FINANCIAL OVERVIEW

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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, inkjet 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 2024, the global economy continued to recover moderately, as inflation in various regions began to settle down and monetary tightening eased. Looking by region, in the U.S., consumer spending remained solid, supported by a favorable personal income environment. In Europe, although the economic situation varied from one region to another, the economy was supported by consumer spending as the inflationary pressure eased towards the end of the year. In China, despite steady exports, the economy continued to be stagnant as the real estate market remained sluggish, and the pace of recovery in domestic demand slowed down. In other emerging countries, consumption remained firm as inflationary pressure eased. In Japan, although there were strong signs of stagnation at the beginning of the year, the economy recovered moderately as consumer spending and inbound demand picked up.

Market environment

In the markets in which Canon operates, demand remained firm overall, despite the impact of economic stagnation in some regions. On a product basis, overall demand for MFDs and commercial printing remained solid, despite the continued sluggish market conditions in Europe and China. While demand for inkjet printers overall decreased, demand for refillable ink tank models increased. Despite a decrease in demand mainly in China for laser printers, sales were solid due in part to the completion of inventory adjustments at its OEM partner. For medical equipment, although the U.S. market remained strong, the Chinese market experienced stagnation, and the conditions for hospital management became increasingly challenging in Europe and Japan, resulting in a weak market overall. For cameras, demand remained solid, mainly for mirrorless cameras. As for semiconductor lithography equipment, demand remained at a record-high level, due in part to continued strong investment in generative artificial intelligence (AI). For FPD (Flat Panel Display) lithography equipment, investment by panel manufacturers improved.

The average value of the yen for the year was ¥151.63 against the U.S. dollar, a year-on-year depreciation of approximately ¥11, and ¥163.99 against the euro, a year-on-year depreciation of approximately ¥12.

Summary of operations

In 2024, net sales for the year reached ¥4,509,821 million, exceeding the historical sales record set in 2007, and adjusted income before income taxes excluding the Medical business unit's impairment losses on goodwill increased by 19.3% year-on-year to ¥466,261 million. Looking by region although sales were affected by market deterioration in Europe and China, sales in other countries were solid overall. On a product basis, sales were favorable for products such as semiconductor lithography equipment, network cameras, and mirrorless cameras. Gross profit as a percentage of net sales increased by 0.4 points to 47.5% due to cost reductions including improvements in logistics costs and positive effects from the depreciation of the yen. As a result, gross profit increased by 8.8% year-on-year to ¥2,143,095 million. Operating expenses increased by 16.9% year-on-year to ¥1,863,341 million mainly due to impairment loss booked on goodwill in the Medical business unit, and an increase in operating expenses of foreign currencies due to the depreciation of the yen. As a result, operating profit decreased by 25.5% to ¥279,754 million. Other income (deductions) increased by ¥6,006 million from the previous fiscal year to ¥21,407 million due to the favorable impact in currency exchange from receivables of foreign currencies. As a result, income before income taxes decreased by 22.9% to ¥301,161 million, and net income attributable to Canon Inc. decreased by 39.5% to ¥160,025 million.

Total assets increased by ¥349,669 million to ¥5,766,246 million as of December 31, 2024 compared to the end of the previous year, mainly from an increase in assets of foreign currencies due to the depreciation of the yen, and an increase in accounts receivable accompanied by an increase in sales. Total liabilities increased by ¥310,325 million to ¥2,121,195 million due to the execution of long-term debt and an increase in accrued expenses. The balance of total equity increased by ¥39,344 million to ¥3,645,051 million, 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 repurchases of treasury stock which were carried out two times.

As a result, Canon Inc.'s shareholders' equity as a percentage of total assets declined by 3.3 points to 58.6% 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. The changes from year to year in these KPIs are set forth in the table shown below.

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 to net sales ratio is another KPI for Canon. Under the basic policy of Phase VI of the Excellent Global Corporation Plan, Canon has been consistently strengthening business competitiveness and striving to provide highly profitable products with price competitiveness. Furthermore, Canon promotes cost reduction initiatives across the Canon Group through in-house production and automation of assembly processes which integrate the three functions of design, production technology and manufacturing. Canon will continue to actively take these measures to improve Canon's gross profit to net sales ratio.

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 bulid 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, we will also pay attention to optimizing our 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. Canon seeks to increase profitability by reviewing its business structure and optimization of expenses, as well as pursuing asset efficiency as a result of appropriate control over inventory levels and consolidation of production sites. In addition, Canon will improve return on Canon Inc. shareholders' equity in order to realize investment for growth while maintaining the financial soundness with an appropriate capital structure by effectively utilizing debt.

KEY PERFORMANCE INDICATORS

	2024	2023	2022	2021	2020
Net sales (Millions of yen)	**4,509,821**	4,180,972	4,031,414	3,513,357	3,160,243
Gross profit to net sales ratio	**47.5%**	47.1%	45.3%	46.3%	43.5%
R&D expense to net sales ratio	**7.5%**	7.9%	7.6%	8.2%	8.6%
Operating profit to net sales ratio	**6.2%**	9.0%	8.8%	8.0%	3.5%
Income before income taxes to net sales ratio	**6.7%**	9.3%	8.7%	8.6%	4.1%
Inventory turnover measured in days	**65 days**	66 days	69 days	66 days	60 days
Debt to total assets ratio	**11.5%**	9.6%	8.2%	6.8%	10.9%
Canon Inc. shareholders' equity to total assets ratio	**58.6%**	61.9%	61.1%	60.5%	55.7%
Return on Canon Inc. shareholders' equity	**4.8%**	8.2%	8.1%	7.9%	3.2%

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 and 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 statements 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.

Valuation of 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 the first-in, first-out method for overseas inventories. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make a sale. Canon routinely reviews its inventories for their salability and for indications of obsolescence to determine if inventories should be written down to market value. Judgments and estimates must be made and used in connection with establishing such allowances in any accounting period. In estimating the net realizable value of its inventories, Canon considers the age of the inventories and the likelihood of spoilage or changes in market demand for its inventories.

Impairment of long-lived assets

Based on 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 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. Canon has completed its impairment test in the fourth quarter of 2024 and recognized an impairment loss for the Medical Reporting Unit for the amount by which the carrying amount exceeded the reporting unit's fair value. For further information, please refer to Note 8 and 22 of the Notes to Consolidated Financial Statements. The fair values of remaining reporting units exceeded its respective carrying amount, and thus no other impairment loss was recognized as a result of 2024 impairment test. A significant amount of goodwill was allocated to the Medical Reporting Unit, which was ¥403,131 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 11 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 currently has significant deferred tax assets, which are subject to periodic recoverability assessments. 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 significant valuation allowances to reduce the net carrying value of these deferred tax asset balances. 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 2024, Canon estimated a weighted-average discount rate used to determine benefit obligations of 1.9% for Japanese plans and 3.9% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.1% for Japanese plans and 6.0% 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 2024, a decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately ¥70,757 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 2024, a decrease of 50 basis points in the expected long-term rate of return on plan assets would increase approximately ¥5,900 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 sheets, 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 noncurrent liabilities in the consolidated balance sheets. 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.

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS

	Millions of yen		
	2024	change	2023
Net sales	**4,509,821**	**+7.9%**	4,180,972
Products and Equipment	**3,593,598**	**+8.4%**	3,314,627
Services	**916,223**	**+5.8%**	866,345
Operating profit	**279,754**	**-25.5%**	375,366
Income before income taxes	**301,161**	**-22.9%**	390,767
Net income attributable to Canon Inc.	**160,025**	**-39.5%**	264,513

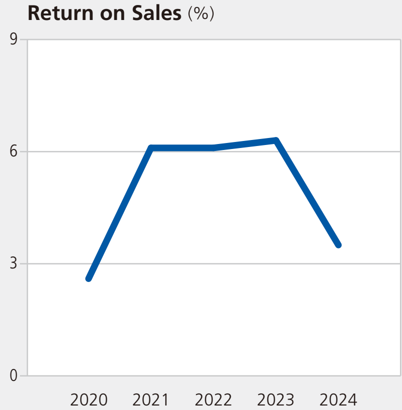
Note: See note to KEY PERFORMANCE INDICATORS

Sales

In the current business term, the global economy continued to recover moderately, as inflation in various regions began to settle down and monetary tightening eased. Under these circumstances, mainly due to an increase of sales in growth businesses such as semiconductor lithography equipment, digital commercial printing presses, and network cameras, Canon's consolidated net sales in 2024 totaled ¥4,509,821 million, an increase of 7.9% from the previous year, exceeding the historical sales record set in 2007. Net sales of products and equipment totaled ¥3,593,598 million, a year-on-year increase of 8.4%, while net sales of services totaled ¥916,223 million, a year-on-year increase of 5.8%.

Overseas operations are significant to Canon's operating results and generated 78.8% of total net sales in 2024. 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.

Return on Sales (%)



The average value of the yen during the year was ¥151.63 against the U.S. dollar, a year-on-year depreciation of approximately ¥11, and ¥163.99 against the euro, a year-on-year depreciation of approximately ¥12. The effects of foreign exchange rate fluctuations positively affected net sales by ¥201,712 million in 2024. This favorable impact consisted of approximately ¥111,973 million of favorable impact for the U.S. dollar denominated sales and favorable impact of ¥70,753 million for the euro denominated sales, and favorable impact of ¥18,986 million for other foreign currency denominated sales.

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 2024, cost of sales increased due to the depreciation of the yen, despite the progress made in the improvement of costs centering on distribution costs during the consolidated fiscal year. On the other hand, the ratio of cost of sales to net sales for 2024 and 2023 were 52.5% and 52.9%, respectively. Cost of sales as a percentage of net sales decreased by 0.4 points.

Gross profit

Canon's gross profit in 2024 increased by 8.8% to ¥2,143,095 million from 2023. The gross profit to net sales ratio increased by 0.4 points to 47.5%. The increase in the gross profit was mainly due to cost reductions including improvements in logistics costs and positive effects from the depreciation of the yen.

Operating expenses

The major components of operating expenses are payroll, R&D, advertising expenses and other marketing expenses. Operating expenses in 2024 increased by 16.9% year on year to ¥1,863,341 million mainly due to an impairment loss of ¥165,100 million booked on goodwill in the Medical business unit, and an increase in operating expenses of foreign currencies due to the depreciation of the yen and structural reforms of overseas sales subsidiaries. Operating expenses as a percentage of net sales increased by 3.2 points to 41.3%.

Operating profit

Operating profit in 2024 decreased by 25.5% to ¥279,754 million from 2023. The operating profit to net sales ratio decreased by 2.8 points to 6.2% from 2023.

Other income (deductions)

Other income (deductions) for 2024 was a gain of ¥21,407 million, an increase of ¥6,006 million from 2023 mainly due to the favorable impact in currency exchange from receivables of foreign currencies.

Income before income taxes

Income before income taxes in 2024 was ¥301,161 million, a decrease of 22.9% from 2023, and constituted 6.7% of net sales.

Income taxes

Income taxes in 2024 increased by ¥11,941 million from 2023. The effective tax rate for 2024 was 39.3%, which was higher than the statutory tax rate in Japan. This resulted from that goodwill impairment losses are not deductible expenses for tax purposes.

Net income attributable to Canon Inc.

As a result, net income attributable to Canon Inc. in 2024 decreased by 39.5% to ¥160,025 million, which represents 3.5% 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 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 production printing devices increased compared with the previous year thanks to strong sales of the imagePRESS V series and other products mainly in the U.S. in addition to orders received at drupa, the world's largest printing equipment exhibition. As a result, sales of production printing equipment increased year-on-year. Although sales of office MFDs were affected by the sluggish market conditions in China and Europe, sales increased from the previous year, mainly for low and mid-speed color MFD series such as the imageRUNNER ADVANCE DX C3900 series. Sales of inkjet printers were affected by the sluggish market conditions in China and intensified price competition, particularly for low-end models. Under such situation, however, sales of refillable ink tank products, for which demand was firm, continued to grow. Sales of laser printers increased substantially after inventory adjustments by its OEM partner were settled. These factors resulted in total sales for the business unit of ¥2,522,725 million, a year-on-year increase of 7.5%, while income before income taxes increased by 29.4% year-on-year to ¥304,146 million.

As for the Medical Business Unit, sales of CT systems and MRI systems increased in the U.S. On the other hand, sales in China were affected by the market downturn, and the financial conditions of hospital management became increasingly challenging in Japan and Europe. As a result of these factors, total sales increased by 2.7% year-on-year to ¥568,808 million. In 2024, adjusted income before income taxes, decreased by 20.4% year on year to ¥25,592 million due to up-front investment costs, including development of next-generation equipment and business structure reform. In addition to the above, income before income taxes was a loss of ¥139,508 million due to the recognition of impairment loss on goodwill.

As for the Imaging Business Unit, although there was a period of adjustment in the inventory of interchangeable-lens digital cameras at the beginning of the year, the new EOS R1 and EOS R5 Mark II introduced in the second half of the year sold well, as did the entry models EOS R50 and EOS R100.

Sales of network cameras also increased for the year as sales recovered from the second quarter when inventory adjustments were carried out. As a result of these factors, total sales increased by 8.8% year-on-year to ¥937,391 million, and income before income taxes increased by 5.4% year-on-year to ¥154,308 million.

As for the Industrial Business Unit, unit sales of semiconductor lithography equipment increased substantially year-on-year as Canon steadily captured the high demand for its lithography equipment for back-end process which was accepted as the industry standard in advanced semiconductor packaging, amid the strong demand for semiconductors used for generative AI. Unit sales of FPD lithography equipment increased from the previous fiscal year thanks to the recovery of the market conditions. As a result of these factors, total sales increased by 13.3% year-on-year to ¥356,462 million and income before income taxes increased by 19.0% year-on-year to ¥70,403 million.

SALES BY SEGMENT

	Millions of yen		
	2024	change	2023
Printing	**2,522,725**	**+7.5%**	2,346,076
Medical	**568,808**	**+2.7%**	553,780
Imaging	**937,391**	**+8.8%**	861,625
Industrial	**356,462**	**+13.3%**	314,719
Others and Corporate	**233,746**	**+11.9%**	208,844
Eliminations	**(109,311)**	**—**	(104,072)
Total	**4,509,821**	**+7.9%**	4,180,972

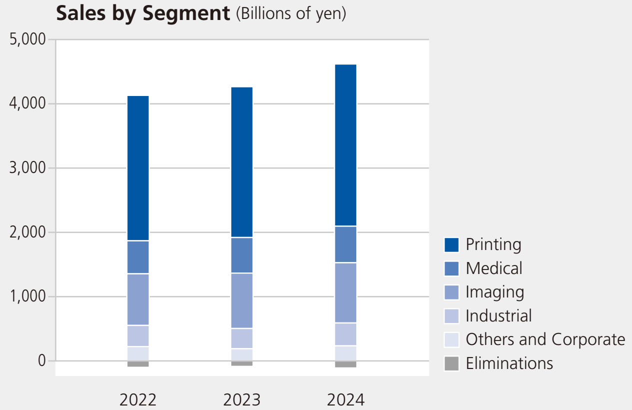
Note: In order to manage the performance of each reportable segment more appropriately, Canon has changed its performance management method regarding intercompany transactions for Others and Corporate from the beginning of the first quarter of 2024. Operating results for the year ended December 31, 2023 have also been reclassified.

SALES BY GEOGRAPHIC AREA

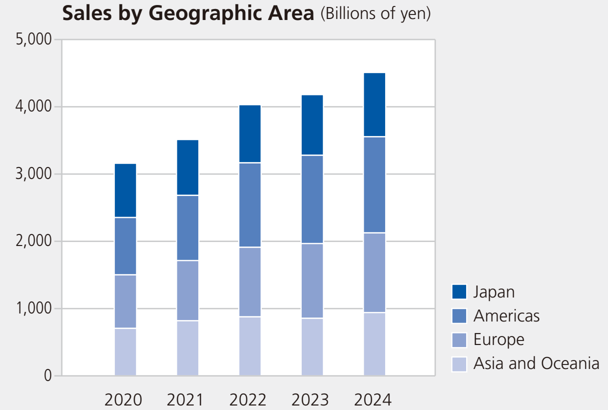
	Millions of yen		
	2024	change	2023
Japan	**955,456**	**+6.0%**	901,589
Americas	**1,429,201**	**+8.9%**	1,312,438
Europe	**1,184,389**	**+6.6%**	1,111,211
Asia and Oceania	**940,775**	**+9.9%**	855,734
Total	**4,509,821**	**+7.9%**	4,180,972

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

Sales by Segment (Billions of yen)



Sales by Geographic Area (Billions of yen)



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 6.0% from the previous year mainly owing to an increase in sales of IT solutions for offices.

In the Americas, net sales increased by 8.9% from the previous year mainly owing to an increase in unit sales of laser printers and network cameras, and depreciation of the yen.

In Europe, net sales increased by 6.6% from the previous year mainly owing to an increase in sales of laser printers and depreciation of the yen.

In Asia and Oceania, net sales increased by 9.9% 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 policy for financial strategies is to maintain a sound financial position through consistent cash flow management, and the two basic principles of cash flow management are as follows:

- Canon strives to improve a highly profitable structure by further improving the profitability of existing businesses and accelerating the growth of new businesses.
- Canon strives to maintain financial soundness by keeping total capital investments for medium-term business expansion and growth within the range of depreciation and amortization expenses in principle. However, Canon plans to raise external funds as needed depending on the situation of capital investments and M&A for growth strategies.

Raising Funds (Cash-In)

Canon is basically funded by net cash provided by operating activities. In procuring funds, Canon considers terms, currencies and methods in light of financial market conditions, and selects the most appropriate instrument from a variety of options.

Use of Funds (Cash-Out)

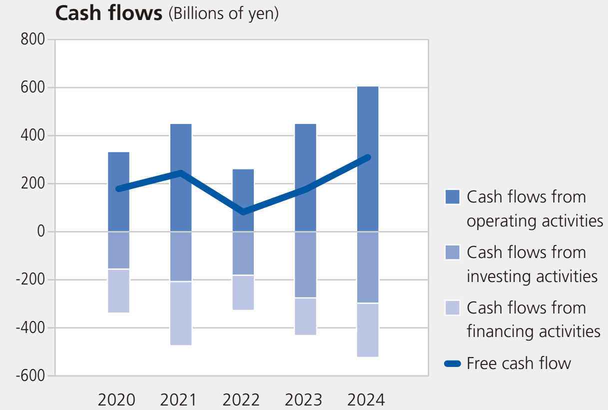
The principal use of cash is determined in accordance with the following priorities.

- Investment for growth such as capital investment, R&D, M&A, etc.:
  Canon values M&A as a complementary option for development of new businesses. The selection of investment targets is based on the growth potential and size of the market, and on the market being highly compatible with the Canon's business domains and technologies.
- Return to shareholders:
  Canon takes into consideration medium-to long-term business prospects, planned future investments, cash flow and other factors. Canon returns profits to shareholders stably and aggressively in the form of a dividend with around 50% of its target payout ratio and share buybacks.
- Repayment of borrowings:
  Canon has been repaying borrowings steadily to have sufficient financial strength and secures available capacity to fund the investments for business expansion and growth.

Cash and cash equivalents increased by ¥100,242 million to ¥501,565 million in fiscal 2024 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 increased by ¥155,641 million to ¥606,831 million in fiscal 2024 compared to the previous year as a result of mainly due to increase in profit after accounting for impairment losses on non-cash goodwill and an improvement in working capital caused by an increase in accounts payable – trade. The major component

Cash flows (Billions of yen)



of Canon's cash inflow is cash received from customers, and the major components of Canon's cash outflow are payments for parts and materials, selling, general and administrative expenses, and income taxes.

For fiscal 2024, cash inflow from cash received from customers increased due to sales improvement. There were no significant changes in Canon's collection rates. Cash outflow increased due to an increase in the payment for parts and materials owing to increase of sales, and an increase in sales related expenses with the normalization of sales activity. Cash outflow for payments for income taxes increased due to an increase in taxable income.

Net cash used in investing activities expended ¥297,322 million in fiscal 2024 mainly due to an acquisition of Primagest,Inc, what focused on BPO service, as well as continued capital investments to improve efficiency and productivity from the previous year. Purchases of fixed assets increased by ¥6,693 million to ¥237,001 million in fiscal 2024.

Canon defines "free cash flow" as cash flows from operating activities less cash flows from investing activities. For fiscal 2024, free cash flow increased by ¥133,691 million to ¥309,509 million as compared with ¥175,818 million for fiscal 2023.

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 statements of cash flows and consolidated balance sheets for cash availability analysis.

Cash flow from financing activities recorded a cash outflow of ¥225,996 million due to a ¥69,267 million increase in expenditures as a result of active returns to shareholders, including increased dividends in continuation of the previous year and repurchases of treasury stock which were carried out two times. The Company paid dividends in fiscal 2024 of ¥145.00 per share.

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, 2025, 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 10 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 ¥2,014 million at December 31, 2024. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2024 were not significant.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes Canon's contractual obligations at December 31, 2024.

		Payments due by period			
Millions of yen	**Total**	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obiligations:					
Long-term debt:					
Loan from the banks	**201,909**	210	201,063	636	—
Other debt	**4,990**	1,614	2,408	865	103
Operating lease obligations	**150,707**	44,701	56,933	26,366	22,707
Purchase commitments for:					
Property, plant and equipment	**112,760**	112,760	—	—	—
Parts and raw materials	**227,455**	227,455	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	**18,681**	18,681	—	—	—
Total	**716,502**	405,421	260,404	27,867	22,810

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, 2024 accrued product warranty costs are included in accrued expenses and amounted to ¥23,685 million.

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 current strategy for optimizing inventory levels is to minimize working capital and avoid the risk of inventory obsolescence while maintaining an appropriate balance to ensure continued sales activity in the event of an unexpected natural disaster. Canon's total inventory turnover measured in days were 65, 66 days at the end of the fiscal years 2024 and 2023 respectively. Although the value of inventories increased mainly due to an increase in shipments due to the avoidance of operation of the Suez Canal, the number of inventories turned over decreased due to an increase in sales from the previous year.

Increase in property, plant and equipment on an accrual basis in 2024 amounted to ¥219,202 million compared with ¥201,140 million in 2023. For 2025, Canon projects its increase in property, plant and equipment will be approximately ¥210,000 million.

Employer contributions to Canon's worldwide defined benefit pension plans were ¥28,850 million in 2024 and ¥51,647 million in 2023. Employer contributions to Canon's worldwide defined contribution pension plans were ¥29,302 million in 2024 and ¥27,667 million in 2023. In addition, employer contributions to the multiemployer pension plan of certain subsidiaries were ¥6,353 million in 2024 and ¥5,447 million in 2023.

Working capital in 2024 increased by ¥118,867 million to ¥903,777 million, compared with ¥ 784,910 million in 2023. The increase was primarily due to a decrease in short-term loans (including the current portion of long-term debt). Canon believes its working capital will be sufficient for its requirements for the foreseeable future. Canon's capital requirements are primarily dependent on management's business plans regarding the levels and timing of purchases of fixed assets and investments. The working capital ratio (ratio of current assets to current liabilities) for 2024 was 1.58 compared to 1.55 for 2023.

Return on assets (net income attributable to Canon Inc. divided by the average of total assets) was 2.9% in 2024, compared to 5.0% in 2023.

Return on Canon Inc. shareholders' equity (net income attributable to Canon Inc. divided by the average of total Canon Inc. shareholders' equity) was 4.8% in 2024 compared with 8.2% in 2023. 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 Phase VI, one of Canon's management policies is to thoroughly implement cash flow management, and Canon is restrengthening its financial base.

In 2024, Long-term loans payable increased due to an increase in working capital. As a result, the debt to total assets ratios were 11.5% and 9.6% as of December 31, 2024 and 2023. Canon had short-term loans, current operating lease liabilities, long-term debt, and noncurrent operating lease liabilities of ¥663,500 million and ¥517,317 million, as of December 31, 2024 and 2023.

Canon Inc. shareholders' equity to total assets ratios were 58.6% and 61.9% as of December 31, 2024 and 2023. The ratio as of December 31, 2024 decreased from the previous fiscal year as a result of an increase in expenditures as a result of active returns to shareholders, including increased dividends in continuation of the previous year and repurchases of treasury stock which were carried out two times to Canon, and an increase in accumulated other comprehensive income due to the depreciation of the yen.

Non-GAAP Financial Measures

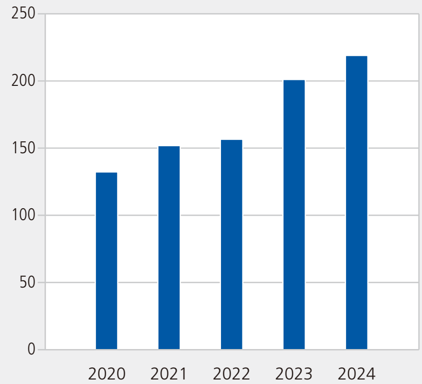
Canon has reported its financial results in accordance with U.S. GAAP. In addition, Canon has discussed its results using the combination of two GAAP cash flow measures, Net cash provided by operating activities and Net cash used for investing activities, which Canon refers to as "Free Cash Flow" which 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.

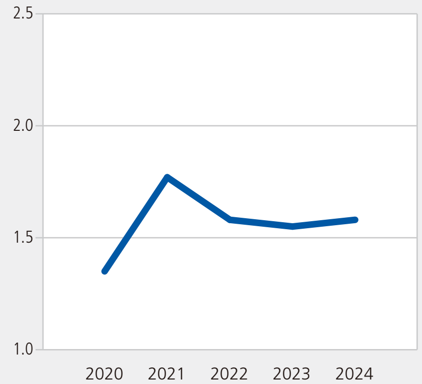
FREE CASH FLOW

	Millions of yen	
	2024	2023
Net cash provided by operating activities	**606,831**	451,190
Net cash used in investing activities	**(297,322)**	(275,372)
Free cash flow	**309,509**	175,818

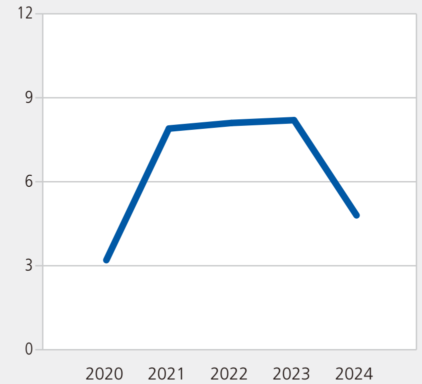
Increase in Property, Plant and Equipment (Billions of yen)



Working Capital Ratio (%)



Return on Canon Inc. Shareholders' Equity (%)



RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Since its founding, Canon has been promoting diversification of our business through development of core competency management, which combines core competency technologies ("core technologies"), which create industry-leading core products, with fundamental technologies that form the basis of our technology accumulation, and value creation technologies that form the basis of our product commercialization technologies.

Canon has transformed several of these core technologies into fundamental technologies through repeated R&D efforts. For example, the core technology behind camera people detection has been further developed as a fundamental technology for detection AI/statistics analysis and is now being incorporated into healthcare IT systems helping to enhance our business unit

Core competency management is put into practice in the research and development process through the "matrix R&D structure." The head office's research departments and the product development divisions of the business units of various products have established a matrix-style system and created a structure that will make it possible to use company-wide technologies. The development divisions of our business units are the main players when it comes to the core technologies that make our products competitive. Meanwhile, the head office's research departments handle research into forthcoming trends and the development of fundamental technologies. This can lead to the advance development of core technologies at the business departments.

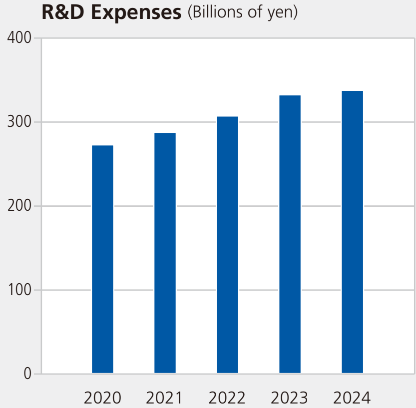
Furthermore, the most distinctive feature of Canon's R&D is that a holistic environment (one where technologies can be joined in complex ways) has been developed where it is possible to use and deploy together throughout the Company the "technologies that go into products" like core technologies/fundamental technologies and the "technologies that support products" such as value creation technologies. With this, by simultaneously leveraging the technologies included in products and those that support products in product development, Canon will create competitive products.

R&D expenses were ¥337,348 million in 2024 and ¥331,914 million in 2023. The R&D expenses to net sales ratios were 7.5% in 2024 and 7.9% in 2023.

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 ninth greatest number of patents in the United States in 2024, according to the annual ranking list, released by IFI CLAIMS® Patent Services.

R&D Expenses (Billions of yen)



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, 2024.

	Millions of yen
	Fair value
Fund trusts and others	4,394
Equity securities	25,455
	29,849

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, 2024. All of the foreign exchange contracts described in the following table have a contractual maturity date in 2025.

Millions of yen	U.S.$	Euro	Others	Total
Forwards to sell foreign currencies:				
Contract amounts	67,380	99,991	12,995	180,366
Estimated fair value	(1,764)	(1,610)	(86)	(3,460)
Forwards to buy foreign currencies:				
Contract amounts	8,363	1,456	9,017	18,836
Estimated fair value	291	66	(51)	306

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, 2024 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 V, has worked to strengthen its management base and improve corporate value. To achieve new growth, Canon made "accelerating corporate portfolio transformation through our productivity improvement and new businesses creation" its basic policy under "Phase VI of the Excellent Global Corporation Plan," its five-year management plan from 2021 to 2025. In 2021, Canon reorganized its product-oriented business divisions into four industry-oriented business groups that included commercial printing, medical, network cameras and industrial equipment as new businesses, thereby establishing a structure for enhancing business competitiveness and creating new drivers of growth.

In 2021, Canon reorganized its product-oriented business divisions into four industry-oriented business groups that included new businesses of commercial printing, medical, network cameras, and industrial equipment, thereby establishing a structure for enhancing business competitiveness and creating new drivers of growth. Each industry-oriented business group will concentrate investments in high-growth areas and by strengthening and expanding these areas, Canon will realize overall growth. In the first half of the five-year management plan, impact of the COVID-19 pandemic remained, and Canon was preoccupied with responding to shortages of semiconductors and other components, and logistical disruptions. After entering 2023, however, as the situation settled down, Canon resumed and accelerated its measures for growth, with office MFDs, cameras and other existing businesses generating profit, and sales growth coming from new businesses such as semiconductor lithography equipment, medical equipment, network cameras, and commercial printing.

Although Canon expects to continue operating its business in a climate of political and economic uncertainty going forward, Canon will maintain growth momentum and lay the foundations to achieve even greater growth over the next five years beginning in 2026 by ensuring all divisions, including development, procurement, production and sales, work in a concerted effort to implement the following priority measures.

1. Strengthen and expand industry-oriented business groups

To promote business portfolio transformation, Canon will thoroughly strengthen competitiveness and expand industry-oriented business groups.

(1) Printing Group

Canon will meet diversified printing needs by taking advantage of the strength of offering a wide variety of printing equipment from printers for home use and for office use to commercial printers.

As for digital commercial printing, our sales are growing. This reflects the enhanced image quality and productivity that have spread throughout the industry as Canon incorporates the feedback of customers who are printing companies. Canon will develop sales channels through cooperation with Heidelberger Druckmaschinen AG, a leading German company of offset printing equipment, while expanding our business domain by making a full-scale entry into the industrial printing field, specifically targeting labels and packaging, which have high growth potential, to accelerate growth.

As for office and home printing, since the market has matured and is not expected to grow substantially, Canon will work to increase market share by raising product competitiveness, and review our structures of development, production, and sales, to build a more effective organization for higher profitability.

(2) Medical Group

Canon aims to establish a solid presence in the field of diagnostic imaging equipment, which serves as the core of the business. In addition to further expanding our product lineup that is comparable to that of competitors around the world, strengthening our sales capability and presence overseas is an urgent issue. In the United States which is a medically advanced country that has great influence in the global market, while reinforcing our sales structures by means of increasing our sales force and other resources, Canon is collaborating with advanced medical institutions and strengthening relationships with medical practitioners who serve as key opinion leaders. In addition, Photon Counting CT, the next generation CT, is drawing increasing attention as many papers based on Canon's equipment have been published. Canon will work to improve Canon's presence by realizing the early launch of Photon Counting CT.

In terms of profitability, Canon began taking action by establishing the Medical Business Innovation Committee in February 2024 to identify areas for improvement. Canon will unify Canon Inc. and Canon Medical Systems Corporation and improve efficiency in our development, production, sales, and management operations for higher profitability.

(3) Imaging Group

As for digital cameras, it is important for us, as a leading company of cameras, to continue to provide attractive products to users, including younger generations, and to stimulate the market going forward. Canon will offer a lineup that satisfies both demand for still image photography from professional photographers and camera enthusiasts, and for diverse video recording from social media users. Demand for network cameras for surveillance applications continues to increase to ensure safety and security against disasters and crimes. At the same time, the need for in-store marketing and for production control at manufacturing sites are growing. Canon will accelerate its growth by responding to diversifying demand.

(4) Industrial Group

Canon anticipates continuing market growth for semiconductors driven by essential devices used in AI, IoT, electric vehicles (EVs), and other technological innovations. And due to this, demand for semiconductor lithography equipment is anticipated to also increase. Recognizing the need to significantly bolster production capacity to respond to strong demand, Canon has started construction of a new plant at our production site in Utsunomiya that is scheduled to become operational in 2025.

Canon is aiming to expand sale of "nanoimprint semiconductor manufacturing equipment" to further enhance sales growth potential. Unlike conventional methods that use light to expose circuit patterns, this system forms circuit patterns by pressing a patterned mold like a stamp. Canon is working with semiconductor manufacturers to evaluate and test various types of patterning for mass production.

In addition, Canon is also proceeding with the development of ArF lithography equipment with the aim of launching it in the second half of 2025. Canon will expand the coverage of semiconductor production process by enhancing our lineup.

2. Promote production structure reform

In an uncertain and unstable global environment, the supply chain is the lifeline of a manufacturer, and from a stability and sustainability perspective, Canon needs to review it. Canon is seeking to achieve robust production and supply systems by reorganizing our domestic and overseas production sites and consolidating them in countries and regions where Canon sees political and social stability. In addition, Canon is working to improve the capacity utilization rates of production sites and to promote the return of production of high-value-added products to Japan. Canon will also concentrate our efforts on automation and in-house production technologies through collaboration among design, production technology, and manufacturing sites, while improving cost competitiveness.

3. Promote development innovations

Under such 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. At the development stage, which is the starting point of such a plan, Canon will employ concurrent development, which requires cooperation with production technology and production sites for joint work, at a company-wide level. Canon will also utilize digital transformation (DX) and simulation technologies to reduce development time and costs for prototypes, etc., with the aim of further increasing development productivity. To cultivate innovation personnel who support development, Canon will develop and strengthen a system to certify talented engineers as "top scientists" and "top engineers," while supporting skill improvements through CIST, an in-house institution intended to develop software engineers.

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, Canon is also taking other steps such as raising the awareness of employees at a group wide level. In the unlikely event that an information security incident occurs, Canon has established a dedicated team, CSIRT*, to deal with it promptly.

Furthermore, since Canon is working to boost the convenience of our products and services by connecting them to the cloud and smartphones via networks, as a key initiative, Canon is also working on countermeasures against cybersecurity risks, such as the leakage of personal and confidential information, from the development stage.

* Computer Security Incident Response Team (general term for organizations to deal with incidents and accidents related to computer security)

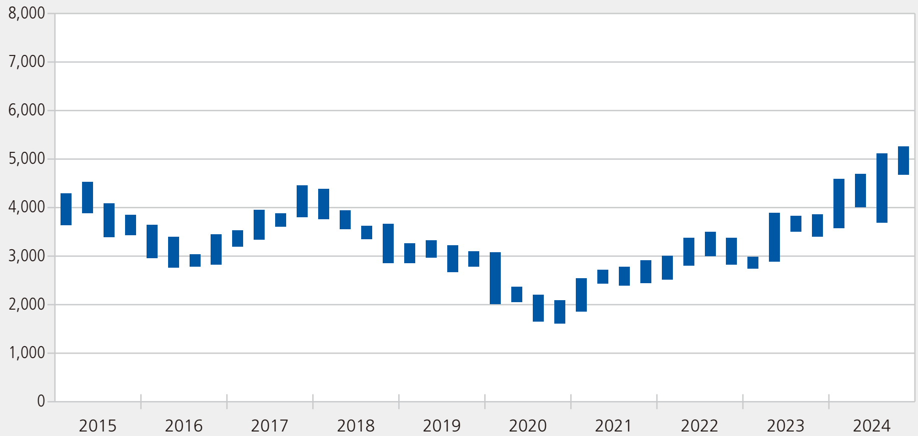
Forward looking statements

The foregoing discussion and other disclosure in this report contains 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)			
	2024	2023	2022	2021
Net sales:				
Domestic	**955,456**	901,589	864,808	830,378
Overseas	**3,554,365**	3,279,383	3,166,606	2,682,979
Total	**4,509,821**	4,180,972	4,031,414	3,513,357
Percentage of previous year	**107.9%**	103.7%	114.7%	111.2%
Net income attributable to Canon Inc.	**160,025**	264,513	243,961	214,718
Percentage of sales	**3.5%**	6.3%	6.1%	6.1%
Advertising	**44,384**	52,570	45,986	36,812
Research and development expenses	**337,348**	331,914	306,730	287,338
Depreciation and amortization	**235,465**	238,676	226,492	221,246
Capital expenditure	**256,267**	231,725	183,291	179,000
Long-term debt, excluding current installments	**205,075**	2,954	2,417	179,750
Canon Inc. shareholders' equity	**3,380,273**	3,353,022	3,113,105	2,873,773
Total assets	**5,766,246**	5,416,577	5,095,530	4,750,888
Per share data:				
Net income attributable to Canon Inc. shareholders per share:				
Basic	**165.53**	264.20	236.71	205.35
Diluted	**165.44**	264.08	236.63	205.29
Dividend per share	**155.00**	140.00	120.00	100.00
Stock price:				
High	**5,274**	3,912	3,516	2,938
Low	**3,594**	2,754	2,538	1,876
Average number of common shares in thousands	**966,763**	1,001,200	1,030,644	1,045,633
Number of employees	**170,340**	169,151	180,775	184,034

Common Stock Price Range (Tokyo Stock Exchange) (Yen)



2020	2019	2018	2017	2016	2015	Thousands of U.S. dollars (except per share amounts) 2024
806,305	872,534	869,577	884,828	706,979	714,280	**$ 6,047,190**
2,353,938	2,720,765	3,082,360	3,195,187	2,694,508	3,085,991	**22,495,981**
3,160,243	3,593,299	3,951,937	4,080,015	3,401,487	3,800,271	**28,543,171**
87.9%	90.9%	96.9%	119.9%	89.5%	102.0%	**107.9%**
83,318	124,964	252,441	242,081	150,334	219,943	**1,012,816**
2.6%	3.5%	6.4%	5.9%	4.4%	5.8%	**3.5%**
31,273	46,665	58,729	61,207	58,707	80,907	**280,911**
272,312	298,503	315,842	333,371	306,537	332,678	**2,135,114**
227,825	237,327	251,554	261,881	250,096	273,327	**1,490,285**
161,727	211,228	200,504	181,389	208,379	243,130	**1,621,943**
4,834	357,340	361,962	493,238	611,289	881	**$ 1,297,943**
2,575,031	2,685,496	2,820,644	2,863,986	2,776,327	2,959,929	**21,394,133**
4,625,614	4,771,918	4,902,955	5,201,626	5,142,279	4,431,720	**36,495,228**
79.37	116.79	233.80	223.03	137.66	201.41	**$ 1.05**
79.35	116.77	233.78	223.03	137.66	201.40	**1.05**
80.00	160.00	160.00	160.00	150.00	150.00	**0.98**
3,099	3,338	4,395	4,472	3,656	4,539	**33.38**
1,627	2,687	2,876	3,218	2,780	3,402	**22.75**
1,049,802	1,069,957	1,079,753	1,085,439	1,092,071	1,092,018	
181,897	187,041	195,056	197,776	197,673	189,571	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of U.S.$1 = JPY158, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2024.

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 2015 respectively.

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