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GENERAL

The following discussion and analysis provides information that management believes to be relevant to understanding Canon's consolidated financial condition and results of operations. References in this discussion to the "Company" are to Canon Inc. and, unless otherwise indicated, references to the financial condition or operating results of "Canon" refer to Canon Inc. and its consolidated subsidiaries.

OVERVIEW

Canon is one of the world's leading manufacturers of office multifunction devices ("MFDs"), laser printers, ink-jet printers, medical equipment, cameras and lithography equipment. Canon earns revenues primarily from the manufacture and sale of these products domestically and internationally. Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporate group targeting continued growth and development.

Canon divides its businesses into four segments: the Printing Business Unit, the Medical Business Unit, the Imaging Business Unit and the Industrial Business Unit.

Economic environment

Looking back at 2025, the global economy continued to recover moderately overall, even as the impact of U.S. tariffs was observed. By region, in the U.S., although inflation advanced due to the impact of tariffs and other factors, personal consumption remained firm throughout the year. In Europe, although labor market conditions and income growth supported personal consumption, the economic recovery remained modest. In China, real estate investment continued to stagnate, and personal consumption slowed as the effects of consumer stimulus measures diminished. In other emerging markets, economic conditions remained firm overall, as domestic demand was steady thanks to fiscal policies implemented in each country and exports also remained at high levels. In Japan, personal consumption continued to recover moderately, supported by stable labor market conditions.

Market environment

In the markets in which Canon operates, demand for office multifunction devices (MFDs) and commercial printing softened overall, particularly in the U.S., where sluggish market conditions continued due to the impact of tariffs, resulting in postponement of investments. The market for laser printers continued to shrink, mainly in Europe and China. For medical equipment, the market remained strong in the U.S. and emerging markets, while in Japan, the market continued to shrink due to deteriorating financial conditions at hospitals. For cameras, demand for mirrorless cameras continued to expand, and the market for network cameras remained firm in each region. As for the semiconductor

lithography equipment, while the recovery of demand for memory devices for smartphones and PCs was delayed and there was also a tendency for investments in power semiconductors to be postponed, AI-related demand continued to expand. For FPD (Flat Panel Display) lithography equipment, demand increased thanks to large investments in panels for computer monitors and digital device screens, as well as additional investments for smartphone panels driven by advancements in functionality.

The average value of the yen against the U.S. dollar for the year was ¥149.71, a year-on-year appreciation of approximately ¥2. The average value of the yen against the euro was ¥169.41, a year-on-year depreciation of approximately ¥5.

Summary of operations

As for the performance in 2025, although sales of the Printing Business Unit decreased compared to the previous year due to the continuing trend of postponing investment in Europe and the U.S., the Medical Business Unit remained solid in the U.S. and emerging markets. Sales were strong for network cameras, a market that continues to grow, and for cameras that captured demand such as for video shooting. As a result, net sales for 2025, the final year of Phase VI of the Excellent Global Corporation Plan, increased by 2.5% year-on-year to ¥4,624.7 billion, achieving record-high sales for the second consecutive year. Although gross profit as a percentage of net sales decreased by 0.8 points year-on-year to 46.7%, gross profit increased by 0.9% year-on-year to ¥2,162.0 billion due to the sales increase. Operating expenses decreased by 8.4% year-on-year to ¥1,706.6 billion, reflecting the absence of the impairment loss on goodwill recorded in the Medical Business Unit in 2024, as well as the effects of structural reforms overseas and thorough expense management in 2025. As a result, operating profit increased by 62.8% year-on-year to ¥455.4 billion, income before income taxes increased by 60.1% year-on-year to ¥482.1 billion, and net income attributable to Canon Inc. increased by 107.5% year-on-year to ¥332.1 billion. Profit increased at each level compared with the previous year's adjusted profit excluding impairment loss on goodwill as well.

Total assets increased by ¥368.8 billion to ¥6,135.0 billion, compared to the end of the previous year, mainly from an increase in foreign-currency-denominated assets due to the depreciation of the yen, and an increase in cash and cash equivalents. Total liabilities increased by ¥239.7 billion to ¥2,360.9 billion from the end of the previous year mainly due to additional borrowing to meet working capital requirements. The balance of total equity increased by ¥129.1 billion to ¥3,774.1 billion compared to the end of the previous year, due to an increase in net income attributable to Canon Inc. shareholders, and an increase in foreign currency translation adjustments caused by the depreciation of the yen, partially offset by dividends to

Canon Inc. shareholders and three rounds of treasury stock repurchases.

As a result, Canon Inc.'s shareholders' equity as a percentage of total assets decreased by 1.7 points to 56.9% compared to the end of the previous year.

Key performance indicators

The following are the key performance indicators ("KPIs") that Canon uses in managing its business.

Net sales and profit ratio

As Canon pursues the goal to become a truly excellent global corporation, one indicator upon which Canon's management places strong emphasis is revenue. The following are some of the KPIs related to revenue that management considers to be important.

Net sales is one such KPI. Canon derives net sales primarily from the sale of products and, to a lesser extent, provision of services associated with its products. Sales vary depending on such factors as product demand, the number and size of transactions within the reporting period, market acceptance for new products, and changes in sales prices. Other factors involved are market share and market environment. In addition, management considers the evaluation of net sales by product to be important for the purpose of assessing Canon's sales performance in various products, taking into account recent market trends.

Gross profit margin is also positioned as an important KPI that indicates the value creation capability of Canon's business activities as well as the soundness of earnings structure. Not only sales growth, but this metric also directly reflects the profitability of the business, including pricing strategy and cost structure, and can be effective in evaluating the quality of growth.

Operating profit to net sales ratio, income before income taxes to net sales ratio, and R&D expense to net sales ratio are also considered to be KPIs by Canon. From this aspect, Canon is focusing on two areas for improvement. Canon is striving to control and reduce its selling, general and administrative expenses as its first key point. Secondly, Canon's R&D policy is designed to maintain adequate spending in core technology to sustain Canon's leading position in its current business areas and to exploit opportunities in other markets. Canon believes such investments will create the basis for future success in its business and operations.

Cash flow management

Canon also places significant emphasis on cash flow management. The following are the KPIs relating to cash flow management that Canon's management believes to be important.

Inventory turnover measured in days is a KPI as it measures the efficiency of supply chain management. Inventories have inherent risks of becoming obsolete, physically damaged or otherwise decreasing significantly in

value, which may adversely affect Canon's operating results. To mitigate these risks, management believes that it is crucial to continue reducing inventories by shortening production lead times in order to promptly collect product related expenses, while maintaining finished goods at appropriate level in order to avoid losing potential sales opportunities.

The debt to total assets ratio is also one of the KPIs. For a manufacturing company like Canon, it generally takes considerable amount of time to bear fruit from the business due to lead times required for R&D, manufacturing and sales. Therefore, management believes that it is important to build sufficient financial strength. Canon will continue to maintain liquidity and manage capital investments within the cash flow generated from operation, however it is possible that Canon utilizes debt following a decision to invest on a large scale for future growth.

The equity ratio, which indicates the proportion of shareholders' equity to total assets, is another KPIs. Having ample shareholders' equity allows to continue making high-level investments from a long-term perspective, and enables stable business operations that are not shaken by short-term performance declines. Ensuring financial stability is particularly important for Canon which places a strong emphasis on R&D activities. On the other hand, Canon will also pay attention to optimizing its capital structure, such as effectively utilizing debt for growth investments.

Return on equity

Return on Canon Inc. shareholders' equity, calculated as the ratio of net income divided by shareholders' equity, is one of the KPIs for Canon. While working to improve profitability through a review of its business structure and enhanced cost efficiency, Canon will also seek to improve asset efficiency by optimizing inventory levels and consolidating production sites. In addition, while maintaining financial soundness, Canon will make growth investments and appropriately utilize debt to build an optimal capital structure, thereby enhancing the profitability of shareholders' equity.

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KEY PERFORMANCE INDICATORS

	2025	2024	2023	2022	2021
Net sales (Millions of yen)	4,624,727	4,509,821	4,180,972	4,031,414	3,513,357
Gross profit to net sales ratio	46.7%	47.5%	47.1%	45.3%	46.3%
R&D expense to net sales ratio	7.3%	7.5%	7.9%	7.6%	8.2%
Operating profit to net sales ratio	9.8%	6.2%	9.0%	8.8%	8.0%
Income before income taxes to net sales ratio	10.4%	6.7%	9.3%	8.7%	8.6%
Inventory turnover measured in days	63 days	65 days	66 days	69 days	66 days
Debt to total assets ratio	15.4%	11.5%	9.6%	8.2%	6.8%
Canon Inc. shareholders' equity to total assets ratio	56.9%	58.6%	61.9%	61.1%	60.5%
Return on Canon Inc. shareholders' equity	9.7%	4.8%	8.2%	8.1%	7.9%

Note: Inventory turnover measured in days is determined by: Inventory divided by net sales for the previous six months, multiplied by 182.5.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and based on the selection and application of significant accounting policies which require management to make significant estimates and assumptions. These estimates and assumptions include future market conditions, net sales growth rate, gross margin and discount rate. Though Canon believes that the estimates and assumptions are reasonable, actual future results may differ from these estimates and assumptions. In addition, actual results and outcomes may differ from management's estimates and assumptions due to pandemic, geopolitical risk and economic slowdown risk in response to inflation. Canon believes that the following are the more critical judgment areas in the application of its accounting policies that currently affect its financial condition and results of operations.

Revenue recognition

Canon generates revenue mainly through the sale of products of the Printing Business Unit, the Medical Business Unit, the Imaging Business Unit and the Industrial Business Unit, supplies and related services under separate contractual arrangements. Revenue is recognized when, or as, control of promised goods or services transfers to customers in an amount that reflects the consideration to which Canon expects to be entitled in exchange for transferring these goods or services.

Revenue from sales of products of the Printing Business Unit, such as office MFDs, laser printers and inkjet printers, and the Imaging Business Unit, such as digital cameras, is primarily recognized at a point in time upon shipment or delivery, depending upon when the customer obtains control of these products.

Revenue from sales of equipment of the Medical Business Unit and the Industrial Business Unit that are sold with customer acceptance provisions related to their functionality, including certain medical equipment such as Computed tomography (CT) systems and Magnetic resonance imaging (MRI) systems, and lithography equipment such as semiconductor and FPD lithography equipment, is recognized at a point in time when the equipment is installed at the customer site and the agreed-upon specifications are objectively satisfied and confirmed.

Most of Canon's service revenue is generated from maintenance service in the products of the Printing Business Unit and the Medical Business Unit which is recognized over time. For the service contracts of the Printing Business Unit, the customer typically pays a variable amount based on usage, a stated fixed fee or a stated base fee plus a variable amount which frequently includes the provision of consumables as well as break fix activities. The majority portion of service revenue from the products of the Printing Business Unit is recognized as billed since the invoiced amount directly correlates with the value to the customer of the underlying performance obligation delivered to date. For the service contracts of the Medical Business Unit,

the customer typically pays a stated fixed fee for the stand ready maintenance service and revenue is recognized ratably over the contract period.

The majority of service arrangements for the products are executed in combination with related products. Transaction prices for products and services need to be allocated to each performance obligation on a relative standalone selling price basis where judgements are required. Canon estimates the standalone selling price using a range of prices that would meet the allocation objective based on all the information that is reasonably available including market conditions and other observable inputs. If transaction prices of the product or service contracts are not within the acceptable range then the revenue is subject to allocation based on the estimated standalone selling prices. Canon recognizes the incremental costs of obtaining a contract as an expense when related products of the Printing Business Unit are sold.

Revenue from sales of certain industrial equipment which do not have alternative use and for which Canon has enforceable right to payment to the customers for the performance completed to date is recognized over time with progress towards completion measured using the cost based input method as the basis to recognize revenue including an estimated margin. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses become evident. Changes in job performance, job conditions, estimated margin and final contract settlements may result in revisions to projected costs and revenue and are recognized in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated. Factors that may affect future project costs and margins include, production efficiencies, availability and costs of labor and materials. These factors can impact the accuracy of Canon's estimates and materially impact future reported revenue and cost of sales.

The transaction prices that Canon is entitled to receive in exchange for transferring goods or services to the customer include certain forms of variable consideration, including product discounts, customer promotions and volume-based rebates mainly for the products of the Imaging Business Unit, which are sold predominantly through distributors and retailers. Canon includes estimated amounts in the transaction price only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Variable consideration is estimated based upon historical trends and other known factors at the time of sale, and is subsequently adjusted in each period based on current information. In addition, Canon may provide a right of return on its products for a short time period after a sale. These rights are accounted for as variable consideration when determining the transaction price, and accordingly Canon recognizes revenue based on the estimated amount to which Canon expects to be entitled after considering expected returns.

Taxes collected from customers and remitted to governmental authorities are excluded from revenues in the consolidated statement of income.

Allowance for credit losses

Allowance for credit losses for trade and lease receivables is maintained for all customers based on ASC 326 "Financial Instruments – Credit Losses," based on historical experiences of credit losses and reasonable and supportable forecasts. An additional reserve for individual accounts is recorded when Canon becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted. When all collection options are exhausted including legal recourse, the accounts or portions thereof are deemed to be uncollectable and charged against the allowance.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the average method for domestic inventories and principally by the first-in, first-out method for overseas inventories.

Impairment of long-lived assets

In accordance with ASC 360 "Property, Plant, and Equipment," long-lived assets, such as property, plant and equipment, and acquired 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 the asset exceeds its estimated sum of undiscounted future cash flows, an impairment loss is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Determining the fair value of the asset involves the use of estimates and assumptions.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated principally by the declining-balance method, except for certain assets which are depreciated by the straight-line method over the estimated useful lives of the assets.

Lease

As for lessor accounting, Canon provides leasing arrangement to its customers primarily for the sale of office products. Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and related revenue is recognized ratably

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over the lease term. When product leases are bundled with maintenance contracts, revenue is allocated based upon the estimated standalone selling prices of the lease and non-lease components. Lease components generally include product and financing while non-lease components generally consist of maintenance contracts and supplies. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into account to determine the lease term when it is reasonably certain that the customers will exercise these options. The majority of Canon's lease contracts do not contain bargain purchase options for their customers.

As for lessee accounting, Canon has operating and finance leases for various assets including office buildings, warehouses, employees' accommodations, and vehicles. Canon determines if an arrangement is a lease at the inception of each contract. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into accounts to determine the lease term when it is reasonably certain that it will exercise these options. Canon's lease arrangements do not contain material residual value guarantees or material restrictive covenants. As a rate implicit in most of Canon's leases cannot be determined, Canon uses incremental borrowing rate based on the information available at commencement to determine the present values of lease payments. Canon has lease contracts with lease and non-lease components, which are accounted for separately. Canon allocates the consideration in the lease contract to the lease and non-lease components based upon the estimated standalone prices. Costs associated with operating lease assets are recognized on a straight-line basis over the term of the lease.

Business combinations

Acquisitions are accounted for using the acquisition method of accounting. The acquisition method of accounting requires the identification and measurement of all acquired tangible and intangible assets and assumed liabilities, excluding acquired contract assets and contract liabilities, at their respective fair values, as of the acquisition date. The determination of the fair value of net assets acquired involves significant judgment and estimates, such as future cash flow projections, appropriate discount and capitalization rates and other estimates based on available market information. Estimates of future cash flows are based on a number of factors including operating results, known and anticipated trends, as well as market and economic conditions. Acquired contract assets and contract liabilities are recognized and measured in accordance with ASC 606 "Revenue from Contracts with Customers."

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more

frequently if indicators of potential impairment exist. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon recognizes an impairment loss in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Fair value of a reporting unit is determined primarily based on the discounted cash flow analysis which involves estimates of projected future cash flows and discount rates. Estimates of projected future cash flows are primarily based on Canon's forecast of future growth rates. Estimates of discount rates are determined based on the weighted average cost of capital, which considers primarily market and industry data as well as specific risk factors. Based on the impairment test performed in the fourth quarter of 2024, Canon recognized a goodwill impairment loss for the Medical Reporting unit, as its fair value was below its carrying amount. In contrast, the impairment test conducted in the fourth quarter of 2025 indicated that the fair value of each reporting unit exceeded its carrying amount, and therefore no impairment was recognized. For further information, please refer to Notes 8 and 22 of the Notes to Consolidated Financial Statements. A significant amount of goodwill was allocated to the Medical Reporting Unit, which was ¥405,882 million in the consolidated balance sheet for the current fiscal year. Future cash flows for the Medical Reporting Unit were based on a mid-term management plan that considered the future market growth of medical equipment and growth in geographies where Canon operates its medical business. Intangible assets with finite useful lives consist primarily of software, trademarks, patents and developed technology, license fees and customer relationships, which are amortized using the straight-line method. The estimated useful lives of software are primarily from 3 years to 9 years, trademarks are 15 years, patents and developed technology are from 5 years to 21 years, license fees are 7 years, and customer relationships are from 10 years to 19 years, respectively.

Income tax uncertainties

Canon considers many factors when evaluating and estimating income tax uncertainties. These factors include an evaluation of the technical merits of the tax positions as well as the amounts and probabilities of the outcomes that could be realized upon settlement. The actual resolutions of those uncertainties will inevitably differ from those estimates, and such differences may be material to the financial statements.

Valuation of deferred tax assets

Canon assesses the recoverability of deferred tax assets periodically. Realization of Canon's deferred tax assets is principally dependent upon its achievement of projected future taxable income. Canon's judgments regarding

future profitability may change due to future market conditions, its ability to continue to successfully execute its operating activities and other factors. Any changes in these factors may require possible recognition of valuation allowances. When Canon determines that certain deferred tax assets may not be recoverable, the amounts, which may not be realized, are charged to income tax expense and will adversely affect net income.

Employee retirement and severance benefit plans

Canon has significant employee retirement and severance benefit obligations that are recognized based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets. Management must consider current market conditions, including changes in interest rates, in selecting these assumptions. Other assumptions include assumed rate of increase in compensation levels, mortality rate. Changes in assumptions inherent in the valuation are reasonably likely to occur from period to period. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect future pension expenses. While management believes that the assumptions used are appropriate, the differences may affect employee retirement and severance benefit costs in the future.

In preparing its financial statements for 2025, Canon estimated a weighted-average discount rate used to determine benefit obligations of 2.9% for Japanese plans and 4.3% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.2% for Japanese plans and 5.3% for foreign plans. In estimating the discount rate, Canon uses available information about rates of return on high-quality fixed-income government and corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. Canon establishes the expected long-term rate of return on plan assets based on management's expectations of the long-term return of the various plan asset categories in which it invests. Management develops expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

Decreases in discount rates lead to increases in actuarial pension benefit obligations which, in turn, could lead to an increase in service cost and amortization cost through amortization of actuarial gain or loss, a decrease in interest cost, and vice versa. For 2025, a decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately ¥66,183 million. The net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, is deferred until subsequent periods.

Decreases in expected returns on plan assets may increase net periodic benefit cost by decreasing the expected return amounts, while differences between expected value and actual fair value of those assets could affect pension

expense in the following years, and vice versa. For 2025, a decrease of 50 basis points in the expected long-term rate of return on plan assets would increase approximately ¥6,277 million in net periodic benefit cost. Canon multiplies management's expected long-term rate of return on plan assets by the value of its plan assets to arrive at the expected return on plan assets that is included in pension expense. Canon defers recognition of the difference between this expected return on plan assets and the actual return on plan assets. The net deferred amount affects future pension expense.

Canon recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in its consolidated balance sheet, with a corresponding adjustment to an accumulated other comprehensive income (loss), net of tax.

Environmental Liabilities

Liabilities for environmental remediation and other environmental costs are accrued when environmental assessments or remedial efforts are probable and the costs can be reasonably estimated, and are included in other non-current liabilities in the consolidated balance sheet. Such liabilities are adjusted as further information develops or circumstances change. Costs of future obligations are not discounted to their present values.

Recently Issued Accounting Guidance

Please refer to Note 1 of the Notes to Consolidated Financial Statements.

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CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS

	Millions of yen		
	2025	change	2024
Net sales	4,624,727	+2.5%	4,509,821
Products and Equipment	3,673,196	+2.2%	3,593,598
Services	951,531	+3.9%	916,223
Operating profit	455,390	+62.8%	279,754
Income before income taxes	482,059	+60.1%	301,161
Net income attributable to Canon Inc.	332,053	+107.5%	160,025

Note: See note to KEY PERFORMANCE INDICATORS

Sales

In the current business term, the global economy continued to recover moderately overall, even as the impact of U.S. tariffs was observed. Under these circumstances, although sales of the Printing Business Unit decreased compared to the previous year due to the continuing trend of postponing investment in Europe and the U.S., the Medical Business Unit remained solid in the U.S. and emerging markets. Sales were strong for network cameras, a market that continues to grow, and for cameras that captured demand such as for video shooting. As a result, net sales for 2025, the final year of Phase VI of the Excellent Global Corporation Plan, increased by 2.5% year-on-year to ¥4,624.7 billion, achieving record-high sales for the second consecutive year. Net sales of products and equipment totaled ¥3,673.2 billion, a year-on-year increase of 2.2%, while net sales of services totaled ¥951.5 billion, a year-on-year increase of 3.9%.

Overseas operations are significant to Canon's operating results and generated 79.2% of total net sales in 2025. Such sales are denominated in the applicable local currencies and are subject to fluctuations in the value of the yen relative to those currencies. Despite efforts to reduce the impact of currency fluctuations on operating results, including

localization of manufacturing in some regions along with procuring parts and materials from overseas suppliers, Canon believes such fluctuations have had and will continue to have a significant effect on its results of operations.

The average value of the yen during the year was ¥149.71 against the U.S. dollar, a year-on-year appreciation of approximately ¥2, and ¥169.41 against the euro, a year-on-year depreciation of approximately ¥5. The effects of foreign exchange rate fluctuations positively affected net sales by ¥6.9 billion in 2025. This impact consisted of approximately ¥35.8 billion favorable impact on EURO-denominated sales, and unfavorable impact of ¥23.1 billion on USDdenominated sales, as well as ¥5.8 billion on sales denominated in other currencies.

Cost of sales

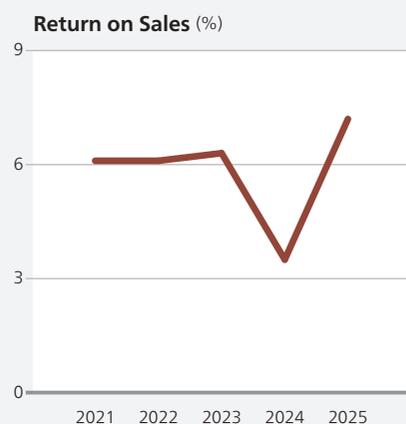
Cost of sales principally reflects the cost of raw materials, parts and labor used by Canon in the manufacture of its products. A portion of the raw materials used by Canon is imported or includes imported materials. Many of these raw materials are subject to fluctuations in world market prices accompanied by fluctuations in foreign exchange rates that may affect Canon's cost of sales. Other components of cost of sales include depreciation expenses, maintenance expenses, light and fuel expenses, and rent expenses. In 2025, although cost of sales increases were incurred due to the impact of U.S. tariffs, cost reduction efforts for components progressed steadily throughout the year. As a result, the ratio of cost of sales to net sales for 2025 was 53.3%, an increase of 0.8 points compared with 52.5% in 2024.

Gross profit

Canon's gross profit in 2025 increased by 0.9% to ¥2,162.0 billion from 2024. The gross profit to net sales ratio decreased by 0.8 points to 46.7%. The increase in the gross profit was mainly due to the sales increase.

Operating expenses

The major components of operating expenses are payroll, R&D, advertising expenses and other marketing expenses. Operating expenses in 2025 decreased by 8.4% year-on-year



to ¥1,706.6 billion, reflecting the absence of the impairment loss on goodwill recorded in the Medical Business Unit in 2024, as well as the effects of structural reforms overseas and thorough expense management in 2025.

Operating profit

Operating profit in 2025 increased by 62.8% to ¥455.4 billion from 2024. The operating profit to net sales ratio increased by 3.6 points to 9.8% from 2024.

Other income (deductions)

Other income (deductions) for 2025 was a gain of ¥26.7 billion, an increase of ¥5.3 billion from 2024 mainly due to the favorable impact from receivables of foreign currencies and valuation of securities.

Income before income taxes

Income before income taxes in 2025 was ¥482.1 billion, an increase of 60.1% from 2024, and constituted 10.4% of net sales.

Income taxes

Income taxes in 2025 increased by ¥5.6 billion from 2024. The effective tax rate for 2025 was 25.7%, which was lower than the statutory tax rate in Japan. This resulted from a combination of factors such as the increase in tax credits of R&D expenses and the lower effective tax rates at foreign subsidiaries compared to the statutory tax rate in Japan.

Net income attributable to Canon Inc.

As a result, net income attributable to Canon Inc. in 2025 increased by 107.5% to ¥332.1 billion, which represents 7.2% of net sales.

Segment information

Canon operates four segments: the Printing Business Unit, the Medical Business Unit, the Imaging Business Unit and the Industrial Business Unit.

- **The Printing Business Unit** mainly includes Digital continuous feed presses / Digital sheet-fed presses / Large format printers / Office MFDs / Document solutions / Laser MFPs / Laser printers / Inkjet printers / Image scanners / Calculators
- **The Medical Business Unit** mainly includes CT systems / Diagnostic ultrasound systems / Diagnostic X-ray systems / MRI systems / Digital radiography systems / Ophthalmic equipment / In vitro diagnostic systems and reagents / Healthcare IT solutions
- **The Imaging Business Unit** mainly includes Interchangeable-lens digital cameras / Interchangeable lenses / Digital compact cameras / Compact photo

printers / MR systems / Network cameras / Video management software / Video content analytics software / Digital camcorders / Digital cinema cameras / Broadcast equipment

- **The Industrial Business Unit** mainly includes Semiconductor lithography equipment / FPD (Flat panel display) lithography equipment / OLED display manufacturing equipment / Vacuum thin-film deposition equipment / Die bonders
- **Others** mainly includes Handy terminals / Document scanners

Operating results by segment

Please refer to the table of sales by segment in Note 23 of the Notes to Consolidated Financial Statements.

Within the Printing Business Unit, sales of equipment for the production printing market decreased year-on-year due to the impact of postponed investments in the U.S. As for office MFDs, although there was an increase in sales of imageFORCE, a new series launched in the second half of the year, unit sales decreased overall mainly in Europe and the U.S. As for inkjet printers, unit sales increased compared with the previous year due to solid sales of refillable ink tank models. Sales of laser printers decreased year-on-year mainly in Europe and China, where market shrinkage continued. As a result, total sales for the Printing Business Unit decreased by 1.1% year-on-year to ¥2,494.4 billion, while income before income taxes decreased by 10.0% year-on-year to ¥273.6 billion.

As for the Medical Business Unit, sales were firm overall. Sales in Japan and Europe were sluggish, but in the U.S., sales through newly contracted distributors began in earnest in the second half of the year, and sales also increased in emerging markets such as the Middle East and South America, which are priority regions for the business unit. As a result, total sales for the Medical Business Unit increased by 2.1% year-on-year to ¥580.6 billion, while adjusted income before income taxes excluding impairment loss on goodwill increased by 33.1% year-on-year to ¥34.1 billion, partly thanks to the ongoing efforts of the Medical Business Innovation Committee.

As for the Imaging Business Unit, sales increased due to the favorable performance of products for video creators such as the EOS R50 V and PowerShot V1, which captured demand from younger customers, as well as increased sales of the full-frame model EOS R6 Mark III launched at the end of the fiscal year. Sales of network cameras also grew steadily during the fiscal year, partly thanks to the introduction of new products equipped with newly developed chips that significantly improved functionality. As a result, total sales for the Imaging Business Unit increased by 12.5% year-on-year to ¥1,054.9 billion, while income before income taxes increased by 14.5% year-on-year to ¥176.8 billion.

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As for the Industrial Business Unit, although demand for semiconductor lithography equipment for producing memory and power semiconductors was weak, AI-related demand remained strong, and unit sales of Canon's advanced back-end lithography systems, which have become the industry standard, exceeded those of the previous year. As for FPD lithography equipment, unit sales also

exceeded those of the previous year as the business unit captured additional investment demand resulting from higher functionality in smartphone panels. As a result, total sales for the Industrial Business Unit increased by 2.7% year-on-year to ¥361.1 billion, while income before income taxes decreased by 7.9% year-on-year to ¥64.8 billion partly due to a negative impact from the product mix.

SALES BY SEGMENT

	Millions of yen		
	2025	change	2024
Printing	2,494,398	-1.1%	2,522,725
Medical	580,622	+2.1%	568,808
Imaging	1,054,900	+12.5%	937,391
Industrial	361,128	+2.7%	351,730
Others and Corporate	237,116	+1.4%	233,746
Eliminations	(103,437)	—	(104,579)
Total	4,624,727	+2.5%	4,509,821

Note: In order to manage the performance of each reportable segment more appropriately, Canon has changed its performance management method regarding intercompany transactions for Industrial Business Unit from the beginning of the first quarter of 2025. Operating results for the year ended December 31, 2024 have also been reclassified.

SALES BY GEOGRAPHIC AREA

	Millions of yen		
	2025	change	2024
Japan	961,480	+0.6%	955,456
Americas	1,489,639	+4.2%	1,429,201
Europe	1,225,475	+3.5%	1,184,389
Asia and Oceania	948,133	+0.8%	940,775
Total	4,624,727	+2.5%	4,509,821

Note: This summary of net sales by geographic area is determined by the location where the product is shipped to the customers.

Sales by geographic area

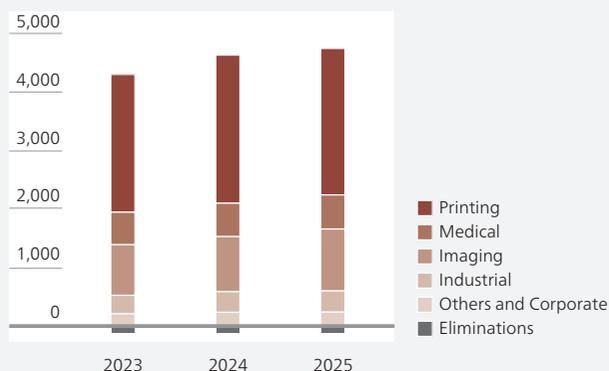
Please refer to the table of sales by geographic area in Note 23 of the Notes to Consolidated Financial Statements.

In Japan, net sales increased by 0.6% from the previous

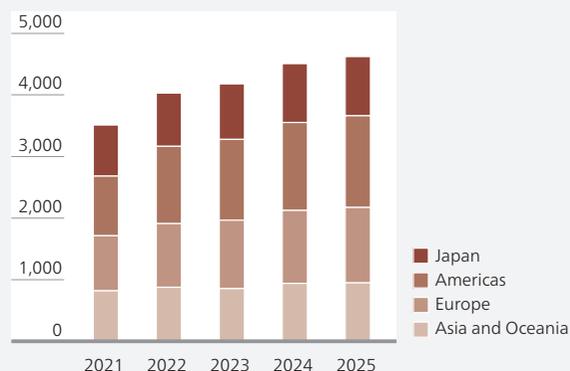
year mainly owing to an increase in sales of IT solutions for offices.

In the Americas, net sales increased by 4.2% from the previous year mainly owing to an increase in unit sales of

Sales by Segment (Billions of yen)



Sales by Geographic Area (Billions of yen)



laser printers and network cameras.

In Europe, net sales increased by 3.5% from the previous year mainly owing to an increase in sales of cameras and depreciation of the yen.

In Asia and Oceania, net sales increased by 0.8% from the previous year mainly owing to increase in sales of semiconductor lithography equipment.

FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSACTIONS

Canon's marketing activities are performed by subsidiaries in various regions in local currencies, while the cost of sales is generally in yen. Given Canon's current operating structure, appreciation of the yen has a negative impact on net sales and the gross profit to net sales ratio. To reduce the financial risks from changes in foreign exchange rates, Canon utilizes derivative financial instruments, which consist principally of foreign currency exchange contracts.

The operating profit on foreign operation sales is usually lower than that from domestic operations because foreign operations consist mainly of marketing activities. Marketing activities are generally less profitable than production activities, which are mainly conducted by the Company and its domestic subsidiaries.

Please refer to the table of segment information in Note 23 of the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Canon's basic financial policy is to further enhance cash-generating capability and increase corporate value through proactive investments in growth areas.

The aim is to maximize cash flows by improving profitability through sales growth and by enhancing asset efficiency, thereby strengthening Canon's ability to generate cash that serves as the foundation for future growth. At the same time, while maintaining financial discipline, Canon will secure diversified funding options to support proactive investments in growth areas that form the core of each business's growth strategy.

Sources of Funds (Cash-In)

Canon's primary internal sources of funds are cash flows from operating activities and cash and cash equivalents. In addition, depending on funding requirements, Canon raise funds such as from borrowings from financial institutions and the issuance of bonds, and other financing options. When utilizing debt financing, Canon will select the most appropriate funding method from a range of options while taking into account financial discipline indicators such as the debt-to-equity (D/E) ratio and the debt-to-EBITDA ratio, with the aim of maintaining a sound financial position.

Use of Funds (Cash-Out)

The principal uses of funds are determined in accordance with the following priorities.

- Investment for growth areas:

Canon will proactively invest in growth areas through capital expenditures and R&D investments in existing businesses. In addition, Canon will utilize M&As to expand the business domains of existing businesses.

- Return to shareholders:

Taking into consideration medium-to long-term business performance prospects, planned future investments, cash flows and other factors, Canon will provide stable shareholder returns. Canon's basic dividend policy is progressive dividends, with a target payout ratio of approximately 40%, while maintaining the current dividend level.

Treasury stock repurchases will be carried out flexibly, taking into account the financial condition, cash flows, and Canon's stock price level.

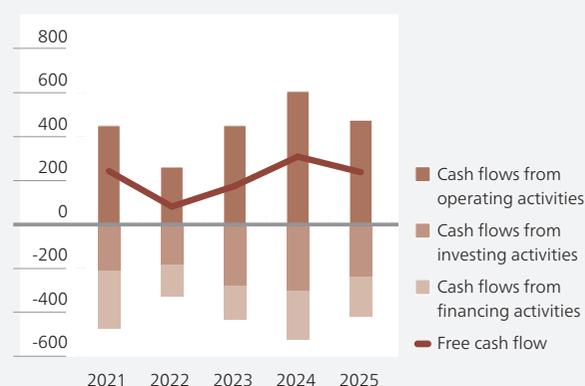
- Strategic Investments:

As a flexible cash allocation reserve, Canon will utilize funds, as appropriate, for M&As, additional investments in growth areas, and supplementary shareholder returns.

Cash and cash equivalents increased by ¥84.4 billion to ¥586.0 billion in fiscal 2025 compared to the previous year. Canon's cash and cash equivalents are primarily denominated in Japanese yen and in U.S. dollars, with the remainder denominated in other currencies.

Net cash provided by operating activities for the fiscal year ended Dec 31, 2025 decreased by ¥ 130.9 billion from the previous fiscal year to ¥ 475.9 billion, as decreases in inventories resulting from efforts to optimize work in process were more than offset by a decrease in trade payables due in part to revisions to payment terms with suppliers. Cash flows from operating activities consist mainly of cash inflows from cash receipts from customers and cash outflows from payments of parts and materials, selling, general and administrative expenses, R&D expenses, and income taxes. The increase in cash inflows for the fiscal year ended Dec 31, 2025 was mainly due to an increase in cash collection from customers in line with the increase in net sales. There is no

Cash flows (Billions of yen)



FINANCIAL OVERVIEW

significant change in the Company's collection rate. The increase in cash outflows was mainly due to an increase in payments for parts and materials in line with the increase in sales and the revision of payment terms with suppliers. The increase in cash outflows due to the payment of corporate income taxes was due to an increase in taxable income.

Net cash used in investing activities for the fiscal year ended December 31, 2025 amounted to ¥237.4 billion. Purchases of fixed assets increased by ¥25.2 billion to ¥262.2 billion, mainly due to investments in a new plant for semiconductor lithography equipment at the Utsunomiya Office. In contrast, net cash used in investing activities decreased by ¥59.9 billion from the previous consolidated fiscal year, reflecting the completion of the acquisition of Primagest, Inc. in 2024 and proceeds from the sale of fixed assets.

Canon defines "free cash flow" as cash flows from operating activities less cash flows from investing activities. Free cash flow for the fiscal year ended Dec 31, 2025 decreased by ¥71.0 billion to ¥238.5 billion as compared with ¥309.5 billion for fiscal 2024.

Note: "Free cash flow" is a non-GAAP measure. Refer to the "Non-GAAP Financial Measures" section for the explanation and the reconciliation to the reported GAAP measure.

Canon's management places importance on cash flow management and frequently monitors this indicator. Furthermore, Canon's management believes that this indicator is significant in understanding Canon's current liquidity and the alternatives of use in financing activities because it takes into consideration its operating and investing activities and believes that such indicator is beneficial to investors. Canon refers to this indicator together with relevant U.S. GAAP financial measures shown in its consolidated statement of cash flows and consolidated balance sheet for cash availability analysis.

Cash flow from financing activities resulted in an outflow of ¥179.2 billion, a decrease of ¥46.8 billion compared with the previous year. This was mainly due to an increase in loans in response to higher working capital requirements, despite proactive shareholder return measures, such as dividend increases and three rounds of treasury stock repurchases. The company paid dividends in fiscal 2025 of ¥160.00 per share, representing an increase of ¥15 per share compared with the previous fiscal year.

To the extent Canon relies on external funding for its liquidity and capital requirements, it generally has access

to various funding sources, including the issuance of additional share capital, issuance of corporate bond or loans. While Canon has been able to obtain funding from its traditional financing sources and from the capital markets, and believes it will continue to be able to do so in the future, there can be no assurance that adverse economic or other conditions will not affect Canon's liquidity or long-term funding in the future.

Canon's long-term debt mainly consists of bank borrowings and finance lease obligations.

In order to facilitate access to global capital markets, Canon obtains a credit rating from S&P Global Ratings ("S&P"). In addition, Canon maintains a rating from Rating and Investment Information, Inc. ("R&I"), a rating agency in Japan, for access to the Japanese capital market.

As of February 28, 2026, Canon's debt ratings are: S&P: A (long-term), A-1 (short-term); and R&I: AA (long-term). Canon does not have any rating downgrade triggers that would accelerate the maturity of a material amount of its debt. A downgrade in Canon's credit ratings or outlook could, however, increase the cost of its borrowings.

As part of its ongoing business, Canon does not participate in transactions that create relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Canon provides guarantees for its employees, affiliates and other companies. The guarantees for the employees are principally made for their housing loans. The guarantees for affiliates and other companies are made for their lease obligations and bank loans to ensure that those companies operate with less financial risk.

Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are 1 year to 9 years in case of employees with housing loans, and 1 year to 5 years in case of affiliates and other companies with lease obligations and bank loans. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥2,349 million at December 31, 2025. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2025 were not significant.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes Canon's contractual obligations at December 31, 2025.

Millions of yen	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
Long-term debt:					
Loan from the banks	401,699	100,210	101,020	200,469	—
Other debt	5,199	1,718	2,479	870	132
Operating lease obligations	137,949	45,031	52,631	23,406	16,881
Purchase commitments for:					
Property, plant and equipment	82,719	82,719	—	—	—
Parts and raw materials	194,432	194,432	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	17,797	17,797	—	—	—
Total	839,795	441,907	156,130	224,745	17,013

Note: See Notes 9, 11, 19 and 20 in the Notes to Consolidated Financial Statements for further details. The table does not include provisions for uncertain tax positions and related accrued interest and penalties, as the specific timing of future payments related to these obligations cannot be projected with reasonable certainty. See Note 12, Income Taxes in the Notes to Consolidated Financial Statements for further details.

Canon provides warranties of generally less than one year against defects in materials and workmanship on most of its consumer products. Estimated product warranty related costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses. Estimates for accrued product warranty costs are primarily based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure. As of December 31, 2025 accrued product warranty costs are included in accrued expenses and amounted to ¥26.4 billion.

Canon's management believes that current financial resources, cash generated from operations and Canon's potential capacity for additional debt and/or equity financing will be sufficient to fund current and future capital requirements.

Canon's management policy in recent periods to optimize inventory levels is intended to maintain an appropriate balance among relevant imperatives, including minimizing working capital requirement, avoiding undue exposure to the risk of inventory obsolescence, and maintaining the ability to sustain sales despite the occurrence of unexpected disasters.

Canon's policy for optimizing its current inventory level is to maintain an appropriate balance between minimizing working capital and avoiding the risk of inventory obsolescence, while ensuring that sales activities can continue even in the event of an unexpected natural disaster. The inventory turnover days of the Company were 63 days at the end of the fiscal year ended Dec 31, 2025 and 65 days at the end of the previous fiscal year. Although foreign-currency-denominated

assets increased due to the depreciation of the yen, inventory levels declined as a result of thorough efforts to strengthen inventory management. In addition, net sales increased year on year, leading to a decrease in inventory turnover days.

Increase in property, plant and equipment on an accrual basis in 2025 amounted to ¥211.7 billion compared with ¥219.2 billion in 2024. For 2026, Canon projects its increase in property, plant and equipment will be approximately ¥230 billion.

Employer contributions to Canon's worldwide defined benefit pension plans were ¥17.9 billion in 2025 and ¥28.9 billion in 2024. Employer contributions to Canon's worldwide defined contribution pension plans were ¥32.7 billion in 2025 and ¥29.3 billion in 2024. In addition, employer contributions to the multiemployer pension plan of certain subsidiaries were ¥6.8 billion in 2025 and ¥6.4 billion in 2024.

Working capital (current assets less current liabilities) for the fiscal year ended Dec 31, 2025 increased by ¥ 9.2 billion from ¥ 903.8 billion for the previous fiscal year to ¥ 913.0 billion. The increase in working capital was mainly due to a decrease of trade payable, which is a current liability. The Company recognizes that its working capital is sufficient for its foreseeable future needs. The capital requirements of the Company are based on the company-wide business plan, such as the level and timing of expenditures related to capital investment. The current ratio (ratio of current assets to current liabilities) was 1.54 for the fiscal year ended Dec 31, 2025 and 1.58 for the fiscal year ended Dec 31, 2024.

FINANCIAL OVERVIEW

Return on assets (net income attributed to Canon Inc. divided by the average of total assets) was 5.6% in 2025, compared to 2.9% in 2024.

Return on Canon Inc. shareholders' equity (net income attributable to Canon Inc. divided by the average of total Canon Inc. shareholders' equity) was 9.7% in 2025 compared with 4.8% in 2024. It improved from the previous fiscal year due to an increase in net income, although shareholders' equity increased due to an increase in retained earnings resulting from an increase in profit and an increase in foreign currency translation adjustments resulting from the depreciation of the yen.

In 2025, Long-term loans payable increased due to an increase in working capital. As a result, the debt to total assets ratios were 15.4% and 11.5% as of December 31, 2025 and 2024. Canon had short-term loans, current operating lease liabilities, long-term debt, and noncurrent operating lease liabilities of ¥946.2 billion and ¥663.5 billion, as of December 31, 2025 and 2024.

Canon Inc. shareholders' equity to total assets ratios (shareholders' equity divided by total assets) for the fiscal

year ended Dec 31, 2025, was 56.9%. While it decreased by 1.7 percentage points from 58.6% in the previous fiscal year due to a reduction in shareholders' equity resulting from dividend increases and treasury stock repurchases, the ratio remains at a solid level overall, and the financial soundness has been maintained.

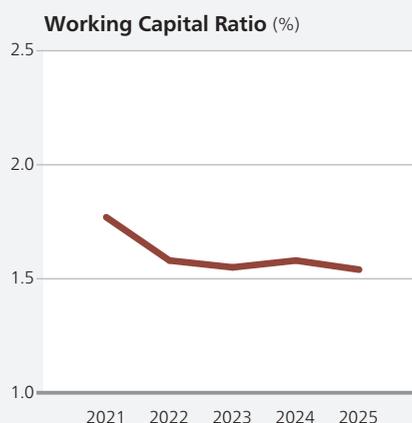
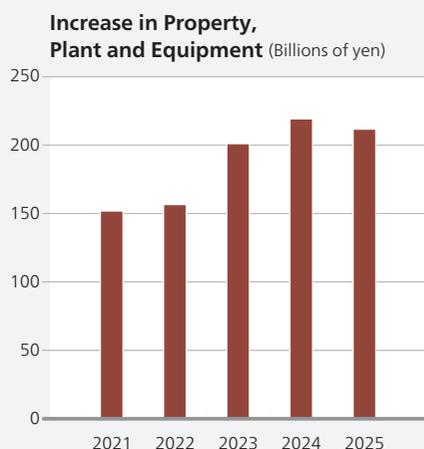
Non-GAAP Financial Measures

Canon has reported its financial results in accordance with U.S. GAAP. In addition, Canon has discussed its results using the combination of two GAAP cash flow measures, Net cash provided by operating activities and Net cash used for investing activities, which Canon refers to as "Free Cash Flow" which is a non-GAAP measure. Canon believes this measure is beneficial to an investor's understanding of its current liquidity and the alternatives of uses of financing activities because it takes into consideration its operating and investing activities.

A reconciliation of this non-GAAP financial measure and the most directly comparable measure calculated and presented in accordance with GAAP is set forth on the following table.

FREE CASH FLOW

	Millions of yen	
	2025	2024
Net cash provided by operating activities	475,903	606,831
Net cash used in investing activities	(237,450)	(297,322)
Free cash flow	238,453	309,509



RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Since its founding, Canon has diversified its businesses by implementing core competence management, which combines core competence technologies (hereinafter, “core technologies”) that produce industry-leading core products, fundamental elemental technologies that form the basis of accumulated technologies, and value creation fundamental technologies that form the basis of commercialization technologies.

In core competence management, core technologies will accumulate as fundamental elemental technologies that can be reused in other businesses as they evolve. For example, the core technology of camera human recognition has been accumulated and evolved as the fundamental elemental technology of AI and data statistical analysis, and now it is incorporated into the medical IT system of the medical business, which is responsible for diversification, and contributes to strengthening the business.

This core competence management is carried out through the “matrix research and development system” in the R&D process. The research division of the head office and the development divisions of the business divisions responsible for each product have established a matrix-type structure, and have built a system that enables the utilization of company-wide technologies. The development department of the Business Division is the main body for core technologies that are the basis of product competitiveness, but the research department of the head office is responsible for the advance trend research and fundamental technology development, leading to the advance development of the core technologies of the business division.

The most distinctive feature of Canon’s R & D is the development of a holistic environment (enabling multiple collaboration of technologies) that enables the Company to utilize both core technologies and core elemental technologies, which are technologies that can be incorporated into products, and value creation platform technologies, which

are technologies that support products, in an integrated manner. As a result, the technologies that enter the product and the technologies that support the product are both strong technologies that are simultaneously introduced into product development, creating competitive products.

R&D expenses were ¥339,288 million in 2025 and ¥337,348 million in 2024. The R&D expenses to net sales ratios were 7.3% in 2025 and 7.5% in 2024.

Canon believes that new products protected by a robust patent portfolio will not easily allow competitors to surpass them, and will give the Company an advantage in establishing standards in the market and industry.

Canon obtained the seventh greatest number of patents in the United States in 2025, according to the annual ranking list, released by IFI CLAIMS® Patent Services.

MARKET RISK EXPOSURES

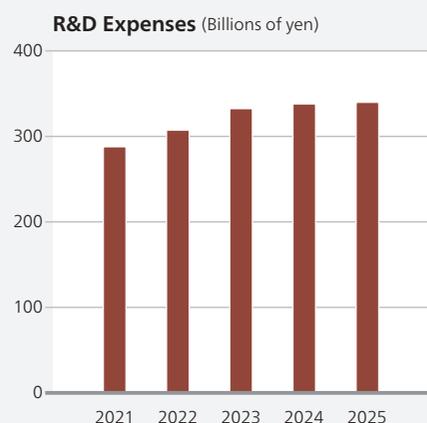
Canon is exposed to market risks, including changes in foreign currency exchange rates, interest rates and prices of marketable securities and investments. In order to hedge the risk of changes in foreign currency exchange rates, Canon uses derivative financial instruments.

Equity price risk

Canon holds marketable securities included in current assets, which consist generally of highly-liquid and low-risk instruments. Investments included in noncurrent assets are held as long-term investments. Canon does not hold marketable securities and investments for trading purposes.

Maturities and fair values of such marketable securities and investments with original maturities of more than three months were as follows at December 31, 2025.

	Millions of yen
	Fair value
Fund trusts and others	5,171
Equity securities	28,948
	34,119



FINANCIAL OVERVIEW

Foreign currency exchange rate and interest rate risk

Canon operates internationally, exposing it to the risk of changes in foreign currency exchange rates. Derivative financial instruments are comprised principally of foreign currency exchange contracts utilized by the Company and certain of its subsidiaries to reduce the risk. Canon assesses foreign currency exchange rate risk by continually monitoring changes in the exposures and by evaluating hedging opportunities. Canon does not hold or issue derivative financial instruments for trading purposes. Canon is also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations. Most of the counterparties are internationally recognized financial institutions and selected by Canon taking into account their financial condition, and contracts are diversified across a number of major financial institutions.

Canon's international operations expose Canon to the risk of changes in foreign currency exchange rates. Canon uses foreign exchange contracts to manage certain foreign currency exchange exposures principally from the exchange of U.S. dollars and euros into Japanese yen. These contracts are primarily used to hedge the foreign currency exposure of forecasted intercompany sales and intercompany trade receivables which are denominated in foreign currencies. In accordance with Canon's policy, a specific portion of foreign currency exposure resulting from forecasted intercompany sales are hedged using foreign exchange contracts which principally mature within three months.

The following table provides information about Canon's major derivative financial instruments related to foreign currency exchange transactions existing as of December 31, 2025. All of the foreign exchange contracts described in the following table have a contractual maturity date in 2026.

Millions of yen	U.S.\$	Euro	Others	Total
Forwards to sell foreign currencies:				
Contract amounts	53,912	109,605	10,460	173,977
Estimated fair value	406	(2,329)	(145)	(2,068)
Forwards to buy foreign currencies:				
Contract amounts	5,501	905	883	7,289
Estimated fair value	149	(4)	(53)	92

Canon expects that fair value changes and cash flows resulting from reasonable near-term changes in interest rates will be immaterial. Accordingly, Canon believes interest rate risk is insignificant. See also Note 9 of the Notes to Consolidated Financial Statements.

Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings in the same period as the hedged items affect earnings. All amounts recorded in accumulated other comprehensive income (loss) as of December 31, 2025 are expected to be recognized in net sales over the next twelve months. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings.

Canon has entered into certain foreign currency exchange contracts to manage its foreign currency exposures. These foreign currency exchange contracts have not been designated as hedges. Accordingly, the changes in fair values of these contracts are recorded in earnings immediately.

LOOKING FORWARD

Under the corporate philosophy of kyosei—living and working together for the common good—Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporation targeting continued growth and development.

Based on this basic management policy, Canon launched the Excellent Global Corporation Plan in 1996 and, from Phase I to Phase VI, has worked to strengthen its management base and improve corporate value.

Canon has formulated a new five-year management initiative, Phase VII (2026–2030) of the "Excellent Global Corporation Plan," with the basic policy of "Achieve new growth through innovations in productivity."

In addition to continuing to strengthen and expand our four industry-oriented business groups to realize overall growth, we will also engage in creating and developing new businesses, including full entry into the space business and the expansion of business scope through M&A activities.

Although we expect the business environment to remain challenging amid ongoing political and economic uncertainty, all divisions—including development, procurement, production, and sales—will work in a concerted effort to execute the key initiatives outlined below, enabling us to evolve into a company of an even higher level.

1. Reform the business structure

We believe that improving productivity and raising asset efficiency are crucial foundations for accelerating growth, and we will complete the business structural reforms that we initiated in Phase VI.

Regarding sales, we will raise efficiency by restructuring our European operations and reviewing our sales channels. For production, we will reorganize and consolidate our domestic and overseas production sites to improve the capacity utilization rate at each site, while also promoting the reform of production methods. In the medical business, we will fully leverage Canon's expertise and resources to accelerate business innovation activities under the new structure.

2. Promote development innovations

Under circumstances where the world is rapidly changing and competition is becoming more severe, it is important to swiftly launch products that are superior in terms of quality and cost. We will utilize simulation technologies and AI to shorten development time and reduce costs for prototypes, etc., with the aim of further increasing development productivity. In addition, amid the progressive emergence of technological innovations with the potential to transform the world, it is vital that we constantly and actively adopt the latest technologies to further enhance the added value of our products. To achieve this, we will establish systems for extensive global research and engage in investment and M&A activities with companies involved in leading-edge technologies, to rapidly gain access to the technologies we need.

3. Enhance the productivity of human resources

To enhance our competitiveness, we must challenge ourselves to thoroughly enhance productivity and establish a structure that achieves maximum results with a highly skilled, more refined team of human resources. People are at the core of productivity innovation, and we will strategically acquire and develop experts in fields such as AI and data science, while also reviewing internal personnel allocation to accelerate the shift of talent into growth areas. Furthermore, regarding business processes, we will expand the use of AI from product design to all company operations, driving further transformation and

establishing a high-efficiency, high-wage system.

4. Address cybersecurity risks

As for information security risks that are an increasing global threat, while working on countermeasures against information leakage from within the Group and cyberattacks from outside, we are also taking other steps such as raising the awareness of employees at a group-wide level. In the event that an information security incident occurs, we have established a dedicated team, CSIRT*, to deal with it promptly.

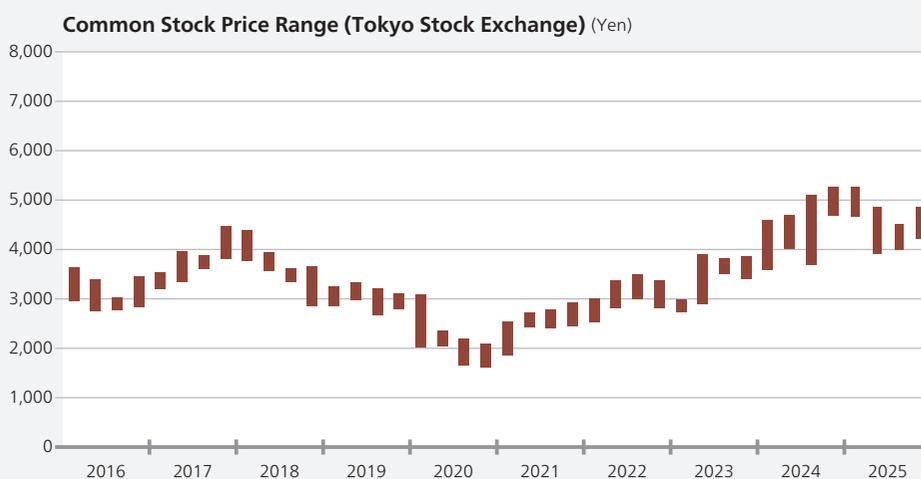
* Computer Security Incident Response Team (a generic term that refers to an organization that deals with incidents and accidents related to computer security)

Forward-looking statements

The foregoing discussion and other disclosures in this report contain forward-looking statements that reflect management's current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events that may not prove to be accurate. The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements: foreign currency exchange rate fluctuations; the uncertainty of Canon's ability to implement its plans to localize production and other measures to reduce the impact of foreign currency exchange rate fluctuations; uncertainty as to economic conditions in Canon's major markets; uncertainty of continued demand for Canon's high-value-added products; Canon's ability to continue to develop products and to market products that incorporate new technology on a timely basis, are competitively priced, and achieve market acceptance; the possibility of losses resulting from foreign currency transactions designed to reduce financial risks from changes in foreign currency exchange rates; inventory risk due to shifts in market demand; spread of infectious diseases; uncertainty in the global economic environment, including supply chain disruptions and rising inflation; and geopolitical events such as the unfolding situation in Ukraine and the Middle East, changes in the U.S. trade policy which could affect businesses in the U.S. market.

TEN-YEAR FINANCIAL SUMMARY

	Millions of yen (except per share amounts)			
	2025	2024	2023	2022
Net sales:				
Domestic	961,480	955,456	901,589	864,808
Overseas	3,663,247	3,554,365	3,279,383	3,166,606
Total	4,624,727	4,509,821	4,180,972	4,031,414
Percentage of previous year	102.5%	107.9%	103.7%	114.7%
Net income attributable to Canon Inc.	332,053	160,025	264,513	243,961
Percentage of sales	7.2%	3.5%	6.3%	6.1%
Advertising	42,990	44,384	52,570	45,986
Research and development expenses	339,288	337,348	331,914	306,730
Depreciation and amortization	239,236	235,465	238,676	226,492
Capital expenditure	249,530	256,267	231,725	183,291
Long-term debt, excluding current installments	304,970	205,075	2,954	2,417
Canon Inc. shareholders' equity	3,491,808	3,380,273	3,353,022	3,113,105
Total assets	6,135,044	5,766,246	5,416,577	5,095,530
Per share data:				
Net income attributable to Canon Inc. shareholders per share:				
Basic	367.48	165.53	264.20	236.71
Diluted	367.25	165.44	264.08	236.63
Dividend per share	160.00	155.00	140.00	120.00
Stock price:				
High	5,233	5,274	3,912	3,516
Low	3,893	3,594	2,754	2,538
Average number of common shares in thousands	903,590	966,763	1,001,200	1,030,644
Number of employees	165,547	170,340	169,151	180,775



Thousands of U.S. dollars
(except per share amounts)

2021	2020	2019	2018	2017	2016	2025
830,378	806,305	872,534	869,577	884,828	706,979	\$ 6,124,076
2,682,979	2,353,938	2,720,765	3,082,360	3,195,187	2,694,508	23,332,784
3,513,357	3,160,243	3,593,299	3,951,937	4,080,015	3,401,487	29,456,860
111.2%	87.9%	90.9%	96.9%	119.9%	89.5%	102.5%
214,718	83,318	124,964	252,441	242,081	150,334	2,114,987
6.1%	2.6%	3.5%	6.4%	5.9%	4.4%	7.2%
36,812	31,273	46,665	58,729	61,207	58,707	273,822
287,338	272,312	298,503	315,842	333,371	306,537	2,161,070
221,246	227,825	237,327	251,554	261,881	250,096	1,523,796
179,000	161,727	211,228	200,504	181,389	208,379	1,589,363
179,750	4,834	357,340	361,962	493,238	611,289	\$ 1,942,484
2,873,773	2,575,031	2,685,496	2,820,644	2,863,986	2,776,327	22,240,815
4,750,888	4,625,614	4,771,918	4,902,955	5,201,626	5,142,279	39,076,713
205.35	79.37	116.79	233.80	223.03	137.66	\$ 2.34
205.29	79.35	116.77	233.78	223.03	137.66	2.34
100.00	80.00	160.00	160.00	160.00	150.00	1.02
2,938	3,099	3,338	4,395	4,472	3,656	33.33
1,876	1,627	2,687	2,876	3,218	2,780	24.80
1,045,633	1,049,802	1,069,957	1,079,753	1,085,439	1,092,071	
184,034	181,897	187,041	195,056	197,776	197,673	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of U.S.\$1 = JPY157, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2025.

2. Canon adopted Accounting Standards Update ("ASU") No. 2017-07 from the quarter beginning January 1, 2018. The adoption of the new presentation requirement of the service cost component and the other components of net benefit cost resulted in reclassification from cost of sales, and selling, general and administrative expenses, and research and development expenses into other income (deductions) for the years ended December 31 from 2017 to 2016 respectively.

3. Depreciation and amortization and Capital expenditure are the total of tangible and intangible assets.

