



Canon Inc.

Third Quarter 2006 Results

October 26, 2006






Toshizo Tanaka

Senior Managing Director, Group Executive
Finance and Accounting Headquarters

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.

Oct. 26, 2006 Canon Inc.

Agenda

 Third Quarter Results	P3 – 4
 Fourth Quarter Projection	P5 – 7
 Details by Product	P8 – 17
 Full Year Projection	P18 – 20
 Supplementary Information	P21 – 28

Summary of Results

3Q 2006 Actual

(Billios of yen)

	3Q 2006	3Q 2006	3Q 2005	% change	
	Actual	Projection	Actual	Projection	Actual
Net sales	988.0	995.0	878.5	-0.7%	+12.5%
Gross profit	488.0	498.0	429.9	-2.0%	+13.5%
[% sales]	49.4%	50.1%	48.9%		
Op. profit	172.7	172.0	143.6	+0.4%	+20.3%
[% sales]	17.5%	17.3%	16.3%		
Net income	115.6	113.0	100.6	+2.3%	+14.9%
[% sales]	11.7%	11.4%	11.5%		
Foreign exchange rate					
Yen – 1USD	116.29	114.00	111.23		
Yen – 1EURO	148.19	143.00	135.73		

Transition in Sales and Op. Profit

3Q 2006 Actual v. 3Q 2006 Projection

(Billions of yen)

	3Q 2006	
	Sales	Op. Profit
Projection (July 27, 2006)	995.0	172.0
Foreign exchange impact [net sales, cost of sales, expenses]	+13.2	+10.7
Sales volume impact		
Office Imaging Products	-20.6	
Computer Peripherals	-2.7	
Business Information Products	0.0	
Cameras	+13.8	
Optical and Other Products	+1.0	
Total	-8.5	-6.5
Others	-11.7	-3.5
Total Change	-7.0	+0.7
Actual	988.0	172.7

Change in Exchange Rate

- 1USD: 114.00 to 116.29 yen
- 1EURO: 143.00 to 148.19 yen

Assumptions

4Q 2006

Average Exchange Rate	4Q06	FY06	FY05
■ Yen-1USD	115.00 yen	115.61 yen	110.58 yen
■ Yen-1EURO	148.00 yen	145.35 yen	137.04 yen

Impact of Exchange Rate Movement (4Q impact given a one yen change)

	Net sales	Operating profit
■ USD	4.2 billion yen	2.4 billion yen
■ EURO	2.2 billion yen	1.7 billion yen

Summary of Projected Results

4Q 2006 Current Projection

(Billios of yen)

	4Q 2006	4Q 2006	4Q 2005	% change	
	Current Projection	Previous Projection	Actual	Previous Projection	Actual
Net sales	1,199.8	1,182.7	1,119.8	+1.4%	+7.1%
Gross profit	583.2	572.3	539.2	+1.9%	+8.2%
[% sales]	48.6%	48.4%	48.1%		
Op. profit	179.8	179.5	169.3	+0.2%	+6.2%
[% sales]	15.0%	15.2%	15.1%		
Net income	110.2	112.8	108.2	-2.3%	+1.9%
[% sales]	9.2%	9.5%	9.7%		
Foreign exchange rate					
Yen – 1USD	115.00	114.00	117.39		
Yen – 1EURO	148.00	143.00	139.46		

Transition in Sales and Op. Profit

4Q 2006 Current Projection v. 4Q 2006 Previous Projection

(Billions of yen)

	4Q 2006	
	Sales	Op. Profit
Previous Projection (July 27, 2006)	1,182.7	179.5
Foreign exchange impact [net sales, cost of sales, expenses]	+16.2	+11.1
Sales volume impact		
Office Imaging Products	+1.5	
Computer Peripherals	-5.3	
Business Information Products	+1.1	
Cameras	+6.1	
Optical and Other Products	+0.7	
Total	+4.1	+2.5
Others	-3.2	-13.3
Total Change	+17.1	+0.3
Current Projection (Oct. 26, 2006)	1,199.8	179.8

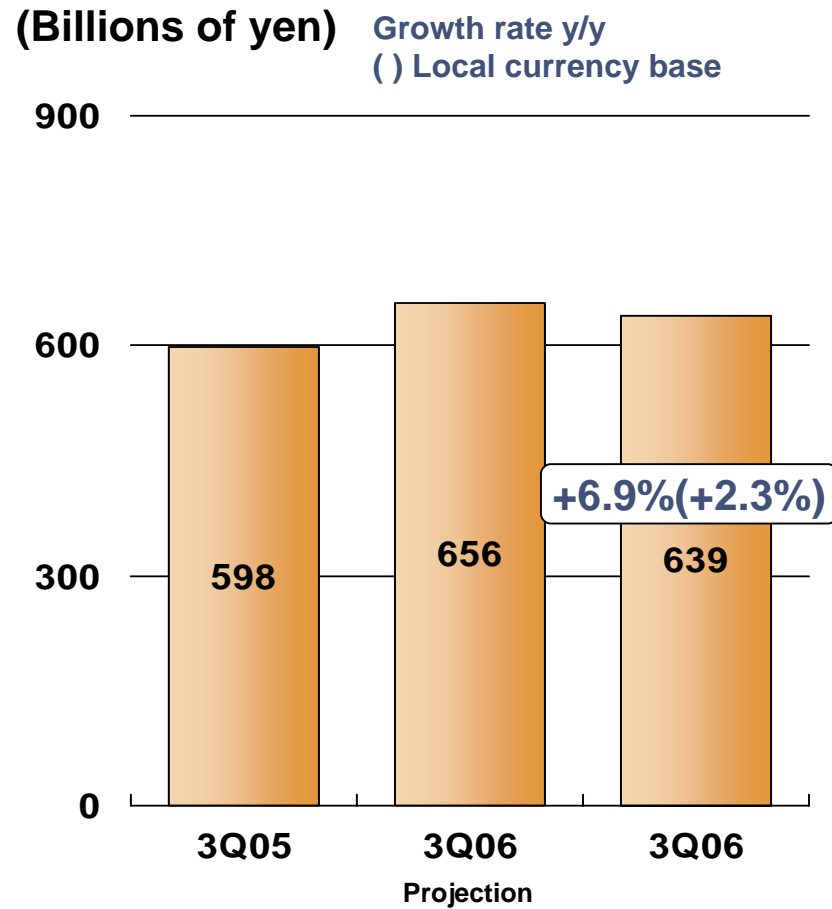
Change in Exchange Rate

- 1USD: 114.00 to 115.00 yen
- 1EURO: 143.00 to 148.00 yen

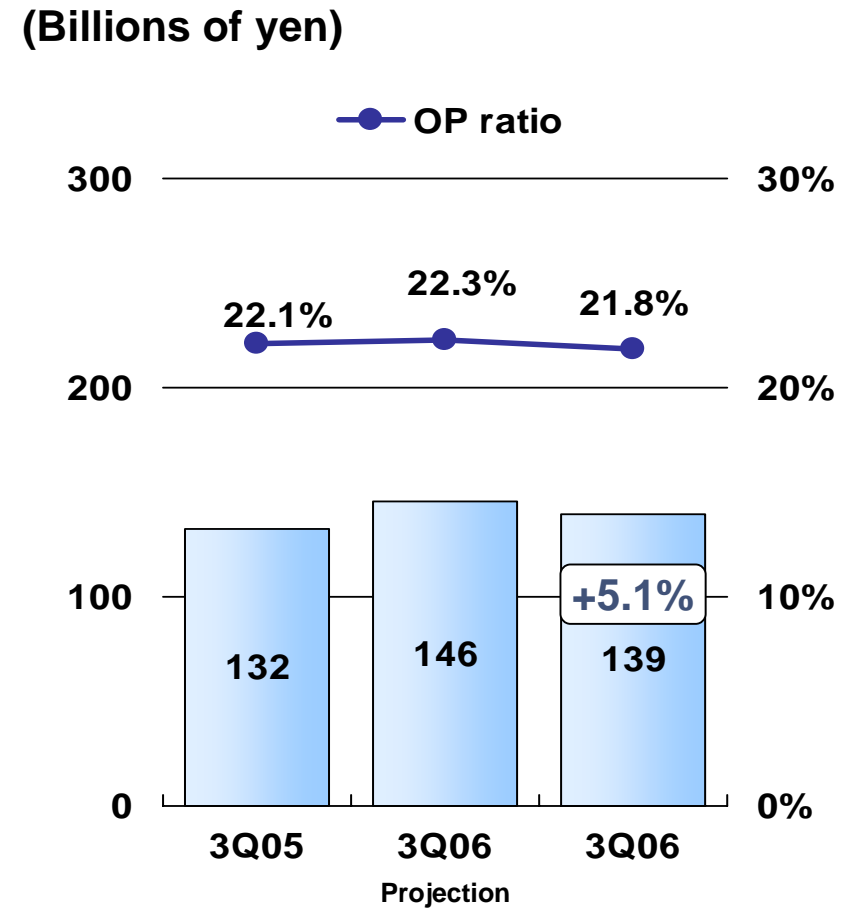
Business Machines

3Q 2006 Actual

Sales



Operating Profit

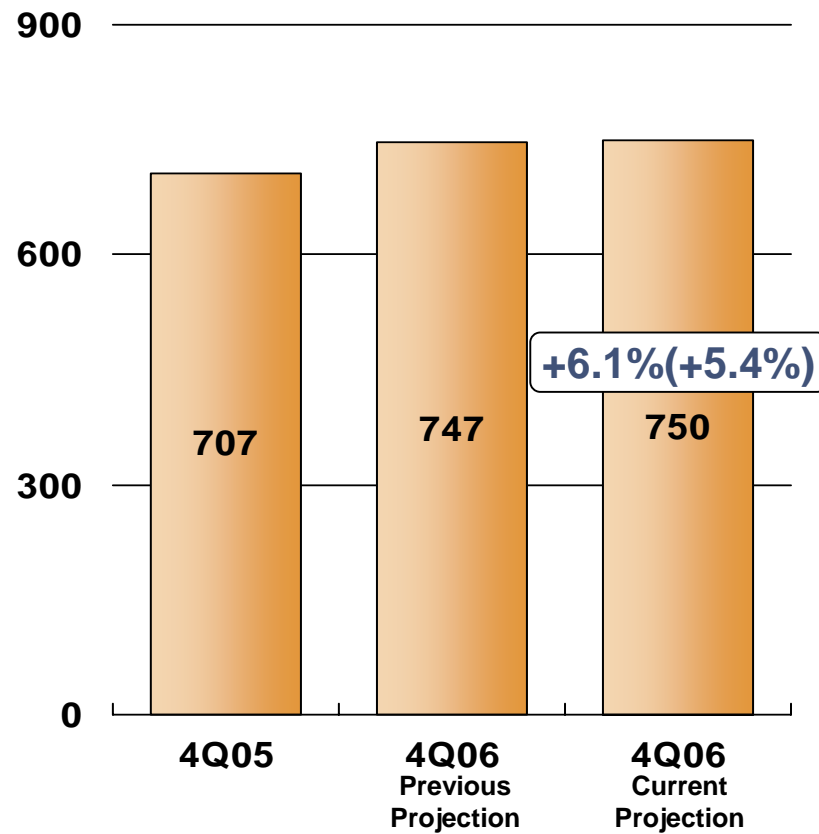


Business Machines

4Q 2006 Projection

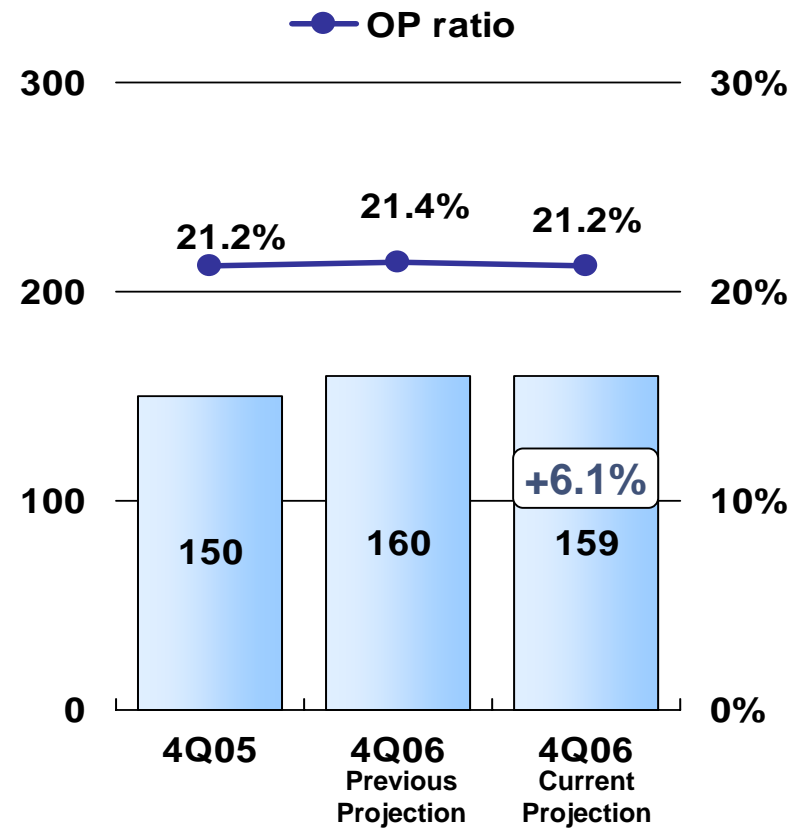
Sales

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



Operating Profit

(Billions of yen)

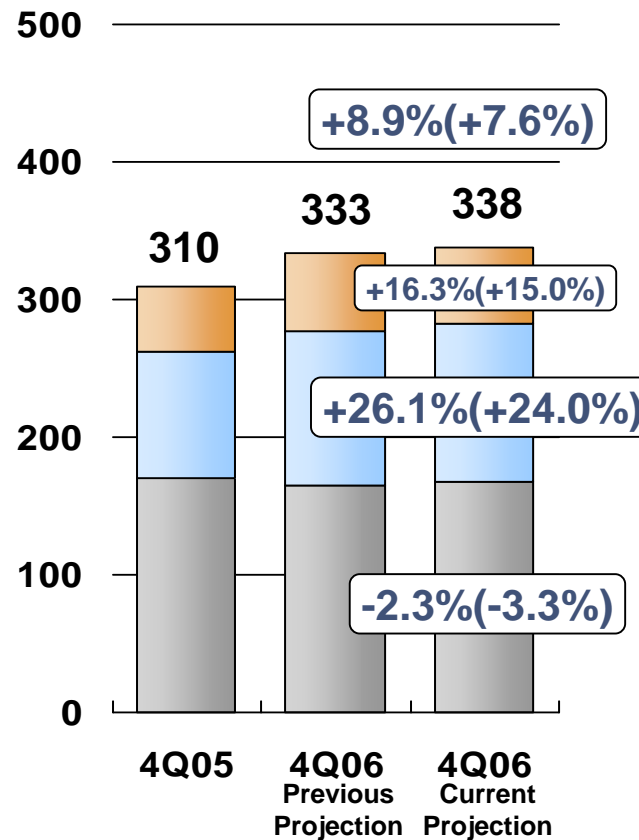
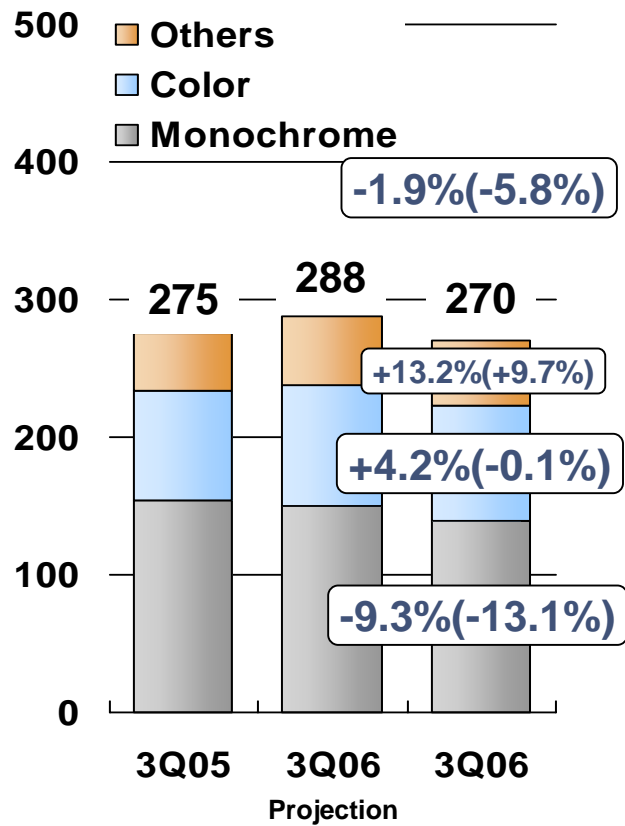


Office Imaging Products

3Q 2006 Actual / 4Q 2006 Projection

Sales

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



Growth rate y/y (Unit base)		
Copying machines		
	3Q	4Q
Color	+3%	+34%
Mono-chrome	-6%	-5%
Total	-5%	0%

Color ratio (Copying machines)

	3Q	4Q
Value base*	37%	41%
Unit base	13%	15%

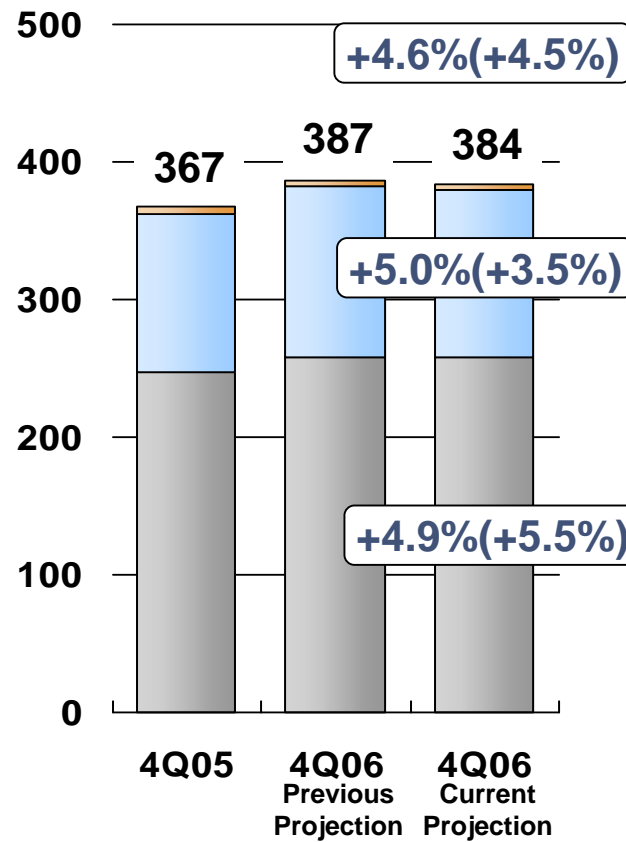
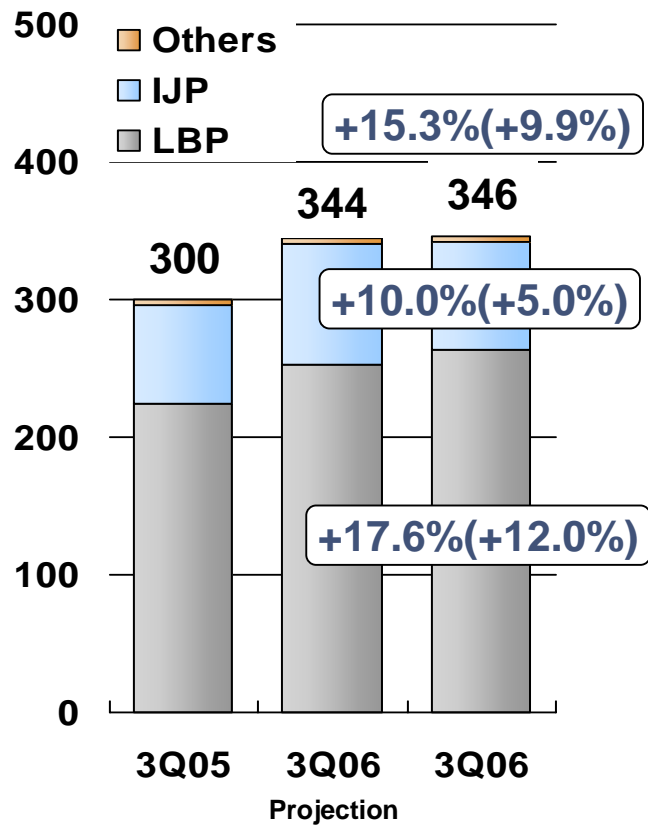
*Includes consumables

Computer Peripherals

3Q 2006 Actual / 4Q 2006 Projection

Sales

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



Growth rate y/y (Unit base)

LBP	3Q	4Q
Color	+50%	+53%
Mono-chrome	+22%	+15%
Total	+26%	+19%

Color ratio (LBP)

	3Q	4Q
Value base*	33%	34%
Unit base	15%	15%

*Includes consumables

Growth rate y/y (Unit base)

IJP	3Q	4Q
SFP	-11%	-10%
MFP	+126%	+64%
Total	+19%	+13%

MFP ratio (IJP)

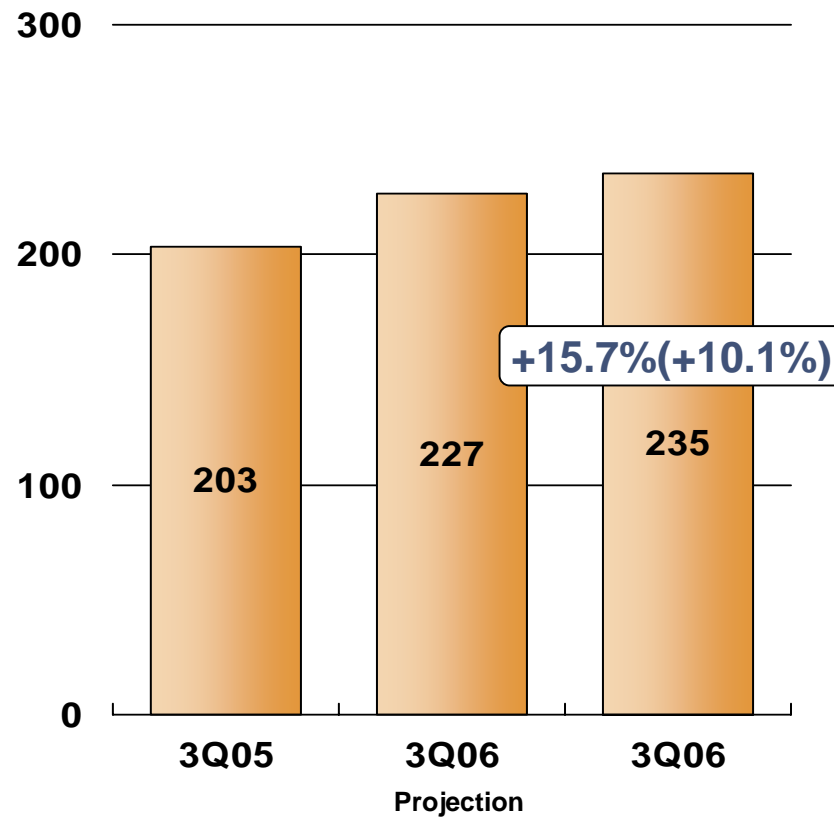
	3Q	4Q
Unit base	41%	45%

Cameras

3Q 2006 Actual

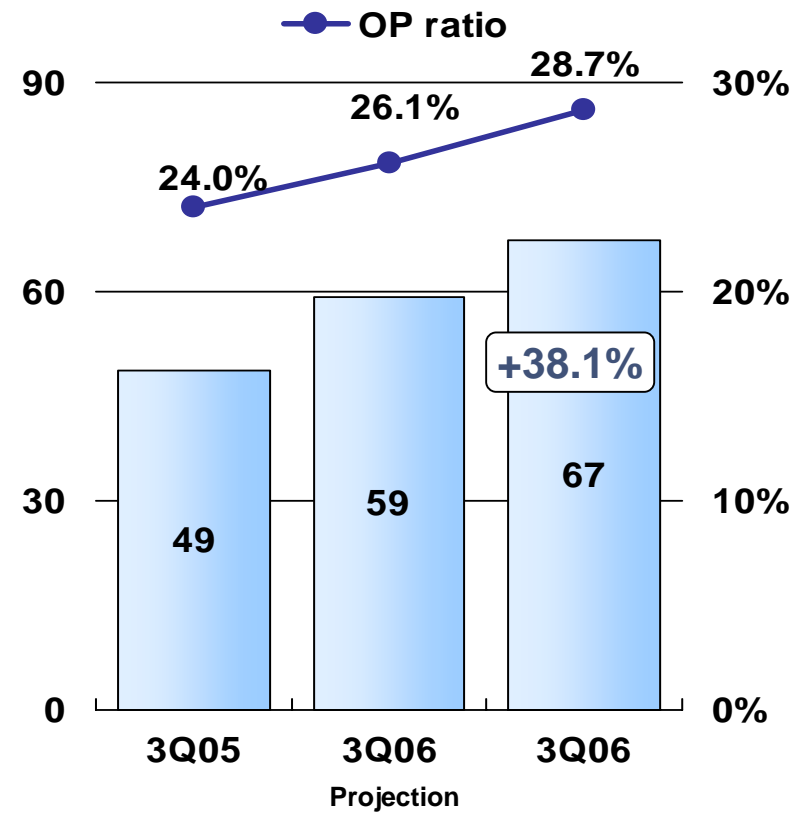
Sales

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



Operating Profit

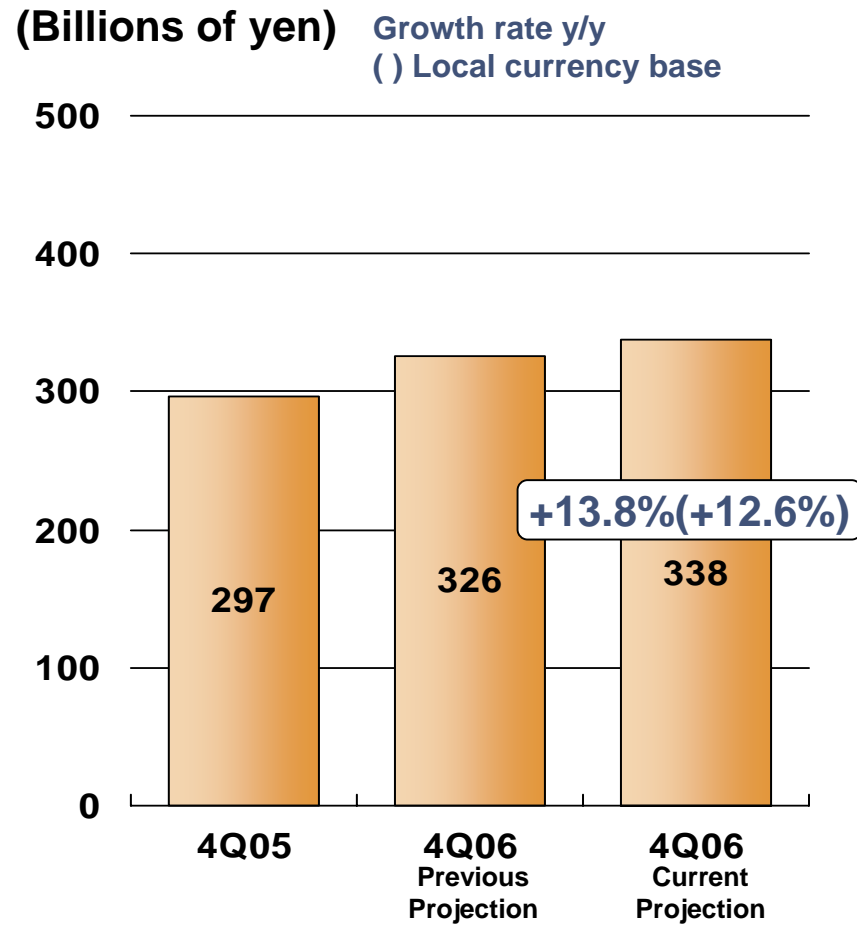
(Billions of yen)



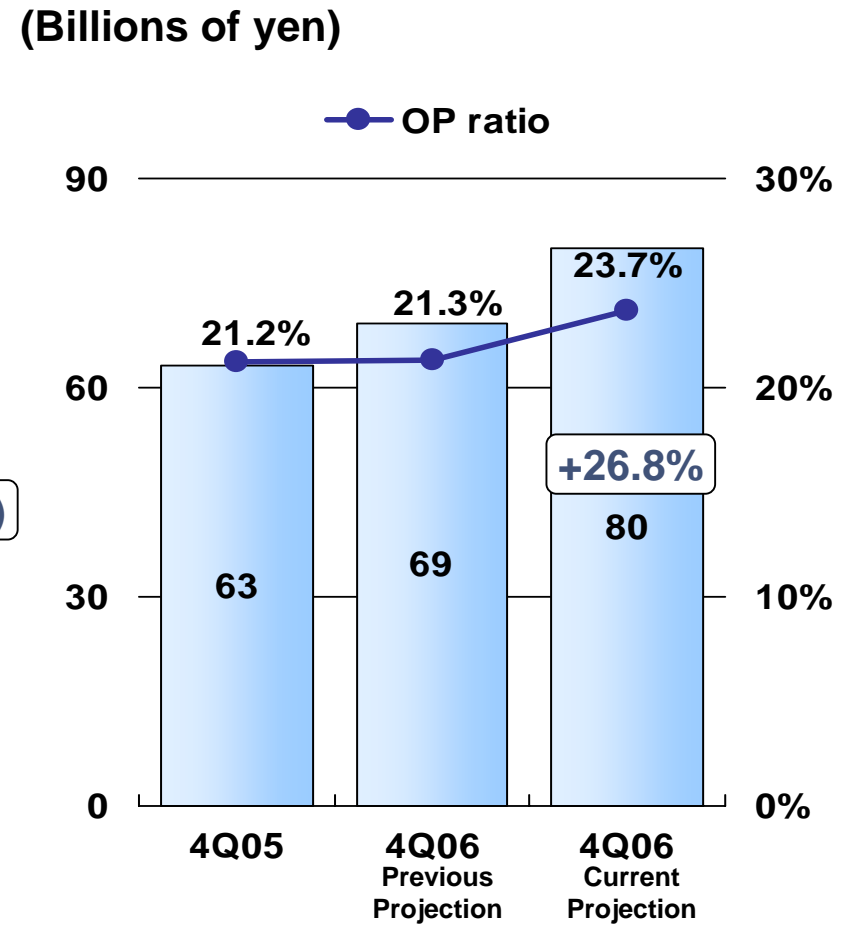
Cameras

4Q 2006 Projection

Sales



Operating Profit

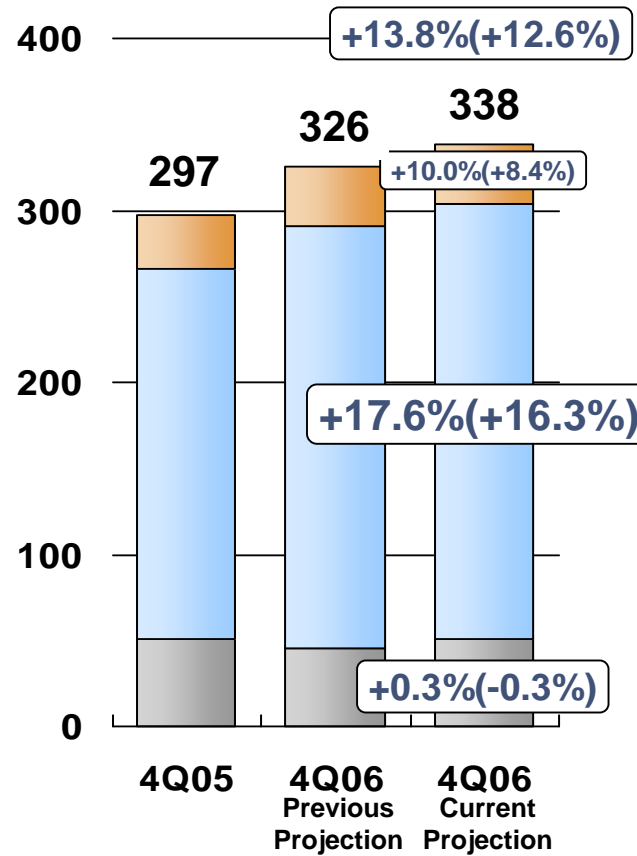
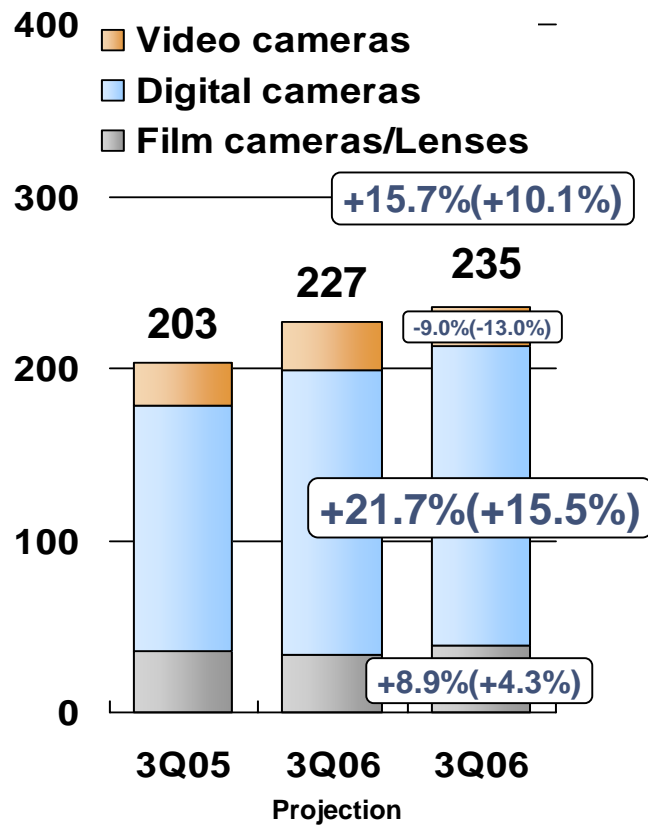


Cameras

3Q 2006 Actual / 4Q 2006 Projection

Sales

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



Growth rate y/y (Unit base)		
Digital cameras	3Q	4Q
Digital cameras	+29%	+15%

D SLR ratio*

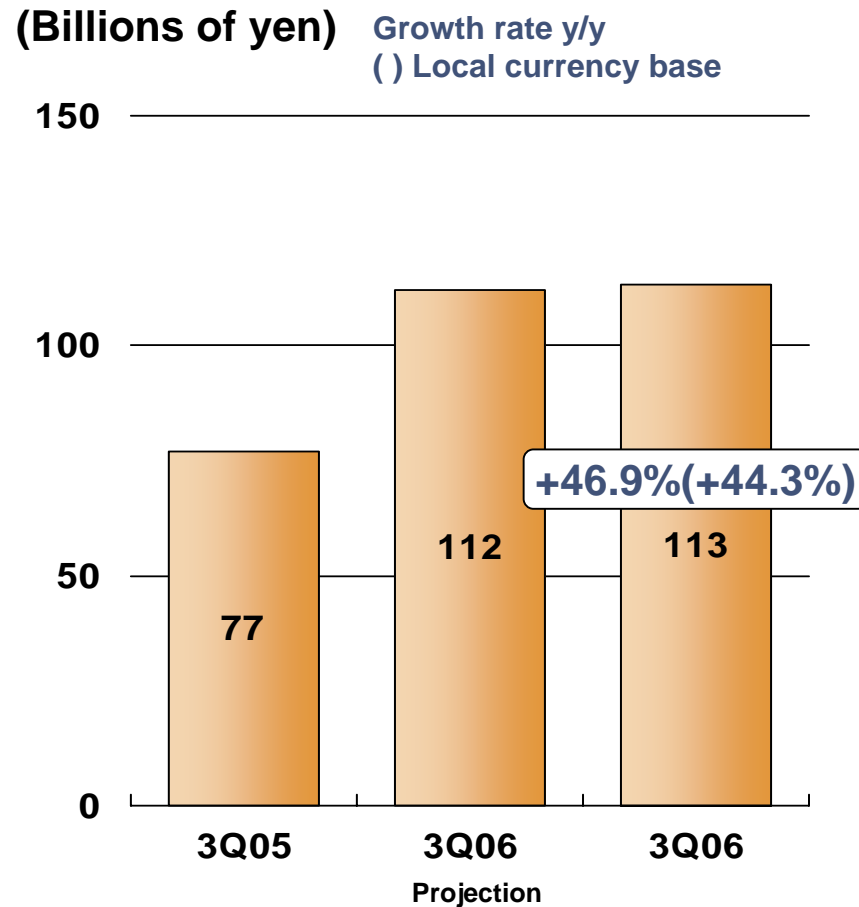
	3Q	4Q
Value base	34%	37%
Unit base	12%	12%

* Percentage of digital cameras sales attributable to SLRs

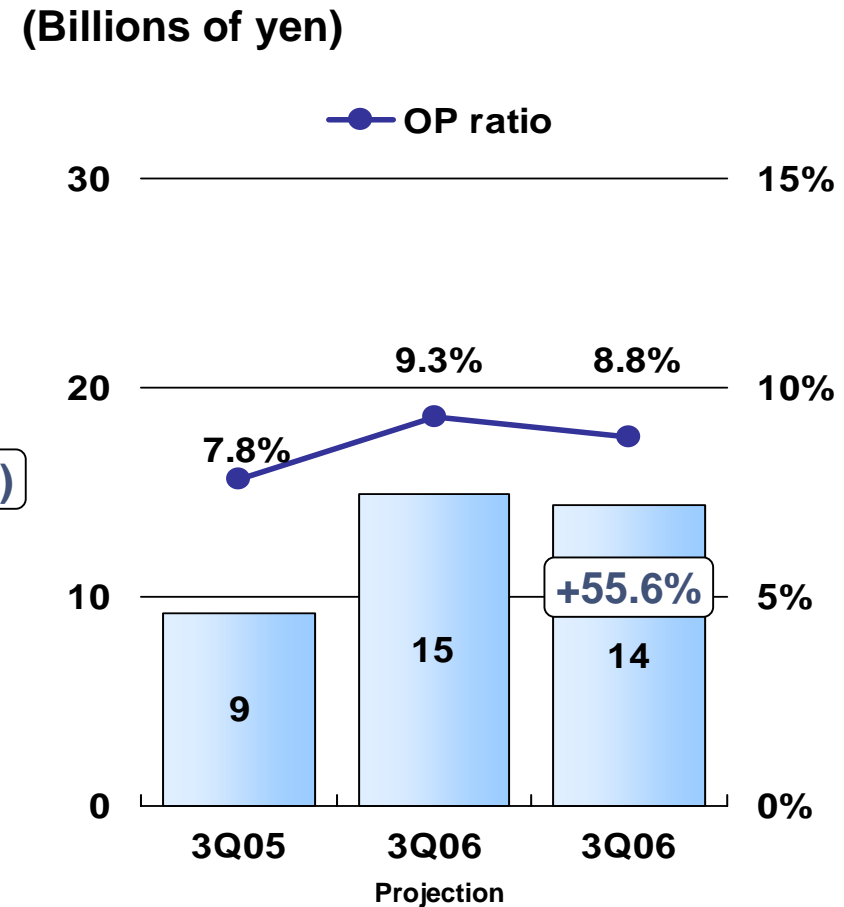
Optical and Other Products

3Q 2006 Actual

Sales



Operating Profit



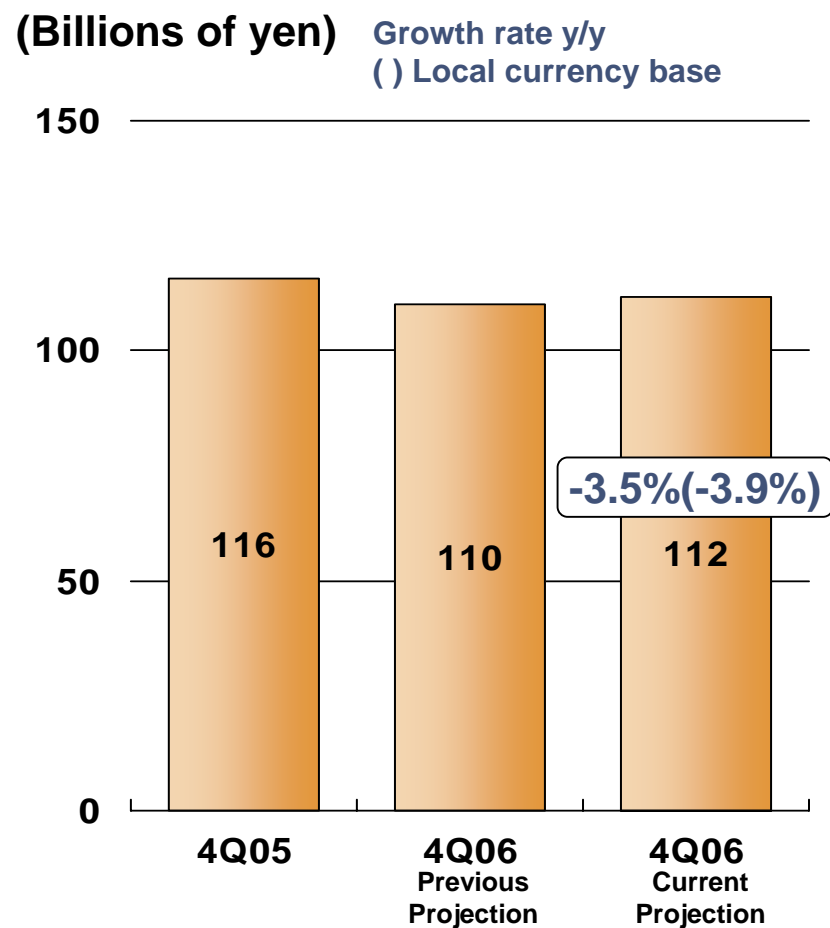
*Excluding inter-segment sales

*Calculation of operating profit margin includes inter-segment sales

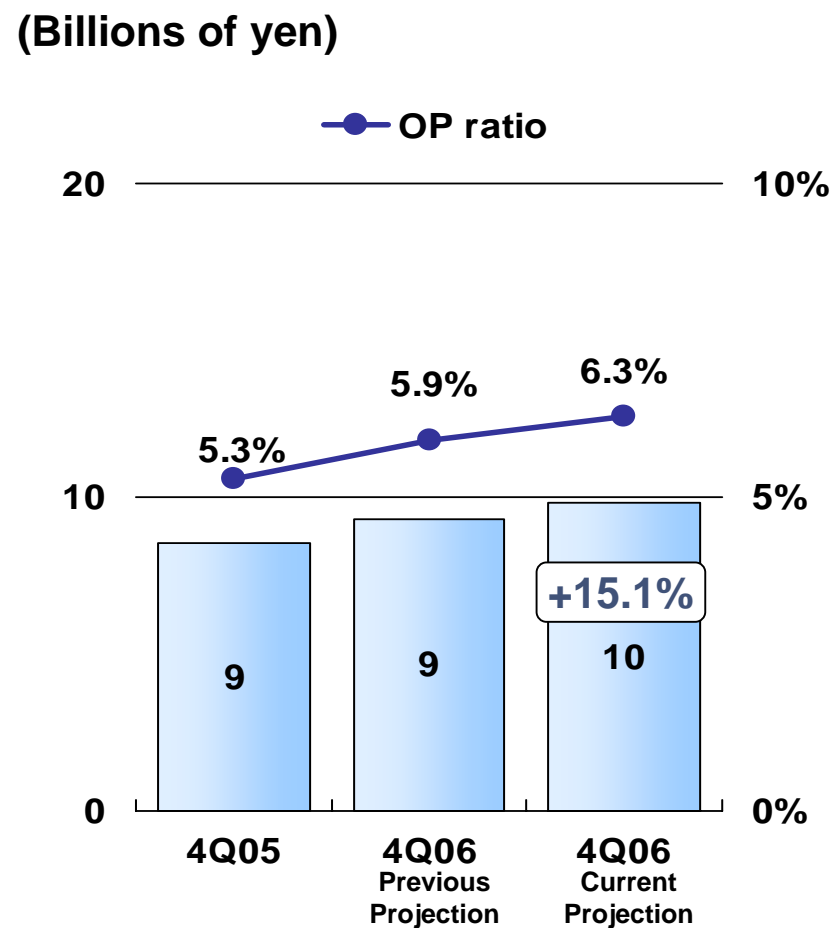
Optical and Other Products

4Q 2006 Projection

Sales



Operating Profit



*Excluding inter-segment sales

*Calculation of operating profit margin includes inter-segment sales

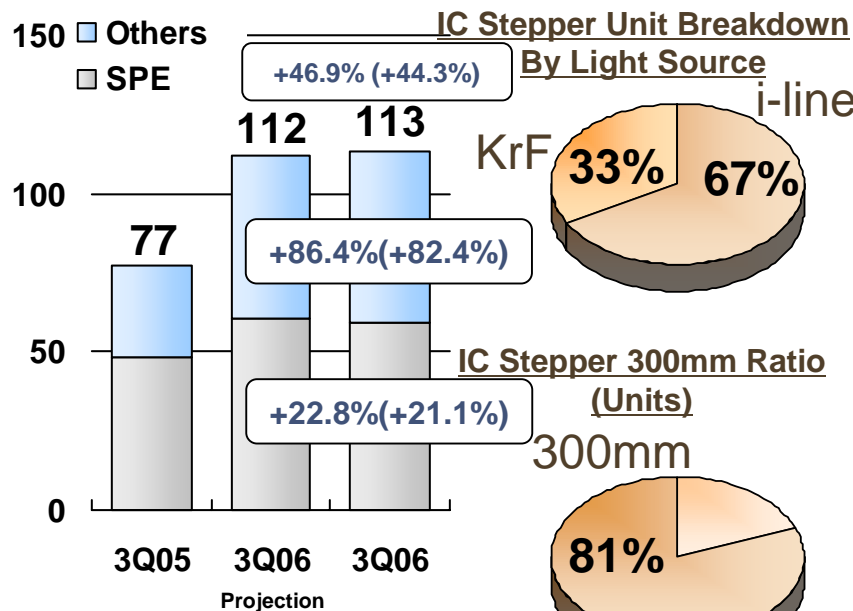
Optical and Other Products

3Q 2006 Actual / 4Q 2006 Projection

Sales

(Billions of yen)

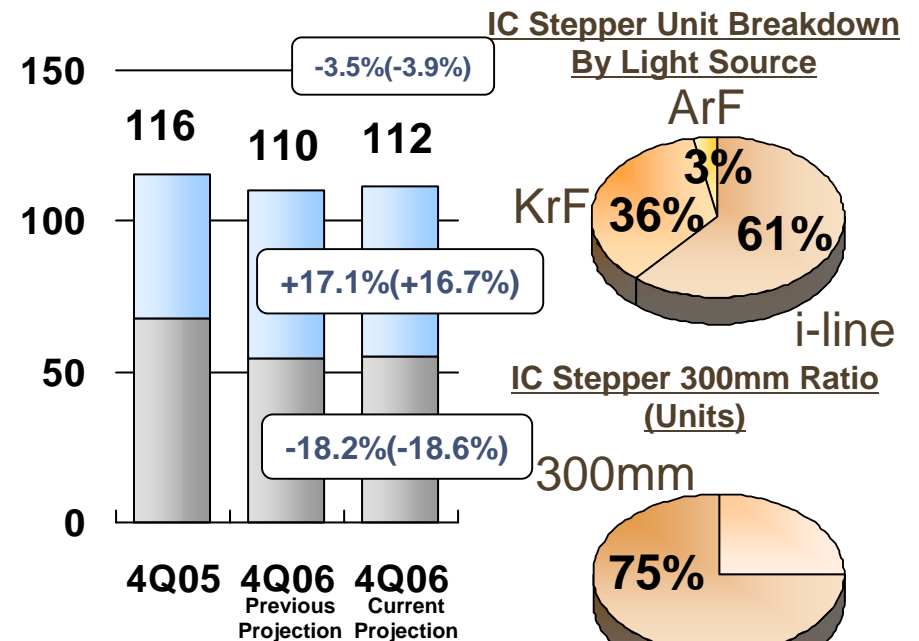
Growth rate y/y
() Local currency base



SPE (Unit sales)

	3Q05	3Q06	3Q06
		Projection	
IC	28	42	42
LCD	23	28	28
TTL	51	70	70

(Billions of yen)



SPE (Unit sales)

	4Q05	4Q06	4Q06
		Previous Projection	Current Projection
IC	36	53	61
LCD	31	7	4
TTL	67	60	65

Summary of Projected Results

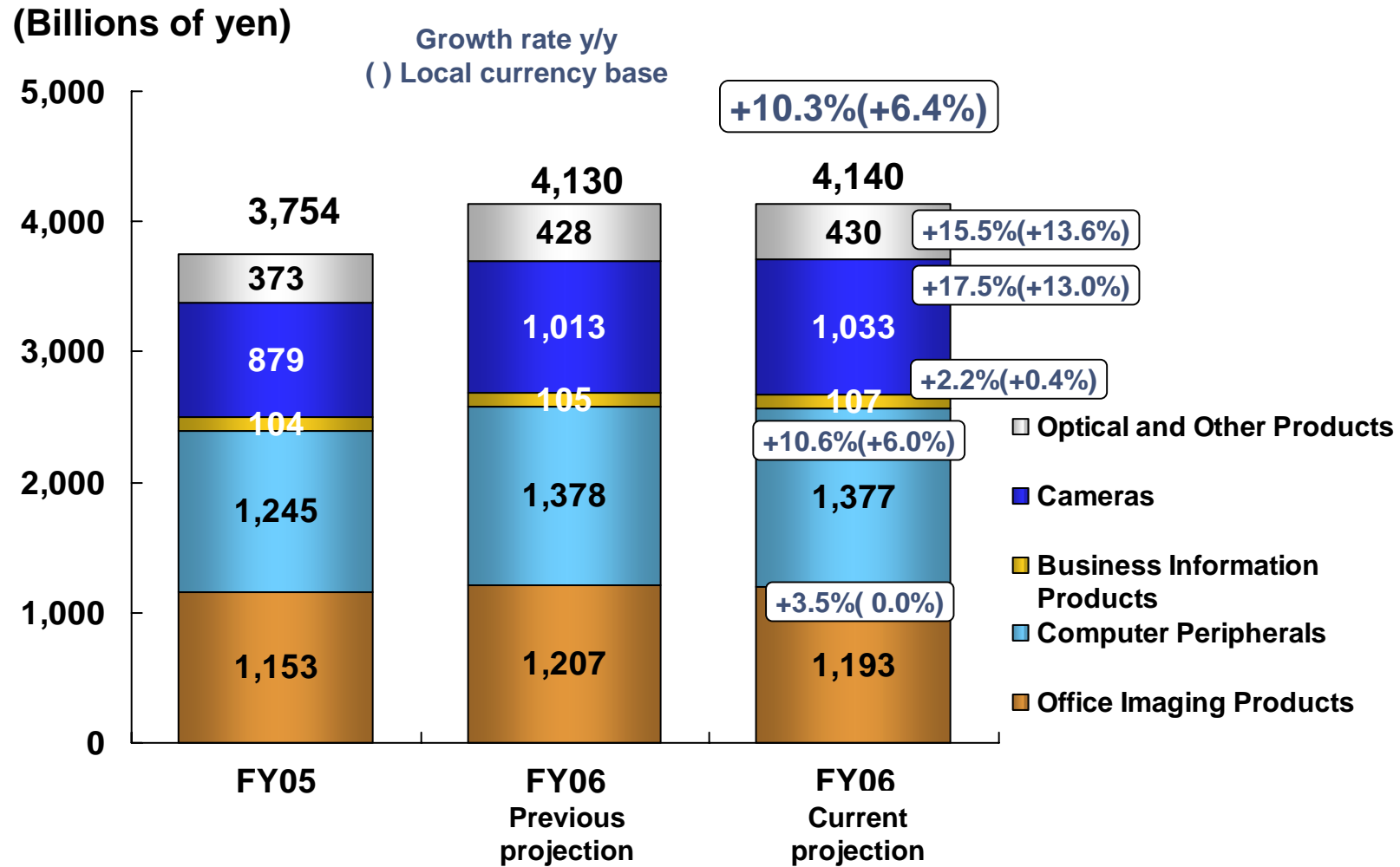
FY 2006 Current Projection

(Billios of yen)

	FY06 Current Projection	FY06 Previous Projection	FY05 Actual	% change	
				Previous Projection	Actual
Net sales	4,140.0	4,130.0	3,754.2	+0.2%	+10.3%
Gross profit [% sales]	2,050.0 49.5%	2,049.0 49.6%	1,819.0 48.5%	+0.0%	+12.7%
Op. profit [% sales]	691.0 16.7%	690.0 16.7%	583.0 15.5%	+0.1%	+18.5%
Net income [% sales]	440.0 10.6%	440.0 10.7%	384.1 10.2%	0.0%	+14.6%
Foreign exchange rate					
Yen – 1USD	115.61	114.76	110.58		
Yen – 1EURO	145.35	142.70	137.04		

Sales by Product

FY 2006 Current Projection



Operating Profit by Segment

FY 2006 Current Projection

(Billios of yen)

	FY06 Current projection	FY06 Previous projection	FY05 Actual	% change	
				Previous projection	Actual
Business machines [% sales]	593.0 22.2%	600.6 22.3%	542.0 21.7%	-1.3%	+9.4%
Cameras [% sales]	256.1 24.8%	237.1 23.4%	173.7 19.8%	+8.0%	+47.4%
Optical and Other Products [% sales]	47.4 7.7%	47.4 7.8%	38.8 7.3%	0.0%	+22.1%
Corporate and Eliminations	-205.5	-195.1	-171.5		
Total [% sales]	691.0 16.7%	690.0 16.7%	583.0 15.5%	+0.1%	+18.5%

Supplementary Information

Transition in Sales and Op. Profit

3Q 2006 Actual v. 3Q 2005 Actual

(Billions of yen)

	3Q	
	Sales	Op. Profit
2005 actual	878.5	143.6
Foreign exchange impact [net sales, cost of sales, expenses]	+36.1	+20.9
Sales volume impact		
Office Imaging Products	-10.0	
Computer Peripherals	+50.0	
Business Information Products	0.0	
Cameras	+40.9	
Optical and Other Products	+10.1	
Total	+91.0	+34.6
Others	-17.6	-26.4
Total Change	+109.5	+29.1
2006 actual	988.0	172.7

Change in Exchange Rate

- 1USD: 111.23 to 116.29 yen
- 1EURO: 135.73 to 148.19 yen

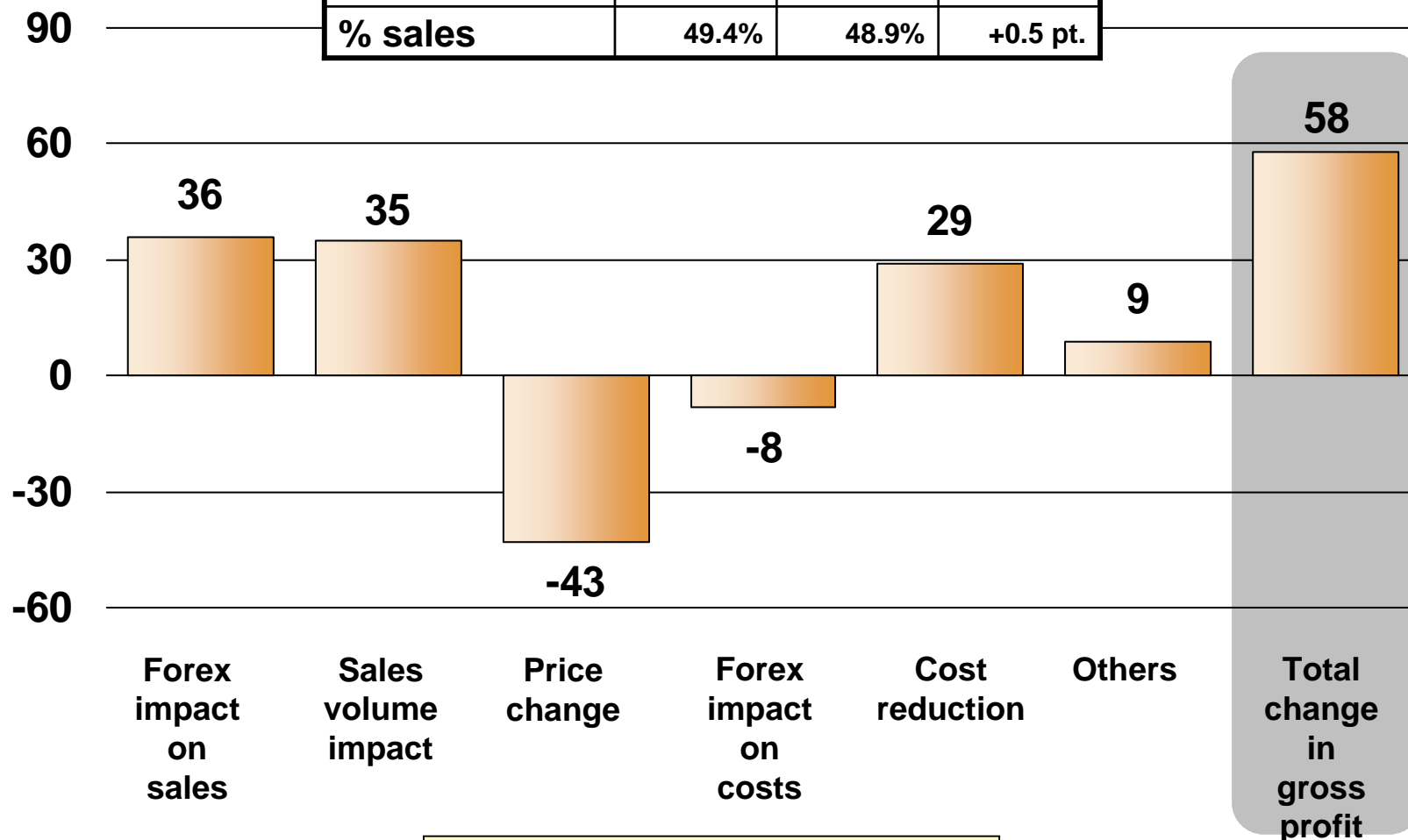
Gross Profit Variance Analysis

3Q 2006 Actual v. 3Q 2005 Actual

(Billions of yen)

(Billions of yen)

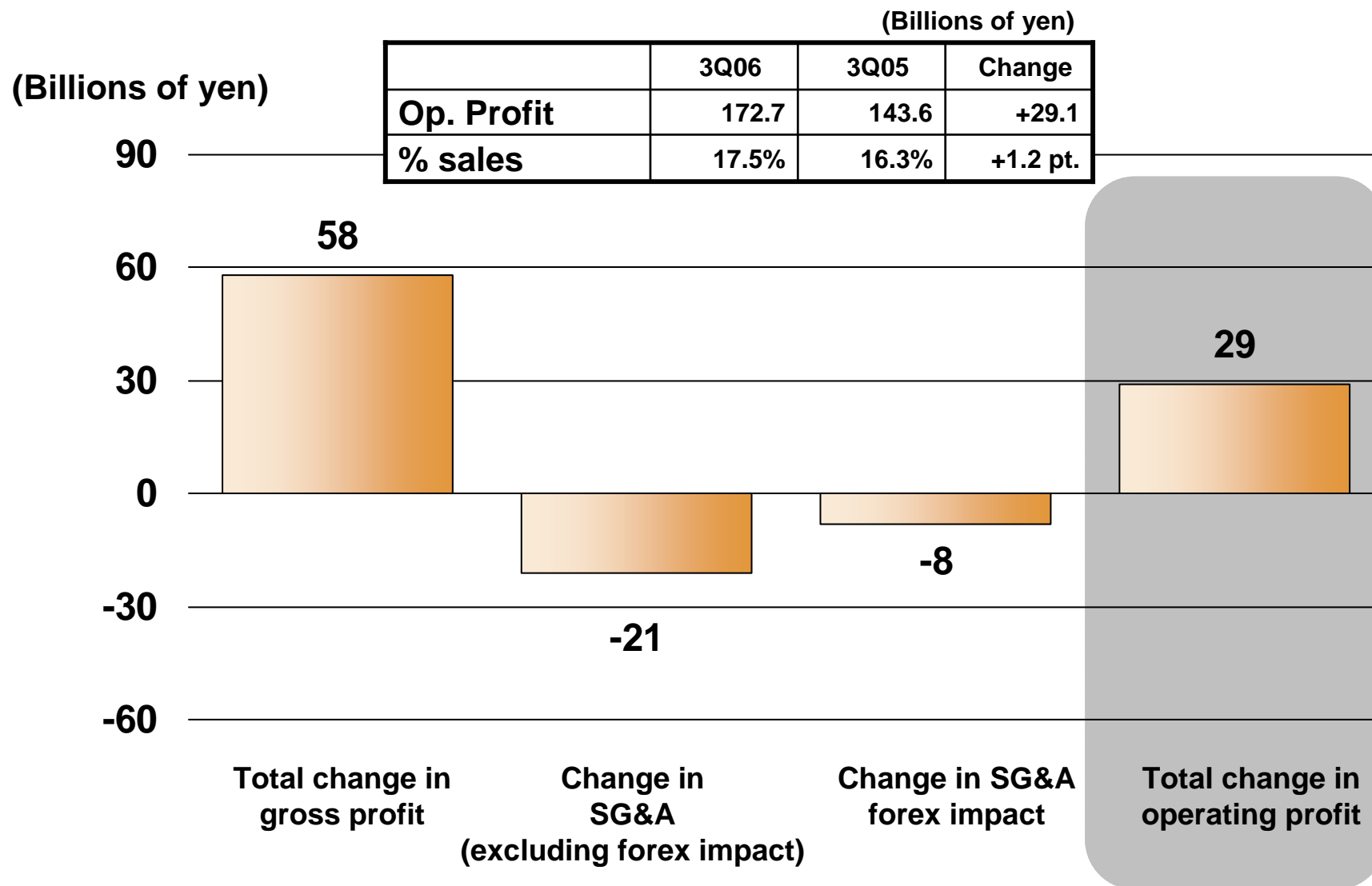
	3Q06	3Q05	Change
Gross Profit	488.0	429.9	+58.1
% sales	49.4%	48.9%	+0.5 pt.



Supplementary Information

Operating Profit Variance Analysis

3Q 2006 Actual v. 3Q 2005 Actual



Supplementary Information

Transition in Sales and Op. Profit

FY 2006 Current Projection v. FY 2005 Actual

(Billions of yen)

	FY	
	Sales	Op. Profit
2005 Actual	3,754.2	583.0
Foreign exchange impact [net sales, cost of sales, expenses]	+121.2	+72.1
Sales volume impact		
Office Imaging Products	+28.7	
Computer Peripherals	+180.6	
Business Information Products	+1.4	
Cameras	+178.8	
Optical and Other Products	-13.8	
Total	+375.7	+167.2
Others	-111.1	-131.3
Total Change	+385.8	+108.0
2006 Current Projection (Oct. 26, 2006)	4,140.0	691.0

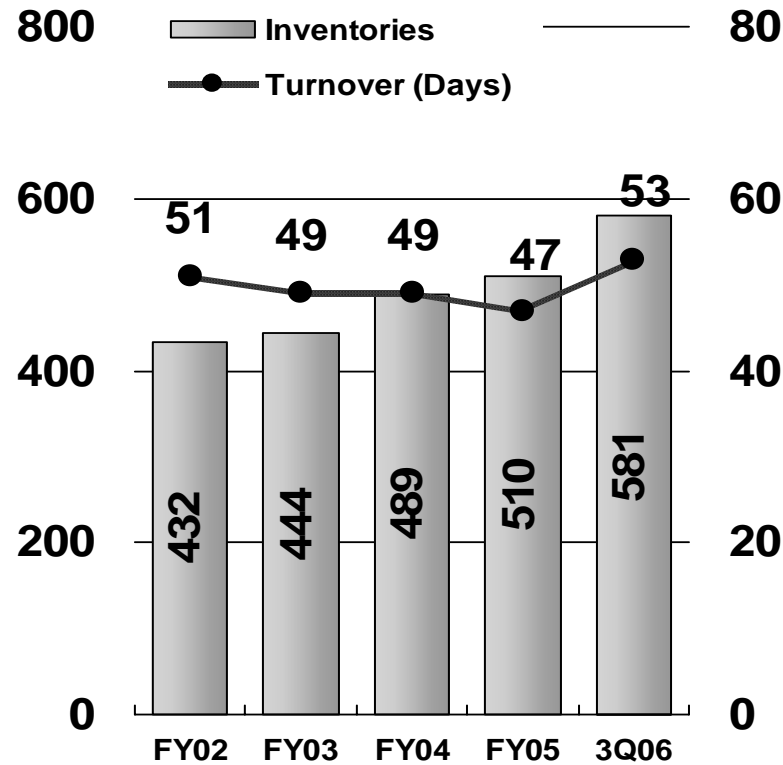
Change in Exchange Rate

- 1USD: 110.58 to 115.61 yen
- 1EURO: 137.04 to 145.35 yen

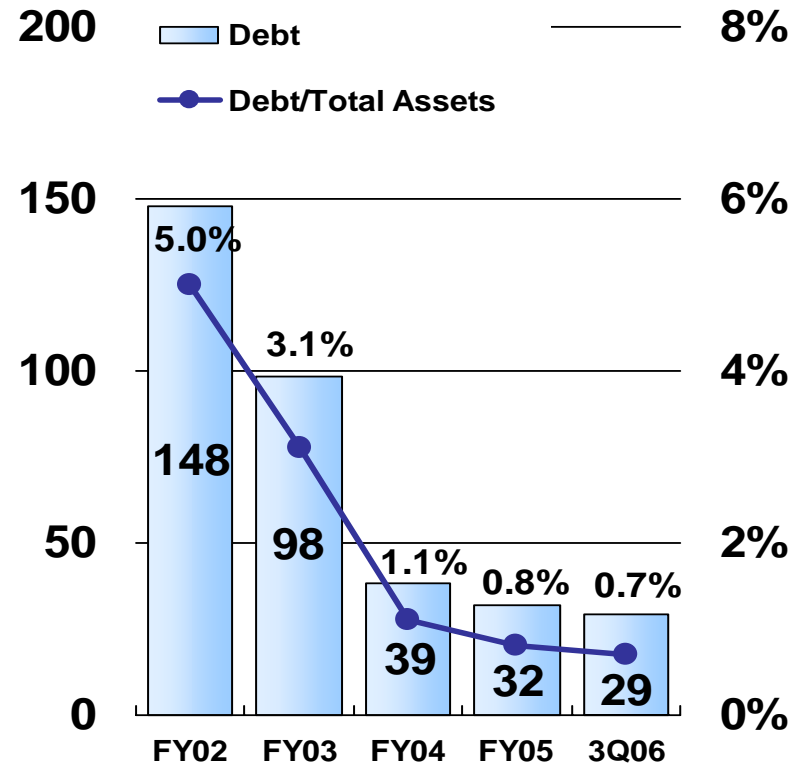
Inventories

Interest Bearing Debt

(Billions of yen)

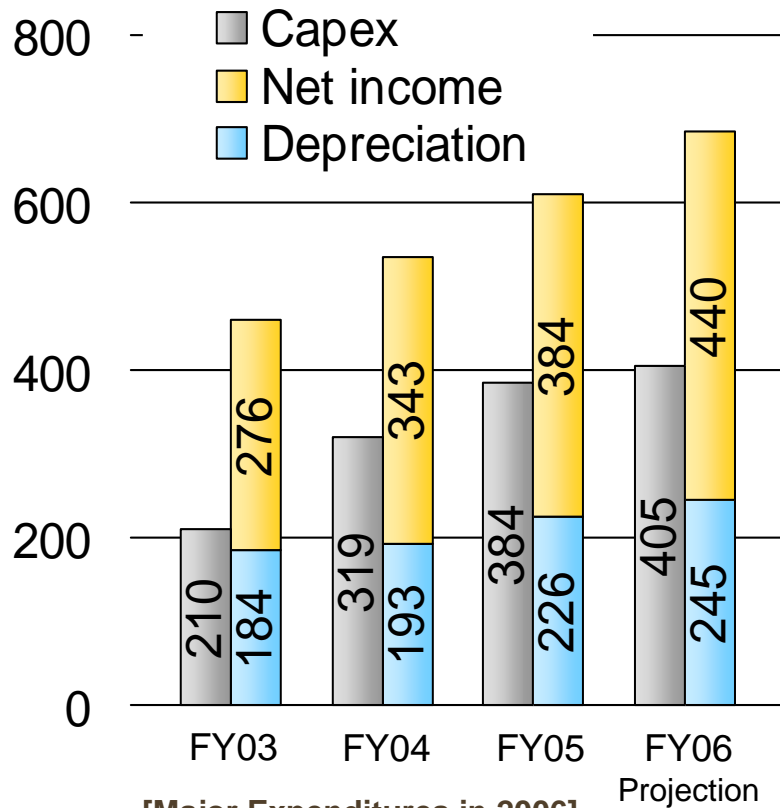


(Days) (Billions of yen)



Capital Expenditure

(Billions of yen)

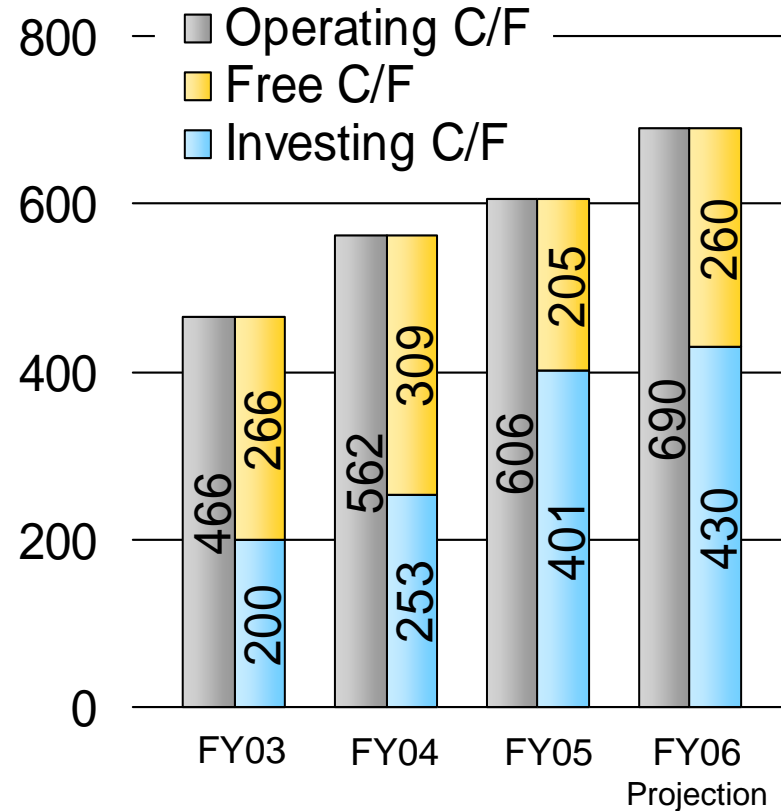


[Major Expenditures in 2006]

- 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.

