



# Canon Inc.

## Third Quarter 2008 Results

October 27, 2008

**Masahiro Osawa**

Managing Director, Group Executive  
Finance and Accounting Headquarters

---

This presentation contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project" or "should" and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this presentation. A detailed description of these and other risk factors is included in Canon's annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

# Agenda

FY 2008 Current Projection P3

---

3Q 2008 Actual P4-6

---

4Q&2H Current Projection P7-12

---

Details by Business P13-24

---

Cash-on-hand & Return to Shareholders P25

---

Supplementary Information P26-33

---

# Summary of Projected Results

## FY 2008 Current Projection

(Billions of yen)

	FY 2008 Current projection	FY 2008 Previous projection	FY 2007 Actual	Pct. change	
				Previous projection	Actual
Net sales	<b>4,250.0</b>	<b>4,590.0</b>	<b>4,481.3</b>	-7.4%	-5.2%
Gross profit	<b>2,035.0</b>	<b>2,261.1</b>	<b>2,247.0</b>	-10.0%	-9.4%
[% sales]	47.9%	49.3%	50.1%		
Op. profit	<b>580.0</b>	<b>770.0</b>	<b>756.7</b>	-24.7%	-23.3%
[% sales]	13.6%	16.8%	16.9%		
Net income	<b>375.0</b>	<b>500.0</b>	<b>488.3</b>	-25.0%	-23.2%
[% sales]	8.8%	10.9%	10.9%		
Foreign exchange rate					
Yen – 1USD	104.07	104.86	117.50		
Yen – 1EURO	153.23	163.03	161.41		

# 3Q 2008 in Summary

## Environment and special factors

- ✓ Economic weakness that began in the U.S. spreads to Europe and other regions
- ✓ Significant Y/Y appreciation of the yen against the U.S. dollar
- ✓ Steep rise in raw material prices, pushes up cost

## Results

- ✓ Decrease in net sales and profits, due to external environment that was more severe than expected
- ✓ Launched new products on schedule
- ✓ Further reduced SG&A expenses by concerted group effort

# Summary of Results

3Q 2008 Actual

(Billions of yen)

	3Q 2008 Actual	3Q 2007 Actual	Pct. change	Pct. change (excluding forex impact)
<b>Net sales</b>	<b>986.0</b>	<b>1,050.8</b>	-6.2%	-3.1%
<b>Gross profit</b> [% sales]	<b>475.2</b> 48.2%	<b>528.4</b> 50.3%	-10.1%	
<b>Op. profit</b> [% sales]	<b>129.3</b> 13.1%	<b>174.2</b> 16.6%	-25.8%	-17.8%
<b>Net income</b> [% sales]	<b>83.0</b> 8.4%	<b>105.3</b> 10.0%	-21.1%	
<b>Foreign exchange rate</b>				
Yen – 1USD	107.61	117.67		
Yen – 1EURO	161.29	161.82		

# Transition in Sales and Op. Profit

3Q 2008 Actual v. 3Q 2007 Actual

(Billions of yen)

	Sales	Op. Profit
3Q 2007 Actual	1,050.8	174.2
Foreign exchange impact [net sales, cost of sales, expenses]	-32.2	-14.0
Sales volume impact		
Office Imaging Products	-19.4	
Computer Peripherals	+10.8	
Business Information Products	-1.6	
Cameras	+18.6	
Optical and Other Products	-13.1	
Total	-4.7	-1.7
Others	-27.9	-29.2
Total Change	-64.8	-44.9
3Q 2008 Actual	986.0	129.3

## Change in Exchange Rate

- 1USD: 117.67 to 107.61 yen
- 1EURO: 161.82 to 161.29 yen

# Assumptions

4Q 2008

Average Exchange Rate	4Q08	FY08	FY07
■ Yen-1USD	100.00 yen	104.07 yen	117.50 yen
■ Yen-1EURO	135.00 yen	153.23 yen	161.41 yen

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

	Net sales	Operating profit
■ USD	4.6 billion yen	2.6 billion yen
■ EURO	2.2 billion yen	1.7 billion yen

# Key Points

4Q 2008

## Assumptions

- ✓ Economic weakness spreading globally against a backdrop of financial crisis
- ✓ Significant Y/Y appreciation of the yen
- ✓ Raw material prices remain at a high level

## Projections

- ✓ Decrease in net sales and profits, amid severe environment
- ✓ Work to improve mobility and maintain sound financial condition by taking prompt actions to thoroughly curtail inventory
- ✓ Continue efforts to actively develop and launch new products and realize further reductions in costs and expenses



# Accelerated Launch of New Product

Core new products announced in Japan this year



EOS KISS X2



EOS KISS F



EOS 50D



EOS 5D Mark II



IXY DIGITAL  
20 IS



PowerShot  
G10



PowerShot  
SX1 IS



ivis HF11



imagePRESS C6000



imagePRESS C1+



Satera LBP5050



iR C2550F

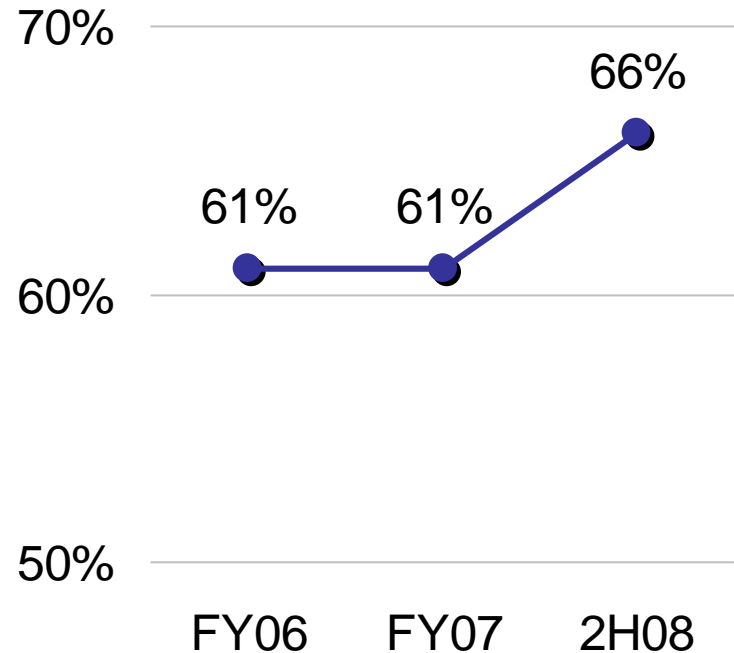


PIXUS  
MX7600



PIXUS  
MP980

## New Product Sales Ratio



Note: Product names are those used in the Japanese market

Note: New products are those launched within the past two years

# Summary of Projected Results

## 4Q 2008 Current Projection

(Billions of yen)

	4Q 2008 Current projection	4Q 2007 Actual	Pct. change	Pct. change (excluding forex impact)
<b>Net sales</b>	<b>1,150.6</b>	<b>1,263.8</b>	-9.0%	+1.2%
<b>Gross profit</b> [% sales]	<b>518.4</b> 45.1%	<b>611.1</b> 48.4%	-15.2%	
<b>Op. profit</b> [% sales]	<b>119.8</b> 10.4%	<b>193.6</b> 15.3%	-38.1%	-1.1%
<b>Net income</b> [% sales]	<b>77.5</b> 6.7%	<b>127.8</b> 10.1%	-39.4%	
<b>Foreign exchange rate</b>				
Yen – 1USD	100.00	113.19		
Yen – 1EURO	135.00	163.86		

# Transition in Sales and Op. Profit

4Q 2008 Current Projection v. 4Q 2007 Actual

(Billions of yen)

	Sales	Op. Profit
4Q 2007 Actual	1,263.8	193.6
Foreign exchange impact [net sales, cost of sales, expenses]	-128.8	-71.7
Sales volume impact		
Office Imaging Products	-19.2	
Computer Peripherals	-22.8	
Business Information Products	-1.8	
Cameras	+57.4	
Optical and Other Products	+39.5	
Total	+53.1	+18.0
Others	-37.5	-20.1
Total Change	-113.2	-73.8
4Q 2008 Current Projection	1,150.6	119.8

**Change in Exchange Rate**

- 1USD: 113.19 to 100.00 yen
- 1EURO: 163.86 to 135.00 yen

# Transition in Sales and Op. Profit

2H 2008 Current Projection v. 2H 2008 Previous Projection

(Billions of yen)

	Sales	Op. Profit
2H 2008 Previous projection <small>(Jul. 24, 2008)</small>	2,476.6	439.0
Foreign exchange impact [net sales, cost of sales, expenses]	-70.0	-65.7
Sales volume impact		
Office Imaging Products	-69.2	
Computer Peripherals	-110.6	
Business Information Products	-3.3	
Cameras	-71.4	
Optical and Other Products	-25.5	
Total	-280.0	-142.1
Others	+10.0	+17.8
Total Change	-340.0	-190.0
2H 2008 Current projection <small>(Oct. 27, 2008)</small>	2,136.6	249.0

## Change in Exchange Rate

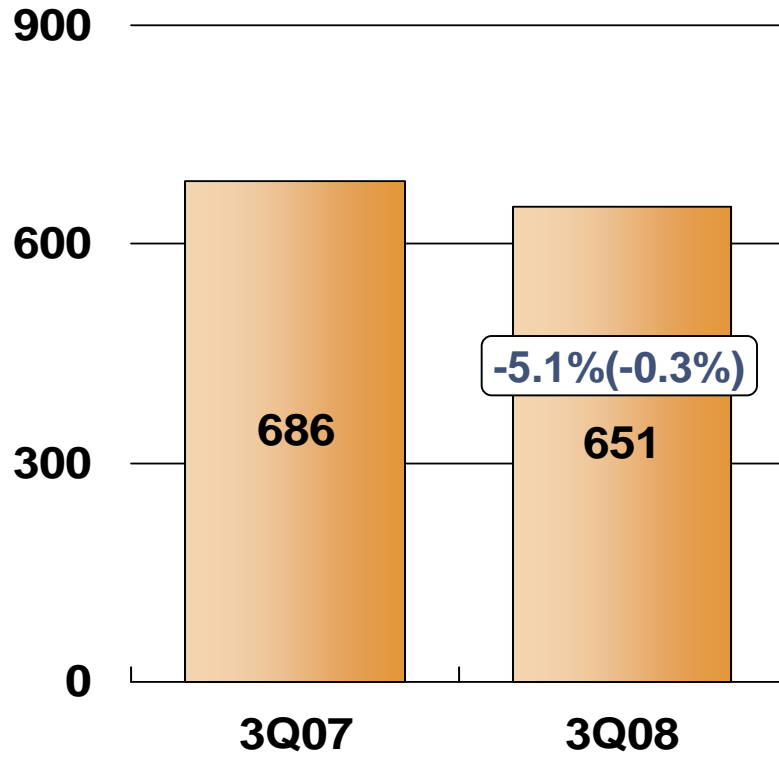
- 1USD: 105.00 to 103.49 yen
- 1EURO: 165.00 to 146.08 yen

# Business Machines

3Q 2008 Actual

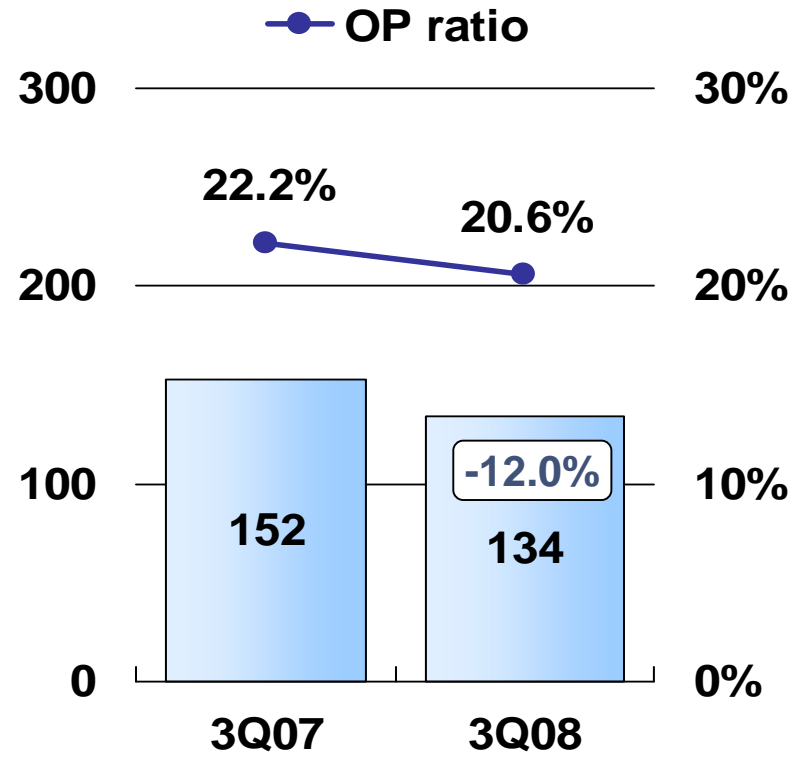
## Sales

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



## Operating Profit

(Billions of yen)

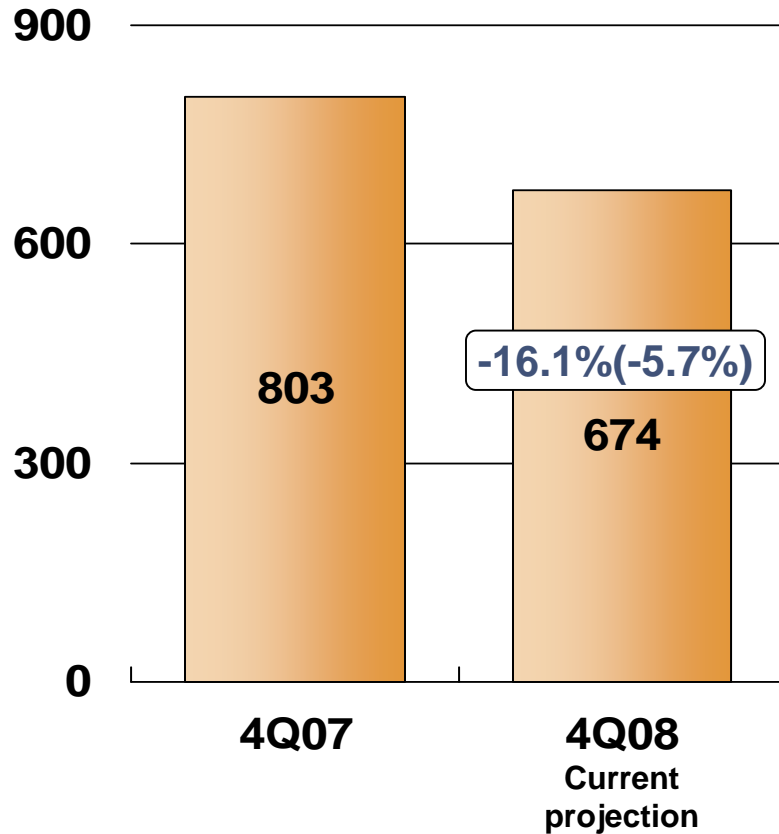


# Business Machines

4Q 2008 Current Projection

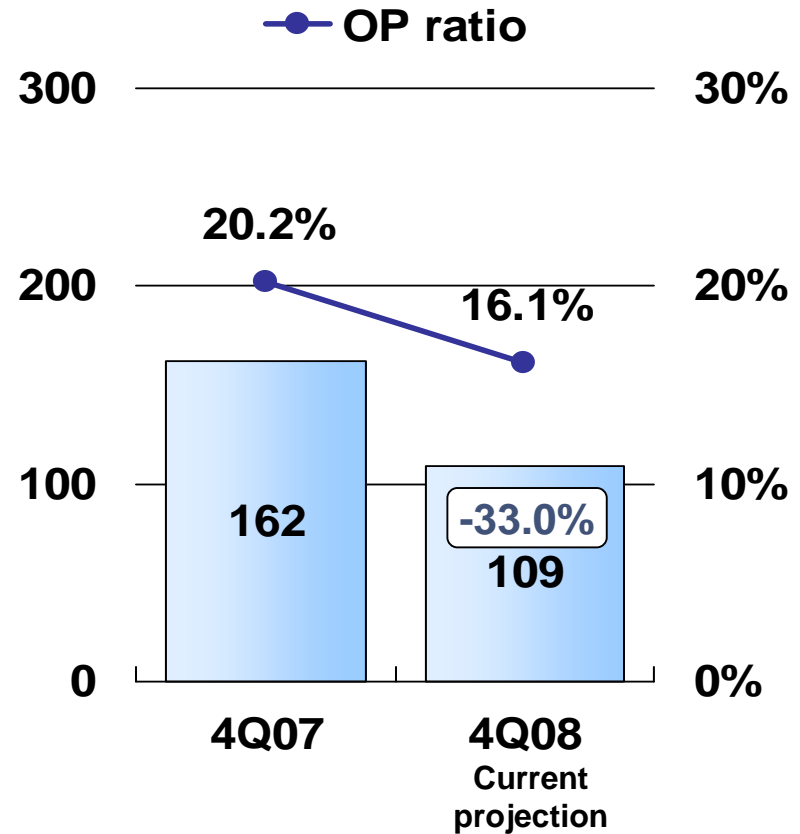
## Sales

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



## Operating Profit

(Billions of yen)

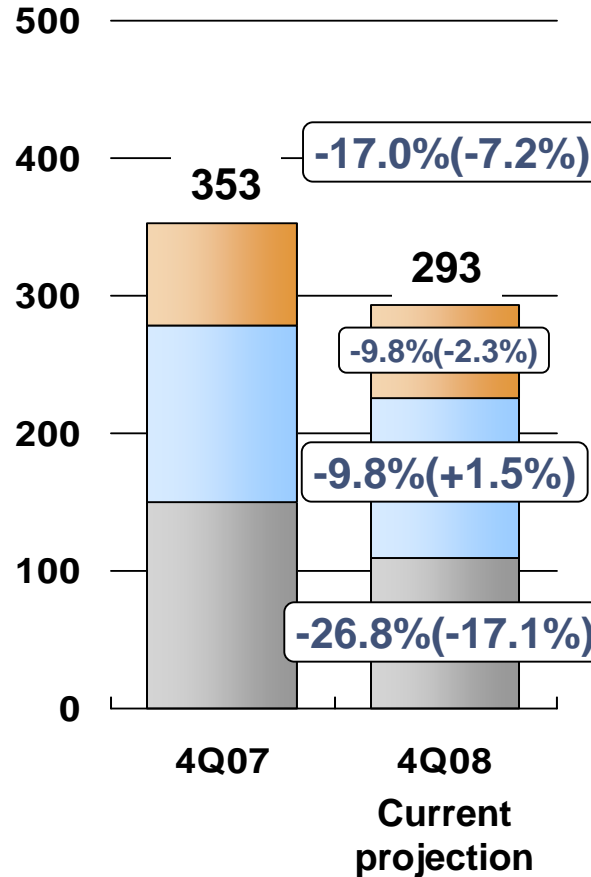
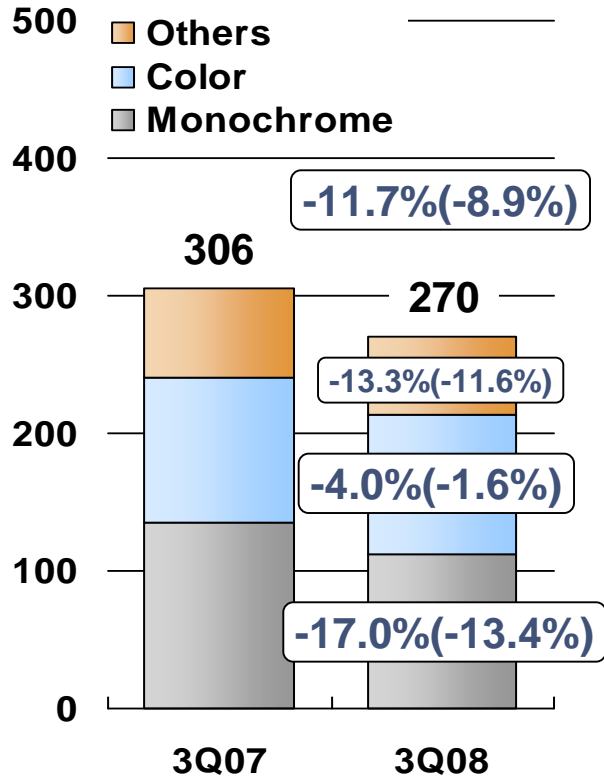


# Office Imaging Products

3Q 2008 Actual / 4Q 2008 Current Projection

## Sales

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



Growth rate y/y (Unit base)		
Copying machines	3Q	4Q
Color	+2%	+2%
Mono-chrome	-9%	-14%
Total	-6%	-11%

### Color ratio (Copying machines)

	3Q	4Q
Value base*	48%	51%
Unit base	24%	26%

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."

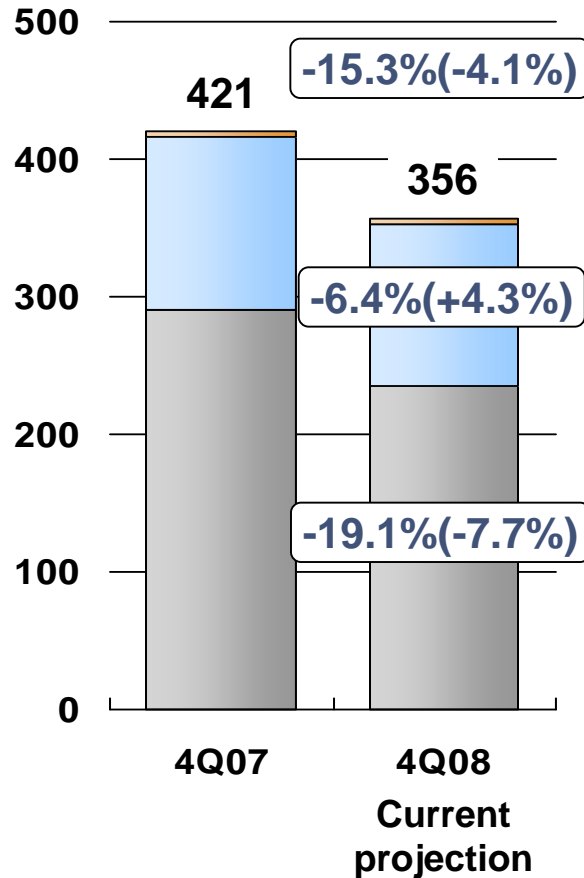
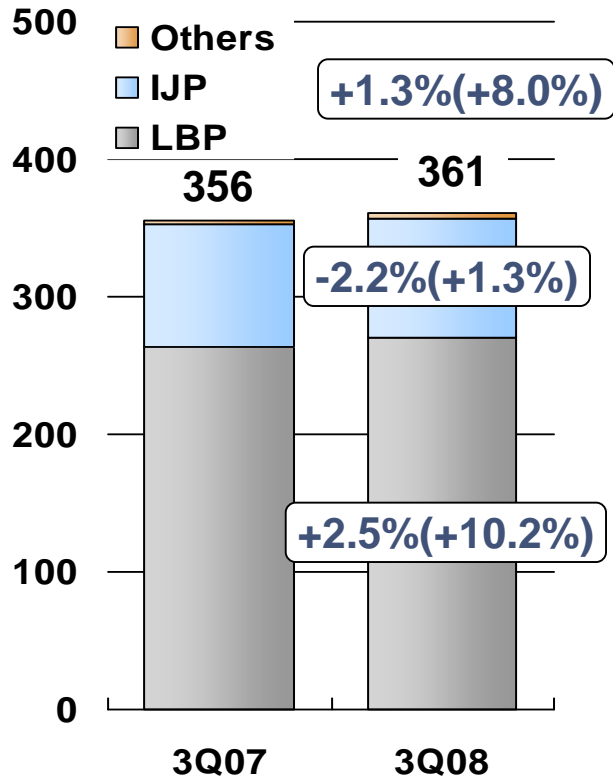
# Computer Peripherals

3Q 2008 Actual / 4Q 2008 Current Projection

## Sales

(Billions of yen)

Growth rate y/y  
( ) Local currency base



Growth rate y/y (Unit base)		
LBP	3Q	4Q
Color	+6%	-37%
Mono-chrome	-1%	-36%
Total	0%	-36%

### Color ratio (LBP)

	3Q	4Q
Value base*	42%	42%
Unit base	14%	12%

\*Includes consumables

Growth rate y/y (Unit base)		
	3Q	4Q
IJP	+5%	+7%

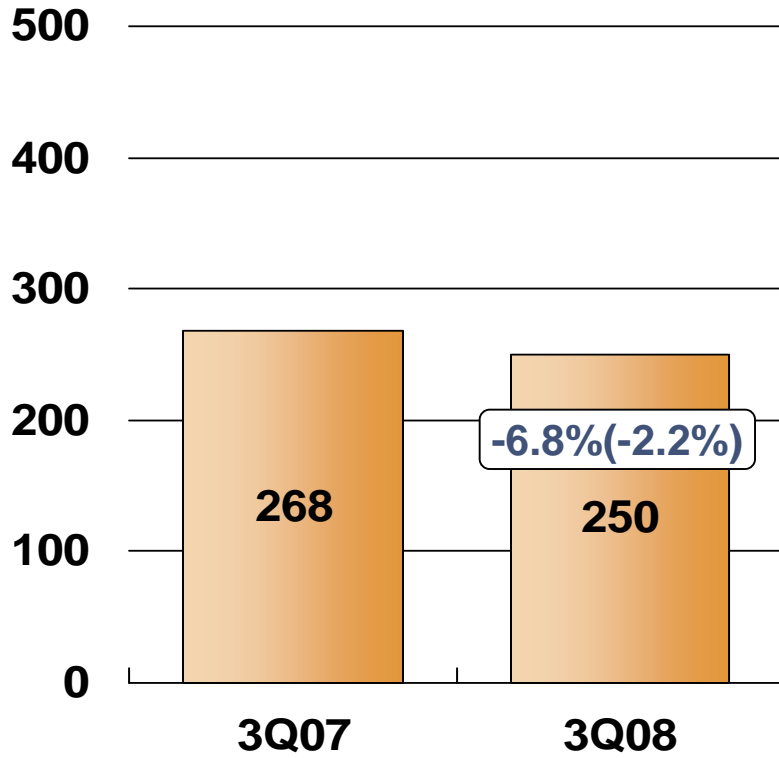


# Cameras

3Q 2008 Actual

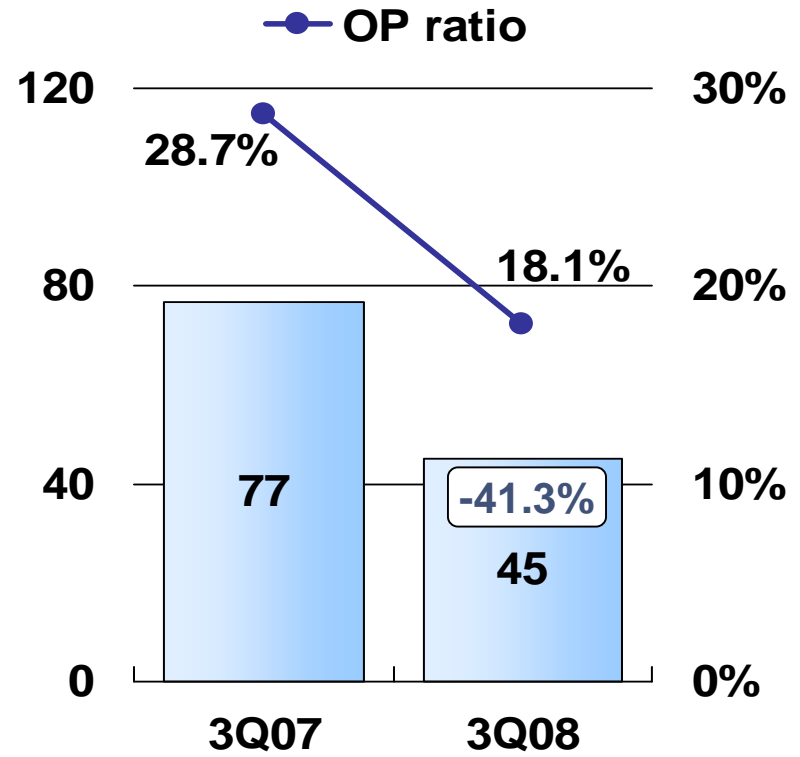
## Sales

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



## Operating Profit

(Billions of yen)

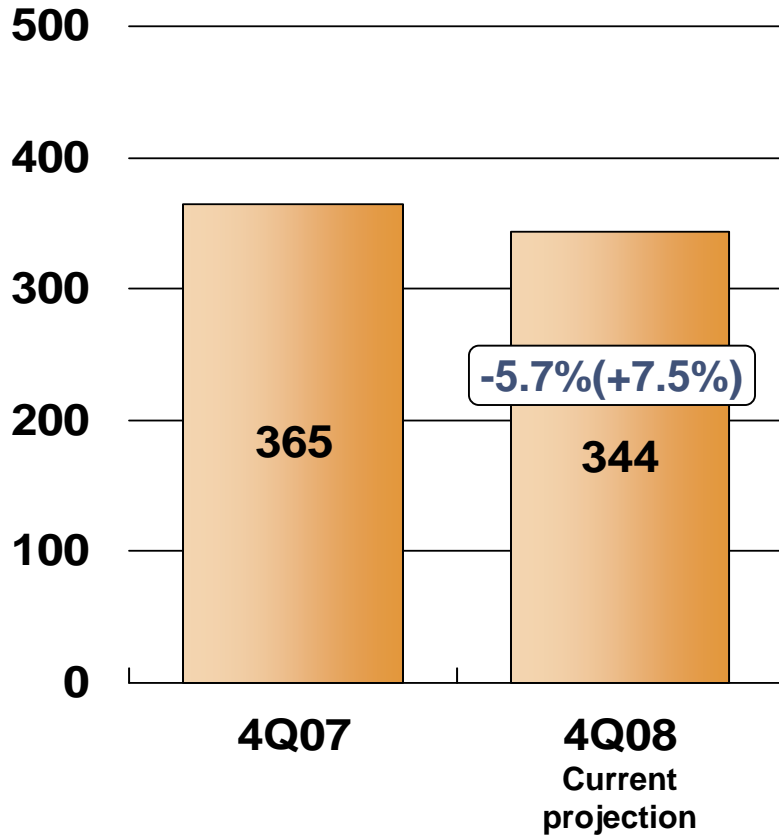


# Cameras

4Q 2008 Current Projection

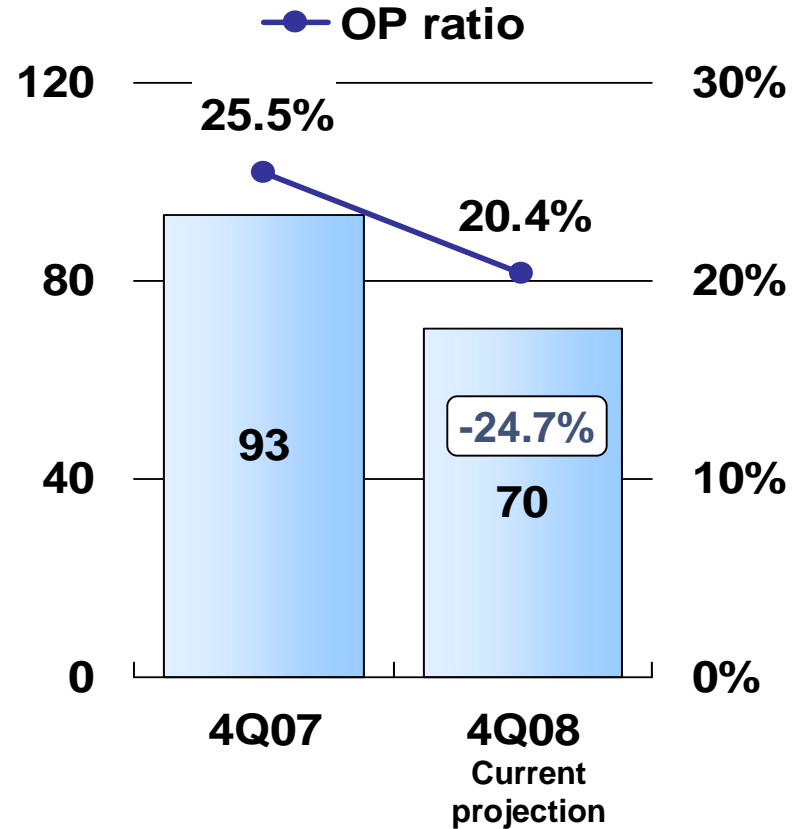
## Sales

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



## Operating Profit

(Billions of yen)



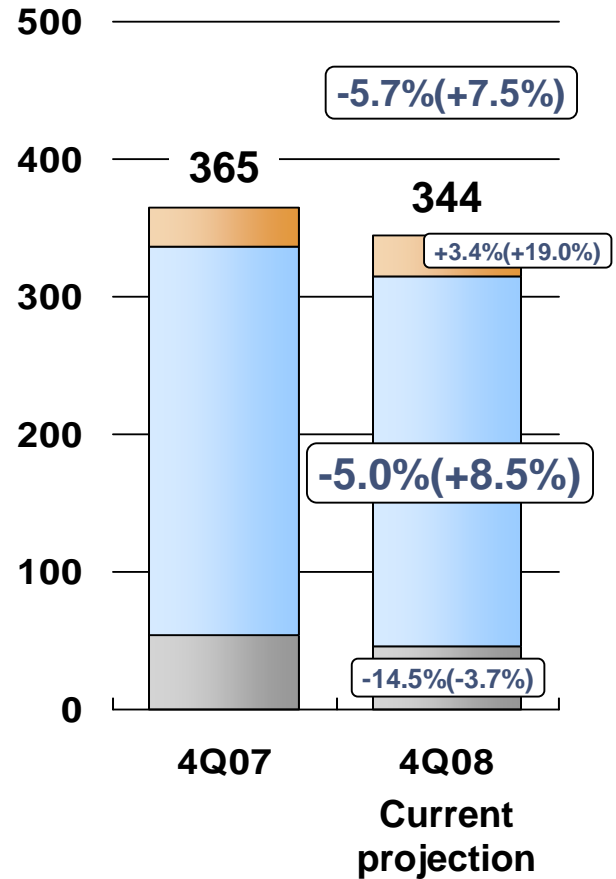
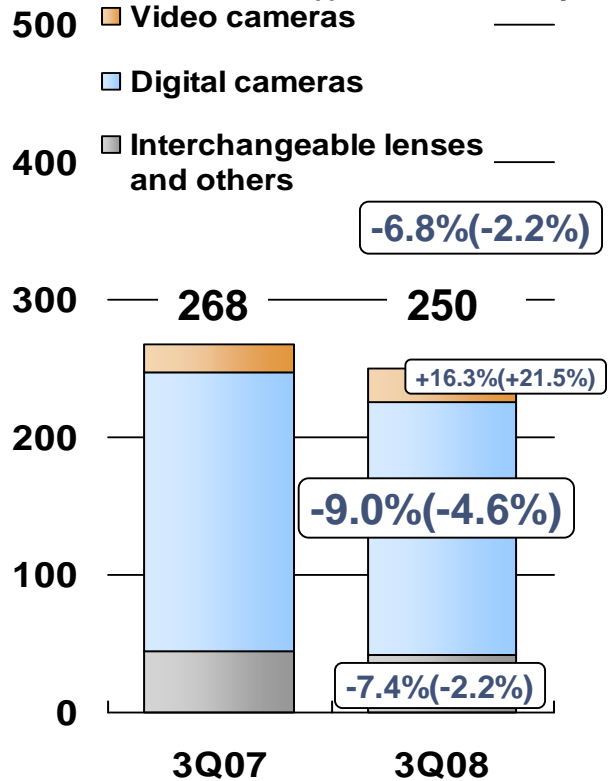
# Cameras

3Q 2008 Actual / 4Q 2008 Current Projection

## Sales

(Billions of yen) Growth rate y/y

( ) Local currency base



Growth rate y/y (Unit base)		
	3Q	4Q
Digital cameras	+4%	+18%

D SLR ratio\*

	3Q	4Q
Value base	48%	53%
Unit base	16%	18%

\* Percentage of digital camera sales attributable to SLRs

# High-performance "DIGIC 4" Image Processor



Faster Processing Speeds  
Higher Image Quality



**EOS 5D**  
Mark II



**EOS 50D**



*PowerShot G10*



*PowerShot SX1 IS*



*PowerShot SX10 IS*



**IXY DIGITAL 3000 IS**



**IXY DIGITAL 920 IS**

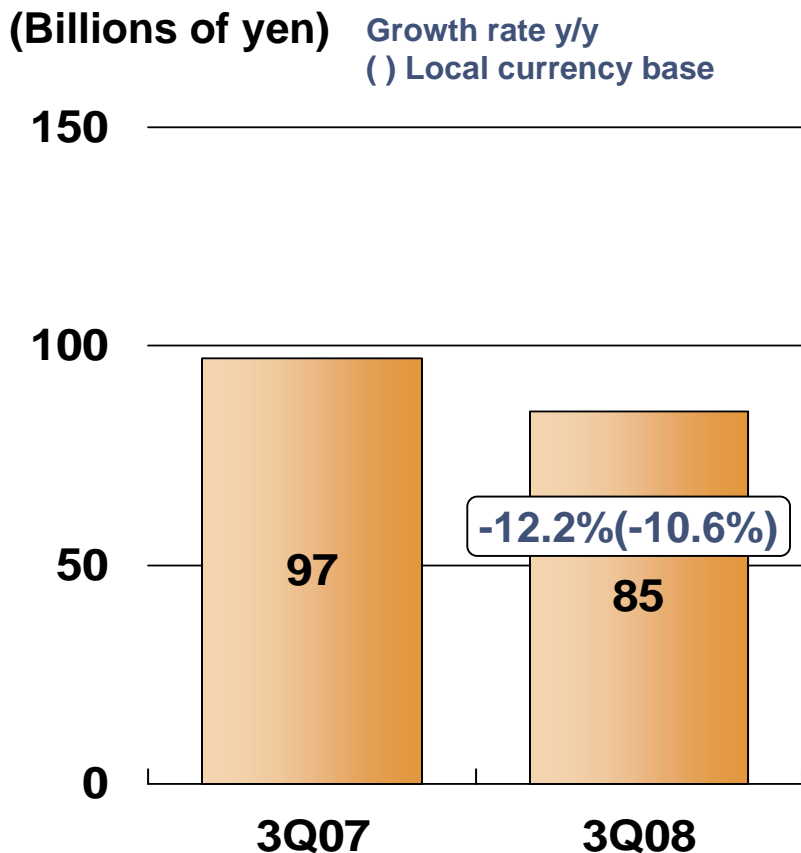


Note: Product names are those used in the Japanese market

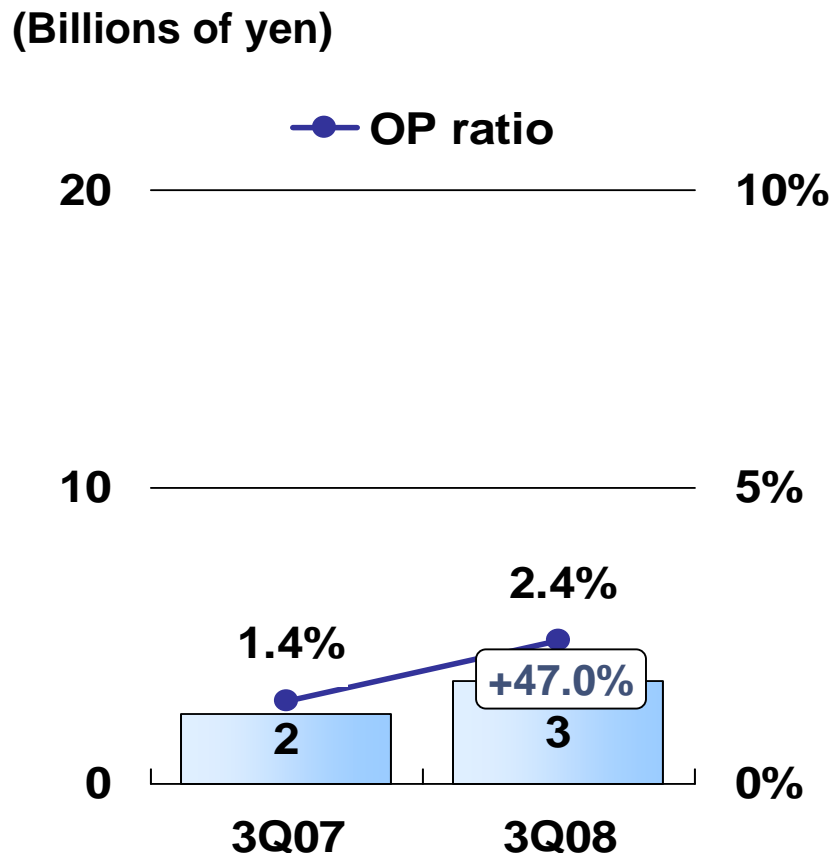
# Optical and Other Products

3Q 2008 Actual

## Sales



## Operating Profit



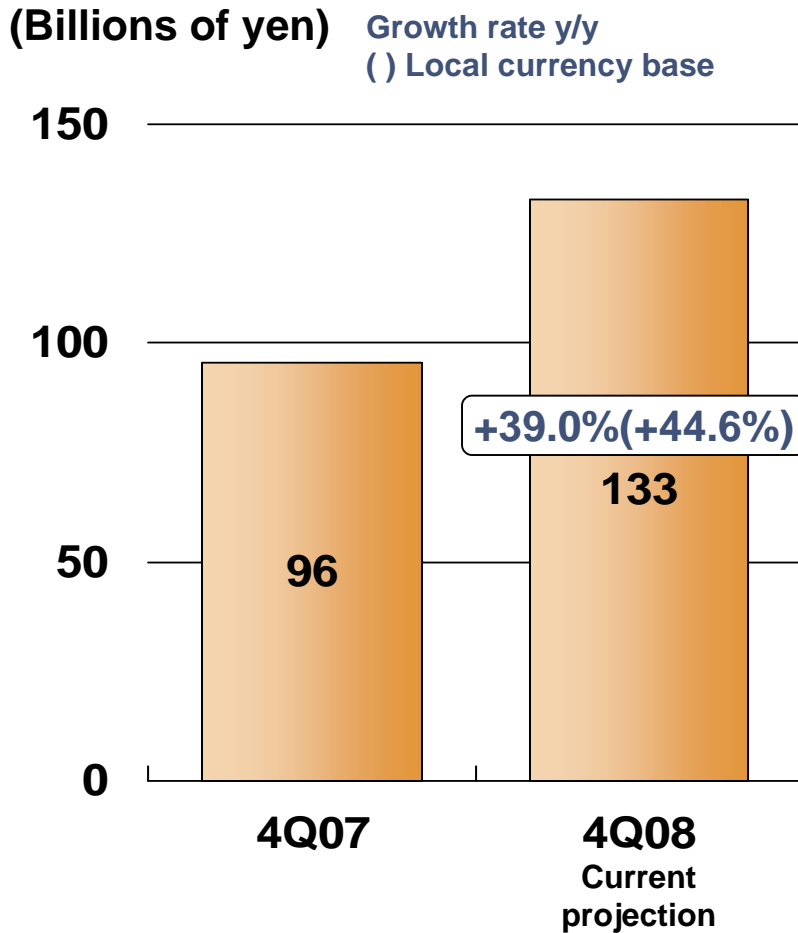
\*Excluding inter-segment sales

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

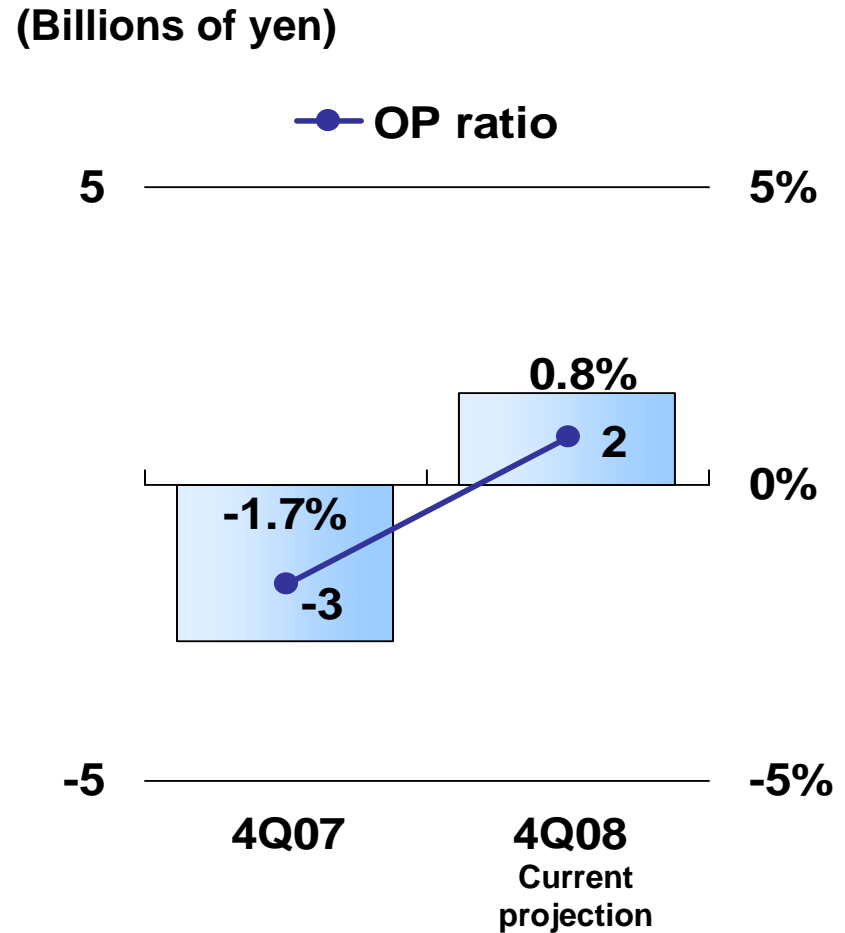
# Optical and Other Products

4Q 2008 Current Projection

## Sales



## Operating Profit



\*Excluding inter-segment sales

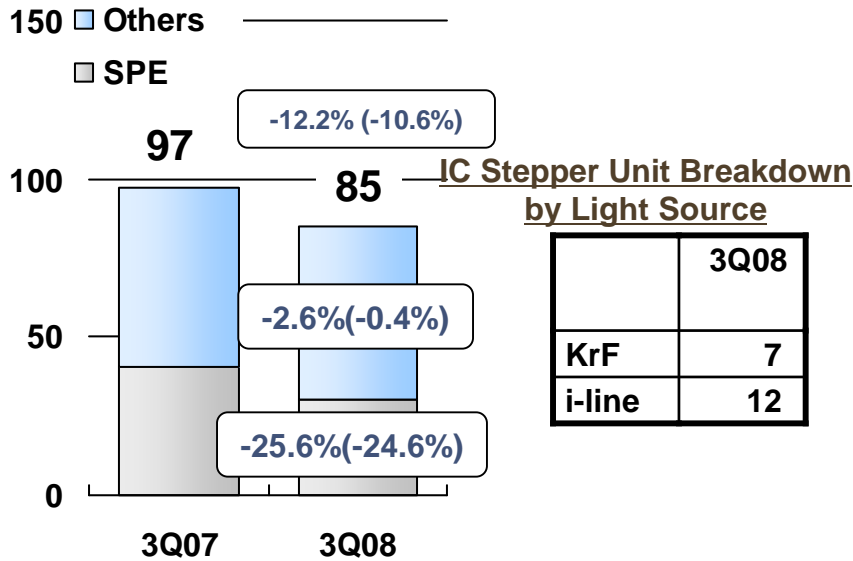
\*Calculation of operating profit margin includes inter-segment sales

# Optical and Other Products

3Q 2008 Actual / 4Q 2008 Current Projection

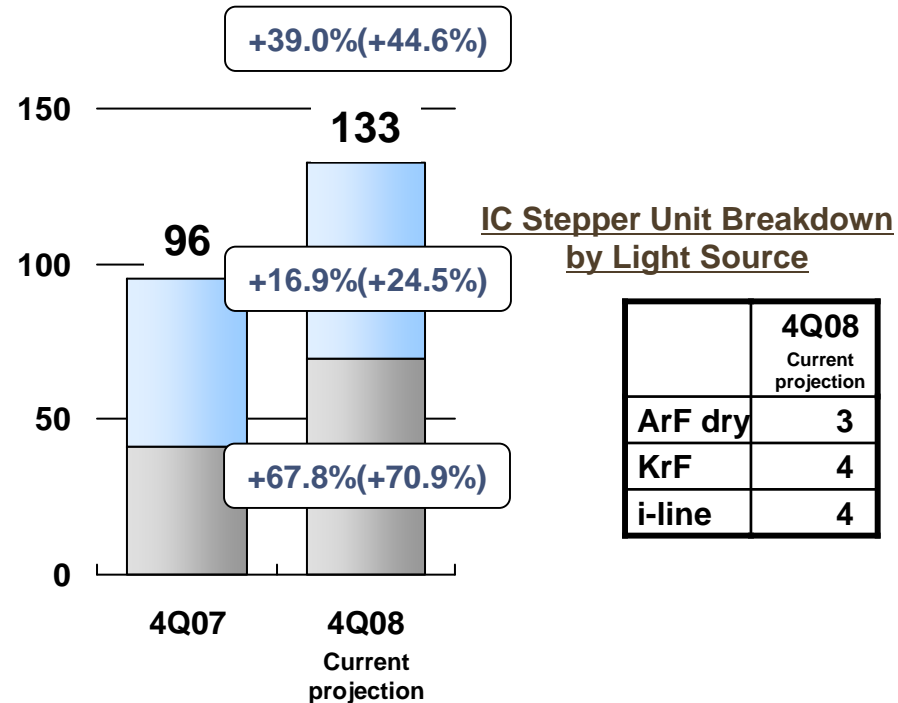
## Sales

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



### SPE (Unit sales)

	3Q07	3Q08
IC	42	19
LCD	10	15
TTL	52	34



### SPE (Unit sales)

	4Q07	4Q08 Current projection
IC	43	11
LCD	6	33
TTL	49	44

# Operating Profit by Segment

FY 2008 Current Projection

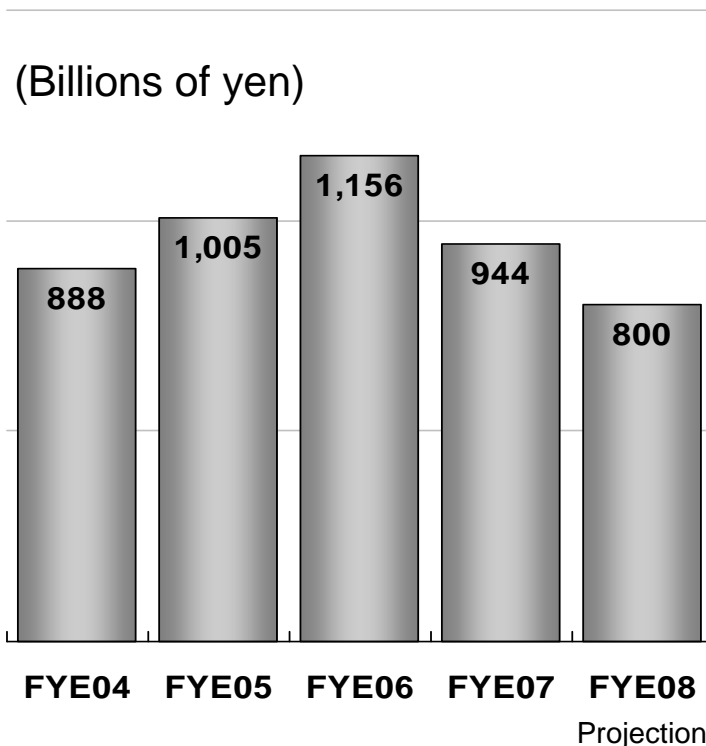
(Billions of yen)

	FY 2008 Current Projection	FY 2008 Previous Projection	FY 2007 Actual	Pct. Change	
				Previous Projection	Actual
<b>Business machines</b> [% sales]	<b>545.8</b> 20.1%	<b>648.9</b> 22.1%	<b>650.3</b> 22.2%	<b>-15.9%</b>	<b>-16.1%</b>
<b>Cameras</b> [% sales]	<b>227.9</b> 20.3%	<b>297.1</b> 24.3%	<b>307.4</b> 26.7%	<b>-23.3%</b>	<b>-25.9%</b>
<b>Optical and Other Products</b> [% sales]	<b>10.5</b> 1.6%	<b>31.4</b> 4.5%	<b>21.1</b> 3.3%	<b>-66.6%</b>	<b>-50.2%</b>
<b>Corporate and Eliminations</b>	<b>-204.2</b>	<b>-207.4</b>	<b>-222.1</b>		
<b>Total</b> [% sales]	<b>580.0</b> 13.6%	<b>770.0</b> 16.8%	<b>756.7</b> 16.9%	<b>-24.7%</b>	<b>-23.3%</b>



# Cash on Hand and Return to Shareholders

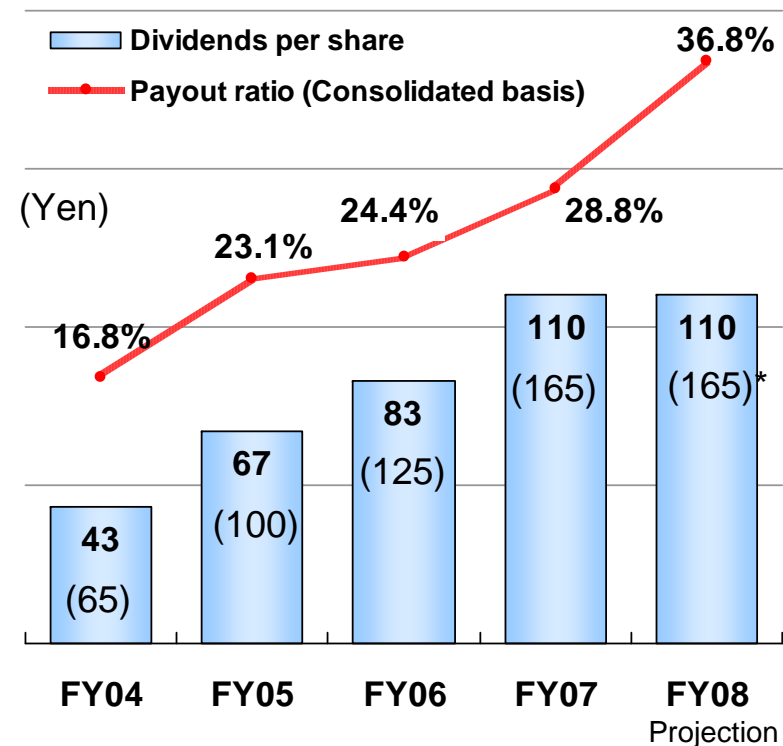
## Cash on Hand (Year-end)



Note: In 2007, 450 billion yen was used to acquire own share.  
In 2008, 50 billion yen.

## Dividend

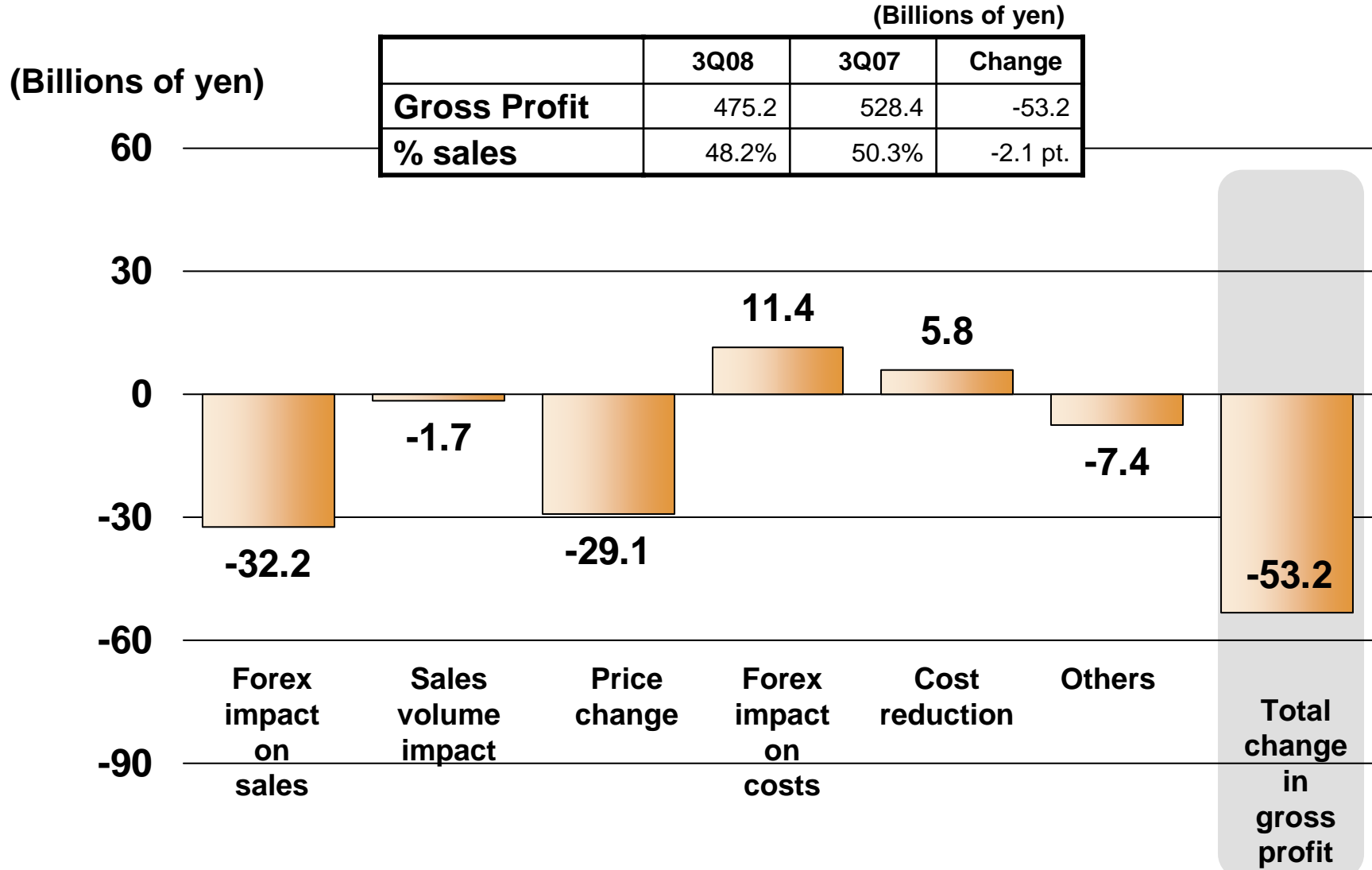
\*Figures in parenthesis represent dividend per share expressed on a pre- 3-for-2 forward stock split basis (effective date July 1, 2006)



# Supplementary Information

# Gross Profit Variance Analysis

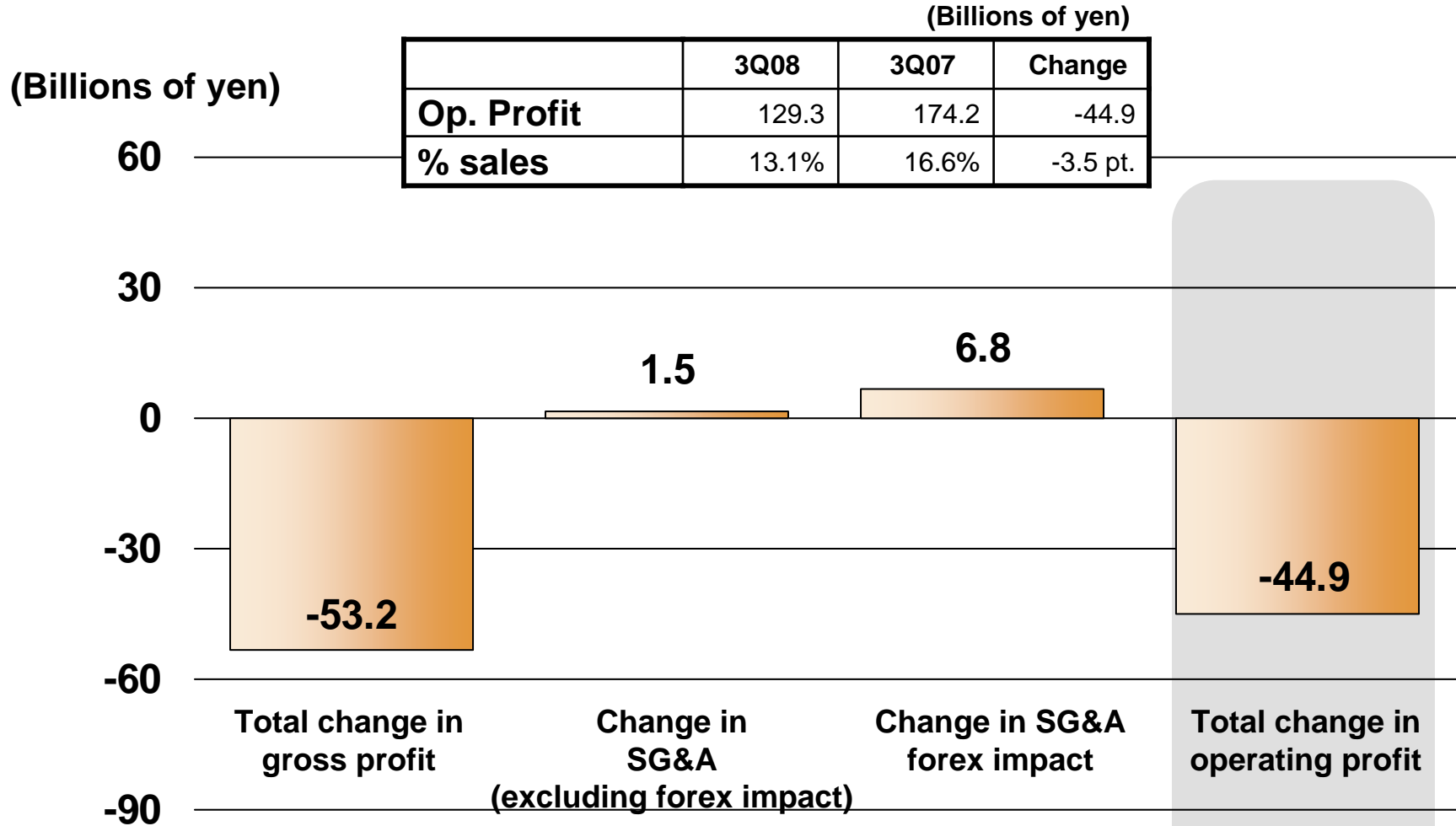
3Q 2008 Actual v. 3Q 2007 Actual



**Supplementary Information**

# Operating Profit Variance Analysis

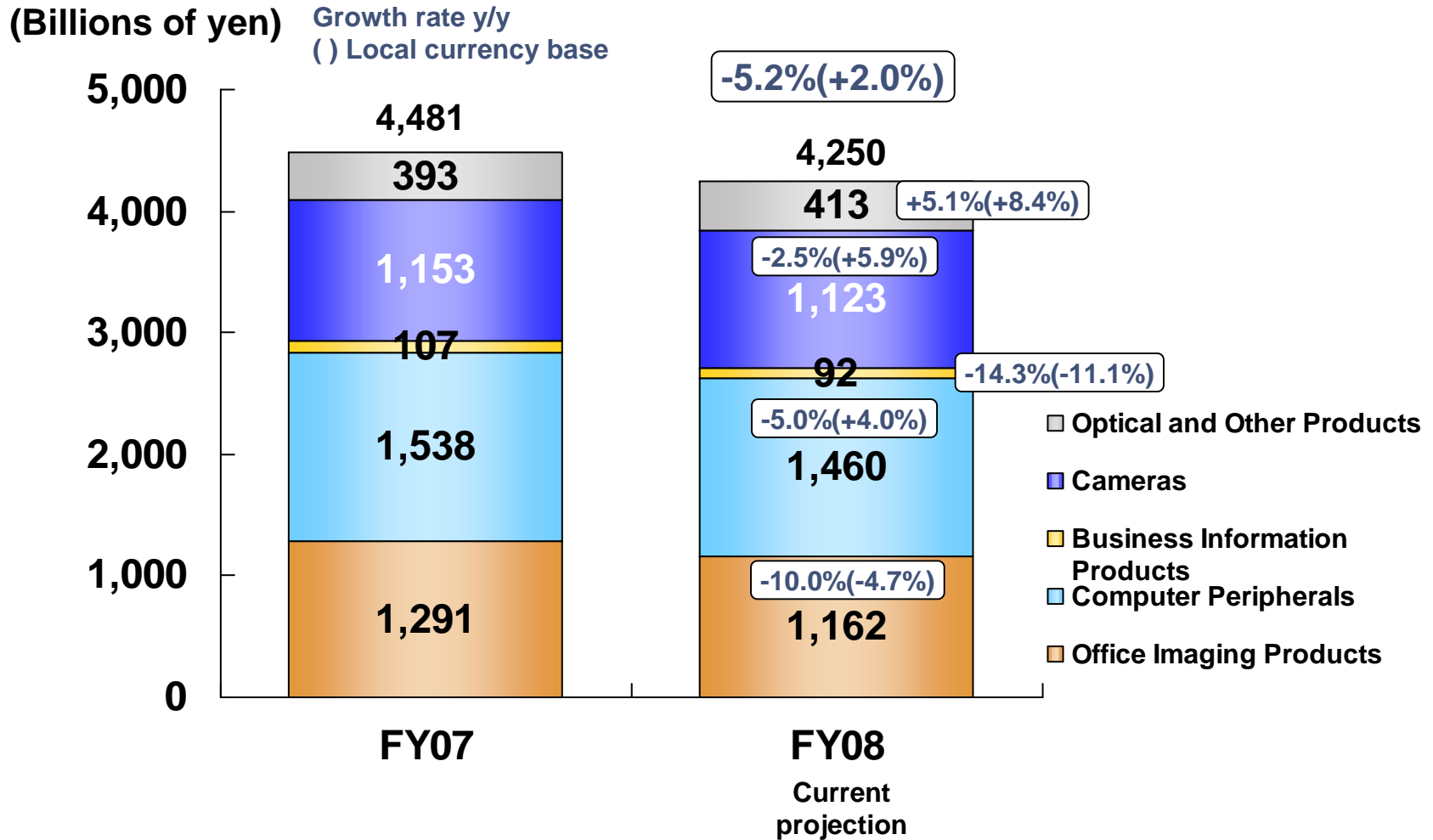
3Q 2008 Actual v. 3Q 2007 Actual



**Supplementary Information**

# Sales by Product

FY 2008 Current Projection



# Transition in Sales and Op. Profit

FY 2008 Current Projection v. FY 2007 Actual

(Billions of yen)

	Sales	Op. Profit
FY 2007 Actual	4,481.3	756.7
Foreign exchange impact [net sales, cost of sales, expenses]	-278.3	-156.8
Sales volume impact		
Office Imaging Products	-90.3	
Computer Peripherals	+41.7	
Business Information Products	-8.7	
Cameras	+179.9	
Optical and Other Products	+21.5	
Total	+144.1	+70.3
Others	-97.1	-90.2
Total Change	-231.3	-176.7
FY 2008 Current Projection (Oct. 27, 2008)	4,250.0	580.0

## Change in Exchange Rate

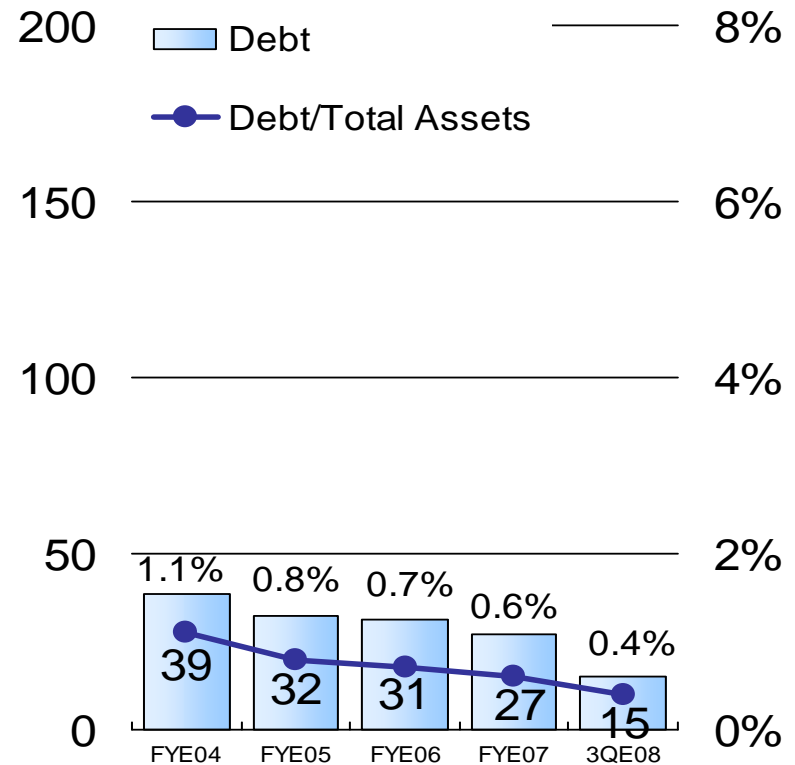
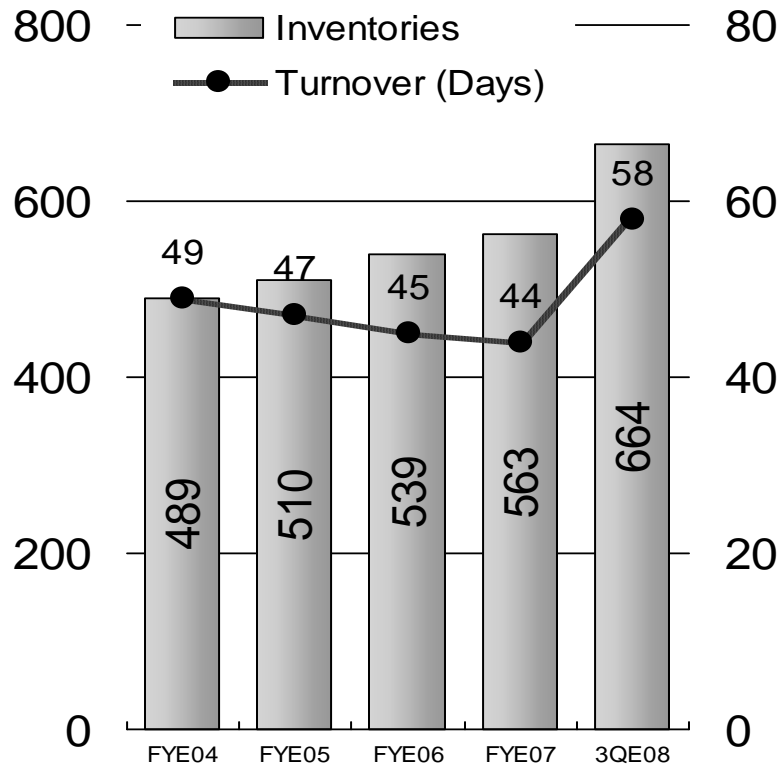
- 1USD: 117.50 to 104.07 yen
- 1EURO: 161.41 to 153.23 yen

# Inventories

# Interest Bearing Debt

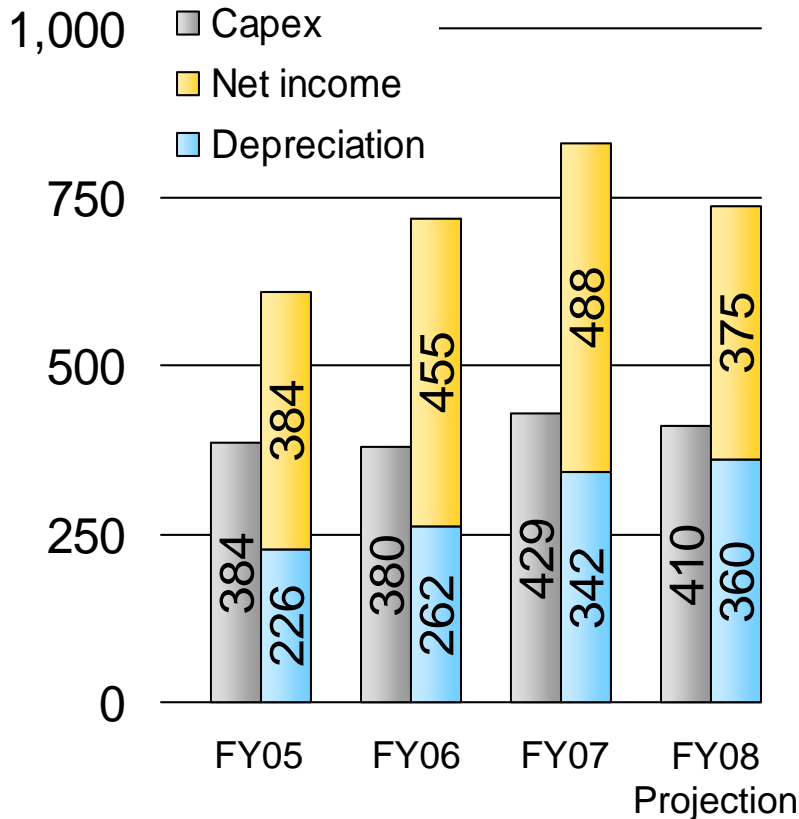
(Billions of yen)

(Days) (Billions of yen)



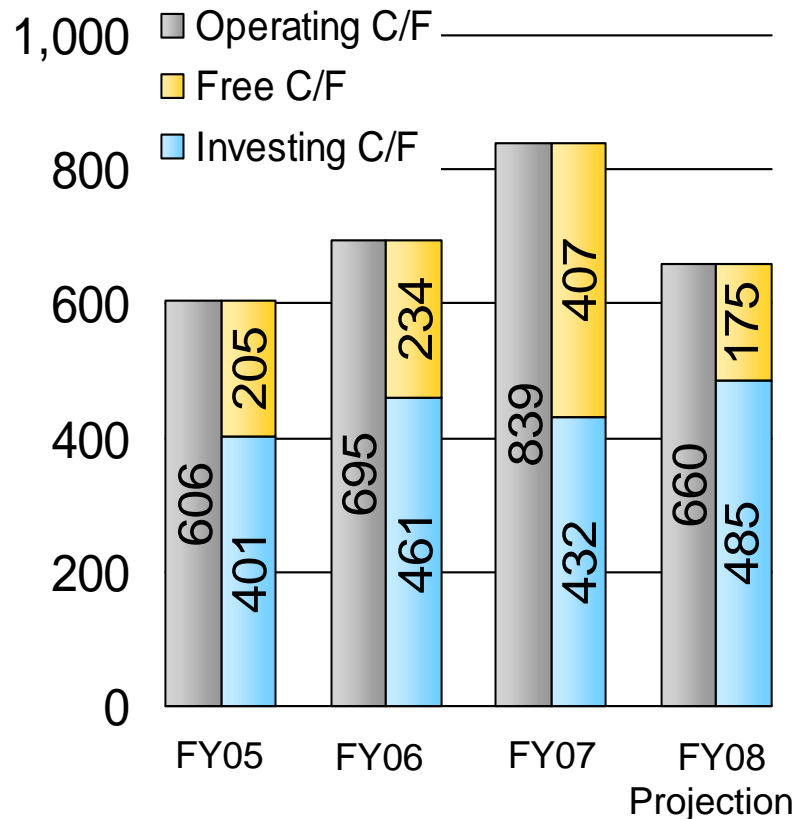
# Capital Expenditure

(Billions of yen)



# Free Cash Flow

(Billions of yen)



**[Major Expenditures in 2008]**

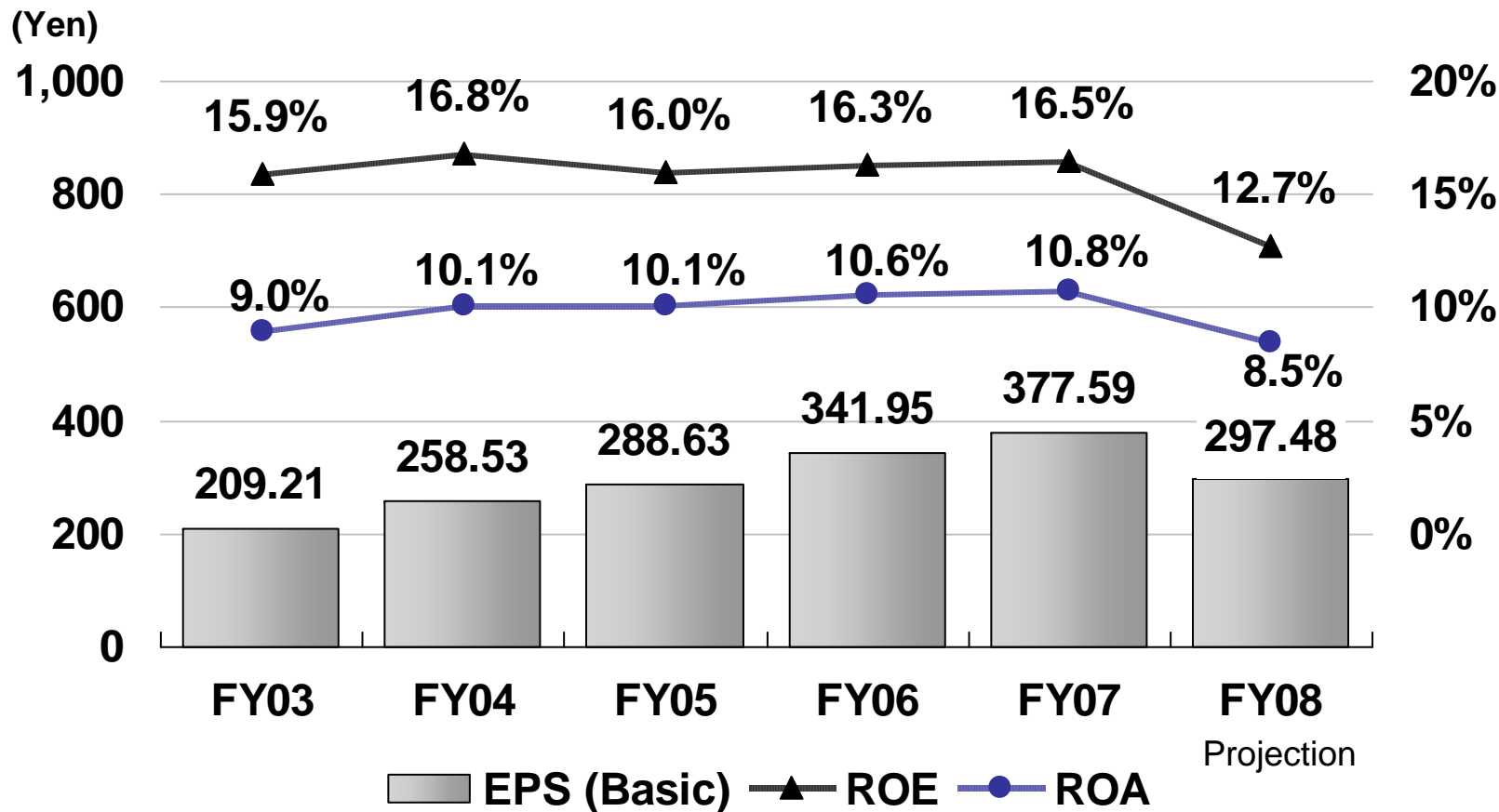
- New factory (Oita Canon Materials)
- Production engineering base (Yanagicho, Kawasaki City)
- Automated machinery for LBP cartridge production
- Production equipment for toner
- New factory building (Canon Precision)

**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.



Supplementary Information