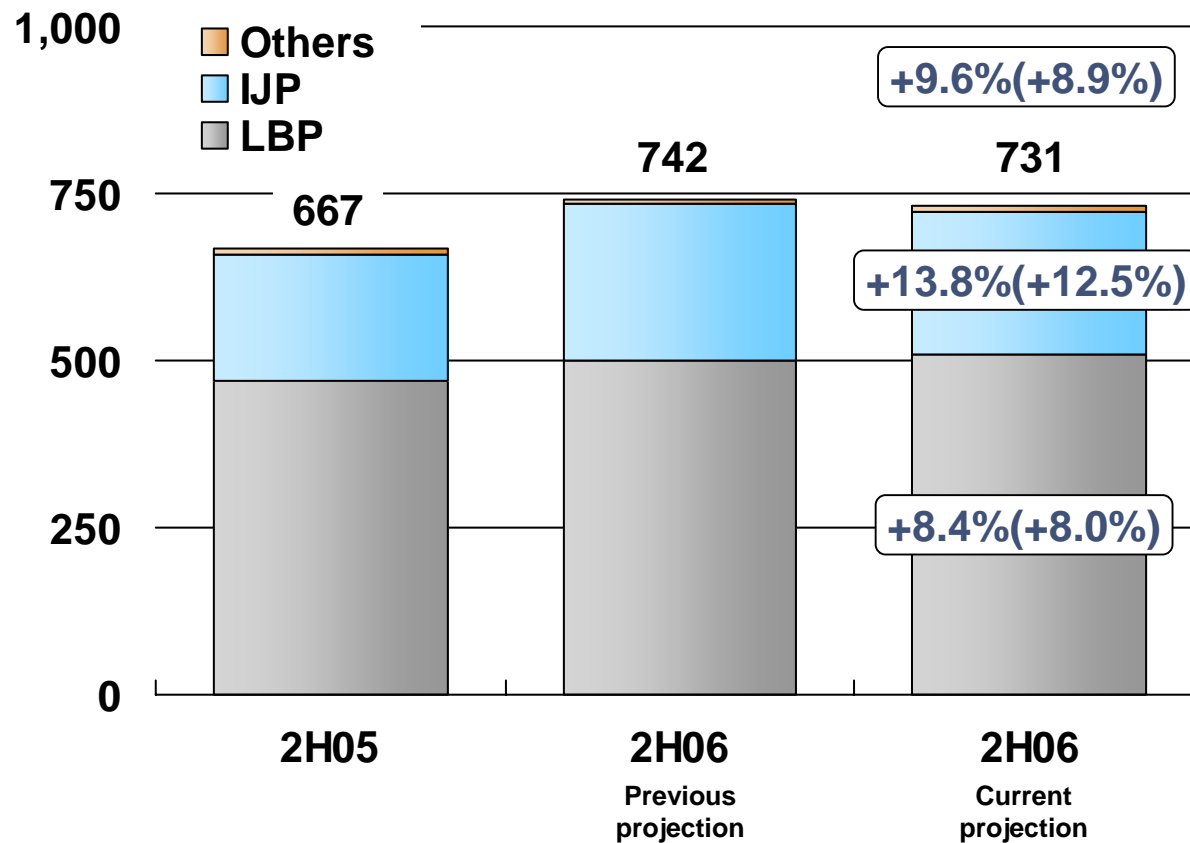


# Computer Peripherals

2H 2006 Current Projection

## Sales

(Billions of yen) Growth rate y/y  
( ) Local currency base



### Growth rate y/y (Unit base)

LBP	2H
Color	+45%
Monochrome	+23%
Total	+26%

### Color ratio (LBP)

	2H
Value base*	34%
Unit base	14%

\*Includes consumables

### Growth rate y/y (Unit base)

IJP	2H
SFP	-5%
MFP	+98%
Total	+23%

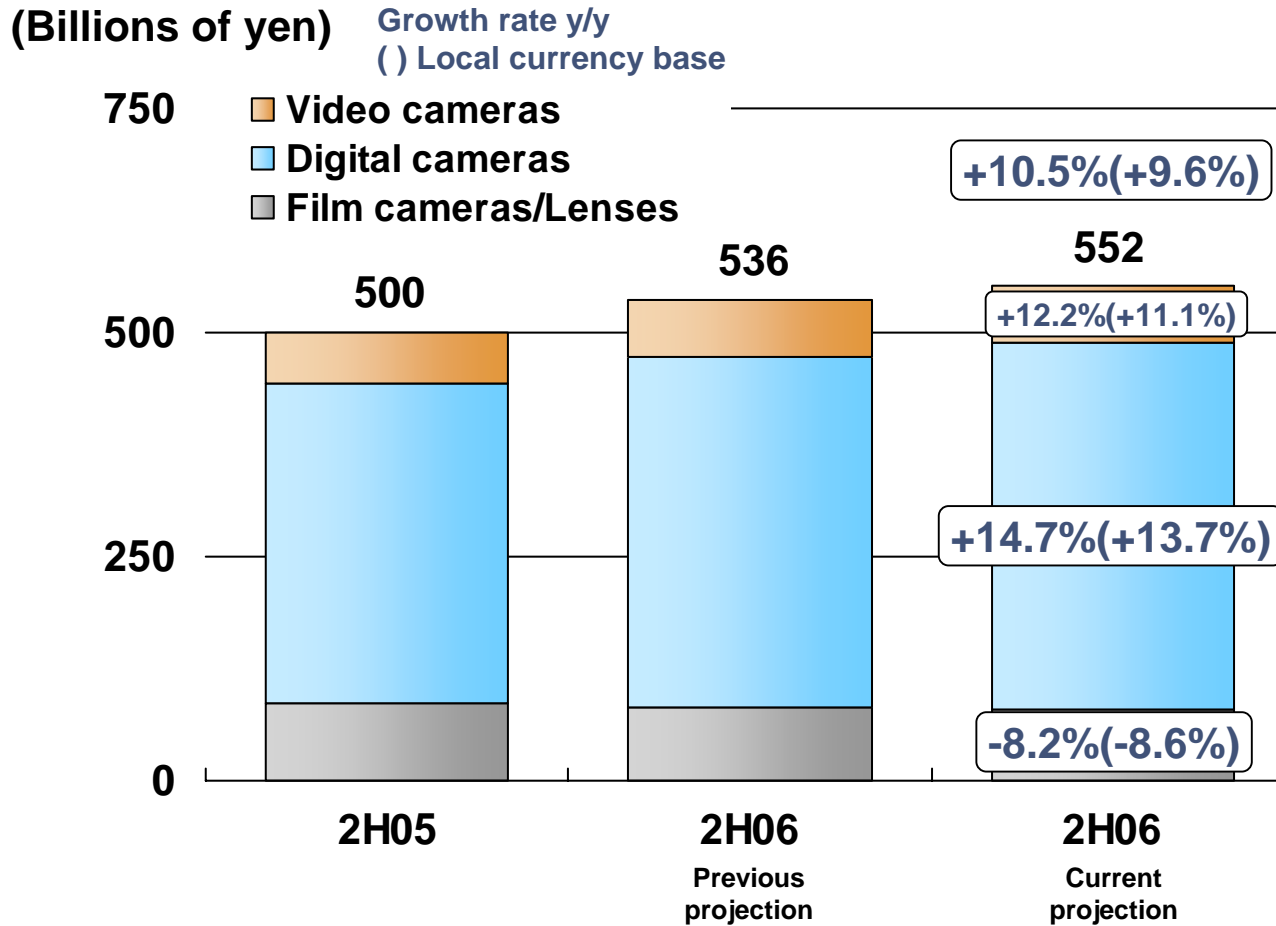
### MFP ratio (IJP)

	2H
Unit base	44%

# Cameras

## 2H 2006 Current Projection

### Sales



Growth rate y/y (Unit base)	
2H	
Digital cameras	+13%

#### D SLR ratio\*

2H	
Value base	38%
Unit base	12%

\* Percentage of digital cameras sales attributable to SLRs

# Optical and Other Products

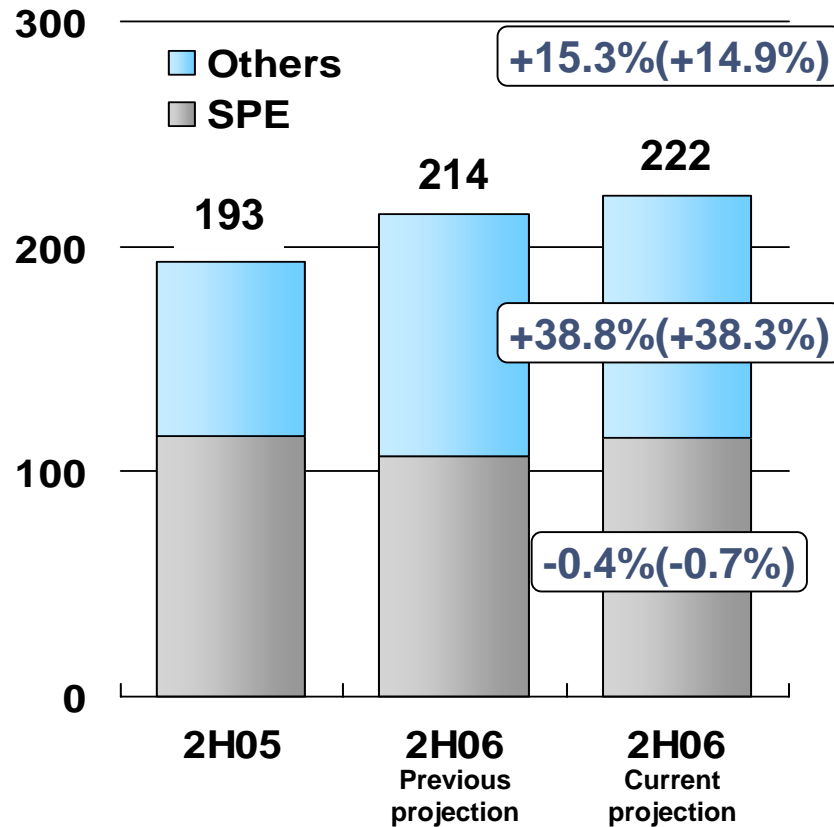
2H 2006 Current Projection

(2H)

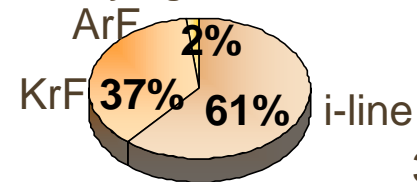
## Sales

(Billions of yen)

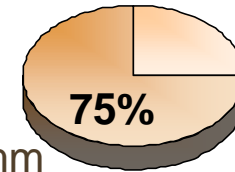
Growth rate y/y  
( ) Local currency base



IC Stepper Unit Breakdown  
By Light Source



IC Stepper 300mm Ratio  
(Units)

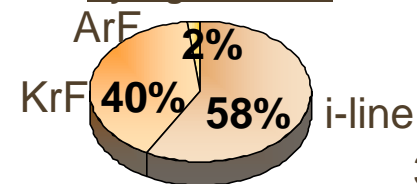


SPE (Unit sales)

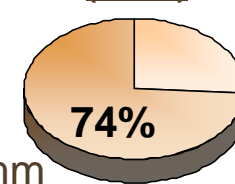
	2H05	2H06 Previous projection	2H06 Current projection
IC	64	82	95
LCD	54	32	35
TTL	118	114	130

(FY)

IC Stepper Unit Breakdown  
By Light Source



IC Stepper 300mm Ratio  
(Units)



SPE (Unit sales)

	FY05	FY06 Previous projection	FY06 Current projection
IC	141	165	180
LCD	113	66	66
TTL	254	231	246

# Operating Profit by Product

FY 2006 Current Projection v. FY 2005 Actual

(Billions of yen)

	2006 Current Projection			2005 Actual			% Change		
	1H Actual	2H Projection	FY Projection	1H	2H	FY	1H	2H	FY
Business machines	294.6	306.0	600.6	259.5	282.6	542.0	+13.5%	+8.3%	+10.8%
% sales	22.9%	21.8%	22.3%	21.7%	21.6%	21.7%			
Cameras	108.7	128.4	237.1	61.9	111.9	173.7	+75.8%	+14.8%	+36.5%
% sales	23.6%	23.2%	23.4%	16.3%	22.4%	19.8%			
Optical and Others	23.2	24.2	47.4	21.0	17.8	38.8	+10.2%	+36.1%	+22.1%
% sales	7.9%	7.6%	7.8%	8.4%	6.4%	7.3%			
Corporate and eliminations	-88.0	-107.1	-195.1	-72.2	-99.4	-171.5			
Total	338.5	351.5	690.0	270.2	312.9	583.0	+25.3%	+12.4%	+18.3%
% sales	17.3%	16.1%	16.7%	15.4%	15.7%	15.5%			

# Supplementary Information

# Summary of Projected Results

3Q 2006 Current Projection v. 3Q 2005 Actual

(Billions of yen)

	3Q06 Current Projection	3Q05 Actual	% Change Actual
Net sales	<b>995.0</b>	<b>878.5</b>	+13.3%
Gross profit	<b>498.0</b>	<b>429.9</b>	+15.9%
[% sales]	50.1%	48.9%	
Op. profit	<b>172.0</b>	<b>143.6</b>	+19.8%
[% sales]	17.3%	16.3%	
Net income	<b>113.0</b>	<b>100.6</b>	+12.3%
[% sales]	11.4%	11.5%	
Foreign exchange rate			
Yen – 1USD	114.00	111.23	
Yen – 1EURO	143.00	135.73	

Supplementary Information

# Transition in Sales and Operating Profit

2Q&1H 2006 Actual v. 2Q&1H 2005 Actual

(Billions of yen)

	2Q		1H	
	Sales	Op. Profit	Sales	Op. Profit
2005 Actual	912.5	126.9	1,755.8	270.2
Foreign exchange impact [net sales, cost of sales, expenses]	+33.8	+17.9	+76.6	+43.0
Sales volume impact				
Office Imaging Products	+2.7		+9.2	
Computer Peripherals	+49.2		+75.1	
Business Information Products	+1.3		+3.5	
Cameras	+55.3		+79.4	
Optical and Other Products	-8.0		-19.9	
Total	+100.5	+49.0	+147.3	+72.6
Others	-17.8	-25.5	-27.4	-47.3
Total Change	+116.5	+41.4	+196.5	+68.3
2006 Actual	1,029.0	168.3	1,952.3	338.5

## Change in Exchange Rate (2Q)

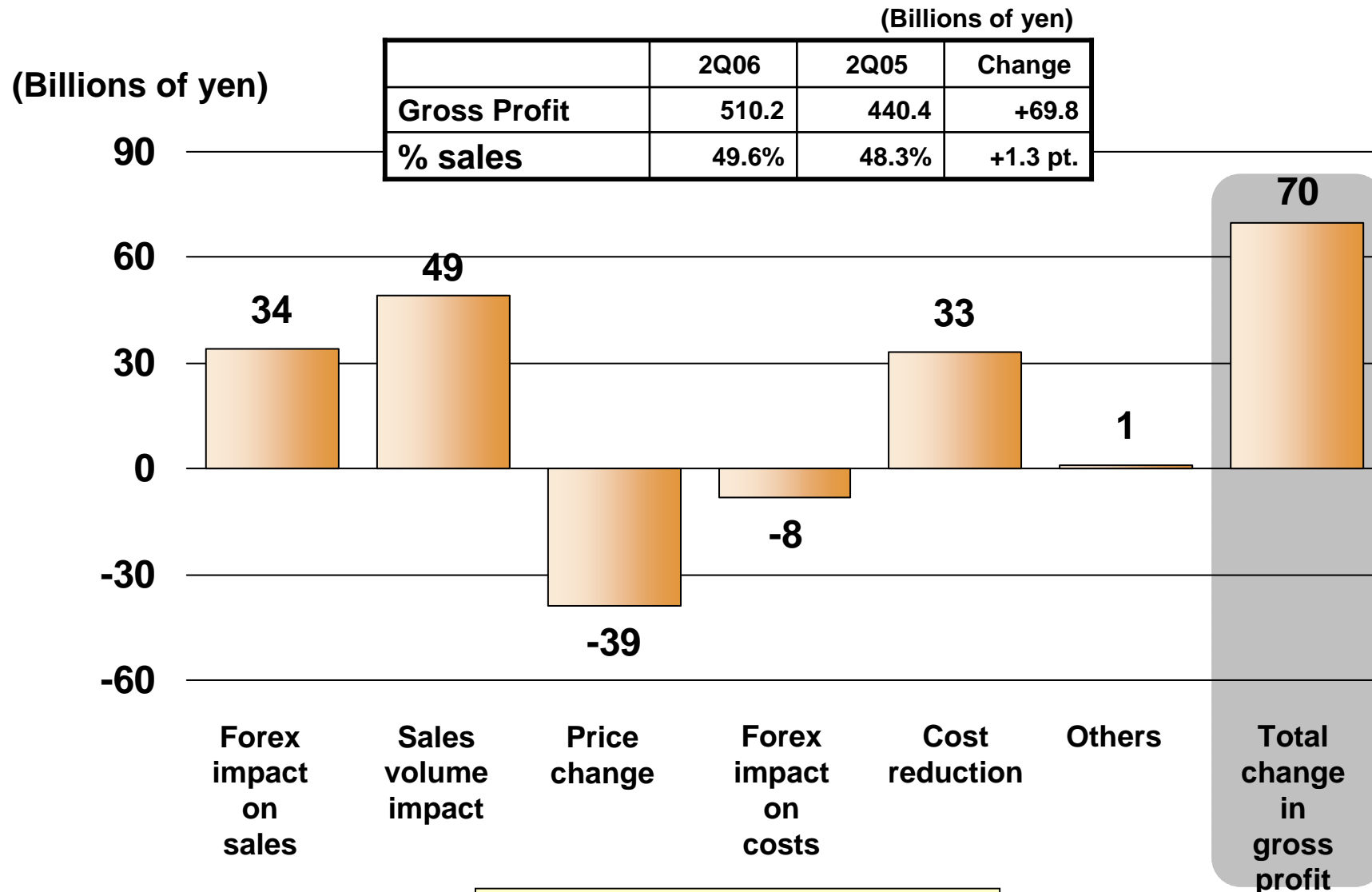
- 1USD: 107.71 to 114.44 Yen
- 1EURO: 135.37 to 143.81 Yen

## Change in Exchange Rate (1H)

- 1USD: 106.18 to 115.63 Yen
- 1EURO: 136.14 to 142.36 Yen

# Gross Profit Variance Analysis

2Q 2006 Actual v. 2Q 2005 Actual

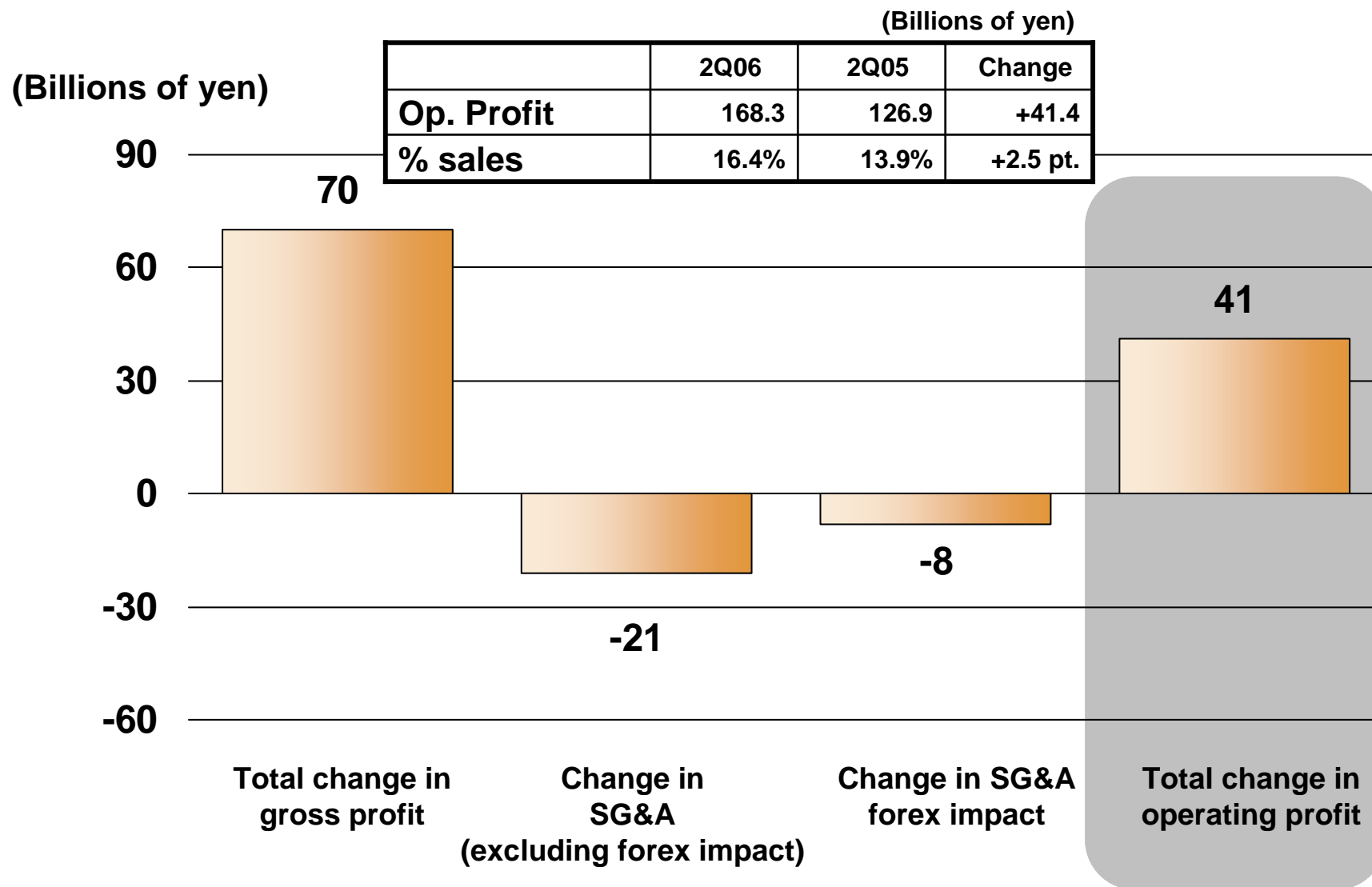


Supplementary Information



# Operating Profit Variance Analysis

2Q 2006 Actual v. 2Q 2005 Actual



Supplementary Information

# Transition in Sales and Operating Profit

2H&FY 2006 Current Projection v. 2H&FY 2005 Actual

(Billions of yen)

	2H		FY	
	Sales	Op. Profit	Sales	Op. Profit
2005 Actual	1,998.4	312.9	3,754.2	583.0
Foreign exchange impact [net sales, cost of sales, expenses]	+15.0	+11.4	+91.6	+54.4
Sales volume impact				
Office Imaging Products	+37.7		+46.9	
Computer Peripherals	+114.6		+189.7	
Business Information Products	-3.3		+0.2	
Cameras	+79.5		+158.9	
Optical and Other Products	+8.3		-11.6	
Total	+236.8	+110.9	+384.1	+183.5
Others	-72.5	-83.7	-99.9	-130.9
Total Change	+179.3	+38.6	+375.8	+107.0
2006 Current Projection (July 27, 2006)	2,177.7	351.5	4,130.0	690.0

**Change in Exchange Rate (2H)**

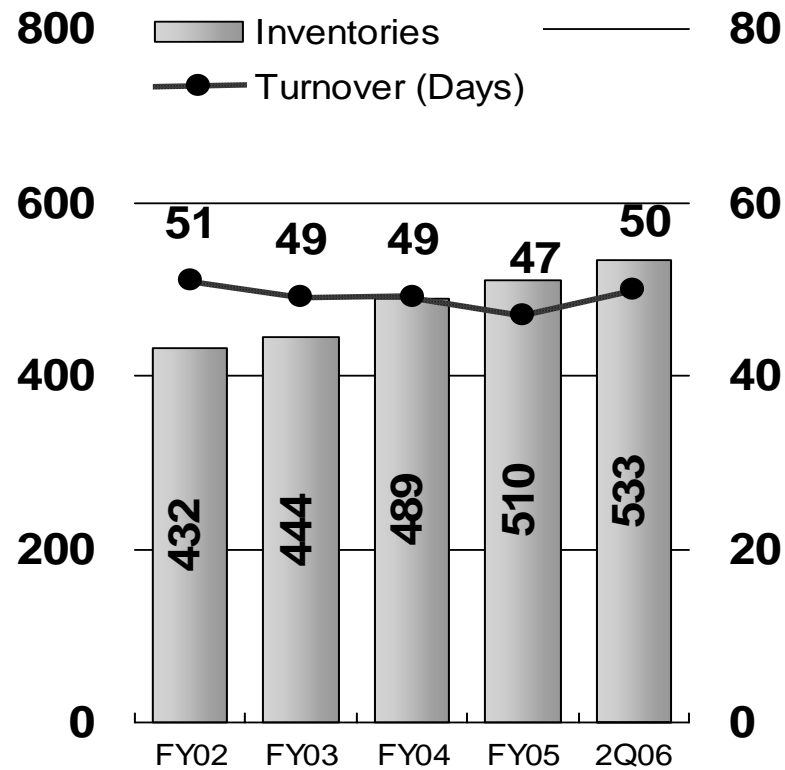
- 1USD: 114.55 to 114.00 Yen
- 1EURO: 137.83 to 143.00 Yen

**Change in Exchange Rate (FY)**

- 1USD: 110.58 to 114.76 Yen
- 1EURO: 137.04 to 142.70 Yen

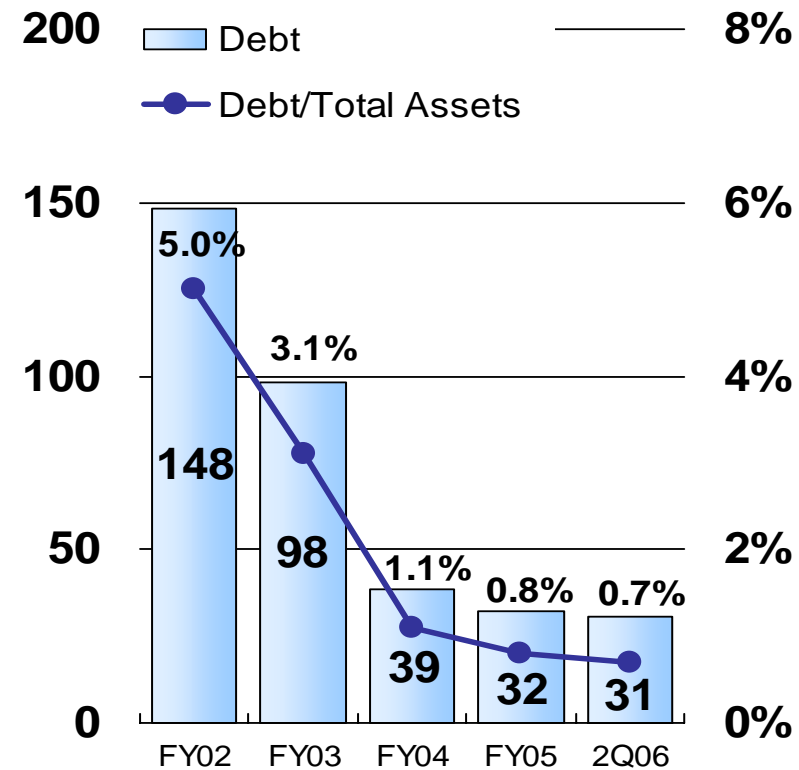
## Inventories

(Billions of yen)



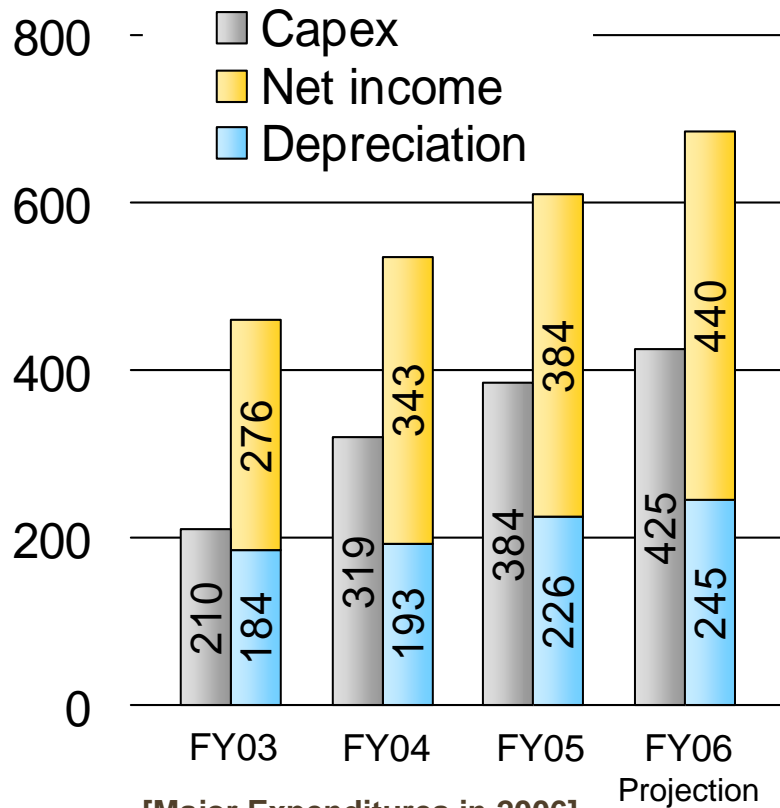
## Interest Bearing Debt

(Days) (Billions of yen)



# Capital Expenditure

(Billions of yen)

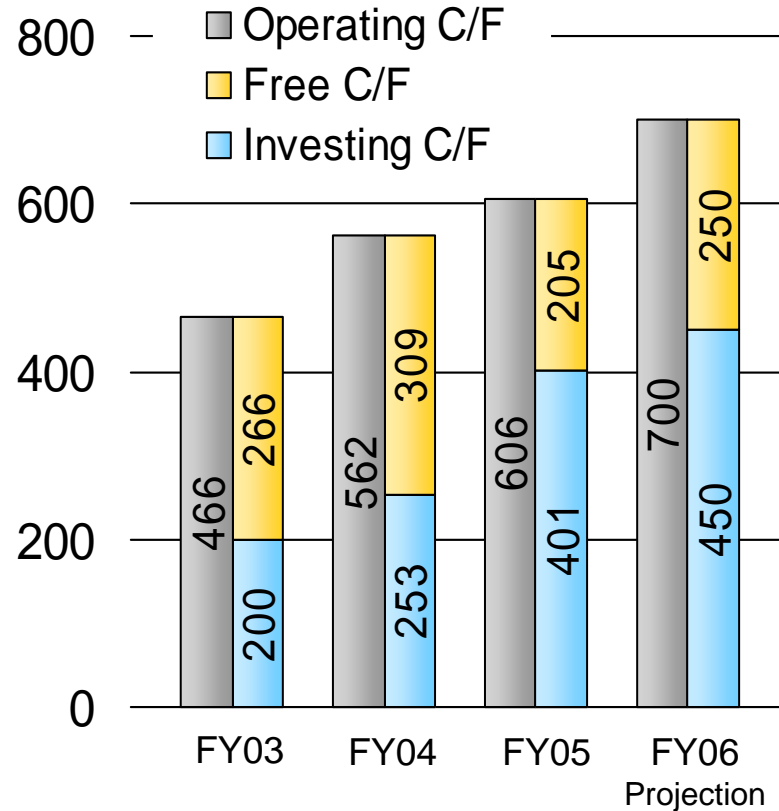


**[Major Expenditures in 2006]**

- Production equipment for inkjet key parts
- New factory (Oita Canon Materials)
- New development facility (Hiratsuka)
- New R&D building (Shimomaruko)
- Production engineering base (Yanagicho, Kawasaki City)
- Automated machinery for cartridge production
- Production equipment for toner

# Free Cash Flow

(Billions of yen)



**Supplementary Information**

# Financial Ratios

\* Common stock held by stockholders as of June 30, 2006, were split on a 3-for-2 basis. EPS (Basic) and dividend per share have been adjusted to retroactively reflect the forward stock split.

