

CANON INC
Form 6-K
March 17, 2006

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

For the month of March, 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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FOR THE 105TH BUSINESS TERM

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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 March 17, 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. Notice of convocation of the ordinary general meeting of shareholders for the 105th business term
 2. Report for the 105th business term
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March 3, 2006

TO OUR SHAREHOLDERS

Canon Inc.
30-2, Shimomaruko
3-chome,
Ohta-ku, Tokyo

Fujio Mitarai
President and C.E.O.

**NOTICE OF CONVOCATION
OF
THE ORDINARY GENERAL MEETING OF SHAREHOLDERS
FOR THE 105TH BUSINESS TERM**

Notice is hereby given that the Ordinary General Meeting of Shareholders for the 105th Business Term of Canon Inc. (the Company) will be held as described below and that you are requested to attend the Meeting.

If you do not expect to attend the Meeting, you may exercise your voting rights in writing. After reviewing the following Reference Materials, please indicate your consent/dissent and affix your seal on the enclosed CARD FOR EXERCISE OF VOTING RIGHTS, and return it to us.

1. DATE AND HOUR: March 30 (Thursday), 2006 at
10:00 a.m.

2. PLACE: Head Office of the Company
30-2, Shimomaruko 3-chome,
Ohta-ku, Tokyo
(Please see the map on page 13.)

3. MATTERS CONSTITUTING THE PURPOSE OF THE MEETING

Matters to be Reported:

1. Reports on the Business Report, Consolidated Balance Sheet and Consolidated Statement of Income for the 105th Business Term (from January 1, 2005 to December 31, 2005), and reports on the Auditing Results of Accounting Auditor and Board of Corporate Auditors regarding the Consolidated Financial Statements.
 2. Reports on the Balance Sheet and Statement of Income for the 105th Business Term (from January 1, 2005 to December 31, 2005).
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Matters to be Resolved upon:

Propositions:

Item No. 1 Approval of the Proposal of Profit Appropriation for the 105th Business Term

Item No. 2 Partial Amendment of the Articles of Incorporation
Gist of this item is set forth in the Reference Materials for
Exercise of Voting Rights hereafter.

Item No. 3 Election of Twenty-Six Directors

Item No. 4 Election of Two Corporate Auditors

Item No. 5 Grant of Retiring Allowance to Directors and Corporate Auditor to be Retired
(The enclosed Report for the 105th Business Term is the accompanying document relating to Matters to be Reported
and Item No. 1 of the Propositions.)

**Upon attending the Meeting, please present the enclosed Card for Exercise of Voting Rights to the receptionist
at the place of the Meeting.**

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REFERENCE MATERIALS FOR EXERCISE OF VOTING RIGHTS

1. Number of Voting Rights Held by All Shareholders:

8,870,589 voting rights

2. Propositions and Reference Matters

Item No. 1: Approval of the Proposal of Profit Appropriation for the 105th Business Term

Considering further reinforcement of the company organization and expansion of business operations in the future, the Proposal of Profit Appropriation for the 105th Business Term is intended to be as described in the enclosed Report for the 105th Business Term (page 59).

Regarding our year-end dividend, since the Company was able to achieve record high results for this Business Term, both in terms of non-consolidated and consolidated base results, we propose a dividend of 67.50 yen per share, which is an increase by 27.50 yen compared to the dividend for the previous term, in order to respond to the continuing support from our shareholders.

Since we have already paid an interim dividend of 32.50 yen per share, together with the above dividend, the dividend for the entire Business Term will be 100.00 yen per share, an increase of 35.00 yen compared to the dividend for the previous Business Term.

As for the bonus for Directors, it is proposed to be 222,500,000 yen.

In addition, you are requested to approve that, based on the provisions of tax law, Reserve for Special Depreciation and Reserve for Deferral of Capital Gain on Property should be reversed and accumulated.

Item No. 2: Partial Amendment of the Articles of Incorporation

1. Reason and Purpose of Amendment

To strengthen and enhance the Company's audit system, we propose to increase the number of Corporate Auditors from four (4) or less to five (5) or less in Article 24 of the current Articles of Incorporation.

2. Substance of Amendment

The substance of the amendment is as follows:

(The amended parts are underlined.)

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Table of Contents**Current Articles of Incorporation****Proposed Amendment****Number**

Article 24. The Company shall have four (4) Corporate Auditors or less.

Number

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

Item No.3: Election of Twenty-Six Directors

The term of offices of all of the twenty-five Directors will expire at the end of this Meeting. We would like you to elect twenty-six Directors.

The candidates for the Directors are as follows:

| Candidate No. | Name (Date of birth) | Brief personal record and representation in other companies | Number of the Company's shares held |
|---------------|----------------------------------|--|---|
| 1 | Fujio Mitarai (Sep. 23, 1935) | As of Apr. 1961: Entered the Company Mar. 1981: Director Mar. 1985: Managing Director Mar. 1989: Senior Managing & Representative Director Mar. 1993: Executive Vice President & Representative Director Sep. 1995: President & C.E.O. (present) | 60,800 shares |
| 2 | Toshizo Tanaka (Oct. 8, 1940) | As of Apr. 1964: Entered the Company Mar. 1995: Director Apr. 1995: Group Executive of Finance & Accounting Headquarters (present) Mar. 1997: Managing Director Mar. 2001: Senior Managing Director (present) | 11,768 shares |

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| Candidate No. | Name (Date of birth) | Brief personal record and representation in other companies | Number of the Company's shares held |
|---------------|-------------------------------------|--|---|
| 3 | Tsuneji Uchida (Oct. 30, 1941) | As of Apr. 1965: Entered the Company Mar. 1997: Director Jan. 2001: Chief Executive of Image Communication Products Operations (present) Mar. 2001: Managing Director Mar. 2003: Senior Managing Director (present) | 5,600 shares |
| 4 | Nobuyoshi Tanaka (Dec. 23, 1945) | As of Apr. 1970: Entered the Company Mar. 1993: Director Apr. 1999: Group Executive of Corporate Intellectual Property and Legal Headquarters (present) Mar. 2001: Managing Director (present) | 12,355 shares |
| 5 | Junji Ichikawa (Feb. 9, 1943) | As of Jan. 1970: Entered the Company Mar. 1997: Director Mar. 2001: Managing Director (present) Apr. 2004: Chief Executive of Optical Products Operations (present) | 10,531 shares |
| 6 | Hajime Tsuruoka (Jul. 9, 1943) | As of Nov. 1973: Entered the Company Mar. 1997: Director Mar. 1999: President of Canon Europa N.V. (present) Mar. 2001: Managing Director (present) (Representation in other companies) President of Canon Europa N.V. | 7,695 shares |

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| Candidate No. | Name (Date of birth) | Brief personal record and representation in other companies | Number of the Company's shares held |
|---------------|--------------------------------------|--|---|
| 7 | Akiyoshi Moroe (Sep. 28, 1944) | As of Apr. 1968: Entered the Company Mar. 1999: Director Apr. 1999: Group Executive of General Affairs Headquarters (present) Mar. 2003: Managing Director (present) | 10,955 shares |
| 8 | Kunio Watanabe (Oct. 3, 1944) | As of Apr. 1969: Entered the Company Apr. 1995: Group Executive of Corporate Planning Development Headquarters (present) Mar. 1999: Director Mar. 2003: Managing Director (present) | 8,235 shares |
| 9 | Hironori Yamamoto (Dec. 23, 1943) | As of Apr. 1969: Entered the Company Mar. 1999: Director Mar. 2004: Managing Director (present) Jul. 2005: Group Executive of Global Manufacturing Headquarters (present) | 4,900 shares |
| 10 | Yoroku Adachi (Jan. 11, 1948) | As of Apr. 1970: Entered the Company Mar. 2001: Director Managing Director (present) | 6,095 shares |

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Mar.

2005:

Apr. President of Canon U.S.A., Inc. (present)

2005:

(Representation in other companies)

President of Canon U.S.A., Inc.

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| Candidate No. | Name (Date of birth) | Brief personal record and representation in other companies | Number of the Company's shares held |
|---------------|--------------------------------------|---|---|
| 11 | Yasuo Mitsuhashi (Nov. 23, 1949) | As of Apr. 1974: Entered the Company Mar. 2001: Director Apr. 2003: Chief Executive of Peripheral Products Operations (present) Mar. 2005: Managing Director (present) | 4,985 shares |
| 12 | Katsuichi Shimizu (Nov. 13, 1946) | As of Apr. 1970: Entered the Company Apr. 2001: Deputy Chief Executive of Office Imaging Products Operations Mar. 2003: Director (present) Apr. 2003: Chief Executive of Inkjet Products Operations (present) | 5,625 shares |
| 13 | Ryoichi Bamba (Nov. 25, 1946) | As of Apr. 1972: Entered the Company Apr. 1998: Senior Vice President of Canon U.S.A., Inc. Feb. 2003: Executive Vice President of Canon U.S.A., Inc. (present) Mar. 2003: Director (present) | 3,000 shares |
| 14 | Tomonori Iwashita (Jan. 28, 1949) | As of Apr. 1972: Entered the Company Jan. 2001: Group Executive of Photo Products Group Director (present) | 3,700 shares |

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Mar.
2003:
Apr. Deputy Chief Executive of Image Communication
2003: Products Operations (present)

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| Candidate No. | Name (Date of birth) | Brief personal record and representation in other companies | Number of the Company's shares held |
|---------------|-------------------------------------|---|---|
| 15 | Toshio Homma (Mar. 10, 1949) | As of Apr. 1972: Entered the Company Apr. 2001: Deputy Chief Executive of i Printer Products Operations Mar. 2003: Director (present) Jul. 2003: Group Executive of L Printer Business Promotion Headquarters (present) | 6,595 shares |
| 16 | Shigeru Imaiida (Sep. 16, 1948) | As of Apr. 1972: Entered the Company Mar. 2003: Director (present) Apr. 2004: Group Executive of Global Manufacturing Headquarters Oct. 2005: Director of Canon ANELVA Corporation (present) | 4,535 shares |
| 17 | Masahiro Osawa (May 26, 1947) | As of Apr. 1971: Entered the Company Jul. 2003: Deputy Group Executive of Finance & Accounting Headquarters Mar. 2004: Director (present) Apr. 2004: Group Executive of Global Procurement Headquarters (present) | 3,295 shares |
| 18 | Keijiro Yamazaki (Oct. 14, 1948) | As of Apr. 1971: Entered the Company Jan. 2000: Deputy Group Executive of Human Resources Management & Organization Headquarters Director (present) | 3,100 shares |

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Mar.

2004:

Apr. Group Executive of Information & Communication

2004: Systems Headquarters (present)

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| Candidate No. | Name (Date of birth) | Brief personal record and representation in other companies | Number of the Company's shares held |
|---------------|---|---|---|
| 19 | Shunichi Uzawa (Jan. 26, 1949) | As of Aug. 1978: Entered the Company Mar. 2004: Director (present) Oct. 2004: President of SED Inc. Jan. 2006: Group Executive of Core Technology Development Headquarters (present) | 3,395 shares |
| 20 | Masaki Nakaoka (Jan. 3, 1950) | As of Apr. 1975: Entered the Company Apr. 2001: Deputy Chief Executive of Office Imaging Products Operations Mar. 2004: Director (present) Apr. 2005: Chief Executive of Office Imaging Products Operations (present) | 2,000 shares |
| 21 | Toshiyuki Komatsu (Jan. 19, 1950) | As of Apr. 1972: Entered the Company Mar. 2004: Director (present) Apr. 2004: Group Executive of Leading-Edge Technology Development Headquarters (present) Jul. 2005: Group Executive of Core Technology Development Headquarters | 1,400 shares |
| 22 | Shigeyuki Matsumoto (Nov. 15, 1950) | As of Apr. 1977: Entered the Company Apr. 2001: Deputy Group Executive of Device Technology Development Headquarters Jan. 2002: Group Executive of Device Technology Development Headquarters (present) Mar. 2004: Director (present) | 2,235 shares |

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| Candidate No. | Name (Date of birth) | Brief personal record and representation in other companies | Number of the Company's shares held |
|---------------|-----------------------------------|--|---|
| 23 | Haruhisa Honda (Oct. 14, 1948) | <p>As of Apr. 1974: Entered the Company</p> <p>Apr. 2003: Deputy Chief Executive of Chemical Products Operations</p> <p>Mar. 2004: Director (present)</p> <p>Apr. 2004: Chief Executive of Chemical Products Operations (present)</p> | 2,926 shares |
| 24 | Tetsuro Tahara (Jan. 31, 1949) | <p>As of Apr. 1971: Entered the Company</p> <p>Apr. 1999: Senior General Manager of Office Imaging Products Production Management Center</p> <p>Apr. 2002: Deputy Chief Executive of Office Imaging Products Operations</p> <p>Apr. 2003: Advisory Director (present)</p> <p>Apr. 2003: President of Canon (Suzhou) Inc. (present)</p> <p>(Representation in other companies) President of Canon (Suzhou) Inc.</p> | 435 shares |
| 25 | Seijiro Sekine (Oct. 20, 1948) | <p>As of Apr. 1972: Entered the Company</p> <p>Apr. 1995: General Manager of Business Information Systems Division</p> <p>Jan. 2001: Deputy Group Executive of Information & Communication Systems Headquarters</p> <p>Apr. 2004: Advisory Director (present)</p> <p>Oct. 2004: Group Executive of Logistics Headquarters (present)</p> | 2,560 shares |

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| | | | | |
|----|--------------------------------|------------|--|--------|
| | | As of | | |
| | | Apr. 1972: | Entered the Company | |
| 26 | Shunji Onda (Mar. 13, 1950) | Jan. 2002: | General Manager of Finance Division | 2,435 |
| | | Apr. 2004: | Senior General Manager of Optical Products Business Administration Center (present) | shares |
| | | Apr. 2005: | Advisory Director (present) | |

Note: None of the candidates for the Directors have any special interest in the Company.

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To strengthen and enhance the Company's audit system, we propose to increase the number of Corporate Auditors by one person and make the number of Corporate Auditors five (5), subject to the approval of Item No.2: Partial Amendment of the Articles of Incorporation. Also, since the present Corporate Auditor Mr. Tetsuo Yoshizawa will retire at the end of this Meeting, we would like you to elect two Corporate Auditors.

The candidates for the Corporate Auditors are as follows.

Prior to our proposal of this item, we have already obtained the consent from the Board of Corporate Auditors.

| Candidate No. | Name (Date of birth) | Brief personal record and representation in other companies | Number of the Company's shares held |
|---------------|--------------------------------------|--|---|
| 1 | Yoshinobu Shimizu (Oct. 26, 1944) | As of Mar. 1973: Registered as Certified Public Accountant (present) Jun. 1990: Representative Partner of Showa Ota & Co. May. 2002: Deputy Chief Executive Officer of Century Ota Showa & Co. (present Ernst & Young ShinNihon) Feb. 2006: Retired Ernst & Young ShinNihon | shares |
| 2 | Minoru Shishikura (Sep. 13, 1953) | As of Apr. 1976: Entered The Dai-ichi Mutual Life Insurance Company Apr. 2000: General Manager of Loan Department of The Dai-ichi Mutual Life Insurance Company Apr. 2002: General Manager of Credit Department of The Dai-ichi Mutual Life Insurance Company (present) | 1,000 shares |

- Notes: 1. None of the candidates for the Corporate Auditors have any special interest in the Company.
2. Mr. Yoshinobu Shimizu and Mr. Minoru Shishikura are the candidates for outside Corporate Auditors defined by Article 18, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations.

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Item No.5: Grant of Retiring Allowances to Directors and Corporate Auditor to be Retired

It is proposed that retiring allowances be granted to each of Mr. Yukio Yamashita and Mr. Yusuke Emura, the Directors to be retired, and Mr. Tetsuo Yoshizawa, the Corporate Auditor to be retired, at the end of this Meeting, in appreciation of their services during their terms in offices, within the due amount based upon certain standards stipulated by the Company, and that the determination of the actual amount and the time and method of granting, etc. be entrusted to the Board of Directors for the Directors to be retired and to the consultation of the Corporate Auditors for the Corporate Auditor to be retired.

Brief personal records of each of the Directors and the Corporate Auditor to be retired are as follows:

| Name | Brief personal record |
|------------------|---|
| Yukio Yamashita | As of Mar. 1991: Director Mar. 1997: Managing Director Mar. 1999: Senior Managing Director (present) |
| Yusuke Emura | As of Mar. 1993: Director Mar. 1999: Managing Director (present) |
| Tetsuo Yoshizawa | As of Mar. 1998: Corporate Auditor (present) |

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The map of the place of
the General Meeting of Shareholders

Place: Head Office of the Company
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo

Station: Shimomaruko Station of the Tokyu Tamagawa
Line (About 10 minutes walk)

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*The products mentioned in this report may have different names in other regions.

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To Our Shareholders

We are pleased to present our report for the 105th business term (from January 1, 2005 to December 31, 2005).

During this business term, the global economy grew at a steady pace, despite factors like uncertainties in the Middle East and the sudden rise in crude oil prices.

For the Canon Group, this final year of Phase II (2001 to 2005) of our Excellent Global Corporation Plan was another year for implementing various operational innovations in each area of development, production and sales. The effectiveness of these initiatives allowed us to surpass our record results of the previous term with new record highs in consolidated and non-consolidated sales and profits, which brought Phase II of our Excellent Global Corporation Plan to a successful conclusion.

In consideration of our business results for this term, we intend to respond to your loyal support by proposing a dividend payment of 67.50 yen per share at our 105th Ordinary General Meeting of Shareholders. This is in addition to the interim dividend of 32.50 yen per share, which will bring the full-year dividend to a total of 100.00 yen per share, or 35.00 yen more than in the previous term.

In the current business term, we have launched a new five-year plan, Phase III (2006 to 2010) of our Excellent Global Corporation Plan. Our intention in implementing this plan is to create new business segments and achieve sound growth for the Canon Group, while maintaining the solidly profitable corporate structure we have built to date.

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

March 2006

FUJIO MITARAI
President & C.E.O.

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(Materials attached to the Notice of Convocation of the Ordinary General Meeting of Shareholders for the 105th Business Term)

BUSINESS REPORT

(From January 1, 2005 to December 31, 2005)

1. General Business Outline

(1) Business Progress and Results of the Canon Group

n General Business Conditions

Reviewing conditions in both the domestic and overseas economies during the term, steady growth of business conditions continued in the U.S. due to improved business performance and favorable household income conditions, despite concerns about the impact of the sudden rise in crude oil prices and major hurricanes. European economies achieved a mild recovery with the help of expanding external demand, amid continued stagnant consumer spending. And in Asia, the Chinese economy maintained its strong growth, which led other Asian countries to ongoing economic expansion. The Japanese economy sustained its mild economic recovery with improving business profits resulting in increased capital investments and personal consumption. In the foreign exchange markets, the yen weakened against the U.S. dollar and the euro on a yearly basis, compared to the previous term.

Regarding markets in which the Canon Group operates, demand for digital cameras continued to expand, with particularly rapid growth in the single lens reflex (SLR) camera sector. Demand for networked multifunctional devices, printers and other computer peripherals grew for color-capable devices both in Japan and overseas, while demand continued to shift toward low-priced products due to intensified price competition. Demand for semiconductor production equipment remained stagnant, but with the market for large LCD televisions growing rapidly, demand for mirror projection mask aligners for LCDs remained strong.

Under these business conditions, the Canon Group entered the final year of Phase II (2001 to 2005) of its Excellent Global Corporation Plan and all employees worked in unison to implement various operational innovations in fulfillment of that plan.

In the areas of development and production, the resources of the entire group were mustered to take development and production innovation activities a step farther and create systems that make it possible to rapidly develop high-value-added products and achieve ongoing cost reduction.

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Attention was focused in particular on the realization of a prototype-less development process, through enhancement of measuring, analysis and simulation technologies. We also worked to promote the in-house production of product-differentiating key components, while improving development sophistication and speed with enhanced technology and infrastructure. In addition, we implemented procurement innovations including the construction of an efficient parts procurement system based on the consolidation of suppliers. These activities made it possible to achieve expected cost reductions despite a sudden rise in the price of raw materials.

Meanwhile, we also supplemented our development and manufacturing infrastructure. Activities to proceed R&D and manufacturing capabilities during the term included the completion of an advanced technology R&D building with cutting-edge research facilities at our headquarters, the opening of the Yako Development Center (Kawasaki-shi) for the development of inkjet printers, and the construction of a new manufacturing facility for office imaging products at the Toride Plant (Toride-shi).

In the area of sales, supply chain management was reinforced to achieve greater efficiency and the solutions business was vigorously developed to expand business in this new market.

In addition, aiming to demonstrate the Canon Group's business direction, we held events under the title Canon EXPO 2005, in New York, Paris and Tokyo in September and October 2005. These events featured exhibits highlighting display products under development for Canon's entry into the display market, as well as prototypes of various next-generation products, and we received high praise.

Through the activities described above, the Canon Group recorded positive results following the previous term. During the term we attained, on a consolidated basis, net sales of 3,754.2 billion yen (an 8.3% increase over the previous term), income before income taxes and minority interests of 612.0 billion yen (a 10.8% increase), and net income of 384.1 billion yen (an 11.9% increase). Also, on a non-consolidated basis, we recorded net sales of 2,481.5 billion yen (an 8.9% increase), ordinary profit of 440.7 billion yen (an 11.2% increase), and net income of 289.3 billion yen (a 16.1% increase). Record highs were achieved for both sales and profits.

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| Operations | Sales (100 millions of yen) | Change from Fiscal 2004 (%) |
|-----------------------------------|--------------------------------|--------------------------------|
| Business Machines | 25,024 | 4.8 |
| Office Imaging Products | 11,532 | 2.9 |
| Computer Peripherals | 12,449 | 8.3 |
| Business Information Products | 1,043 | (10.9) |
| Cameras | 8,792 | 15.2 |
| Optical and Other Products | 3,726 | 17.6 |
| Total | 37,542 | 8.3 |

Note: Regarding the segment of Business information products within the Business machines category, there were no sales on a non-consolidated basis.

Non-Consolidated

| Operations | Sales (100 millions of yen) | Change from Fiscal 2004 (%) |
|-----------------------------------|--------------------------------|--------------------------------|
| Business Machines | 15,949 | 7.8 |
| Office Imaging Products | 5,093 | 1.7 |
| Computer Peripherals | 10,856 | 11.0 |
| Cameras | 6,631 | 9.7 |
| Optical and Other Products | 2,235 | 14.8 |
| Total | 24,815 | 8.9 |

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1 Business Machines Operations

Office Imaging Products

The market for this segment enjoyed overall favorable conditions based on higher domestic and overseas demand for color devices. However, competition was intensified due to significant price declines.

As for office-use color devices in our imageRUNNER series of digital networked multifunctional devices, we launched in the Japanese market and worked to expand sales of our new iR C6870/C5870 series of high-speed color devices equipped with our Multifunctional Embedded Application Platform (MEAP), which offers users an expanded range of functions. We also enjoyed good sales of the new medium-speed iR C3170/C2570 series equipped with the

New Color iR Controller featuring improved image processing capabilities, while the iR C3220/C2620 series maintained its strong sales. As for office-use black-and-white machines, we renewed our product lineup (from low- to high-speed machines). In the Japanese market, we introduced such machines as high-speed iR7105 series with improved productivity and reliability for high-volume printing, following the introduction of the new high-speed multifunctional iR6570/5570 series in the first half. In the overseas markets, we launched the price-competitive, affordable iR2020/2016 featuring enhanced network functions. In addition, higher sales of the medium-speed machines like the iR4570/3570/2870/2270 series released in the previous term helped maintain strong sales results.

In the solutions business, we proactively worked to improve customer operational efficiency by using MEAP and further enhancing our software lineup of the imageWARE series, which helped to boost sales of the imageRUNNER series.

Regarding products for individuals and small-business owners, we continued to concentrate on expanding domestic and overseas sales of the black-and-white Satera MF5750/5730 and Satera MF3110, and the Satera MF8170, the world's first color machine for A4-size printing, amid a shift to digital multifunctional and color devices.

As a result of these activities, sales for this segment grew by 2.9% on a consolidated basis and 1.7% on a non-consolidated basis, both in comparison to the previous term.

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Computer Peripherals

In the market for inkjet printers, fierce competition for market share continued in terms of price and functions, as demand shifted from single-function to multifunctional inkjet machines. Under these circumstances, we advanced the development of our proprietary FINE high-precision print head technology for our inkjet printers, which realized a minimum droplet size of 1 pico liter and high resolution of maximum 9,600x2,400 dpi for even higher-quality photo printing. Regarding our multifunctional inkjet machines, we expanded our product lineup ranging from our flagship model PIXUS MP950 with large-size color LCD, to our standard model PIXUS MP500 and our entry model PIXUS MP170. Also we offered a variety of products like the PIXUS iP7500, a single-function machine with enhanced print quality, speed and longer life, and the standard high-performance PIXUS iP4200, which offers both high resolution and functionality, which allowed us to increase our unit sales of inkjet printers.

In the area of laser beam printers, greater demand resulted in significantly higher unit sales of both black-and-white and color OEM-brand products, and in steady sales revenue, as the market continued to shift to low-priced products. As for Canon-brand products, we introduced the Satera LBP3000 and Satera LBP3210 black-and-white printers capable of printing A4 papers, and as for color devices of which demand continues to expand, we strengthened our lineup by introducing in the second half the affordable Satera LBP5000 color printer capable of A4-size paper, embedding high-speed and compact tandem engines, following the introduction in the first half of the Satera LBP5900/5600, a high-speed color printer capable of printing A3 paper. Introducing these products equipped with the MEAP-Lite function expansion system, we aimed to achieve greater differentiation through further development of our solutions business and, thereby, expand sales.

As for image scanners, we introduced the new CanoScan LiDE 500FV and maintained our high market share, but recorded lower sales as demand is shifting to multifunctional machines. In inkjet fax machines, our PL series with large LCD panel met with a favorable market response.

As a result of these activities, sales for this segment grew by 8.3% on a consolidated basis and 11.0% on a non-consolidated basis, both in comparison to the previous term.

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Business Information Products

With the enactment of various laws related to the management of documents, much attention has come to be focused on the digitization of documents, and demand for business-use document scanners marketed by Canon Electronics, Inc. is expanding. Under these conditions, we added the affordable DR-2580C/2050C and the high-speed DR-7580 and DR-5010C to our strong-selling DR Scanner series, and we worked to expand sales together with our top-of-the-line DR-9080C. As a result of these efforts and our introduction of the CR-55, a new product for our check scanners which are selling very well in the U.S., we recorded a strong increase in sales.

Regarding the calculators marketed by Canon Electronics Business Machines (H.K.) Co., Ltd., there has been repeated introduction of new products to the Japanese market, such as the first ten-key calculator equipped with a card reader-writer function. Print-capable calculators continued to enjoy a favorable reception in the U.S. market, and in the European market, marketing structure was enhanced to expand sales. With the market in decline, however, sales remained flat. Regarding the electronic dictionaries for the Japanese market also handled by that company, the wordtank V80 for those studying Chinese and the wordtank V30 for high school students maintained a strong sales performance. That result, together with the introduction of the wordtank V35, a follow-up model which offers significantly more content, led to higher sales.

Turning to the servers and personal computers handled by Canon Sales Co., Inc., demand continued at a high level, but sales fell as that company continued to shift its focus away from the sale of single products and toward the solutions business.

As a result of these activities, sales for this segment fell by 10.9% on a consolidated basis in comparison to the previous term. For this segment, there were no sales on a non-consolidated basis.

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1 Camera Operations

In digital cameras, we introduced the small, light-weight, extremely portable and mobile EOS Kiss Digital N and received favorable response in the single lens reflex (SLR) camera segment, which is experiencing exploding demand. We also released the EOS 5D high-end amateur model equipped with a newly developed full-size 35mm, approximately 12.8 megapixel CMOS sensor and our EOS-1D Mark II N flagship model realizing super high-speed and high-resolution. Efforts to expand the sales of these products together with the EOS 20D introduced in the previous term resulted in significantly higher sales in this segment. Our EF lens series products also enjoyed very strong sales as a result.

In the area of compact digital cameras, we introduced seven new products, including the PowerShot S80 and PowerShot A620 in our PowerShot series, which allows various photographic styles by the wide range of product lineup. We also released six new products, including the IXY DIGITAL 700 and IXY DIGITAL 60, in our stylish and compact IXY DIGITAL series. We enjoyed strong sales growth as a result.

In the compact photo printer market, we launched three new SELPHY series (dye sublimation printer) products, including the SELPHY CP600 equipped with the DIGIC II image engine, which offers high speed and high-resolution.

In digital video cameras, we strengthened our product lineup by expanding the scope of recording formats we offer from MiniDV to HDV and DVD. We introduced new products like the HD high-resolution XL H1 and the DVD-compatible DC 20, in addition to the 4-megapixel MiniDV IXY DV M5.

For the film camera market, we released new products and worked to expand sales, but with the growing shift to digital cameras, sales fell.

We also worked to boost sales of the Power Projector SX50 LCD projector, which is equipped with AISYS, our new optical engine, and offers both high resolution and brightness in a compact and low-cost unit.

As a result of these activities, sales for this segment grew by 15.2% on a consolidated basis and 9.7% on a non-consolidated basis, both in comparison to the previous term.

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1 Optical and Other Products Operations

Though overall shipment volume in the market for semiconductor production equipment is trending downward, we experienced strong sales of KrF (krypton fluoride) steppers and i-line steppers to semiconductor manufacturers, who are performing active capital investments. Efforts were made to increase sales of the new FPA-6000ES6a KrF steppers and new FPA-5500iZa i-line steppers. Persistent severe price competition, however, resulted in lower sales revenue.

Regarding mirror projection mask aligners for LCDs, our MPA-8000 sixth-generation mirror projection mask aligner and MPA-8500 seventh-generation mirror projection mask aligner enjoyed strong sales against the background of ongoing robust demand for LCD panels and capital investments by LCD panel manufacturers. And with growing demand for LCD TVs due to rapid price decline, we introduced our MPA-8800 eighth-generation mirror projection mask aligner in response to active investment by LCD TV panel manufacturers aiming for larger panels and lower prices. All of these factors resulted in a major increase in sales of our mirror projection mask aligners.

In the area of broadcast-use television lenses, we focused on expanding sales of new products like our HJ17ex7.6B portable High Definition Television (HDTV) camera lenses and YJ20x8.5B SDTV camera lenses. Results of our efforts were particularly good in Europe, where we recorded a strong increase in sales of zoom lenses for HDTV cameras.

In the market for medical equipment, we introduced the CXDI-40EG, a new product in our CXDI series of X-ray digital cameras, which use our own Flat Panel X-Ray Image Sensor, and recorded a strong increase in sales. In ophthalmic equipment, our CR-DGi digital non-mydratic retinal camera enjoyed strong sales as medical examinations for the prevention of lifestyle-related diseases spread throughout the world.

As a result of these activities, sales for this segment grew by 17.6% on a consolidated basis and 14.8% on a non-consolidated basis, both in comparison to the previous term.

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

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n Facilities Investment by the Canon Group

The investment in facilities during this term totaled 383.8 billion yen (271.8 billion yen by the Company).

Main facilities completed during this term

Canon Inc. Headquarters: New Leading-Edge Technology Research Building
(Headquarters Operations)

Location: Ohta-ku, Tokyo

Date of Completion : July 2005

Oita Canon Inc.: Camera Manufacturing Plant / New Logistics Building*
(Camera Operations)

Location: Oita-shi, Oita Pref.

Date of Completion : April 2005

*Leased to Oita Canon Inc. by the Company

Utsunomiya Plant: Manufacturing Plant
(Camera Operations)

Location: Utsunomiya-shi, Tochigi Pref.

Date of Completion : November 2005

Toride Plant: Manufacturing Plant
(Business Machines Operations)

Location: Toride-shi, Ibaraki Pref.

Date of Completion : July 2005

Main facilities under construction for establishment/expansion as of the end of this term

Yako Development Center: New R&D Building
(Business Machines Operations)

Location: Kawasaki-shi, Kanagawa Pref.

Hiratsuka Development Center: New R&D Base
(Headquarters Operations)

Location: Hiratsuka-shi, Kanagawa Pref.

Canon Inc. Headquarters: New R&D Building
(Headquarters Operations)

Location: Ohta-ku, Tokyo

Canon Inc.: Land for new Production Technology Base
(Headquarters Operations)

Location: Kawasaki-shi, Kanagawa Pref.

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(2) Management Perspectives of the Canon Group

Through Phase I (1996 to 2000) and Phase II (2001 to 2005) of its Excellent Global Corporation Plan, the Canon Group pursued total optimization. Under the policy of putting profits ahead of sales, we pushed forward selection and concentration measures and, amid ongoing product digitalization, worked to enhance our product competitiveness and establish corporate structure for high profitability.

The business environment the Canon Group will face in the future will likely be characterized by ongoing economic globalization against the background of stable economic growth at the global level, as well as further adoption of broadband network and explosive growth of the digital imaging business sector.

Viewing these conditions as a business opportunity, the Canon Group will continuously try to boldly apply the operational, technological, personnel, financial and other business resources it has built up in ways that make further sound growth possible. Toward that end, we have formulated a new five-year plan Phase III (2006 to 2010) of our Excellent Global Corporation Plan.

Chief among the priority strategies contained in this plan is achieving the overwhelming No.1 position worldwide in all of our current core businesses and establishing our display technologies as businesses, a major new business for the Canon Group. And we aim to review our production systems in Japan through steps like the introduction and promotion of high-productivity automated systems, and we will establish new production systems to sustain international competitiveness. We will also expand our business operations through diversification and establish a Three Regional Headquarters System based in Japan, the U.S. and Europe, identify new business domains and accumulate the required technologies. Furthermore, we will also focus on nurturing strong individuals promoting these everlasting corporate reforms.

By forcefully advancing these priority strategies, the Canon Group aims to create business operations that can prosper in perpetuity and make us a truly excellent global corporation.

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(3) Business Results and Status of Assets of the Canon Group

Consolidated

| | 101st Business Term (Jan. 1, 2001-Dec. 31, 2001) | 102nd Business Term (Jan. 1, 2002-Dec. 31, 2002) |
|---|--|--|
| Net Sales (100 millions of yen) | 29,075 | 29,401 |
| Income before Income Taxes and Minority Interests (100 millions of yen) | 2,815 | 3,300 |
| Net Income (100 millions of yen) | 1,675 | 1,907 |
| Basic Net Income Per Share (yen) | 191.29 | 217.56 |
| Total Assets (100 millions of yen) | 28,447 | 29,427 |
| Net Assets (Total Stockholders' Equity) (100 millions of yen) | 14,584 | 15,919 |

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

2. Basic net income per share is calculated based on the weighted average number of outstanding shares during the term.

Non-Consolidated

| | 101st Business Term (Jan. 1, 2001-Dec. 31, 2001) | 102nd Business Term (Jan. 1, 2002-Dec. 31, 2002) |
|--|--|--|
| Net Sales (100 millions of yen) | 17,074 | 17,890 |
| Ordinary Profit (100 millions of yen) | 2,111 | 2,409 |
| Net Income (100 millions of yen) | 391 | 1,441 |
| Net Income Per Share (yen) | 44.71 | 164.46 |

| | | |
|---|--------|--------|
| Total Assets (100 millions of yen) | 16,580 | 18,481 |
| Net Assets (Total Stockholders' Equity) (100 millions of yen) | 11,184 | 12,353 |

Notes: 1. Net income per share is calculated based on the weighted average number of outstanding shares during the term, however, the treasury stock is excluded upon calculation.

From the 103rd business term, upon calculation of net income per share, the amount of directors' bonuses shown in the Proposal of Profit Appropriation is deducted from the net income.

2. Net income and net income per share for the 101st business term were significantly low due to a one-time amortization of unrecognized net pension obligations.

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| 103rd Business Term (Jan. 1, 2003-Dec. 31, 2003) | 104th Business Term (Jan. 1, 2004-Dec. 31, 2004) | 105th Business Term (Jan. 1, 2005-Dec. 31, 2005) |
|---|---|---|
| 31,981 | 34,679 | 37,542 |
| 4,482 | 5,521 | 6,120 |
| 2,757 | 3,433 | 3,841 |
| 313.81 | 387.80 | 432.94 |
| 31,821 | 35,870 | 40,436 |
| 18,655 | 22,099 | 26,047 |
| 103rd Business Term (Jan. 1, 2003-Dec. 31, 2003) | 104th Business Term (Jan. 1, 2004-Dec. 31, 2004) | 105th Business Term (Jan. 1, 2005-Dec. 31, 2005) |
| 20,237 | 22,784 | 24,815 |
| 3,206 | 3,963 | 4,407 |
| 2,287 | 2,493 | 2,893 |

| | | |
|--------|--------|--------|
| 260.03 | 281.30 | 325.83 |
| 20,593 | 23,848 | 26,528 |
| 14,442 | 16,514 | 18,754 |

3. Net income and net income per share for the 103rd business term increased significantly from the 102nd business term due to gain on exemption from the substitutional portion of the employees' pension fund.

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2. Company Profile

(The following statements are the status as of December 31, 2005, if not specified otherwise.)

(1) Main Activities of the Canon Group

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

| Operations | | Main Products |
|-----------------------------------|-------------------------------|--|
| Business Machines | Office Imaging Products | Digital Multifunctional Devices, Copying Machines, Laser Facsimiles |
| | Computer Peripherals | Laser Beam Printers, Inkjet Printers, Inkjet Multifunctional Devices, Inkjet Facsimiles, Image Scanners |
| | Business Information Products | 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, Ophthalmic Equipment, X-Ray Equipment, Medical Image Recording Equipment |

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(2) Canon Group Global Network
n **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 Development Center [Kanagawa Pref.]
Tamagawa Plant [Kanagawa Pref.]
Utsunomiya Plant [Tochigi Pref.]
Utsunomiya Optical Products Plant [Tochigi Pref.]

Manufacturing

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

Marketing

Canon Sales Co., 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]

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n 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]

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(3) Shares and Convertible Debentures of the Company
 n Shares

Total Number of Shares Issuable 2,000,000,000 shares

Total Outstanding Shares, Capital Stock and Number of Shareholders

| | As of the end of the Previous Term | Increase during This Term | As of the end of This Term |
|----------------------------------|---------------------------------------|---------------------------------|-------------------------------|
| Total Outstanding Shares (share) | 887,977,251 | 765,528 | 888,742,779 |
| Capital Stock (yen) | 173,864,347,825 | 573,380,472 | 174,437,728,297 |
| Number of Shareholders (person) | 49,483 | 27,525 | 77,008 |

Note: The increase of the total outstanding shares and capital stock reflect the conversion of convertible debentures into shares.

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Table of Contents**Main Shareholders (Top ten shareholders)**

| Name of Shareholders | Investment by the Shareholders in the Company | | Investment by the Company in the Shareholders | |
|--|---|---------------------------------------|---|---------------------------------------|
| | Number of Shares Held (thousands of shares) | Share- holding Ratio (%) | Number of Shares Held (thousands of shares) | Share- holding Ratio (%) |
| The Dai-Ichi Mutual Life Insurance Co. | 59,090 | 6.6 | | |
| Moxley & Co. | 49,388 | 5.6 | | |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 48,360 | 5.4 | | |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 39,888 | 4.5 | | |
| State Street Bank and Trust Company 505103 | 24,740 | 2.8 | | |
| State Street Bank and Trust Company | 21,629 | 2.4 | | |
| Nomura Securities Co., Ltd. | 19,735 | 2.2 | | |
| Mizuho Corporate Bank, Ltd. | 18,946 | 2.1 | | |
| The Chase Manhattan Bank, N.A. London | 18,653 | 2.1 | | |
| Sompo Japan Insurance Inc. | 15,273 | 1.7 | | |

Notes: 1. With respect to Mizuho Corporate Bank, Ltd., in addition to the above, there are 5,136 (thousands) shares of the Company's stock, in the form of trust property relating to retirement allowance trust.

2. The Company owns 6,263 (thousands) shares (shareholding ratio: 0.6%) of Sompo Japan Insurance Inc.'s stock, in the form of trust property relating to retirement allowance trust.

Table of Contents**Shareholding by Category**

| | Number of Shareholders | Number of Shares |
|--|------------------------|------------------|
| Banking Companies | 332 | 330,019,835 |
| Securities Underwriting Companies | 60 | 22,288,903 |
| Other Domestic Companies | 989 | 29,400,666 |
| Foreign Companies, etc. | 1,164 | 454,120,742 |
| Individual and Others | 74,462 | 51,766,951 |
| Treasury Stock | 1 | 1,145,682 |
| Total | 77,008 | 888,742,779 |

**Shareholding Ratio
in Convertible Debentures**

| Issues | Total Amount | Balance of Convertible Debentures | Ratio of Conversion |
|---|--------------------|-----------------------------------|---------------------|
| The third series of Unsecured Convertible Debentures Due 2008 | 40,000 million yen | 649 million yen | 98.4% |

Table of Contents**(4) Acquisition, Disposition, etc., and Ownership of the Company's Own Shares**

| Number of Shares | Acquisition during this Term | | Disposition during this Term | | Number of Treasury Stock as of the end of this Term |
|-------------------------------|-----------------------------------|--|------------------------------|-----------------------------------|---|
| | Total Amount of Acquisition Price | | Number of Shares | Total Amount of Disposition Price | |
| Common stock 26,160 shares | 154 million yen | | Common stock 1,345 shares | 8 million yen | Common stock 1,145,682 shares |

- Notes: 1. The acquisitions and dispositions during this term reflect the purchase and sales of less-than-one-unit shares.
2. There were no share annulment procedures with respect to the Company's treasury stock during this term.
3. The number of the Company's treasury stock as of the end of the previous term was 1,120,867 shares of common stock.

**(5) Employees of the Canon Group
in Consolidated**

| | |
|---------------------|--|
| Number of employees | 115,583 persons (Increase of 7,326 persons from the previous term) |
| Americas | 9,938 persons |
| Europe | 10,922 persons |
| Japan | 48,637 persons |
| Others | 46,086 persons |

Note: The number of employees represents the total number of employees excluding those who do not work full-time.
in **Non-Consolidated**

| | |
|--------------------------|---|
| Number of employees | 19,707 persons (Increase of 235 persons from the previous term) |
| Average age | 39.4 years |
| Average years of service | 16.6 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. (2,060 persons).

Table of Contents**(6) Consolidated Status
in Principal Subsidiaries**

| Name of Subsidiary | Capital Stock (millions of yen) | Ratio of Voting Rights of the Company (%) | Main Activities |
|------------------------|------------------------------------|--|--|
| Canon Sales Co., Inc. | 73,303 | 51.1 | Domestic sale of business machines, cameras, etc. |
| Canon Electronics Inc. | 4,969 | 54.2 | Manufacture and sale of information related equipments and precision machinery units for cameras |
| Canon Finetech Inc. | 3,451 | 58.5 | Manufacture and sale of printers, peripheral devices for business machines and chemicals, etc. |
| Canon Software Inc. | 1,348 | 57.7 | Development and sale of computer software |
| Canon Machinery Inc. | 2,582 | 67.3 | Manufacture and sale of semiconductor production equipment and automation/ laborsaving equipment |
| Nisca Corporation | 2,102 | 51.1 | Manufacture and sale of office automation equipment and optical measurement equipment, etc. |
| Canon U.S.A., Inc. | 204,355 thousands of U.S.\$ | 100.0 | Sale of business machines, cameras, etc. in the Americas |
| Canon Europa N.V. | 290,600 thousands of Euro | 100.0 | Sale of business machines, cameras, etc. in Europe |

- Notes: 1. The ratio of the Company's voting rights in Canon Sales Co., Inc. and Canon Finetech Inc. are calculated together with the number of voting rights held by subsidiaries.
2. The ratio of the Company's voting rights in Canon Software Inc. and in Nisca Corporation are based on the number of voting rights held by subsidiaries.
3. The ratio of the Company's voting rights in Canon Machinery Inc. is calculated based on the number of voting rights as of October 31, 2005.

in Consolidated Progress

- The Company acquired all of the issued and outstanding shares of ANELVA Corporation, which possesses advanced vacuum technology, and made it into a subsidiary as of September 30, 2005. ANELVA Corporation's corporate name was changed to Canon ANELVA Corporation as of October 1, 2005.
- The Company acquired the shares of NEC Machinery Corporation (listed on the Second Section of the Osaka Securities Exchange), which possesses advanced automation technologies, through tender offer and made it into a subsidiary as of October 19, 2005. NEC Machinery Corporation's corporate name was changed to Canon Machinery Inc. as of December 17, 2005.

in Consolidated Financial Summary

The number of consolidated subsidiaries of this term was 200, and the number of companies accounted for on equity basis was 13.

The consolidated financial summary of this term are as shown in pages 34 to 35.

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(7) Principal Lenders of the Company

| Lender | Outstanding Loan (100 millions of yen) | Number of Shares of the Company Held by Lender (thousands of shares) | Shareholding Ratio (%) |
|------------------------------------|---|---|------------------------|
| Oita Canon Inc. | 103 | | |
| Canon Semiconductor Equipment Inc. | 51 | | |

Note: The loans from the Company's subsidiaries Oita Canon Inc. and Canon Semiconductor Equipment Inc. are due to the comprehensive management of surplus assets of such subsidiaries by the Company for the purpose of improving the efficiency of group assets management.

(8) Directors and Corporate Auditors of the Company

Directors

| Position | Name | Business in Charge or Main Occupation |
|--------------------------|-------------------|---|
| President & CEO | Fujio Mitarai | |
| Senior Managing Director | Yukio Yamashita | Group Executive of Human Resources Management & Organization Headquarters |
| Senior Managing Director | Toshizo Tanaka | Group Executive of Finance & Accounting Headquarters |
| Senior Managing Director | Tsuneji Uchida | Chief Executive of Image Communication Products Operations |
| Managing Director | Yusuke Emura | Group Executive of Global Environment Promotion Headquarters |
| Managing Director | Nobuyoshi Tanaka | Group Executive of Corporate Intellectual Property and Legal Headquarters |
| Managing Director | Junji Ichikawa | Chief Executive of Optical Products Operations |
| Managing Director | Hajime Tsuruoka | President of Canon Europa N.V. |
| Managing Director | Akiyoshi Moroe | Group Executive of General Affairs Headquarters |
| Managing Director | Kunio Watanabe | Group Executive of Corporate Planning Development Headquarters |
| Managing Director | Hironori Yamamoto | Group Executive of Global Manufacturing Headquarters |
| Managing Director | Yoroku Adachi | President 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 | Deputy Chief Executive of Image Communication Products Operations |
| Director | Toshio Homma | Group Executive of L Printer Business Promotion Headquarters |
| Director | Shigeru Imaiida | Deputy Group Executive of Global Manufacturing Headquarters |
| Director | Masahiro Osawa | Group Executive of Global Procurement Headquarters |

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| | | |
|----------|------------------------|--|
| Director | Kejiro Yamazaki | Group Executive of Information & Communication Systems Headquarters |
| Director | Shunichi Uzawa | President of SED Inc. |
| Director | Masaki Nakaoka | Chief Executive of Office Imaging Products Operations |
| Director | Toshiyuki Komatsu | Group Executive of Leading-Edge Technology Development Headquarters; Group Executive of Core Technology Development Headquarters |
| Director | Shigeyuki Matsumoto | Group Executive of Device Technology Development Headquarters |
| Director | Haruhisa Honda | Chief Executive of Chemical Products Operations |

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Table of Contents**Corporate Auditors**

| Position | Name | Business in Charge or Main Occupation |
|-------------------|-------------------|---------------------------------------|
| Corporate Auditor | Teruomi Takahashi | |
| Corporate Auditor | Kunihiro Nagata | |
| Corporate Auditor | Tadashi Ohe | Attorney |
| Corporate Auditor | Tetsuo Yoshizawa | |

- Notes:
1. Directors Mr. Kinya Uchida and Mr. Ikuo Soma retired at the end of the Ordinary General Meeting of Shareholders for the 104th Business Term which was held on March 30, 2005.
 2. Corporate Auditors Mr. Tadashi Ohe and Mr. Tetsuo Yoshizawa are outside Corporate Auditors defined by Article 18, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations.
 3. Business in Charge or Main Occupation of Directors Mr. Shigeru Imaiida, Mr. Shunichi Uzawa and Mr. Toshiyuki Komatsu as of January 1, 2006 are as given below.

| | | |
|----------|-------------------|---|
| Director | Shigeru Imaiida | Director of Canon ANELVA Corporation |
| Director | Shunichi Uzawa | Group Executive of Core Technology Development Headquarters |
| Director | Toshiyuki Komatsu | Group Executive of Leading-Edge Technology Development Headquarters |

(9) Payment Amount as Compensation for the Accounting Auditor of the Company

Amount of payment by the Company and its subsidiaries as compensation for the accounting auditor (Ernst & Young ShinNihon: Hibiya Kokusai Bldg., 2-3 Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo) is as follows:

| | Amount |
|---|-----------------|
| (i) Total amount of payment by the Company and its subsidiaries as compensation for the accounting auditor | 752 million yen |
| (ii) Of the above amount (i), the amount of payment as remuneration for the auditing services defined in Article 2, Clause 1 of the Certified Public Accountant Law | 323 million yen |
| (iii) Of the above amount (ii), the amount of payment to the accounting auditor by the Company | 114 million yen |

Notes: Within the audit agreement between the Company and the accounting auditor, remuneration amounts are determined on a lump-sum without a breakdown into separate remuneration amounts for auditing services in accordance with the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations and in accordance with the Securities and Exchange Law. Accordingly, the amounts shown in (iii) above represent total amounts of remuneration to the accounting auditor for their auditing services.

3. Important Events Occurred after this Business Term in respect to the Canon Group's Situation

There is nothing to be mentioned specifically.

Note: The figures for amount stated in this Business Report are rounded off to the nearest unit, provided that in respect to the net income per share, the figures are rounded off to the second decimal places. The figures for the number of stock are those omitting the figures of less-than-one-unit shares.

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Consolidated Balance Sheets

ASSETS

| | As of Dec. 31, 2005 (Audited) | Millions of yen As of Dec. 31, 2004 (Audited) |
|---|--|---|
| Current assets: | | |
| Cash and cash equivalents | 1,004,953 | 887,774 |
| Marketable securities | 172 | 1,554 |
| Trade receivables, net | 689,427 | 602,790 |
| Inventories | 510,195 | 489,128 |
| Prepaid expenses and other current assets | 253,822 | 250,906 |
| Total current assets | 2,458,569 | 2,232,152 |
| Noncurrent receivables | 14,122 | 14,567 |
| Investments | 104,486 | 97,461 |
| Property, plant and equipment, net | 1,148,821 | 961,714 |
| Other assets | 317,555 | 281,127 |
| Total assets | 4,043,553 | 3,587,021 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | As of Dec. 31, 2005 (Audited) | Millions of yen As of Dec. 31, 2004 (Audited) |
|--|--|---|
| Current liabilities: | | |
| Short-term loans and current portion of long-term debt | 5,059 | 9,879 |
| Trade payables | 505,126 | 465,396 |
| Income taxes | 110,844 | 105,565 |
| Accrued expenses | 248,205 | 205,296 |
| Other current liabilities | 209,394 | 197,029 |
| Total current liabilities | 1,078,628 | 983,165 |
| Long-term debt, excluding current installments | 27,082 | 28,651 |
| Accrued pension and severance cost | 80,430 | 132,522 |
| Other noncurrent liabilities | 52,395 | 45,993 |
| Total liabilities | 1,238,535 | 1,190,331 |
| Minority interests | 200,336 | 186,794 |
| Commitments and contingent liabilities | | |

| | | |
|--|------------------|------------------|
| Stockholders equity: | | |
| Common stock | 174,438 | 173,864 |
| [Authorized shares] (share) | [2,000,000,000] | [2,000,000,000] |
| [Issued shares] (share) | [888,742,779] | [887,977,251] |
| Additional paid-in capital | 403,246 | 401,773 |
| Retained earnings | 2,060,620 | 1,740,834 |
| Legal reserve | 42,331 | 41,200 |
| Other retained earnings | 2,018,289 | 1,699,634 |
| Accumulated other comprehensive income (loss) | (28,212) | (101,312) |
| Treasury stock | (5,410) | (5,263) |
| [Treasury shares] (share) | [1,145,682] | [1,120,867] |
| Total stockholders equity | 2,604,682 | 2,209,896 |
| Total liabilities and stockholders equity | 4,043,553 | 3,587,021 |

Notes:

1. Allowance for doubtful accounts: 11,728 million yen
2. Accumulated depreciation: 1,272,163 million yen
3. Accumulated other comprehensive Income (loss) includes amounts for foreign currency translation adjustments, net unrealized gain/loss on securities, net gain/loss on derivatives and minimum pension liability adjustments.
4. Assets pledged as collateral (Property, plant and equipment): 7,423 million yen
5. Guarantee obligations for bank loans taken out by employees as well as subsidiaries and affiliates: 38,550 million yen

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Consolidated Statements of Income

| | Year ended Dec. 31, 2005 (Audited) | Millions of yen Year ended Dec. 31, 2004 (Audited) |
|--|---|--|
| Net sales | 3,754,191 | 3,467,853 |
| Cost of sales | 1,935,148 | 1,754,510 |
| Gross profit | 1,819,043 | 1,713,343 |
| Selling, general and administrative expenses | 1,236,000 | 1,169,550 |
| Operating profit | 583,043 | 543,793 |
| Other income (deductions): | 28,961 | 8,323 |
| Interest and dividend income | 14,252 | 7,118 |
| Interest expense | (1,741) | (2,756) |
| Other, net | 16,450 | 3,961 |
| Income before income taxes and minority interests | 612,004 | 552,116 |
| Income taxes | 212,785 | 194,014 |
| Income before minority interests | 399,219 | 358,102 |
| Minority interests | 15,123 | 14,758 |
| Net income | 384,096 | 343,344 |
| Note: | | |
| Net income per share | | |
| Basic | 432.94 yen | 387.80 yen |
| Diluted | 432.55 yen | 386.78 yen |

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**BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS
SIGNIFICANT ACCOUNTING POLICIES**

1. Basis of Presentation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) pursuant to the provision of paragraph 1 of Article 179 of the Enforcement Regulations for the Japanese Commercial Code. However, certain disclosures required under US GAAP are omitted pursuant to the same provision.

2. Cash Equivalents

Canon considers all highly-liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

3. Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Exchange differences are charged or credited to income. Assets and liabilities of subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date and income and expense items are translated at the average exchange rates prevailing during the year. The resulting translation adjustments are reported in other comprehensive income (loss).

4. 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.

5. Marketable Securities

Canon accounts for its debt and equity securities in accordance with Statement of Financial Accounting Standards No.115, Accounting for Certain Investments in Debt and Equity Securities. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported in other comprehensive income (loss) until realized. Realized gain and losses are determined on the average cost method.

6. Property, Plant and Equipment

Property, plant and equipment are depreciated principally by the declining-balance method.

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7. Goodwill and Other Intangible Assets

Goodwill and intangible assets with an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with Statement of Financial Accounting Standards No.142, Goodwill and Other Intangible Assets. Intangible assets with estimated useful lives are amortized over the respective estimated useful lives. Software is amortized on a straight-line basis over the period of three to five years.

8. Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards No.144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

9. Standard for allowances

(Allowance for doubtful accounts)

An allowance for doubtful accounts is provided based on credit loss history and an evaluation of any specific doubtful accounts.

(Accrued pension and severance cost)

In accordance with Statement of Financial Accounting Standards No.87, Employers Accounting for Pensions, pension and severance cost is accrued based on the projected benefit obligations and the fair value of plan assets at the balance sheet date. If the accumulated benefit obligation (i.e., obligations deducting an effect of future compensation levels from projected benefit obligations) exceeds the fair value of plan assets, a minimum pension liability equal to this difference is reflected in the consolidated balance sheets by recognizing an additional minimum pension liability. Unrecognized prior service cost is amortized by the straight-line method over the average remaining service period of employees. Unrecognized actuarial loss is recognized by amortizing a portion in excess of a corridor (i.e., 10% of the greater of the projected benefit obligations or the fair value of plan assets) by the straight-line method over the average remaining service period of employees.

10. Net income per share

Basic net income per share have been computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share reflect the potential dilution and have been computed on the basis that all convertible debentures were converted at beginning of the year or at time of issuance (if later).

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Audit Report of Accounting Auditor on Consolidated Balance Sheet
and Consolidated Statement of Income
(Certified Copy)

Audit Report of Independent Auditor

January 26, 2006

To the Board of Directors of
Canon Inc.
Ernst & Young ShinNihon
Michio Shibuya
Certified Public Accountant
Designated and Operating
Partner
Hideo Kojima
Certified Public Accountant
Designated and Operating
Partner
Eiichi Wada
Certified Public Accountant
Designated and Operating
Partner
Yuichiro Munakata
Certified Public Accountant
Designated and Operating
Partner
Hirokazu Tanaka
Certified Public Accountant
Designated and Operating
Partner

We have examined the consolidated financial statements of Canon Inc. for the 105th business term from January 1, 2005 to December 31, 2005, namely, the consolidated balance sheet and the consolidated statement of income, for the purpose of reporting under the provisions of Article 19-2, Paragraph 3 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations. Responsibility as to the preparation of such

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consolidated financial statements lies with the management of the Company, and our responsibility is to express our opinion on the consolidated financial statements from an independent position.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. The auditing standards require that we obtain reasonable assurance that there are no material false representations in the consolidated financial statements. The audit is conducted on a test basis and includes the examination of representations in the consolidated financial statements as a whole, including the examination of the accounting principles adopted by the management and the method of application thereof and the evaluation of the estimate by the management. We have determined that, as a result of the audit, we have obtained a reasonable basis for giving an opinion. Also, the audit includes the examination of the subsidiary or affiliated corporations, which we considered to be necessary.

As a result of the audit, our opinion is that the above consolidated financial statements present fairly the status of assets and earnings of the Company and its consolidated subsidiaries in conformity with laws, regulations and the Articles of Incorporation of the Company.

Our firm or we have no financial or other interest in the Company required to be stated by the provisions of the Certified Public Accountant Law.

We conduct the services defined in Article 2, Paragraph 2 of the Certified Public Accountant Law to the Company on an ongoing basis, as the Law permits the concurrent provision of such services with the auditing service.

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Audit Report of Board of Corporate Auditors on Consolidated Balance Sheet
and Consolidated Statement of Income
(Certified Copy)

Audit Report on the consolidated financial statements

The Board of Corporate Auditors has received reports from each Corporate Auditor on the auditing methods and the auditing results regarding consolidated financial statements (the consolidated balance sheet and the consolidated statement of income) during the 105th business term from January 1, 2005 to December 31, 2005, and has prepared this Audit Report upon deliberation, and hereby reports as follows:

1. Outline of Corporate Auditors Auditing Methods

In accordance with the auditing policies, share of assignment, etc. stipulated by the Board of Corporate Auditors, each Corporate Auditor received reports and explanations of the consolidated financial statements from the Directors, etc. and the accounting auditors, and conducted the audit.

2. Results of Audit

The methods and results of the audit made by the accounting auditor, Ernst & Young ShinNihon, an incorporated auditing firm, are found to be proper.

January 27, 2006

Board of Corporate Auditors, Canon Inc.

Teruomi Takahashi
Kunihiro Nagata
Tadashi Ohe
Tetsuo Yoshizawa

Corporate Auditor
Corporate Auditor
Corporate Auditor
Corporate Auditor

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Note: Corporate Auditors Mr. Tadashi Ohe and Mr. Tetsuo Yoshizawa are the outside Corporate Auditors stipulated in Article 18, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations.

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Non-Consolidated Balance Sheets

| ASSETS | As of Dec. 31, 2005 | Millions of yen As of Dec. 31, 2004 |
|---|--------------------------------|--|
| Current Assets | 1,460,882 | 1,366,343 |
| Cash and deposits | 261,680 | 294,479 |
| Notes receivable | 277,707 | 236,935 |
| Accounts receivable | 568,270 | 503,361 |
| Marketable securities | | 132 |
| Finished goods | 108,311 | 110,265 |
| Work in process | 77,630 | 86,707 |
| Raw materials and supplies | 3,758 | 3,342 |
| Deferred tax assets | 24,372 | 24,956 |
| Short-term loans receivable | 25,584 | 10,334 |
| Other current assets | 113,953 | 98,705 |
| Allowance for doubtful receivables | (383) | (2,873) |
| Fixed Assets | 1,191,965 | 1,018,460 |
| Property, Plant And Equipment | 713,960 | 569,392 |
| Buildings | 358,845 | 252,720 |
| Machinery | 145,319 | 108,439 |
| Vehicles | 323 | 382 |
| Tools and equipment | 51,282 | 45,194 |
| Land | 110,448 | 96,875 |
| Construction in progress | 47,743 | 65,782 |
| Intangibles | 27,123 | 19,834 |
| Industrial property rights | 705 | 481 |
| Facility utility rights | 1,015 | 443 |
| Software | 25,403 | 18,910 |
| Investments | 450,882 | 429,234 |
| Marketable securities-noncurrent | 34,153 | 37,139 |
| Investment in affiliated companies | 335,424 | 308,453 |
| Long-term loans receivable | 5,907 | 5,513 |
| Long-term pre-paid expenses | 10,361 | 11,063 |
| Deferred tax assets-noncurrent | 60,699 | 62,421 |
| Guarantees | 2,371 | 2,888 |
| Other noncurrent assets | 2,064 | 1,854 |
| Allowance for doubtful receivables-noncurrent | (97) | (97) |

| | | |
|--|------------------|---------------------|
| TOTAL ASSETS | 2,652,847 | 2,384,803 |
| Notes: | | |
| 1. Current receivable from affiliated companies | | 943,938 million yen |
| Noncurrent receivable from affiliated companies | | 5,906 million yen |
| Current payable to affiliated companies | | 320,956 million yen |
| 2. Accumulated depreciation of property, plant and equipment | | 690,581 million yen |
| 54 | | |

Table of Contents**LIABILITIES AND STOCKHOLDERS' EQUITY**

| | As of Dec. 31, 2005 | Millions of yen As of Dec. 31, 2004 |
|--|--------------------------------|---|
| Current Liabilities | 699,131 | 637,853 |
| Notes payable | 2,337 | 20,558 |
| Accounts payable | 361,038 | 308,707 |
| Short-term loans | 33,159 | 37,732 |
| Other payable | 112,812 | 92,402 |
| Accrued expenses | 80,591 | 57,031 |
| Accrued income taxes | 84,172 | 81,387 |
| Deposits | 8,871 | 9,019 |
| Accrued bonuses for employees | 4,759 | 4,677 |
| Other current liabilities | 11,392 | 26,340 |
| Noncurrent Liabilities | 78,283 | 95,543 |
| Convertible debenture | 649 | 1,796 |
| Accrued pension and severance cost | 76,386 | 92,595 |
| Accrued directors' retirement benefits | 1,248 | 1,152 |
| TOTAL LIABILITIES | 777,414 | 733,396 |
| Common Stock | 174,438 | 173,864 |
| Capital Surplus | 305,966 | 305,392 |
| Additional paid-in capital | 305,965 | 305,392 |
| Other capital surplus | 1 | |
| Gain on sales of treasury stock | 1 | |
| Retained Earnings | 1,393,662 | 1,168,877 |
| Legal reserve | 22,114 | 22,114 |
| Reserve for special depreciation | 13,337 | 9,071 |
| Reserve for deferral of capital gain on property | 5 | 7 |
| Special reserves | 1,068,828 | 889,828 |
| Unappropriated retained earnings | 289,378 | 247,857 |
| Net Unrealized Gains (Losses) on Securities | 6,777 | 8,537 |
| Treasury Stock | (5,410) | (5,263) |
| TOTAL STOCKHOLDERS' EQUITY | 1,875,433 | 1,651,407 |

| | | |
|--|------------------|------------------|
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | 2,652,847 | 2,384,803 |
|--|------------------|------------------|

3. Contingent liabilities

29,937

million

Guarantees

yen

6,561

million

4. The amount not allowed for dividend by the Commercial Code in the retained earnings and unrealized gain

yen

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Non-Consolidated Statements of Income

| | Year ended Dec. 31, 2005 | Millions of yen Year ended Dec. 31, 2004 |
|--|-----------------------------|--|
| OPERATING PROFIT AND LOSS | | |
| Operating Revenue | 2,481,481 | 2,278,374 |
| Net sales | 2,481,481 | 2,278,374 |
| Operating Expenses | 2,064,964 | 1,895,090 |
| Cost of sales | 1,571,561 | 1,433,570 |
| Selling, general and administrative expenses | 493,403 | 461,520 |
| OPERATING PROFIT | 416,517 | 383,284 |
| OTHER INCOME AND EXPENSE | | |
| Other Income | 73,929 | 59,326 |
| Interest income | 1,034 | 554 |
| Dividend income | 9,945 | 12,631 |
| Rental income | 30,346 | 13,622 |
| Patent royalties | 20,924 | 22,357 |
| Miscellaneous income | 11,680 | 10,162 |
| Other Expense | 49,735 | 46,360 |
| Interest expense | 57 | 106 |
| Depreciation of rental assets | 27,892 | 12,003 |
| Loss on disposal and write-off of inventories | 6,667 | 10,248 |
| Foreign exchange loss | 8,122 | 15,832 |
| Miscellaneous loss | 6,997 | 8,171 |
| ORDINARY PROFIT | 440,711 | 396,250 |
| NON-ORDINARY INCOME AND LOSS | | |
| Non-Ordinary Income | 9,324 | 7,026 |
| Gain on sales of fixed assets | 37 | 12 |
| Gain on sales of marketable securities-noncurrent | 9,277 | 3,571 |
| Gain on sales of investments in affiliated companies | 10 | 3,443 |
| Non-Ordinary Loss | 10,281 | 17,453 |
| Loss on sales and disposal of fixed assets | 7,417 | 7,000 |
| Loss on impairment of fixed assets | 2,864 | 10,453 |

| | | |
|---|----------------|----------------|
| INCOME BEFORE INCOME TAXES | 439,754 | 385,823 |
| Income taxes | | |
| Current | 146,981 | 139,908 |
| Deferred | 3,479 | (3,336) |
| NET INCOME | 289,294 | 249,251 |
| Unappropriated retained earnings brought forward from previous term | 28,919 | 22,277 |
| Interim dividends | 28,835 | 22,160 |
| Loss on sales of treasury stock | | 1,511 |
| UNAPPROPRIATED RETAINED EARNINGS | 289,378 | 247,857 |

Notes:

| | | |
|--|-------------------|-----------------------|
| 1. Transactions with affiliated companies: | Sales | 2,389,590 million yen |
| | Purchase | 1,414,934 million yen |
| | Other transaction | 61,991 million yen |
| 2. Net income per share | | 325.83 yen |

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Significant Accounting Policies

1. Valuation of Securities

(1) Securities of affiliates stated at cost based on the moving average method.

(2) Other securities

Securities with quotation stated at fair value (unrealized holdings gains and losses are reported in stockholders equity, when sold, the cost is based on the moving average method.)

Securities without quotation stated at cost based on the moving average method.

2. Valuation of Inventories

(1) Finished goods, work in process valued at cost based on the periodic average method.

(2) Raw materials and supplies valued at cost based on the moving average method.

3. Depreciation Method for Fixed Assets

(1) Property, plant and equipment calculated by declining-balance method according to the Corporation Tax Law, except for buildings acquired after April 1, 1998, depreciation is calculated by straight-line method.

(2) Intangible fixed assets calculated by straight-line method according to the Corporation Tax Law, except for software to be sold by straight-line method over the estimated economic life of the product and internal-use software by straight-line method over the estimated useful life.

4. Deferred Charges The items which can be deferred under the Commercial Code are charged to operations as incurred.

5. Standard for Allowances

(1) Allowance for doubtful accounts provided as a general provision for uncollectible receivables.

(2) Accrued bonuses for employees provided as a general provision for bonus payable to employees for the current term.

(3) Accrued pension and severance cost provided as a general provision for employee retirement and severance benefits based on projected benefits obligation and expected plan asset. Prior service cost and unrecognized loss is to be amortized by straight-line method with average remaining service periods.

(4) Accrued directors retirement benefits provision for directors retirement benefits are made in the amount which would be required in accordance with management policy. This provision is made as required by the implementing regulation of the Japanese Commercial Code. Section 43.

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6. Hedge accounting

- (1) Hedge accounting deferral hedge accounting has been applied. (2) Hedging instrument and hedged assets / liabilities
Hedging instrument derivative transaction (foreign exchange contract)
Hedged assets / liabilities accounts receivables denominated in foreign currency for forecasted transaction. (3) Hedge policy derivative financial instruments are comprised principally of foreign exchange contracts to manage currency risk. The Company does not hold derivative financial instrument for trading purpose. (4) Assessment of hedge effectiveness foreign exchange contract due to the same quantity of the same underlying at same time, is fully effective.

7. Consumption Taxes excluded from the statements of income and are accumulated in other receivables or other payables.

(The Pro Forma Standard Taxation System)

On March 31, 2003, the Law to Partially Revise the Local Tax Law (Law No. 9; 2003) had been issued, introducing the Pro Forma Standard Taxation System applicable for the years beginning on or after April 1, 2004. As a result, in accordance with Implementation Compliance Report No.12, Practical Handling of Indicating the Amount of Pro Forma Standard Tax Portion of Corporate and Enterprise Taxes in Statements of Income (Accounting Standards Board of Japan; February 13, 2004), the amount of 3,152 million yen consisted of a value-added assessment rate and a capital assessment rate of the corporate enterprise tax was recorded as selling, general and administrative expenses for the year ended December 31, 2005.

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Proposal of Profit Appropriation

| | 2005 | 2004 | Yen |
|--|-----------------|-----------------|-----|
| Unappropriated retained earnings | 289,378,124,390 | 247,857,017,254 | |
| Reversal of reserve for special depreciation | 3,955,809,414 | 2,342,492,741 | |
| Reversal of reserve for deferral of capital gain on property | 1,435,709 | 1,927,572 | |
| Total | 293,335,369,513 | 250,201,437,567 | |

The above amount shall be appropriated as follows:

| | | |
|--|---|--------------------------------------|
| Cash dividends | 59,912,804,048 (67.50 yen per share) | 35,474,255,360 (40 yen per share) |
| Directors' bonuses | 222,500,000 | 199,500,000 |
| Reserve for special depreciation | 6,918,315,732 | 6,608,833,916 |
| Reserve for deferral of capital gain on property | 697,098,786 | |
| Special reserves | 181,100,000,000 | 179,000,000,000 |
| Total | 248,850,718,566 | 221,282,589,276 |
| Unappropriated profit carried forward to the next term | 44,484,650,947 | 28,918,848,291 |

Notes:

1. Interim dividends of 28,834,938,990 yen (32.50 yen per share) was paid on August 26, 2005.
2. The total of other capital surplus is brought forward to the next term.

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Audit Report of Accounting Auditor
(Certified Copy)

Audit Report of Independent Auditor

January 26, 2006

To the Board of Directors of
Canon Inc.

Ernst & Young ShinNihon
Michio Shibuya
Certified Public Accountant
Designated and Operating
Partner

Hideo Kojima
Certified Public Accountant
Designated and Operating
Partner

Eiichi Wada
Certified Public Accountant
Designated and Operating
Partner

Yuichiro Munakata
Certified Public Accountant
Designated and Operating
Partner

Hirokazu Tanaka
Certified Public Accountant
Designated and Operating
Partner

We have examined the financial statements of Canon Inc. for the 105th business term from January 1, 2005 to December 31, 2005, namely, the balance sheet, the statement of income, the business report (limited to matters concerning accounting), the proposal of profit appropriation, and the accompanying detailed statements (limited to matters concerning accounting), for the purpose of reporting under the provisions of Article 2, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations. With respect to the aforementioned business report and the accompanying detailed statements, our examination was limited to those matters based on the accounting records of the Company. Responsibility as to the preparation of such financial statements and the accompanying detailed statements lies with the management of the Company,

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and our responsibility is to express our opinion on the financial statements and the accompanying detailed statements from an independent position.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. The auditing standards require that we obtain reasonable assurance that there are no material false representations in the financial statements and the accompanying detailed statements. The audit is conducted on a test basis and includes the examination of representations in the financial statements and the accompanying detailed statements as a whole, including the examination of the accounting principles adopted by the management and the method of application thereof and the evaluation of the estimate by the management. We have determined that, as a result of the audit, we have obtained a reasonable basis for giving an opinion. Also, the audit includes the examination of the subsidiary corporations, which we considered to be necessary.

As a result of the audit, our opinion is as follows.

- (1) The balance sheet and the statement of income present fairly the status of assets and earnings of the Company in conformity with laws, regulations and the Articles of Incorporation of the Company.
- (2) The business report, as far as the accounting data included in such report are concerned, presents fairly the status of the Company in conformity with laws, regulations and the Articles of Incorporation of the Company.
- (3) The proposal of profit appropriation has been prepared in conformity with laws, regulations and the Articles of Incorporation of the Company.
- (4) With respect to the accompanying detailed statements, as far as the accounting data included in such accompanying detailed statements are concerned, there are none to be pointed out under the provisions of the Commercial Code.

Our firm or we in Charge have no financial or other interest in the Company required to be stated by the provisions of the Certified Public Accountant Law.

We conduct the services defined in Article 2, Paragraph 2 of the Certified Public Accountant Law to the Company on an ongoing basis, as the Law permits the concurrent provision of such services with the auditing service.

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Audit Report of Board of Corporate Auditors
(Certified Copy)

Audit Report

The Board of Corporate Auditors, has received reports from each Corporate Auditor on the auditing methods and the auditing results regarding the performance by the Directors of their duties during the 105th business term from January 1, 2005 to December 31, 2005, and has prepared this Audit Report upon deliberation, and hereby report as follows:

1. Outline of Corporate Auditors Auditing Methods

In accordance with the auditing policies, share of assignment, etc. stipulated by the Board of Corporate Auditors, each Corporate Auditor attended meetings of the Board of Directors and other important meetings; received reports of execution of duty from Directors, etc.; inspected important decision documents, etc.; investigated the activities and assets of the headquarters and of other principal places of business; and also demanded the subsidiaries, as the occasion demands, to render reports on their business operations. In addition, we also received reports and explanations from accounting auditors and examined the accounting documents and accompanying detailed statements.

Regarding competitive transactions by Directors, transactions between Directors and the Company bearing a conflict of interests, gratuitous offering of proprietary profit by the Company, any transaction not customary in nature between the Company and its subsidiaries or shareholders, and the acquisition, disposal, and other transactions involving the Company's own shares, we made detailed investigations and demanded reports to the Directors, etc., as the occasion demands, in addition to methods of audit mentioned above.

2. Results of Audit

- (1) The methods and results of the audit made by the accounting auditor, Ernst & Young ShinNihon, an incorporated auditing firm, are found to be proper.
- (2) The business report is found to accurately present the status of the Company in conformity with the laws, regulations and Articles of Incorporation.
- (3) The proposition of profit appropriation is found to have nothing to be pointed out in light of the status of corporate assets and other circumstances.

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- (4) The accompanying detailed statements are found to accurately present the matters to be stated therein and to have nothing to be pointed out.
- (5) In connection with the performance by the Directors of their duties, including the duties relating to the subsidiaries, no dishonest act or significant fact of a violation of laws, regulations, or the Articles of Incorporation is found to exist.

Regarding competitive transactions by Directors, transactions between Directors and the Company bearing a conflict of interests, gratuitous offering of proprietary profit by the Company, any transaction not customary in nature between the Company and its subsidiaries or shareholders, and the acquisition, disposal, and other transactions involving the Company's own shares, we find that there is no breach of duties on the part of the Directors.

January 27, 2006

Board of Corporate Auditors, Canon Inc.

| | |
|-------------------|-------------------|
| Teruomi Takahashi | Corporate Auditor |
| Kunihiro Nagata | Corporate Auditor |
| Tadashi Ohe | Corporate Auditor |
| Tetsuo Yoshizawa | Corporate Auditor |

Note: Corporate Auditors Mr. Tadashi Ohe and Mr. Tetsuo Yoshizawa are the outside Corporate Auditors stipulated in Article 18, Paragraph 1 of the Law regarding Exceptional Rules of the Commercial Code concerning Auditing, etc. of Stock Corporations.

(The above are the materials attached to the Notice of Convocation of the Ordinary General Meeting of Shareholders for the 105th Business Term.)

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INFORMATION ON SHARES

Closing of accounts:

December 31 of each year

Ordinary general meeting of shareholders:

March of each year

Record date for above:

December 31 of each year

Certain 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 to constitute one unit of share:

100 shares

Newspaper in which public notice is inserted:

The Nihon Keizai Shimbun published in Tokyo

Listed stock exchange:

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
Registered Head Office
30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo
146-8501 Telephone: 03(3758)2111

URL

| | |
|-------------------------|---------------|
| Canon Inc. | canon.jp |
| Canon Worldwide Network | www.canon.com |

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CARD FOR EXERCISE OF VOTING RIGHTS I exercise my voting rights as indicated in the right (consent/dissent shall be indicated with a mark) to each proposition of the Company's Ordinary General Meeting of Shareholders for the 105th Business Term to be held on March 30, 2006. In case of a continued or an adjourned session of the Meeting, I will also exercise my voting rights as mentioned above. March ____, 2006

1. If you intend to attend the Meeting, please present the Card for Exercise of Voting Rights to the receptionist at the place of the Meeting as an attendance card. 2. If you do not expect to attend the Meeting, please indicate your consent/dissent and affix your seal on the Card for Exercise of Voting Rights, and return the Card to us to arrive by March 29, 2006 (preceding day of the Meeting). 3. If you dissent from approving any of the candidates in Proposition Item No.3 and No. 4, please fill in the parentheses with the relevant candidate number, while marking a mark on Consent. (Each candidate is numbered serially in the Reference Materials attached to the Notice of Convocation.) Canon Inc. Serial Number of Shareholder Number of Exercisable Voting Rights voting rights Item No. 1 Item No. 2 Item No. 3 Item No. 4 Item No. 5 CONSENT CONSENT CONSENT except for () CONSENT except for () CONSENT DISSENT DISSENT DISSENT DISSENT DISSENT If consent/dissent to a Proposition is not indicated, it will be considered as a vote of consent. Canon Inc.(Seal)

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