



Canon Inc.

First Half 2008 Results

July 24, 2008

Masahiro Osawa

Managing Director, Group Executive
Finance and Accounting Headquarters

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July 24, 2008 Canon Inc.

Agenda

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2Q 2008 in Summary

(External Environment)

- ✓ **Weaker-than-expected business confidence, particularly in developed countries**
- ✓ **Yen appreciation that exceeded that in the 1Q on a year-on-year basis**
- ✓ **Higher costs due to steep increases in raw material and oil prices**

(Achievements)

- ✓ **Posted lower net sales and profits, due to external environment**
- ✓ **Accelerated net sales growth on a local currency basis, evidencing underlying business strength**
- ✓ **Kept high level of profitability, through aggressive measures to control costs**

Summary of Results

2Q&1H 2008 Actual

(Billions of yen)

		2008				2007		Pct. Change	
		Current projection	% Sales	Previous projection	% Sales	Actual	% Sales	Previous projection	Actual
2Q	Net sales	1,105.9		1,112.5		1,126.9		-0.6%	-1.9%
	Gross profit	541.6	49.0%	552.1	49.6%	573.9	50.9%	-1.9%	-5.6%
	Op. profit	160.2	14.5%	153.2	13.8%	181.5	16.1%	+4.6%	-11.7%
	Net income	107.8	9.8%	102.4	9.2%	123.9	11.0%	+5.4%	-13.0%
	Yen-1USD	104.61		100.00		120.75			
	Yen-1EURO	163.55		157.00		162.80			
1H	Net sales	2,113.4		2,120.0		2,166.7		-0.3%	-2.5%
	Gross profit	1,041.5	49.3%	1,052.0	49.6%	1,107.6	51.1%	-1.0%	-6.0%
	Op. profit	331.0	15.7%	324.0	15.3%	388.9	17.9%	+2.2%	-14.9%
	Net income	214.5	10.1%	209.0	9.9%	255.2	11.8%	+2.6%	-15.9%
	Yen-1USD	104.69		102.28		120.07			
	Yen-1EURO	160.69		157.27		159.77			

Transition in Sales and Op. Profit

2Q 2008 Actual v. Previous Projection

(Billions of yen)

	2Q 2008	
	Sales	Op. Profit
Previous Projection (April 24, 2008)	1,112.5	153.2
Foreign exchange impact [net sales, cost of sales, expenses]	+31.8	+19.9
Sales volume impact		
Office Imaging Products	-31.0	
Computer Peripherals	-0.1	
Business Information Products	-4.6	
Cameras	-6.6	
Optical and Other Products	-8.4	
Total	-50.7	-25.0
Others	+12.3	+12.1
Total Change	-6.6	+7.0
Actual	1,105.9	160.2

Change in Exchange Rate

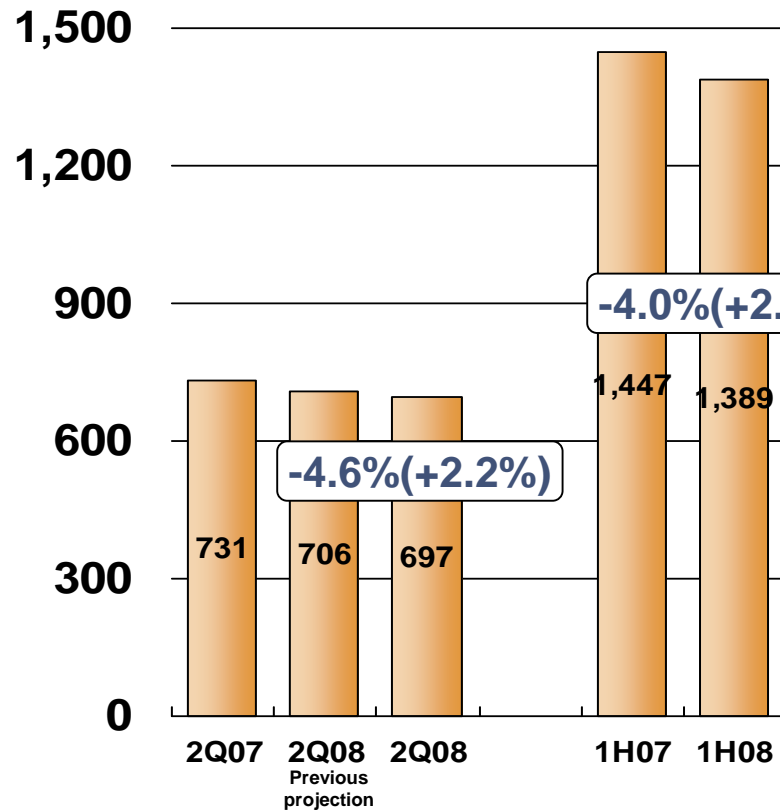
- 1USD: 100.00 to 104.61 yen
- 1EURO: 157.00 to 163.55 yen

Business Machines

2Q&1H 2008 Actual

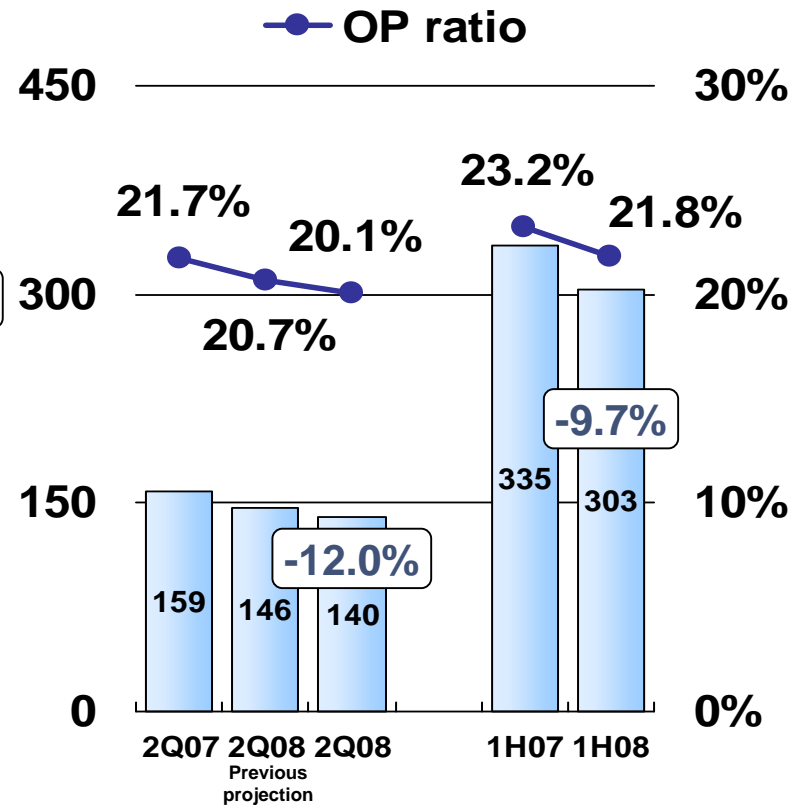
Sales

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



Operating Profit

(Billions of yen)

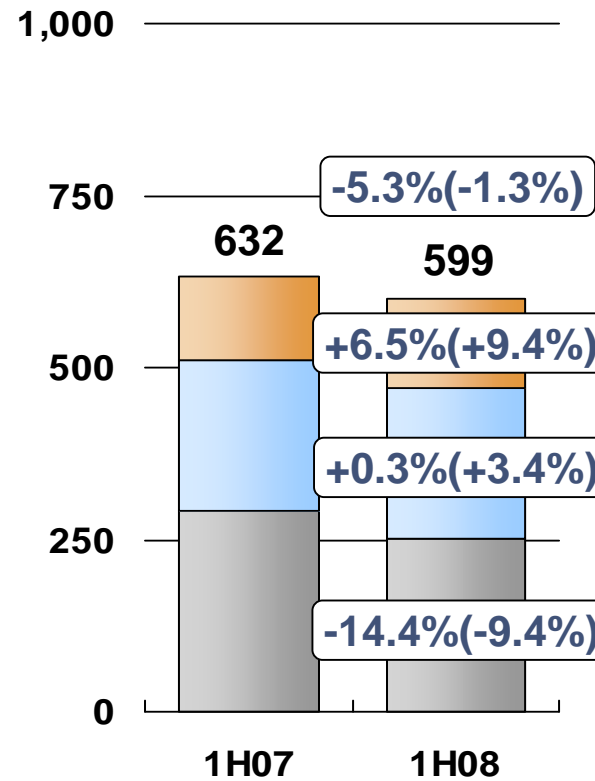
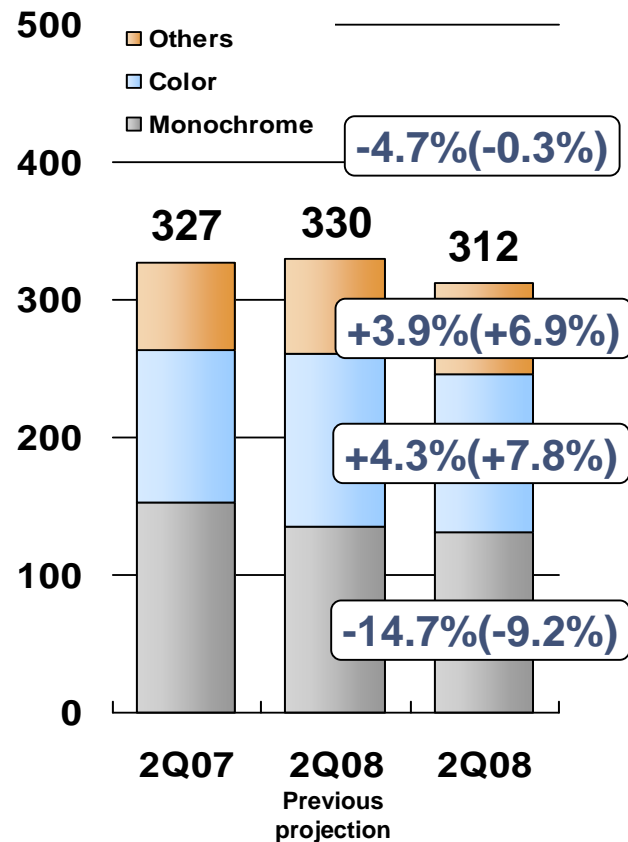


Office Imaging Products

2Q&1H 2008 Actual

Sales

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



Growth rate y/y (Unit base)		
Copying machines		
	2Q	1H
Color	+6%	+12%
Mono-chrome	+8%	+3%
Total	+7%	+5%

Color ratio (Copying machines)		
	2Q	1H
Value base*	47%	47%
Unit base	24%	25%

Calculated on a post reclassification basis
*Includes consumables

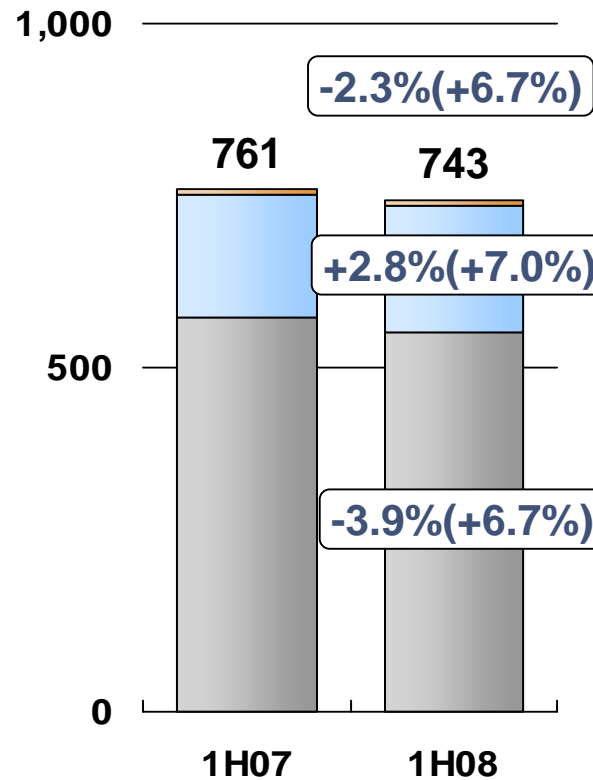
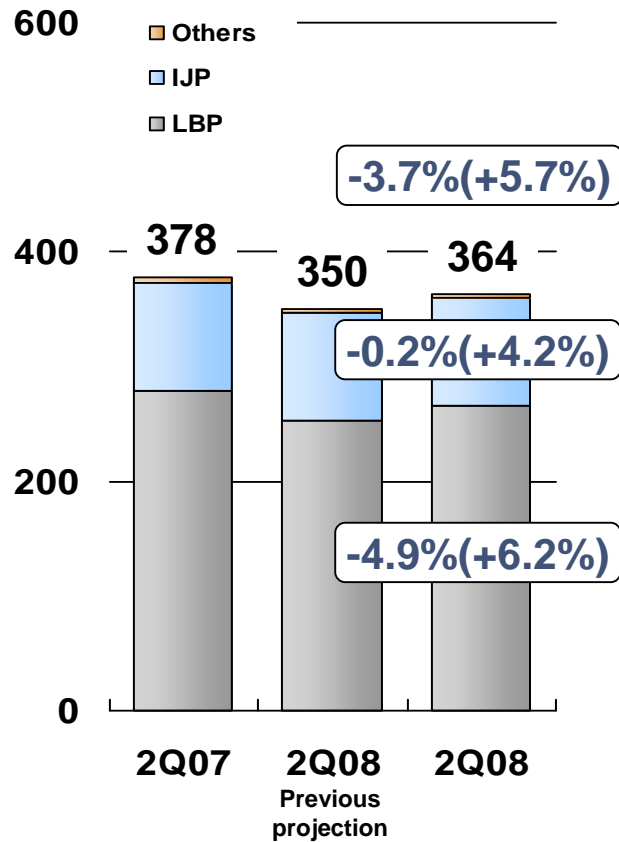
*Figures related to analog personal copying machines, which use to be included in "Monochrome," are now included in "Others."

Computer Peripherals

2Q&1H 2008 Actual

Sales

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



Growth rate y/y (Unit base)		
LBP	2Q	1H
Color	+18%	+8%
Mono-chrome	+8%	0%
Total	+9%	+1%

Color ratio (LBP)

	2Q	1H
Value base*	40%	39%
Unit base	15%	16%

*Includes consumables

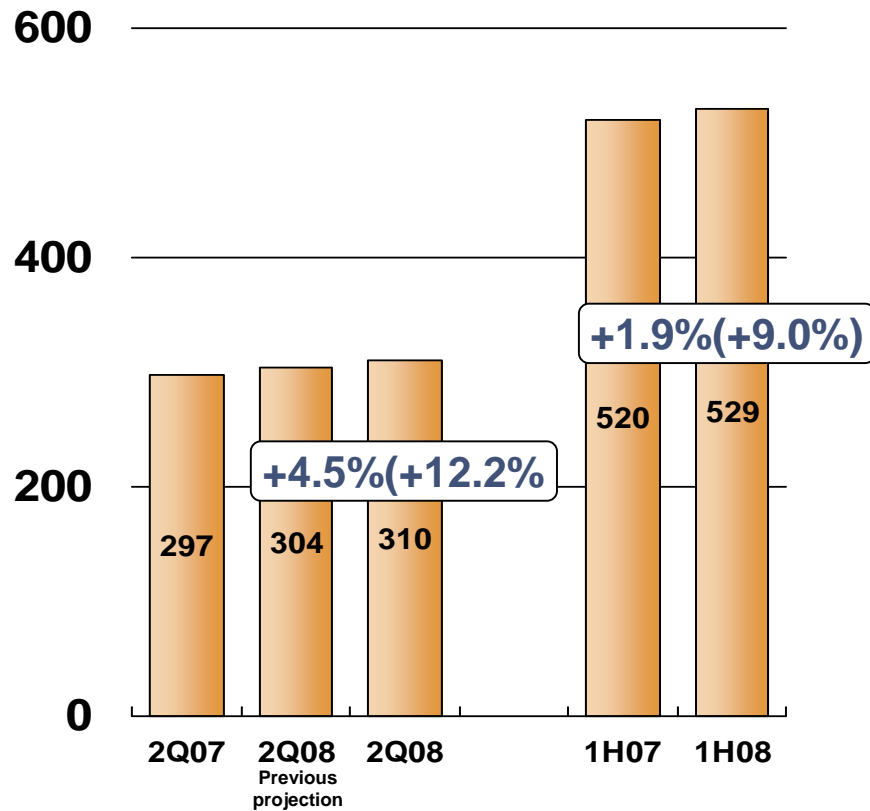
Growth rate y/y (Unit base)		
	2Q	1H
IJP	+11%	+10%

Cameras

2Q&1H 2008 Actual

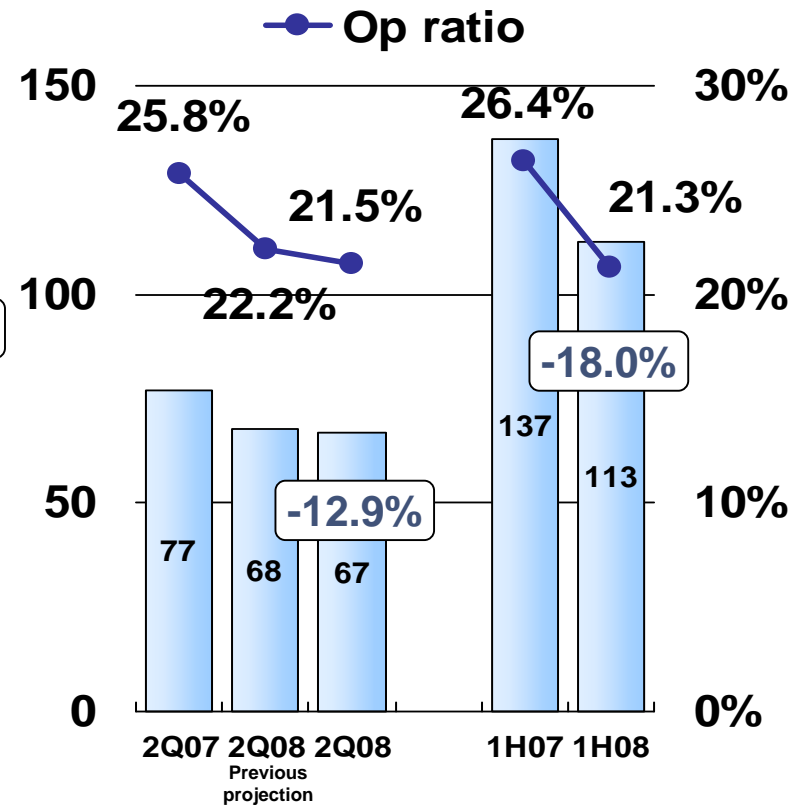
Sales

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



Operating Profit

(Billions of yen)

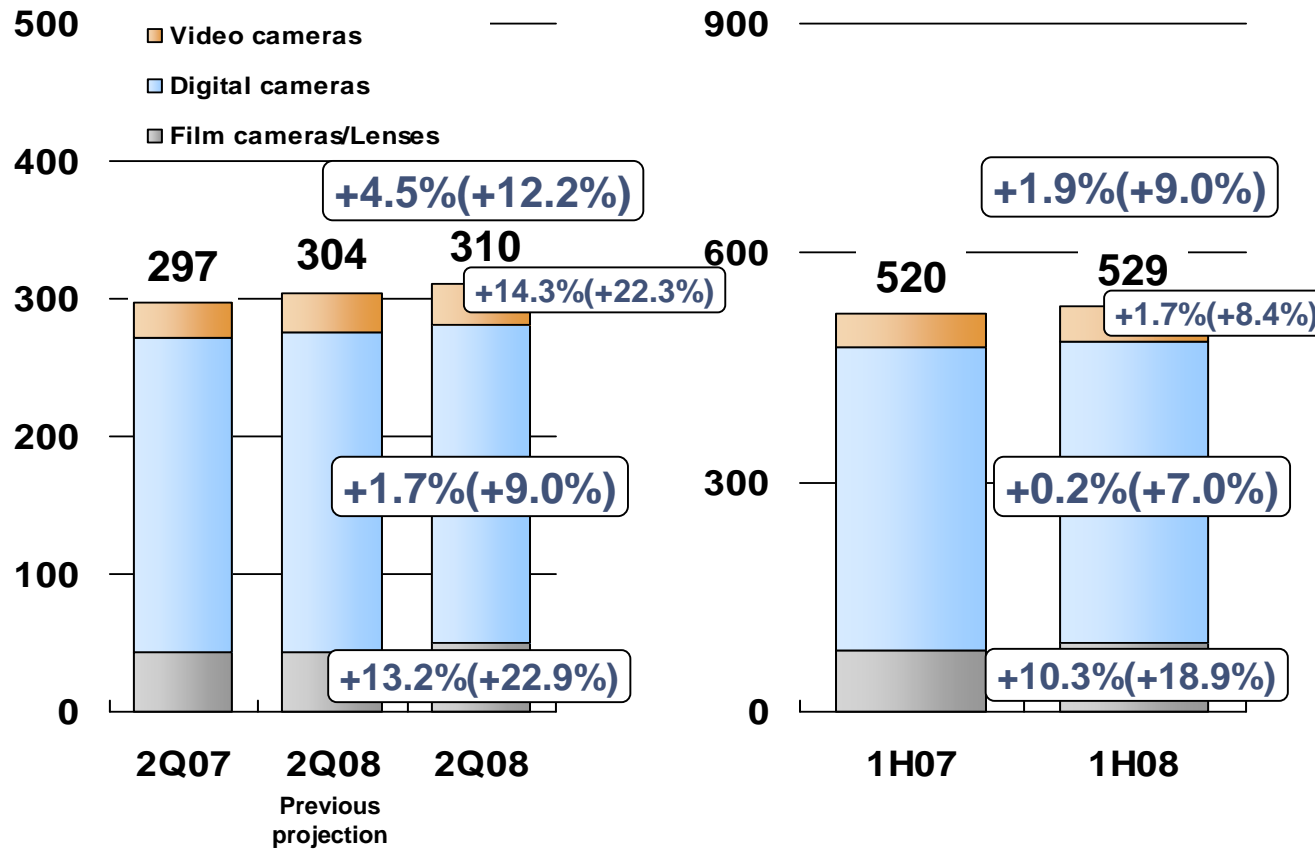


Cameras

2Q&1H 2008 Actual

Sales

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



Growth rate y/y (Unit base)		
	2Q	1H
Digital cameras	+14%	+16%

D SLR ratio*

	2Q	1H
Value base	45%	42%
Unit base	15%	14%

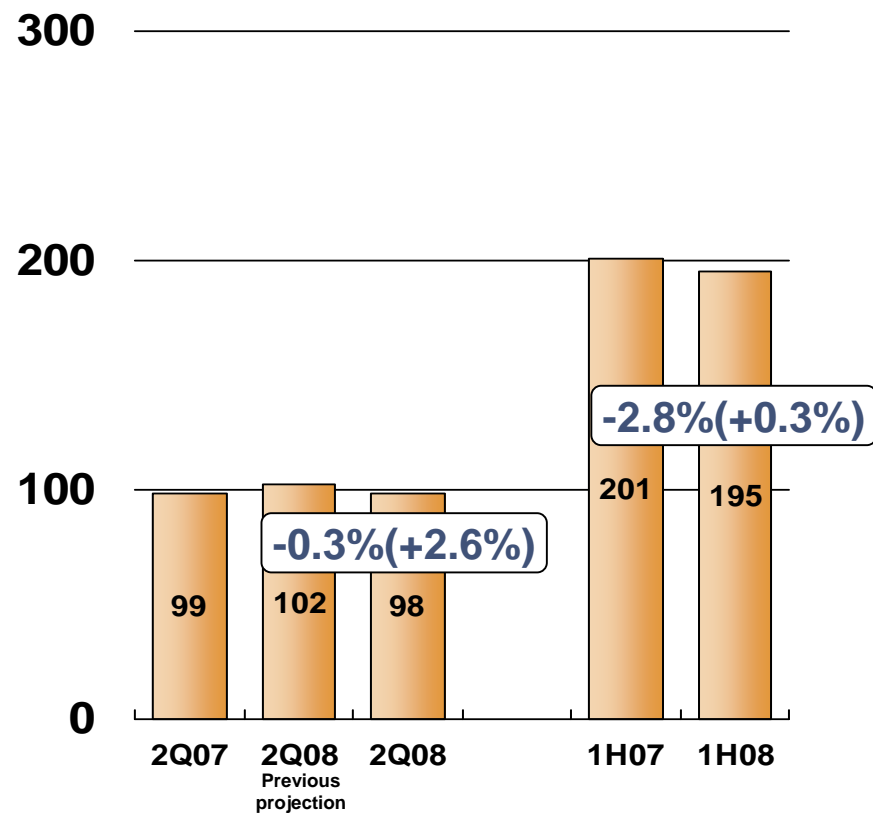
* Percentage of digital cameras sales attributable to SLRs

Optical and Other Products

2Q&1H 2008 Actual

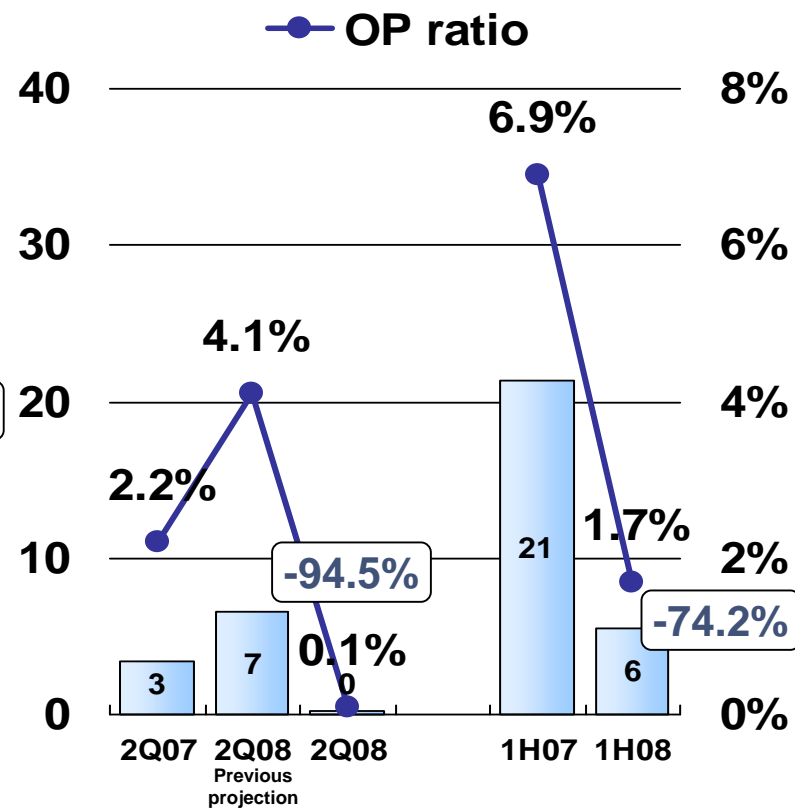
Sales

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



Operating Profit

(Billions of yen)



*Excluding inter-segment sales

*Calculation of operating profit margin includes inter-segment sales

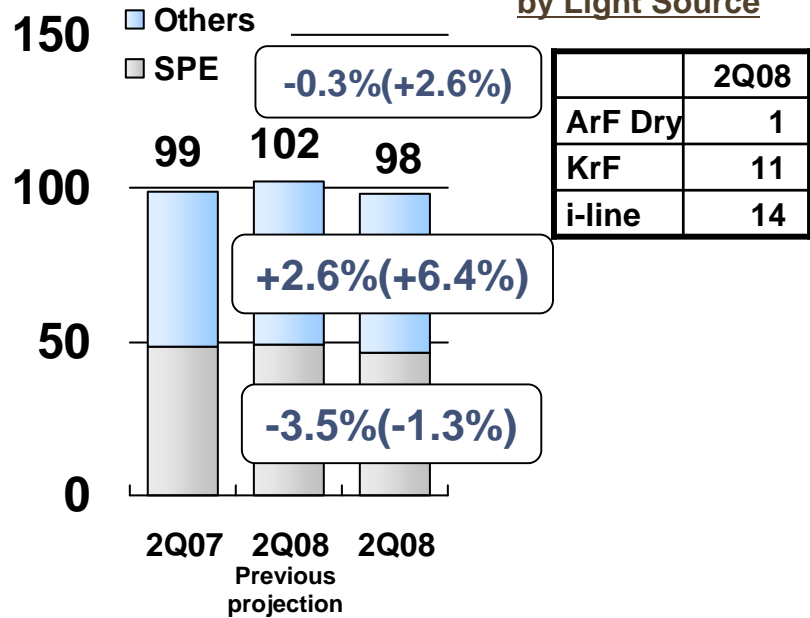
Optical and Other Products

2Q&1H 2008 Actual

Sales

Growth rate y/y
() Local currency base

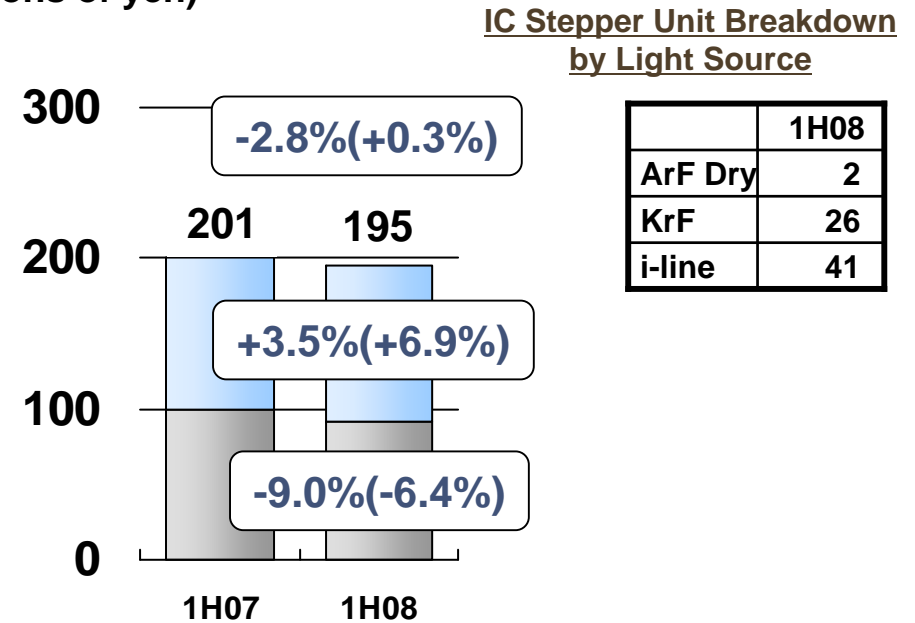
(Billions of yen)



SPE (Unit sales)

	2Q07	2Q08 Previous Projection	2Q08
IC	47	25	26
LCD	8	17	17
TTL	55	42	43

(Billions of yen)



SPE (Unit sales)

	1H07	1H08
IC	94	69
LCD	13	23
TTL	107	92

Assumptions

2H 2008

Average Exchange Rate	2H08	FY08	FY07
USD	105.00 yen	104.86 yen	117.50 yen
EURO	165.00 yen	163.03 yen	161.41 yen

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

	Net sales	Operating profit
USD	9.4 billion yen	5.5 billion yen
EURO	4.0 billion yen	3.1 billion yen



Key Points 2H&FY 2008

Assumptions

- ✓ Longer than expected economic slump, mainly in developed countries.
- ✓ Continued strong yen and high price for raw materials and oil

Projections

- ✓ Accelerate contribution of new products
- ✓ Drive additional thorough cost reduction and expense savings
- ✓ Overcome challenging environment and achieve ninth consecutive year of sales and profit growth

Summary of Projected Results

2H&FY 2008 Current Projection

(Billions of yen)

		2008				2007		Pct. Change	
		Current projection	% Sales	Previous projection	% Sales	Actual	% Sales	Previous projection	Actual
2H	Net sales	2,476.6		2,450.0		2,314.6		+1.1%	+7.0%
	Gross profit	1,219.6	49.2%	1,222.0	49.9%	1,139.4	49.2%	-0.2%	+7.0%
	Op. profit	439.0	17.7%	446.0	18.2%	367.8	15.9%	-1.6%	+19.4%
	Net income	285.5	11.5%	291.0	11.9%	233.1	10.1%	-1.9%	+22.5%
	Yen-1USD	105.00		100.00		115.20			
	Yen-1EURO	165.00		157.00		162.96			
FY	Net sales	4,590.0		4,570.0		4,481.3		+0.4%	+2.4%
	Gross profit	2,261.1	49.3%	2,274.0	49.8%	2,247.0	50.1%	-0.6%	+0.6%
	Op. profit	770.0	16.8%	770.0	16.8%	756.7	16.9%	0.0%	+1.8%
	Net income	500.0	10.9%	500.0	10.9%	488.3	10.9%	0.0%	+2.4%
	Yen-1USD	104.86		101.05		117.50			
	Yen-1EURO	163.03		157.13		161.41			

Transition in Sales and Op. Profit

2H&FY 2008 Current Projection v. Previous Projection

(Billions of yen)

	2H		FY	
	Sales	Op. Profit	Sales	Op. Profit
2008 Previous Projection (April 24, 2008)	2,450.0	446.0	4,570.0	770.0
Foreign exchange impact [net sales, cost of sales, expenses]	+79.1	+39.9	+110.9	+59.8
Sales volume impact				
Office Imaging Products	-41.1		-72.1	
Computer Peripherals	-7.5		-7.6	
Business Information Products	+0.4		-4.2	
Cameras	+4.8		-1.8	
Optical and Other Products	-6.8		-15.2	
Total	-50.2	-32.1	-100.9	-57.1
Others	-2.3	-14.8	+10.0	-2.7
Total Change	+26.6	-7.0	+20.0	0.0
2008 Current Projection (July 24, 2008)	2,476.6	439.0	4,590.0	770.0

Change in Exchange Rate (2H)

- 1USD: 100.00 to 105.00 Yen
- 1EURO: 157.00 to 165.00 Yen

Change in Exchange Rate (FY)

- 1USD: 101.05 to 104.86 Yen
- 1EURO: 157.13 to 163.03 Yen

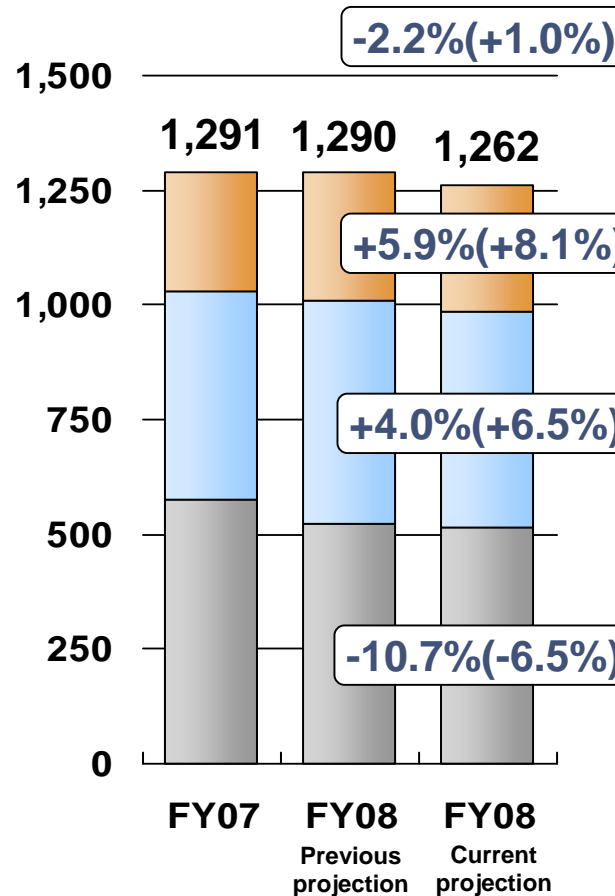
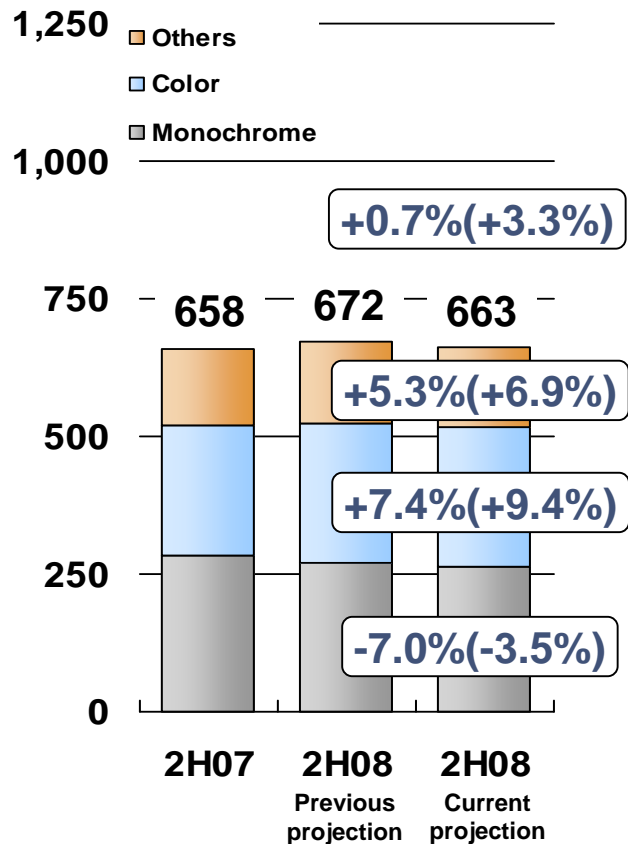
Office Imaging Products

2H&FY 2008 Current Projection

Sales

(Billions of yen)

Growth rate y/y
() Local currency base



Growth rate y/y (Unit base)		
Copying machines	2H	FY
Color	+12%	+12%
Monochrome	-4%	-1%
Total	-1%	+2%

Color ratio (Copying machines)

	2H	FY
Value base*	49%	48%
Unit base	25%	25%

Calculated on a post reclassification basis
*Includes consumables

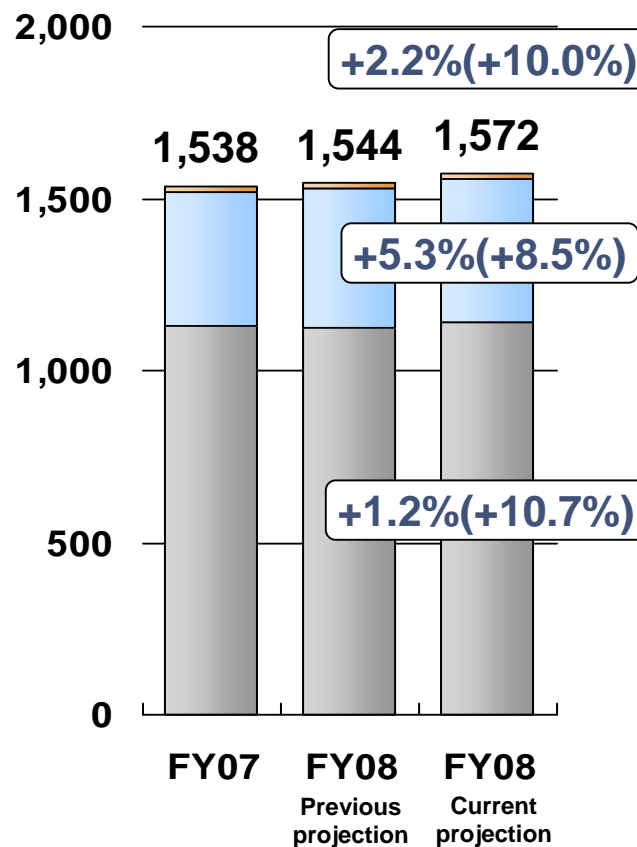
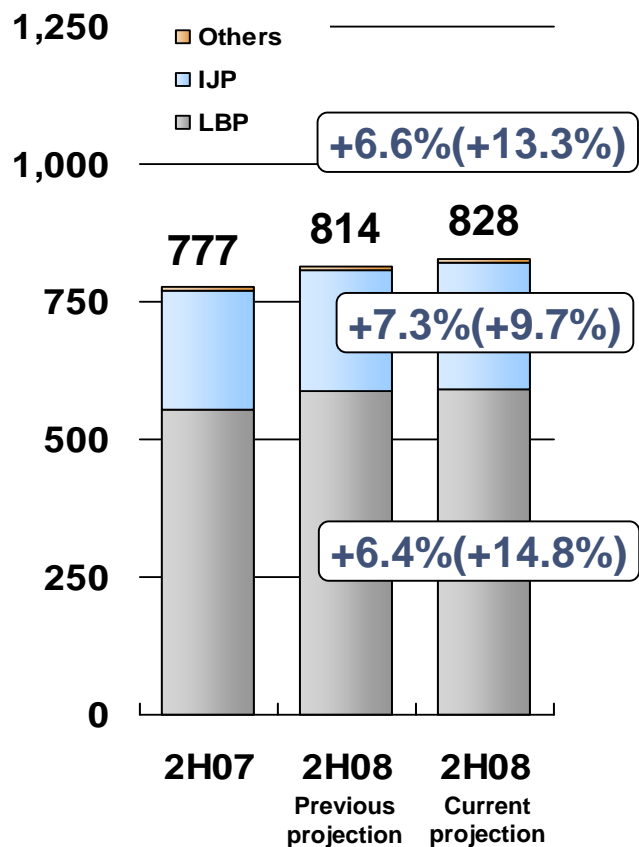
*Figures related to analog personal copying machines, which use to be included in "Monochrome," are now included in "Others."

Computer Peripherals

2H&FY 2008 Current Projection

Sales

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



Growth rate y/y (Unit base)		
LBP	2H	FY
Color	+33%	+19%
Mono-chrome	+1%	0%
Total	+5%	+3%

Color ratio (LBP)

	2H	FY
Value base*	42%	40%
Unit base	16%	16%

*Includes consumables

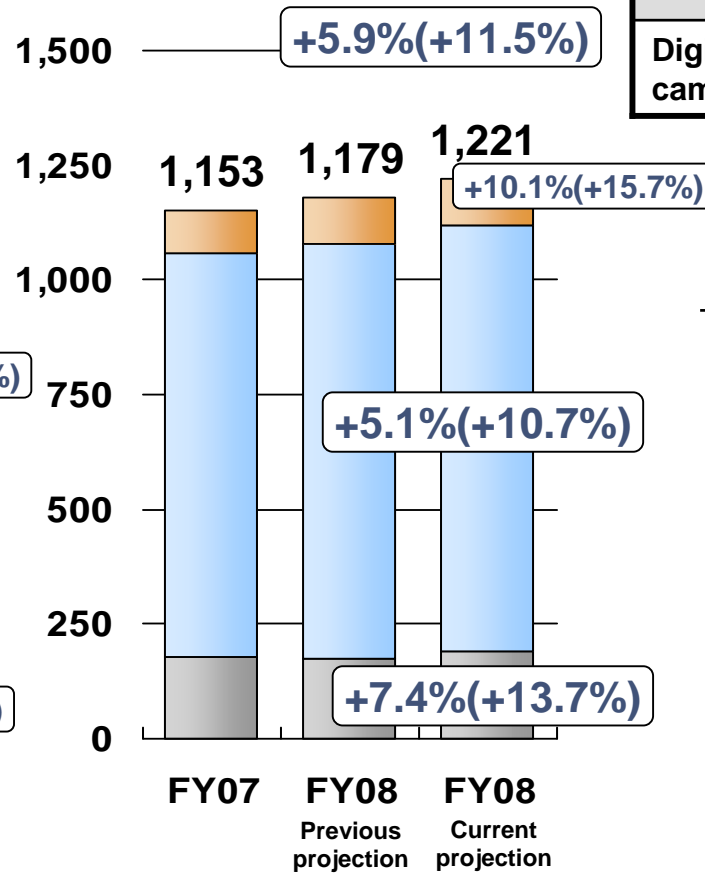
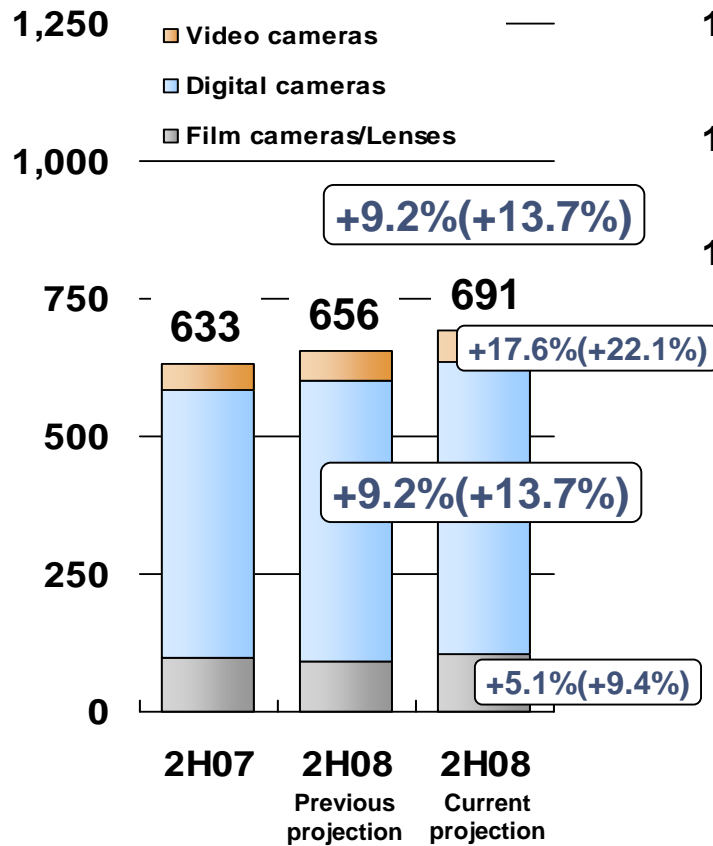
Growth rate y/y (Unit base)		
	2H	FY
IJP	+7%	+8%

Cameras

2H&FY 2008 Current Projection

Sales

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



Growth rate y/y (Unit base)		
	2H	FY
Digital cameras	+23%	+20%

D SLR ratio*

	2H	FY
Value base	49%	46%
Unit base	16%	15%

* Percentage of digital cameras sales attributable to SLRs

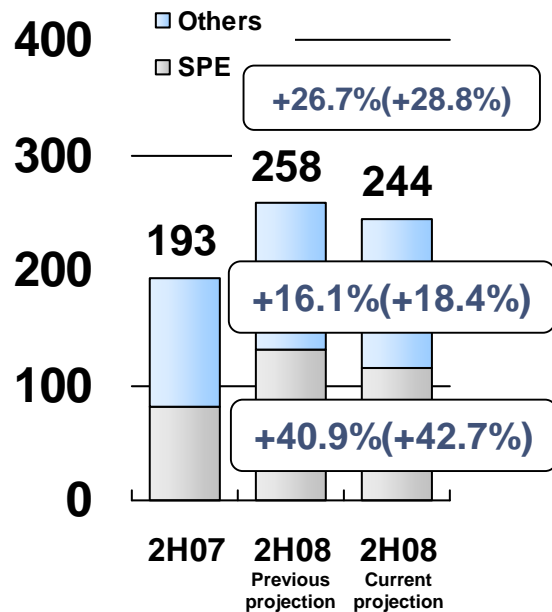
Optical and Other Products

2H&FY 2008 Current Projection

Sales

(Billions of yen)

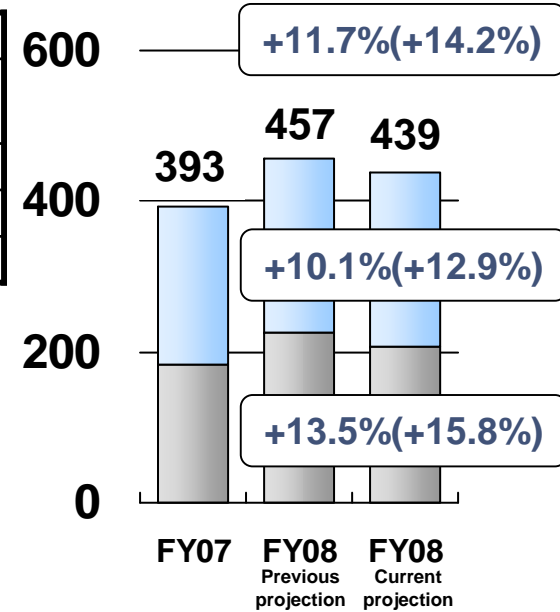
Growth rate y/y
() Local currency base



IC Stepper Unit Breakdown
by Light Source

	2H08
ArF Immersion	1
ArF Dry	3
KrF	12
i-line	21

(Billions of yen)



IC Stepper Unit Breakdown
by Light Source

	FY08
ArF Immersion	1
ArF Dry	5
KrF	38
i-line	62

SPE (Unit sales)

	2H07	2H08 Previous projection	2H08 Current projection
IC	85	64	37
LCD	16	45	50
TTL	101	109	87

SPE (Unit sales)

	FY07	FY08 Previous projection	FY08 Current projection
IC	179	132	106
LCD	29	68	73
TTL	208	200	179

Operating Profit by Product

2H&FY 2008 Current Projection

(Billions of yen)

		2008 Current Projection				2007		Pct. Change	
		Current projection	% Sales	Previous projection	% Sales	Actual	% Sales	Previous projection	Actual
2H	Bus. Machines	345.9	22.4%	349.8	22.8%	314.8	21.1%	-1.1%	+9.9%
	Cameras	184.5	26.7%	194.8	29.7%	170.1	26.9%	-5.3%	+8.5%
	Optical & Other Products	25.9	6.7%	33.9	8.2%	-0.3	-0.1%	-23.6%	
	Corp. & Eliminations	-117.3		-132.5		-116.8			
	Total	439.0	17.7%	446.0	18.2%	367.8	15.9%	-1.6%	+19.4%
FY	Bus. Machines	648.9	22.1%	659.2	22.5%	650.3	22.2%	-1.6%	-0.2%
	Cameras	297.1	24.3%	308.1	26.1%	307.4	26.7%	-3.6%	-3.4%
	Optical & Other Products	31.4	4.5%	45.8	6.3%	21.1	3.3%	-31.4%	+49.0%
	Corp. & Eliminations	-207.4		-243.1		-222.1			
	Total	770.0	16.8%	770.0	16.8%	756.7	16.9%	0.0%	+1.8%

Supplementary Information

2Q 2008

Sales and profit (excluding foreign exchange impact)

(Billions of yen)

	2Q 2008			2Q 2007 Actual
	Actual	Foreign exchange impact	Actual (excluding forex Impact)	
Net sales	1,105.9	-60.9	1,166.8	1,126.9
Gross profit	541.6	-45.3	586.9	573.9
[% sales]	49.0%		50.3%	50.9%
Op. profit	160.2	-33.8	194.0	181.5
[% sales]	14.5%		16.6%	16.1%
Foreign exchange rate				
Yen – 1USD	104.61			120.75
Yen – 1EURO	163.55			162.80

Supplementary Information

Transition in Sales and Operating Profit

2Q&1H 2008 Actual v. 2Q&1H 2007 Actual

(Billions of yen)

	2Q		1H	
	Sales	Op. Profit	Sales	Op. Profit
2007 Actual	1,126.9	181.5	2,166.7	388.9
Foreign exchange impact [net sales, cost of sales, expenses]	-60.9	-33.8	-117.3	-71.1
Sales volume impact				
Office Imaging Products	-43.4		-51.7	
Computer Peripherals	+26.0		+53.7	
Business Information Products	-5.9		-5.3	
Cameras	+77.0		+103.9	
Optical and Other Products	+0.3		-4.9	
Total	+54.0	+29.1	+95.7	54.0
Others	-14.1	-16.6	-31.7	-40.8
Total Change	-21.0	-21.3	-53.3	-57.9
2008 Actual	1,105.9	160.2	2,113.4	331.0

Change in Exchange Rate (2Q)

- 1USD: 120.75 to 104.61 Yen
- 1EURO: 162.80 to 163.55 Yen

Change in Exchange Rate (1H)

- 1USD: 120.07 to 104.69 Yen
- 1EURO: 159.77 to 160.69 Yen

Supplementary Information

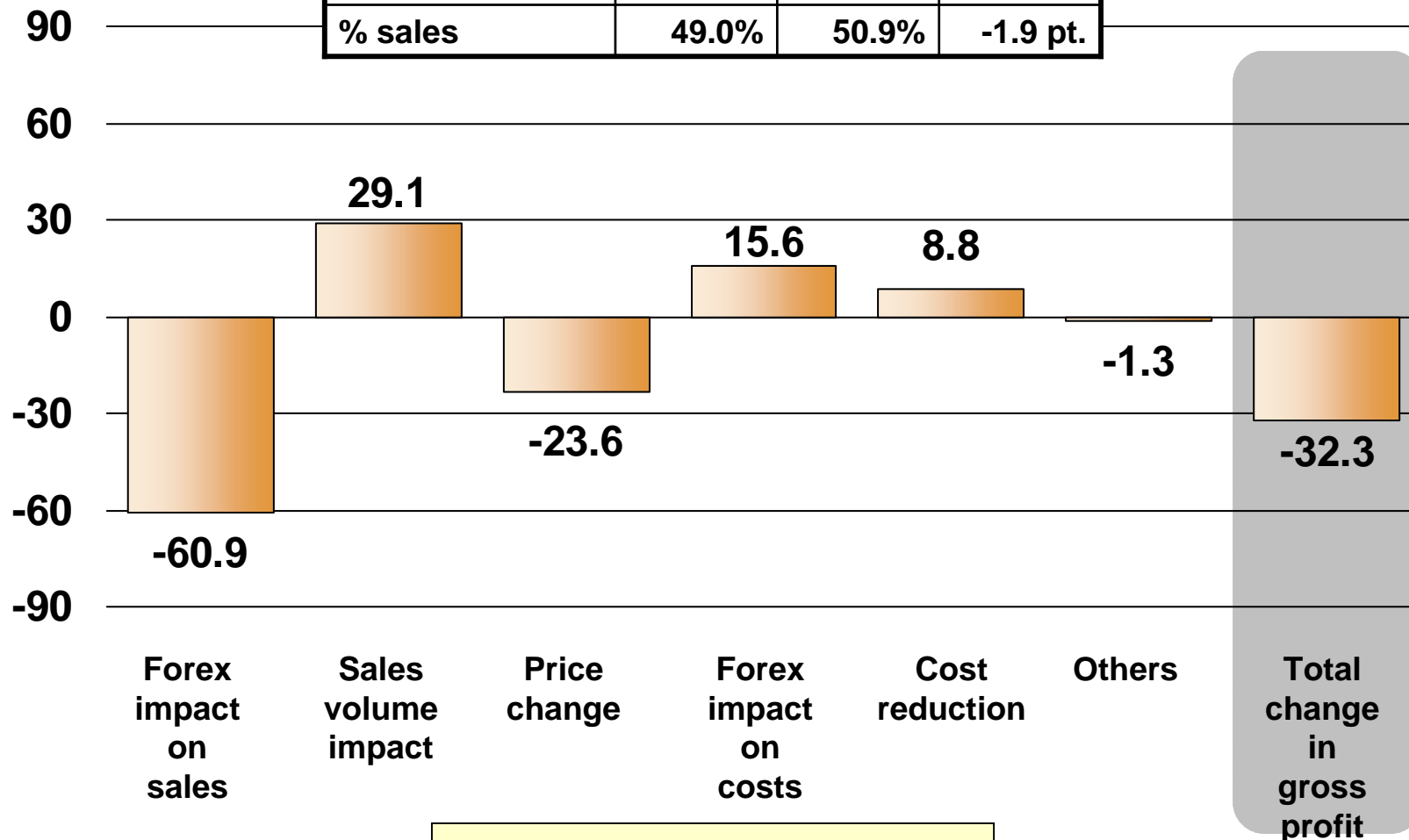
Gross Profit Variance Analysis

2Q 2008 Actual v. 2Q 2007 Actual

(Billions of yen)

(Billions of yen)

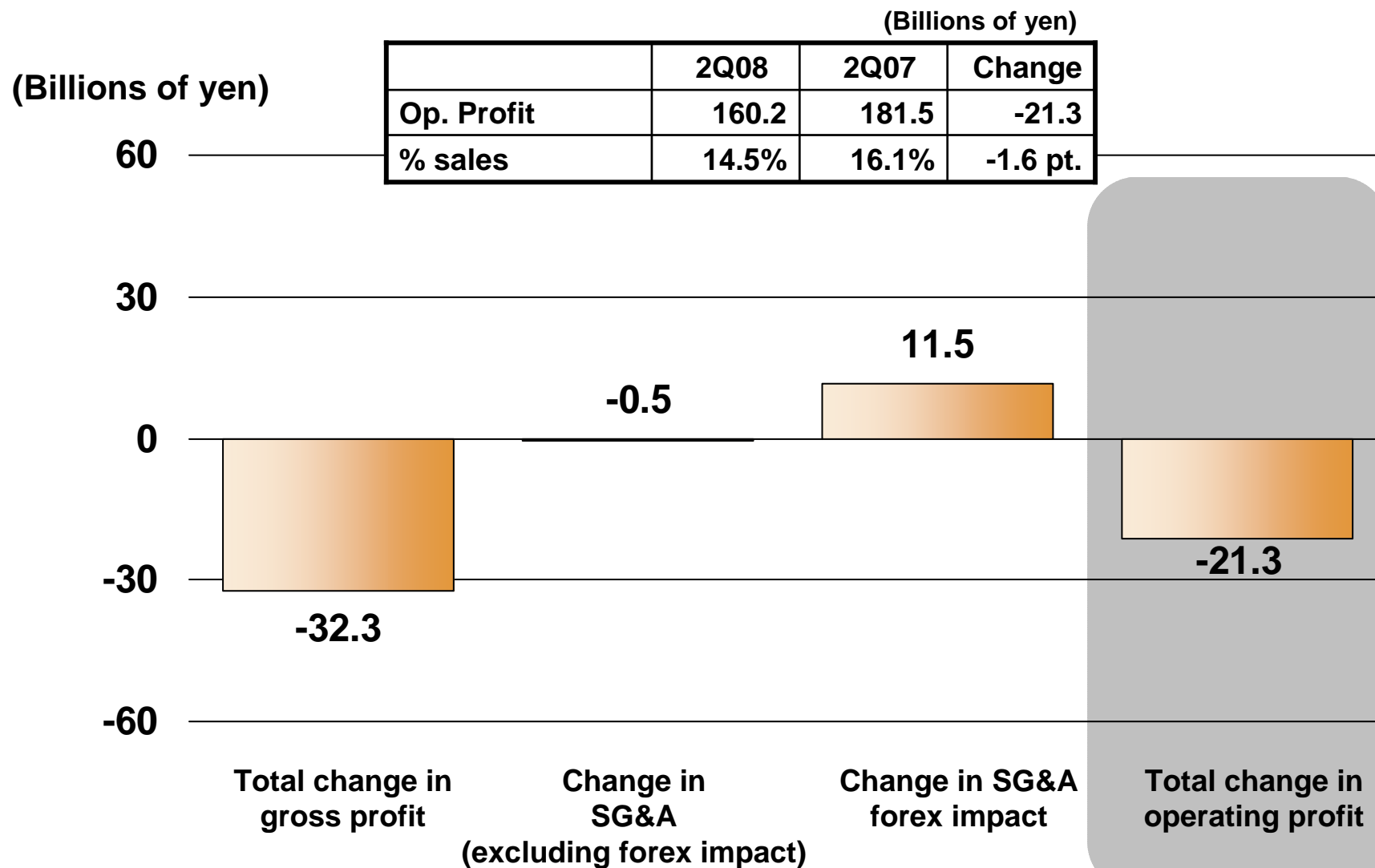
	2Q08	2Q07	Change
Gross Profit	541.6	573.9	-32.3
% sales	49.0%	50.9%	-1.9 pt.



Supplementary Information

Operating Profit Variance Analysis

2Q 2008 Actual v. 2Q 2007 Actual



Supplementary Information

Transition in Sales and Operating Profit

2H&FY 2008 Current Projection v. 2H&FY 2007 Actual

(Billions of yen)

	2H		FY	
	Sales	Op. Profit	Sales	Op. Profit
2007 Actual	2,314.6	367.8	4,481.3	756.7
Foreign exchange impact [net sales, cost of sales, expenses]	-91.6	-49.2	-208.9	-120.3
Sales volume impact				
Office Imaging Products	+30.6		-21.1	
Computer Peripherals	+98.6		+152.3	
Business Information Products	-0.1		-5.4	
Cameras	+147.4		+251.3	
Optical and Other Products	+51.9		+47.0	
Total	+328.4	+158.4	+424.1	+212.4
Others	-74.8	-38.0	-106.5	-78.8
Total Change	+162.0	+71.2	+108.7	+13.3
2008 Current Projection (July 24, 2008)	2,476.6	439.0	4,590.0	770.0

Change in Exchange Rate (2H)

- 1USD: 115.20 to 105.00 Yen
- 1EURO: 162.96 to 165.00 Yen

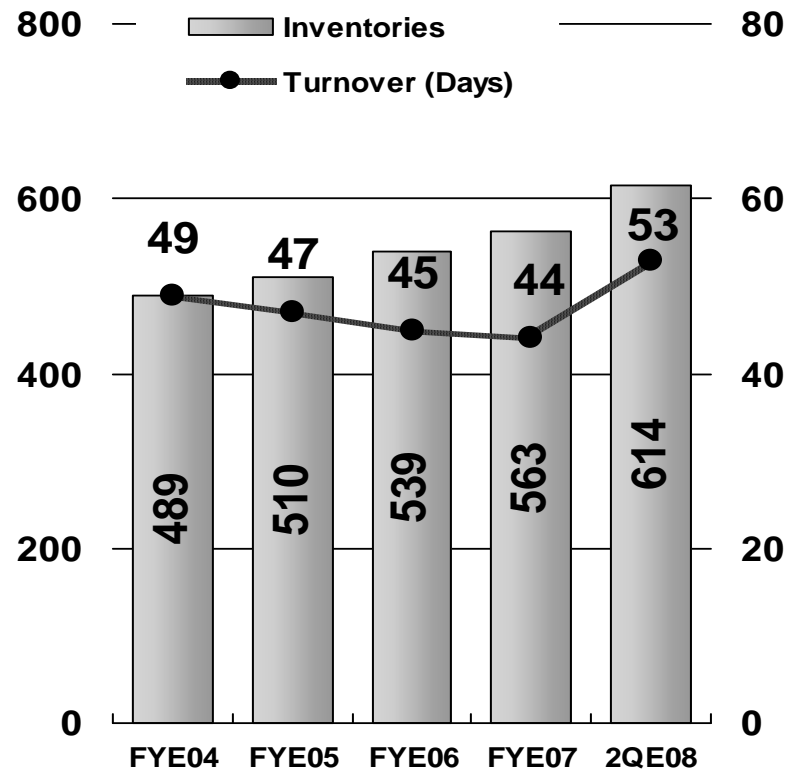
Change in Exchange Rate (FY)

- 1USD: 117.50 to 104.86 Yen
- 1EURO: 161.41 to 163.03 Yen

Supplementary Information

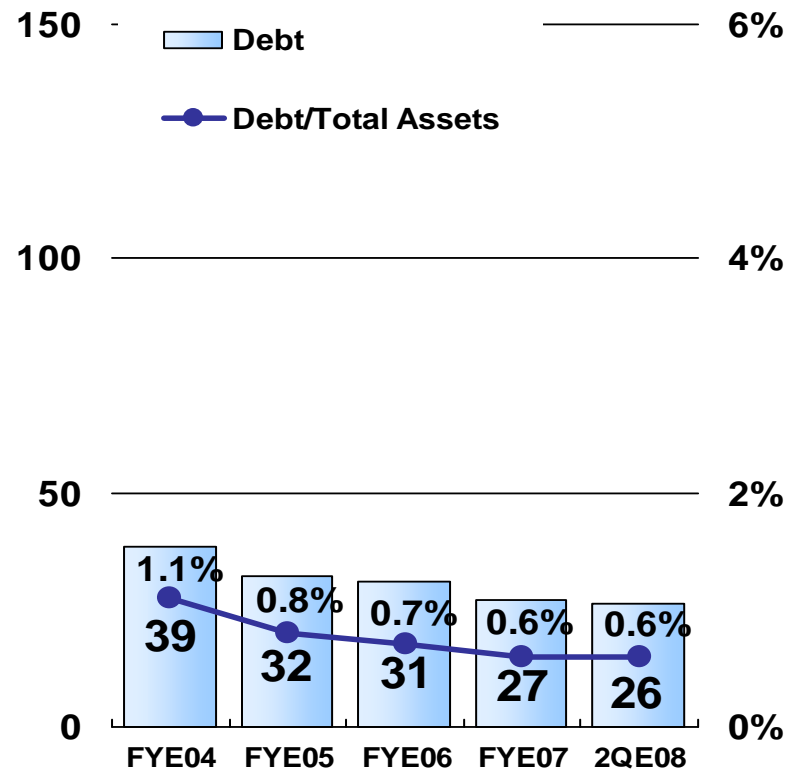
Inventories

(Billions of yen)



Interest Bearing Debt

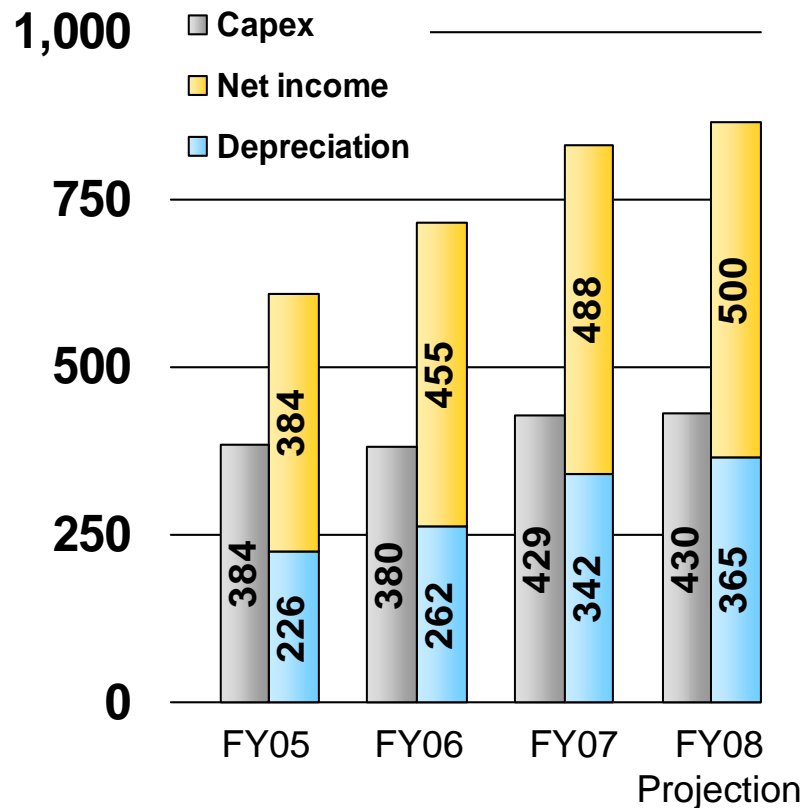
(Days) (Billions of yen)



Supplementary Information

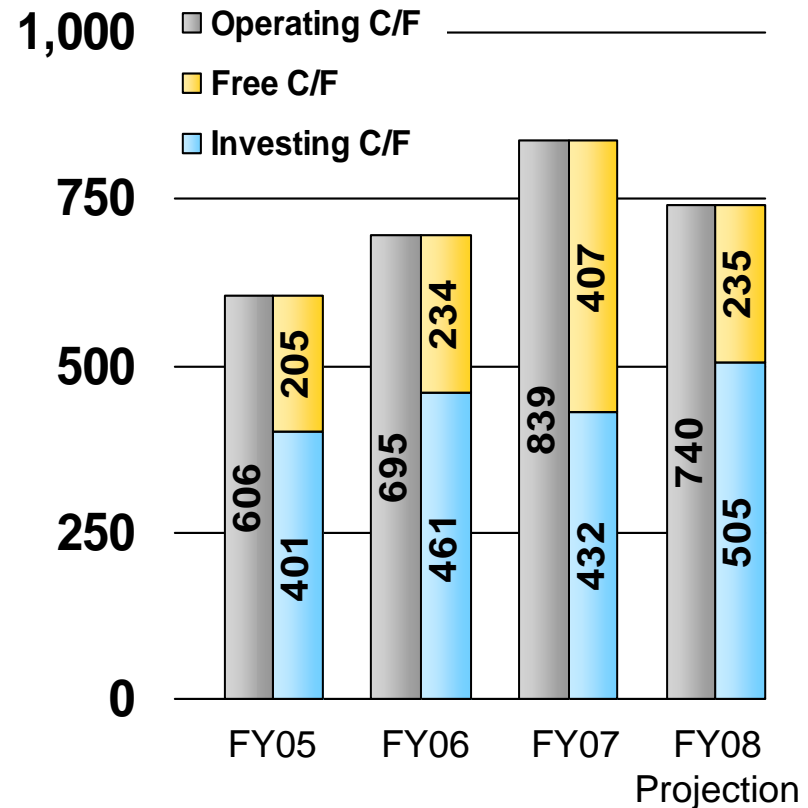
Capital Expenditure

(Billions of yen)



Free Cash Flow

(Billions of yen)



[Major Expenditures in 2008]

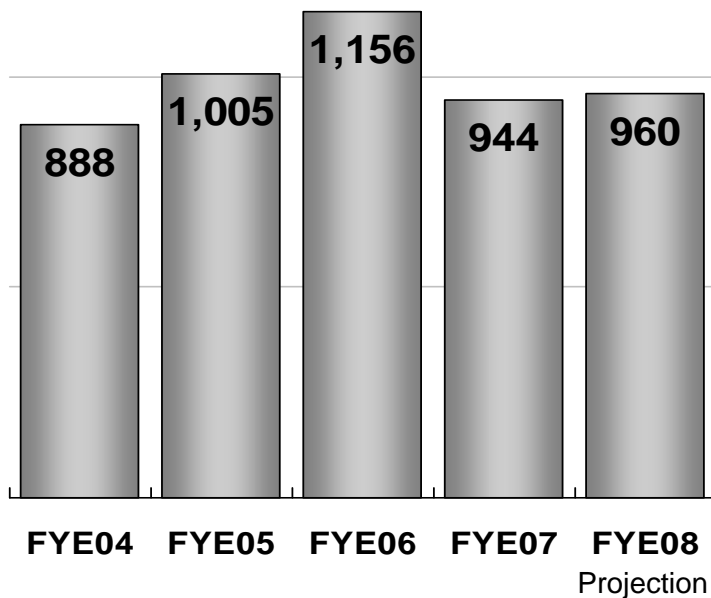
- New factory (Oita Canon Materials)
- Production engineering base (Yanagicho, Kawasaki City)
- Automated machinery for cartridge production
- Production equipment for toner
- New factory building (Canon Precision)

Supplementary Information

Cash on Hand and Return to Shareholders

Cash on Hand (Year-end)

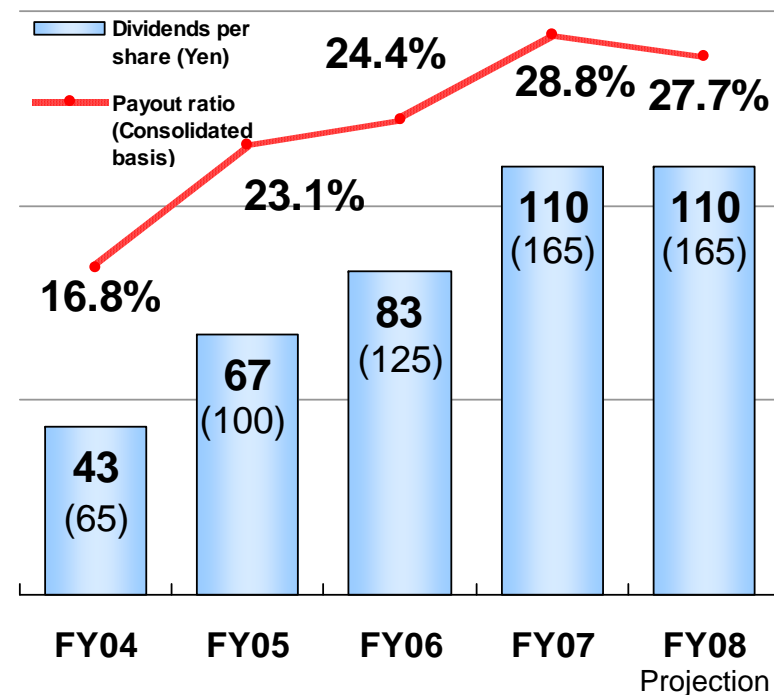
(Billions of yen)



*Approx. 450 billion yen used to purchase own shares in FY2007

Dividend

*Figures in parenthesis represent dividend per share expressed on a pre- 3-for-2 forward stock split basis (effective date July 1, 2006)



Supplementary Information

Financial Ratios

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

