CANON ANNUAL REPORT 2023

Fiscal Year Ended December 31, 2023

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Cover Photo:

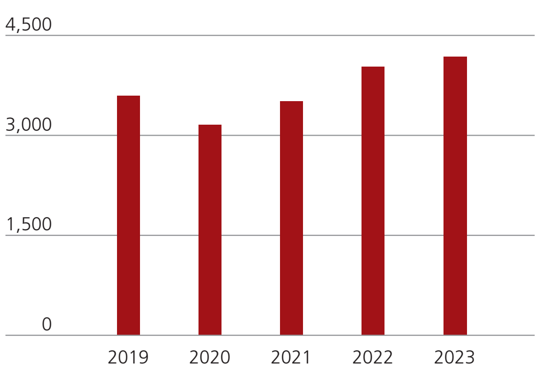
Products representing Canon's four new businesses.
Continuous Feed Presses: Printing
Computed Tomography (CT) systems: Medical
Network Cameras: Imaging
Nanoimprint Lithography: Industrial

FINANCIAL HIGHLIGHTS

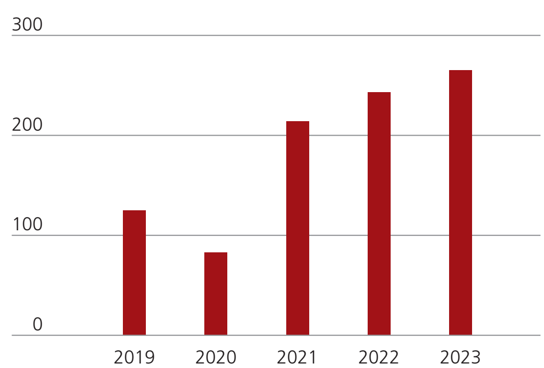
	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)
	2023	2022	**Change (%)**	**2023**
Net sales	**¥ 4,180,972**	¥ 4,031,414	**+3.7**	**$ 29,443,465**
Operating profit	**375,366**	353,399	**+6.2**	**2,643,423**
Income before income taxes	**390,767**	352,440	**+10.9**	**2,751,880**
Net income attributable to Canon Inc.	**264,513**	243,961	**+8.4**	**1,862,768**
Net income attributable to Canon Inc. shareholders per share:				
—Basic	**¥ 264.20**	¥ 236.71	**+11.6**	**$ 1.86**
—Diluted	**264.08**	236.63	**+11.6**	**1.86**
Total assets	**¥ 5,416,577**	¥ 5,095,530	**+6.3**	**$ 38,144,908**
Canon Inc. shareholders' equity	**¥ 3,353,022**	¥ 3,113,105	**+7.7**	**$ 23,612,831**

Notes:
1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. U.S. dollar amounts are translated from yen at the rate of JPY142=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 29, 2023, solely for the convenience of the reader.

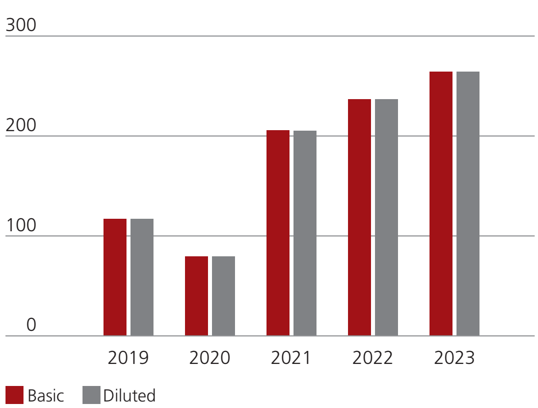
Net Sales (Billions of yen)



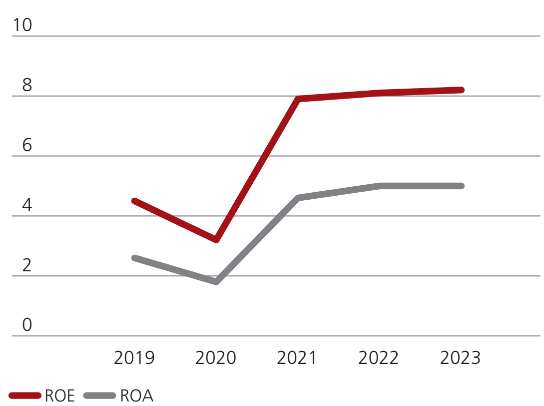
Net Income Attributable to Canon Inc. (Billions of yen)



Net Income Attributable to Canon Inc. Shareholders per Share (Yen)



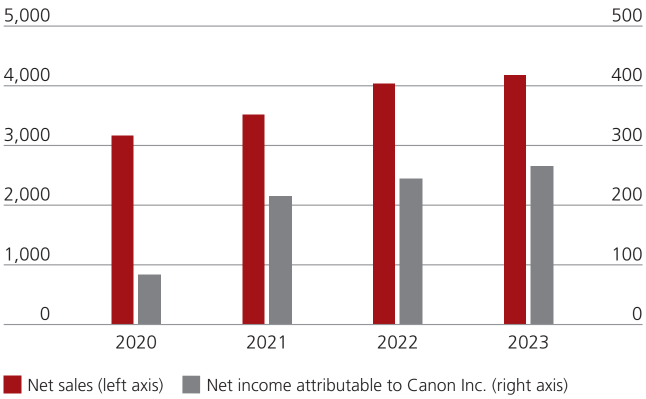
ROE/ROA (%)



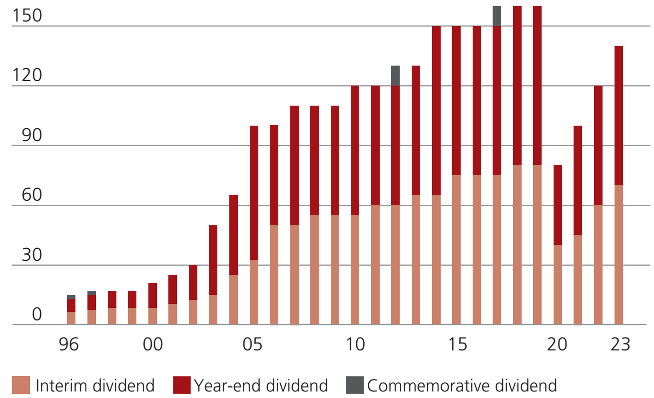
Anticipating social change, we will transform, boldly press forward and become a truly excellent global corporation

FUJIO MITARAI
Chairman & CEO
Canon Inc.

Net sales and net income attributable to Canon Inc.
(Billions of yen)



Canon Inc. dividend per share (Yen)



Performance in 2023

The global economy during the 123rd Business Term (from January 1, 2023 to December 31, 2023) moved toward normalization due to the COVID-19 pandemic being brought under control and progress in the resolution of component shortages and logistical disruptions. Demand, on the other hand, remained weak due to factors such as a slowdown in the Chinese economy owing to the slump in the real estate market, and a sluggish European economy resulting from interest rate hikes implemented to control inflation and, in addition to Russia and Ukraine, heightened geopolitical risks in the Middle East.

Even under this environment, we grew sales of new businesses, such as medical, network camera, and commercial printing as well as semiconductor lithography equipment on the back of high growth potential. And for office multifunction devices (MFDs) and cameras where demand remained firm, we steadily generated profit. Prices of components and logistics which had been rising until then began to settle down from the beginning of spring, which led to progress in reducing costs from the second half.

As a result, consolidated net sales for this term was 4,181.0 billion yen (up 3.7% from the previous term). Consolidated operating profit was 375.4 billion yen (up 6.2% from the previous term). Consolidated net income attributable to Canon Inc. was 264.5 billion yen (up 8.4% from the previous term). This marked the third consecutive year of sales and profit growth.

As for our new businesses, which are the source of sales growth, we posted significant growth in this term as well, with consolidated net sales reaching nearly 1.2 trillion yen to account for 28% of the total. We are making steady progress in the transformation of our business portfolio as set out in Phase VI of the "Excellent Global Corporation Plan."

Excellent Global Corporation Plan

Phase I to Phase V (1996–2020)

Canon launched the Excellent Global Corporation Plan in 1996, and has since strengthened its management base through each of the plan's five-year stages, from Phase I through Phase V.

During Phase I, we stressed thorough cash flow management and significantly boosted productivity through the introduction of our cell production system, along with other measures. In Phase II, we stepped up efforts to digitalize our office multifunction devices and camera offerings, endeavored to strengthen the competitiveness of our products, and established a strong earnings structure. In Phase III, we rode the globalization and digitization wave to drive sales and profit higher. In 2007, we achieved record-high sales of 4,481.3 billion yen and recorded net profit of 488.3 billion yen. During that period, we also turned our attention to OLED displays and welcomed Canon Tokki (formerly Tokki) and Netherlands-based printer manufacturer Canon Production Printing (formerly Océ) into the Canon Group.

During Phase IV, we promoted diversification by way of expanding our existing businesses into other new businesses, such as the Cinema EOS System, whilst also accelerating our M&A strategy in pursuit of new growth. In this manner, we set out a clear direction for shifting our focus for growth from B2C to B2B. At that time, we turned Milestone Systems ("Milestone") and Axis Communications ("Axis") into subsidiaries in order to reinforce and expand our rapidly growing network camera business. Additionally, Canon Nanotechnologies (formerly Molecular Imprints) became a subsidiary, and we furthered the development of next-generation semiconductor manufacturing equipment that uses nanoimprint lithography, a technology that enables miniaturization and cost reductions for semiconductor devices.

In Phase V, under the basic policy of "embracing the challenge of new growth through a grand strategic transformation," we welcomed Canon Medical Systems Corporation ("Canon Medical"; formerly Toshiba Medical Systems) into the Canon Group, and completed the assembly of the four new businesses: commercial printing, network cameras, medical, and industrial equipment, while carrying out structural reforms on our existing businesses to re-establish their sustainable and highly profitable business structures. Thus we completed the first stage of our business portfolio transformation.

Phase I
1996–2000

Canon transformed its mindset to focus more on total (not partial) optimization and profitability (not sales) and also engaged in thorough cash flow management. We introduced various business innovations, including the selection and consolidation of business areas, and reform activities in such areas as production and development.

Phase II
2001–2005

Aiming to become No.1 in all major business areas, Canon focused on strengthening its competitiveness by stepping up efforts to digitalize its products in line with the changing times. We embarked on a fundamental reform of procurement activity under the newly organized Procurement Headquarters, and we took steps to reform inhouse systems, such as our personnel system, with the aim of balancing lifetime employment with merit-based principles.

Phase III
2006–2010

Canon moved ahead with new growth strategies, including the enhancement of existing businesses and expansion of new business areas, and also implemented reforms for supply chain management and IT systems in order to achieve real-time management that can readily adapt to changes.

Phase IV
2011–2015

Canon shifted away from a management policy targeting expansion of scale and reinforced its financial structure. While actively pursuing M&As, we pushed ahead with the rebuilding of our business foundation for future growth with a view to entering industries that will serve as new growth engines in step with the changing times.

Phase V
2016–2020

Canon endeavored to reconsolidate its longstanding core businesses (namely, cameras and office equipment) and completed the first stage of the grand strategic transformation of its business portfolio by working to expand and strengthen the following four new businesses that would underpin Canon's future: commercial printing, network cameras, medical, and industrial equipment.

Phase VI basic policy and key strategies

In Phase VI, which commenced in 2021, our basic policy is to accelerate our productivity improvement and corporate portfolio transformation through new business creation. For 2025, the final year of Phase VI, we are targeting record-high net sales of more than 4,500 billion yen, an operating profit ratio of at least 12%, a net profit ratio of 8% or higher, and in terms of financial soundness, a shareholder equity ratio of at least 65%.

Now that there are only two years left in Phase VI, 2024 will be a crucial year for the achievement of our ultimate goals. We are therefore focusing on the following four priority measures: (1) strengthen and expand industry-oriented business groups, (2) reorganize global supply chain, (3) strengthen technological research capability, and (4) address cybersecurity risks.

Priority Measure 1

Strengthen and expand industry-oriented business groups

In April 2021, we bundled together the existing and new businesses that are technologically compatible with each other and placed them into the following four groups: Printing, Medical, Imaging, and Industrial. We intend to further streamline operations by eliminating organizational overlap and develop new products and solutions by combining technologies within the respective groups to trigger "chemical reactions."

PRINTING GROUP

Sheet-fed Presses

The Printing Group primarily consists of office MFDs, laser printers, inkjet printers, and commercial and industrial printers.

In the field of commercial and industrial printers, we will further expand our business, with such measures as simultaneous launches of the varioPRINT iX1700, a digital commercial printer capable of delivering stable operation and high-quality printing on a par with offset printing, and the LabelStream LS2000, a printer that can handle a wide-range of label products, riding the wave of the industry's transition from analog to digital printing.

As for office MFDs, we will aim to increase our market share, offering more added value by providing printing solutions attuned to this era of digital transformation (DX), including cloud-based smart services for predictive maintenance as well as diagnosing and fixing failures, and also by boosting our cost competitiveness mainly through the standardization of product platforms.

With regard to inkjet printers and laser printers, in order to support hybrid working styles that have become commonplace in the last few years, we will look to offer a printing environment not limited to the constraints of physical working location by harnessing our two technological strengths in the printing field: electrophotography and inkjet.

MEDICAL GROUP

CT Systems

The Medical Group handles diagnostic imaging equipment, including CT, MRI, and diagnostic ultrasound systems, as well as X-ray tubes and other components for medical applications. In this group, we have our sights set on augmenting our global business operations, so our first task will be to transfer some of the marketing functions of our medical business to Canon Healthcare USA, Inc., a group company we established in 2023. Building a network with medical institutions engaged in cutting-edge medical care and deepening our understanding of the healthcare market will help us better develop products and propose solutions tailored to the trends and clinical needs of the market.

Also, from the perspective of enhancing our product capabilities, we will aim to commercialize as quickly as possible our next-generation photon counting CT, a system that delivers clear images but with less exposure to radiation. Our aim is to capture the No.1 share of the global CT market.

To further boost the earning capability of this group, we are reinforcing our production engineering to promote automation and in-house production capabilities, while also doubling down on efforts to streamline operations, starting with the upstream development and design stage.

IMAGING GROUP


Network Cameras

The Imaging Group comprises interchangeable-lens digital cameras, lenses, broadcast equipment, professional digital camcorders, network cameras, and a 3D imaging solution business. In this group we aim to maintain the No.1 global share of the interchangeable-lens digital camera market. To that end, we intend to further expand our lineup of cameras and lenses.

In the field of network cameras, we collaborate with surveillance camera manufacturer Axis, video management software company Milestone, video content analytics company BriefCam, and cloud services provider Arcules to provide a suite of total solutions across the Canon Group, thereby further enhancing our presence in the industry. We will also look to further expand our business in the promising field of advanced surveillance system by leveraging our SPAD sensor, which boasts the world’s highest resolution.

In the field of video production, we will not only expand our products and services to help streamline production tasks and meet demand for less manpower, but also provide numerous video experiences as a leading company in the imaging industry. One such experience is our volumetric video system, which continues to be employed in the world of professional sports and entertainment to create 3D spatial data from multiple captured images. This technology will likely pioneer new possibilities for visual expression in the future.

INDUSTRIAL GROUP


Semiconductor Lithography Equipment

The Industrial Group handles semiconductor and flat panel display (FPD) lithography equipment, as well as OLED panel manufacturing equipment and the like. This group is establishing a system for expanding production capacity to meet strong demand for semiconductor manufacturing systems and is reinforcing its global sales capabilities in an effort to further expand sales. For our semiconductor lithography equipment, we are constructing a new plant at our Utsunomiya Office (which is slated to come online in 2025), which will enable us to significantly scale up our production capacity. At the same time, we will make thoroughgoing efforts to keep costs down. In addition, we will build the business foundation for our groundbreaking nanoimprint lithography technology that can fabricate even finer chips but with less energy and at lower cost, working with semiconductor manufacturers to evaluate and verify the technology.

In the display panel market, our focus will be on the development of equipment for mid-sized panels, an area in which we expect to see increased investment. Going forward, we will aim to generate stronger earnings by providing FPD lithography equipment and OLED display manufacturing equipment capable of contributing to greater productivity at display panel makers.

FRONTIER BUSINESS

The Frontier Business is engaged in the exploration of new businesses by drawing on Canon's core competency technologies in the three fields of solutions (such as devices and components), life sciences, and materials. For example, in the field of materials, we are developing coating materials such as anti-reflective coatings and hydrophilic coatings that are expected to be used in fields such as mobility and energy. We intend to clearly establish evaluation criteria, including market size, technological superiority, and cost competitiveness, in a bid to create business seeds with future market growth potential.


Images of Canon's high-performance materials that can be used in areas such as mobility and energy to improve performance

Priority Measure 2

Reorganize global supply chain

In an uncertain and unstable global environment, the supply chain is the lifeline of a manufacturer, and from not only an economical, but also from a stability and sustainability perspective, we need to reorganize. In addition to consolidating production sites in countries and regions where we see political and social stability, in order to promote the return of production of high-value-added products to Japan, we will reinforce our automation technology and technology for in-house production through cooperation among design, production technology and production sites.

Priority Measure 3

Strengthen technological research capability

Under four groups largely reorganized by industry, Canon is carrying out the development of new products and solutions based on proprietary technology through the integration of core technologies it has cultivated with the technologies of companies that it has acquired. On top of that, now that technological innovations that could dramatically change the world are consistently being created, there is a need to actively incorporate the latest technologies constantly to further enhance the added value of products. To this end, we will establish a system for conducting research on a global scale and acquire necessary technologies promptly through investments in companies engaged in advanced technology as well as through M&A.

Moreover, we will strengthen and develop a system to certify talented engineers as "top scientists" and "top engineers" to respond to the rapid advancement of technology from a human resource perspective as well.

Priority Measure 4

Address cybersecurity risks

As for information security risks that are an increasing global threat, we consider this to be an important management issue and have established a management system for the entire group, including production facilities. While working on countermeasures against information leakage from within the group and malware and other cyberattacks from outside, we are also taking other steps such as raising the awareness of employees.

In the unlikely event that an information security incident occurs, we have established a dedicated team, CSIRT*, to deal with it promptly, which also endeavors to collect information in ordinary times.

Furthermore, since we are working to boost the convenience of our products and services by connecting them to the cloud and smartphones via networks, as a key initiative, we are 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)

In conclusion

In 2023, we held Canon EXPO for the first time in eight years. It provided us the opportunity to showcase a Canon reborn following the significant transformation of our business portfolio, as well as the future society we envision. To achieve that vision, it is imperative that we achieve sustained growth by possessing the ability to swiftly adapt to the rapidly changing socio-economic system. To put it more simply, "change is progress, transformation is advancement." We will continue to grow by demonstrating our comprehensive capabilities in development, procurement, production, and sales, all the while pursuing further productivity improvements and strengthening our business competitiveness with a view to attaining our 2025 targets. We look forward to your continued support and understanding.

Fujio Mitarai
Chairman & CEO
Canon Inc.

BUSINESS STRATEGY


The imageRUNNER ADVANCE DX series enhances office productivity with high-speed, yet quiet, printing

Establishing a dominant position in commercial and industrial printing and increasing our share of the office and prosumer markets

In the commercial and industrial printing fields, we will ride the wave of the industry's transition from analog to digital printing and further expand our business. And given the acceleration of digital transformation (DX) and the entrenchment of new lifestyles and working styles, we aim to boost our market share in both the office and prosumer fields.

Performance in 2023

As for commercial and industrial printing, amid an accelerating shift to digital, which addresses quick turnaround and wide-variety short-run printing as well as offers advantages in terms of operability, unit sales of continuous feed presses, high-speed cut-sheet machines, and large format printers grew, leading to a significant increase in net sales compared to the previous term. Particularly the "imagePRESS V1350" and other V series models were recognized for their enhanced automation features which contributed to operator labor-savings, and the "Colorado M-series" satisfied needs of customers who undertook posters in graphic arts by broadening the range of printable media through the addition of white ink, resulting in strong sales of these products.

With the solid need for highly-productive core printing equipment, unit sales of office MFDs, particularly color models, grew thanks to a rise in demand linked to recovery in the number of people returning to the office since the end of the COVID-19 pandemic, and the resolution of product supply shortages.

Laser printer and inkjet printer sales declined, reflecting the peak out in work-from-home demand and market contraction due to the impact of the economic downturn in China and Europe.

As a result, on a consolidated basis, sales for this business unit increased by 3.2% to 2,346.1 billion yen in comparison to the previous term.

The ColorStream 8000 series of continuous-feed printers combines efficiency with high-quality printing

Canon's inkjet printers meet broad-ranging demand for working or studying at home

Toward further growth

The Company 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, the Company's sales are growing. This reflects the enhanced imaging quality and productivity that have spread throughout the industry as we incorporate the opinions of our customers who are printing companies. To further accelerate growth in the future, we need to expand our business domain by making a full-scale entry into the industrial printing field, specifically targeting labels and packages. And in line with this, we will push ahead with the launch of new products including Canon's first water-based inkjet label printer, which was announced last year.

As for office and home printing, a reimagining of a print environment not restricted by working places is required to better suit the hybrid work styles combining office- and telework that were triggered by the spread of COVID-19.

The Company will provide optimal printing equipment for the place by leveraging its strength of having two digital printing technologies, namely electrophotography and inkjet, and offer new printing solutions in the DX era by connecting these devices utilizing the cloud.

CT systems that deliver high-resolution images, but also alleviate the strain on patients with less radiation exposure

Aiming to capture the biggest share of the global CT market and increase our share in MRI and diagnostic ultrasound systems by enhancing our product competitiveness and overseas sales structure

We intend to bolster our sales structure with an emphasis on the U.S. market, step up the development of Photon Counting computed tomography (CT) systems, and gain the largest share of the global CT market. We will also boost the product competitiveness of our magnetic resonance imaging (MRI) systems and diagnostic ultrasound systems and make every effort to increase our share of these markets.

Performance in 2023

As for diagnostic imaging systems, investments in large systems, such as CT and MRI, which had been postponed during the COVID-19 pandemic, also recovered. Additionally, growing demand for consumables resulting from a rise in the rate of equipment operation in medical institutions led to an increase in service revenue. MRI, in particular, grew at a high rate, with the Vantage Fortian and the Vantage Galan 3T, new products equipped with technology that uses deep learning to enhance image quality. As a result, we gained the top share in Japan. By region, sales in Europe grew largely due to effects of each country's policies to support the purchase of medical equipment, following on from the previous year's strong performance.

Furthermore, the acquisition of Minaris Medical Co., Ltd. which manufactures in-vitro diagnostics, was completed in July of last year. While advancing into the reagent business at full scale, we will work to develop the in-vitro diagnostic field into one of our major growth pillars.

As a result, on a consolidated basis, sales for this business unit increased by 7.9% to 553.8 billion yen in comparison to the previous term, renewing record-high performance for the third year in a row.

Toward further growth

The Company aims to establish a solid presence in the field of diagnostic imaging systems, which serves as the core of the medical business, particularly in CT where it aims to achieve the No.1 global market share position. While it already has a lineup that can hold its own against global competitions, it is working to further expand it, strengthening sales power 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, in addition to increasing the number of staff and other measures, we set up a new marketing company last year. In November, we entered a partnership with Cleveland Clinic, an advanced medical institution. Through such measures, we will promote joint research with medical institutions and strengthen relationships with medical practitioners who serve as key opinion leaders. In addition, Photon Counting CT, the next generation CT, is receiving increasing attention as many papers based on Canon's equipment have been presented at academic conferences in the United States. With increasing attention, we will work to improve Canon's presence by accelerating the development of Photon Counting CT.

In emerging countries, we established a local corporation in India and Saudi Arabia last year, and we will strive to expand sales in these regions and elsewhere.

Canon's MRI systems use new workflow to deliver both quality and efficiency in examinations

Canon's diagnostic ultrasound systems deliver high-definition images with less noise

Canon’s mirrorless cameras support shooting users with outstanding corrective functions and high-resolution

Aiming for the No.1 position in the global mirrorless camera market and accelerating business growth in network cameras

By further expanding our product lineup, we aim to secure the overwhelming No.1 position in the global mirrorless camera market. We will also look to expand our network camera business by capturing the growing demand.

Performance in 2023

As for interchangeable-lens digital cameras, the market remained stable as camera manufacturers introduced products that capture user needs. Our unit sales of interchangeable-lens digital cameras also exceeded those of the previous year, thanks to a growth in the sales of mirrorless cameras, in particular the “EOS R6 Mark II,” a model equipped with a full-frame sensor, which was released at the end of the year before last, and also an entry-class model the "EOS R50," which was launched in March of last year. In addition, as for interchangeable lenses, the number of RF-series lenses for mirrorless cameras was expanded to 41 in total after launching nine new models last year. The enhanced lineups of camera bodies and lenses generated synergy, contributing to an overall rise in camera sales.

The market of network cameras continues to grow particularly in the security field. The Company, which has powerful sales channels in Europe and the United States, posted an increase in both camera unit sales and software sales by firmly securing growing demand, which led to a double-digit sales growth rate also in this term.

As a result, on a consolidated basis, sales for this business unit increased by 7.2% to 861.6 billion yen in comparison to the previous term.

Toward further growth

As for interchangeable-lens digital cameras, to maintain the market size and further improve our position as a leading company of cameras, we need to continue to provide attractive products to users who seek high-quality images. In response to the shifting need for mirrorless cameras, Canon will continue introducing new mirrorless cameras to its lineup that ranges from entry-class to professional models.

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. Therefore, it is important to respond to diversified needs. Last year, Canon released a camera equipped with a SPAD sensor offering the world's highest 3.2 million pixels* developed by the Company, for advanced surveillance of international borders, critical infrastructure etc., and going forward as well, it will continue to enhance its lineup of both hardware and software.

* Among SPAD sensors used for video shooting. As of July 31, 2023 (Based on Canon research). Approx. 2.1 million effective pixels.

Canon's high-precision network camera systems provide peace of mind and safety to communities

Canon's compact and lightweight vlogging camera meets the various needs of users

Nanoimprint lithography can significantly reduce manufacturing costs and power usage

Responding to lively demand for semiconductor lithography equipment and targeting sales expansion of nanoimprint lithography

Taking steps to ramp up production capacity to fully capture lively demand for semiconductor lithography equipment, and targeting sales expansion of nanoimprint lithography that can significantly lower manufacturing costs and power usage.

Performance in 2023

As for semiconductor lithography equipment, despite concerns about the shrinking memory market impacting investments, we posted steady sales growth thanks to the accelerating trend toward domestic production from an economic security perspective, and the increasing demand for power devices etc. In addition, the new product for back-end processing, which was launched early last year, is expected to see a large increase in sales in the future due to a large number of inquiries for advanced packaging of GPUs used in generative AI.

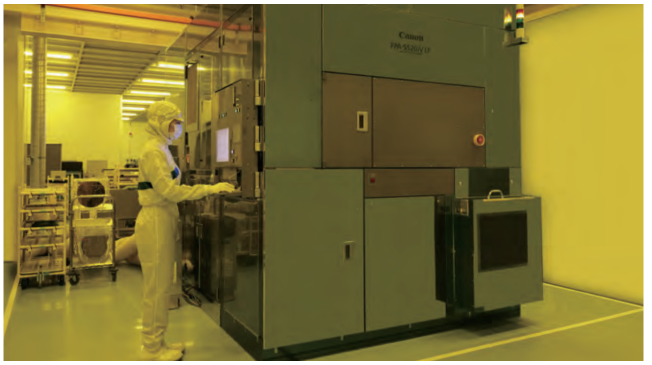
Conversely, for FPD (Flat Panel Display) lithography equipment, investments of customers entered an adjustment phase, affected by stagnating conditions of the panel market. With a shift of IT panels mounted on notebook PCs and tablets from liquid crystal to OLED, investments are anticipated to recover from the second half of 2024. The unit sales in 2023 decreased compared with the previous year.

As a result, on a consolidated basis, sales for this business unit decreased by 4.4% to 314.7 billion yen in comparison to the previous term.

Toward further growth

We anticipate 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, we began construction of a new plant at our production site in Utsunomiya at the end of last year that will become operational from 2025.

Furthermore, the Company aims for the early sale of "nanoimprint lithography," a new system released last year to expand sales. Unlike conventional lithography technology that uses light to expose circuit patterns, this device, which forms circuit patterns by pressing a patterned mold like a stamp, has attracted inquiries from many manufacturers because it can significantly reduce production costs and power consumption. We will proceed with assessment and confirmation jointly with customers to realize practical applications starting with memory and expanding to other areas such as logic and even non-semiconductor devices, including meta-lens.



Demand for semiconductor lithography equipment is expected to grow stronger in the future

OLED display manufacturing equipment continues to be utilized in various ways

AT A GLANCE

PRINTING GROUP

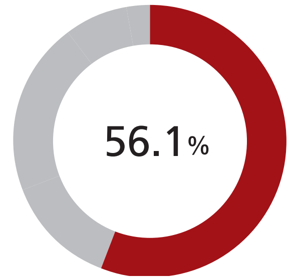
Digital continuous feed presses

Large format printers (Inkjet)

Office multifunction devices (MFDs)

Laser multifunction printers (MFPs)

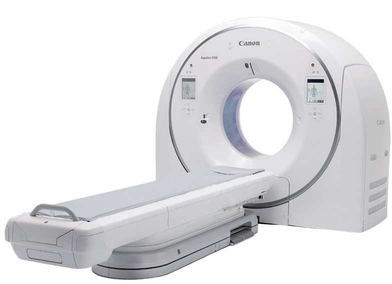
Composition of Sales (%)



Main Products

- Digital continuous feed presses
- Digital sheet-fed presses
- Large format printers
- Office multifunction devices (MFDs)
- Document solutions
- Laser multifunction printers (MFPs)
- Laser printers
- Inkjet printers
- Image scanners
- Calculators

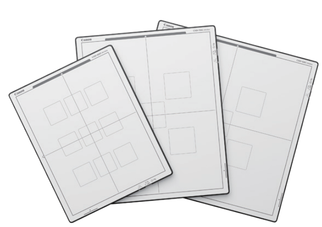
MEDICAL GROUP



Computed tomography (CT) systems

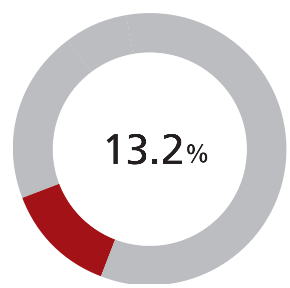
Diagnostic X-ray systems

Diagnostic ultrasound systems



Digital radiography

Composition of Sales (%)



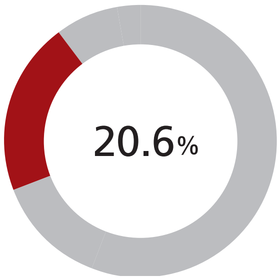
Main Products

- Computed tomography (CT) systems
- Diagnostic ultrasound systems
- Diagnostic X-ray systems
- Magnetic resonance imaging (MRI) systems
- Clinical chemistry analyzers
- Digital radiography systems
- Ophthalmic equipment

Note: The percentage figures for the four groups presented in the pie charts above do not add up to 100% because “Others and Corporate” and “Eliminations” recorded in consolidation accounting, were not included in calculation considerations.

IMAGING GROUP

Composition of Sales (%)



Main Products

- 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
- Projectors

Interchangeable-lens digital cameras
—Mirrorless cameras

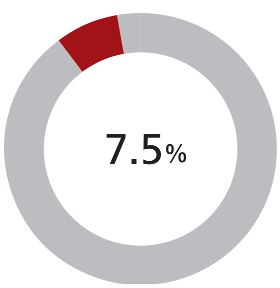
Interchangeable-lens digital cameras
—Digital SLR cameras

Interchangeable lenses

Network cameras

INDUSTRIAL GROUP

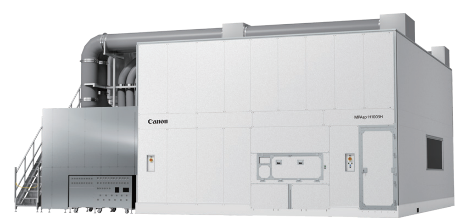
Composition of Sales (%)



Main Products

- Semiconductor lithography equipment
- FPD (Flat panel display) lithography equipment
- OLED display manufacturing equipment
- Vacuum thin-film deposition equipment
- Die bonders

Semiconductor lithography equipment



FPD (Flat panel display) lithography equipment

Organic LED (OLED) display manufacturing equipment

Die bonders

Canon looks to solve social problems through innovation.

Canon's R&D

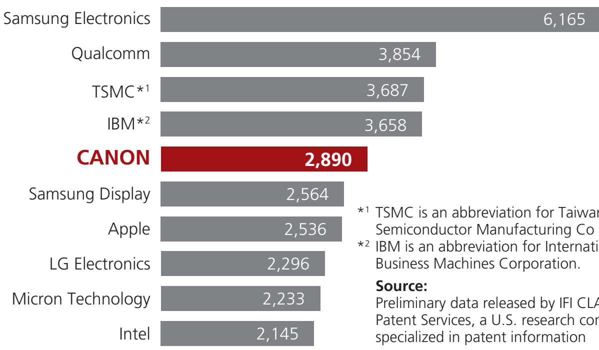
As remarkable technological developments in DX and AI continue to drive major changes in society, a paradigm shift is occurring in R&D whereby companies are adding innovation-focused R&D for solving social problems to their existing invention-focused R&D portfolios.

From the time of Canon's founding, we have continued to diversify our business operations by practicing a style of core competency management that intertwines our technologies in various ways. Namely, the core competency technology to create industry-leading core products, the fundamental technology as the basis for technological accumulation, and value creation technology that underpins commercialization technology. Going forward, we will make an effort to further expand our operations by leveraging open innovation, including industry-academia partnerships and collaboration with partner firms, alliances with other companies, and M&As and the like.

In 2023, R&D expenses amounted to ¥331.9 billion, which equates to 7.9% as a percentage of net sales. Our focus on R&D has also helped us cement our leading position in the intellectual property field. Canon was granted 2,890 patent applications in the U.S. in 2023, ranking it fifth in the world. We also maintained our number one ranking among Japanese companies for the 19th consecutive year.

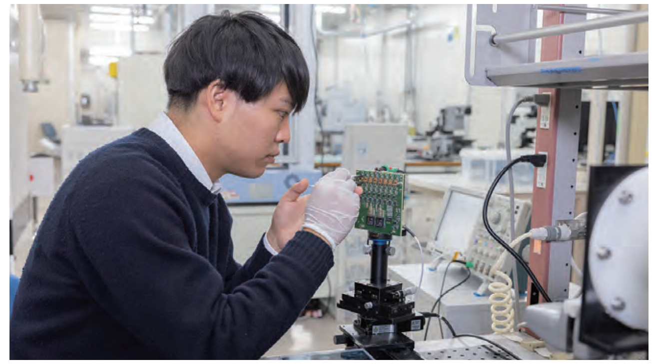
Our technologies showcased new possibilities in society at Canon EXPO 2023

2023 Top Ten U.S. Patent Holders by Company



*1 TSMC is an abbreviation for Taiwan Semiconductor Manufacturing Co Ltd.
*2 IBM is an abbreviation for International Business Machines Corporation.

Source:
Preliminary data released by IFI CLAIMS Patent Services, a U.S. research company specialized in patent information



Research and development of a terahertz device

Efforts to Develop and Expand Latest Technologies

Canon EXPO 2023

In October 2023, we held our very own event, "Canon EXPO 2023." By presenting our latest products, services, and underlying technologies, we showcased a Canon reborn that had adapted to the demands of the times and the changing business environment by significantly transforming its business portfolio. Seeds of innovation are generated from a holistic development environment in which the technology that goes into products and the technology that supports products can be fully utilized in an integrated manner throughout the Group. We also demonstrated the potential for co-creation with partners to sow such seeds in new areas.

Development of compact terahertz device with world's highest output

Canon has developed a compact and high-performance device capable of transmitting terahertz waves more strongly and over longer distances. Terahertz waves consist of electromagnetic waves that enable high-speed, high-capacity communication and are expected to be deployed in such fields as 6G telecommunications. They also have the potential to be used in security applications because they can penetrate the clothes and plastic without causing exposure of the human body and certain objects to radiation.

Canon has been able to develop a device that is smaller than conventional equipment, and delivers the world's highest output* and a high level of directivity (the concentration of energy in a single direction).

* Among 450GHz output semiconductor devices. As of December 28, 2022 (based on Canon research)

Development of perovskite quantum-dot ink for use in next-generation displays

Canon has developed quantum-dot ink with improved practical durability* that contributes to higher image quality of displays. As quantum dots are semiconductor particles that can emit light with high brightness and high color purity, they have the potential to help realize ultra-high definition OLED displays. Canon has enhanced the durability of perovskite quantum dots without using the hitherto preferred material of cadmium (Cd) by covering them with a protective layer based on the technological know-how honed from the development of ink and toner.

* T90=10,000 hours. The time until the brightness reaches 90% of the initial level under conditions equivalent to actual usage, with blue light exposure at 1,000 nits (a unit indicating the degree of brightness).

Strengthening joint research initiatives in the medical field

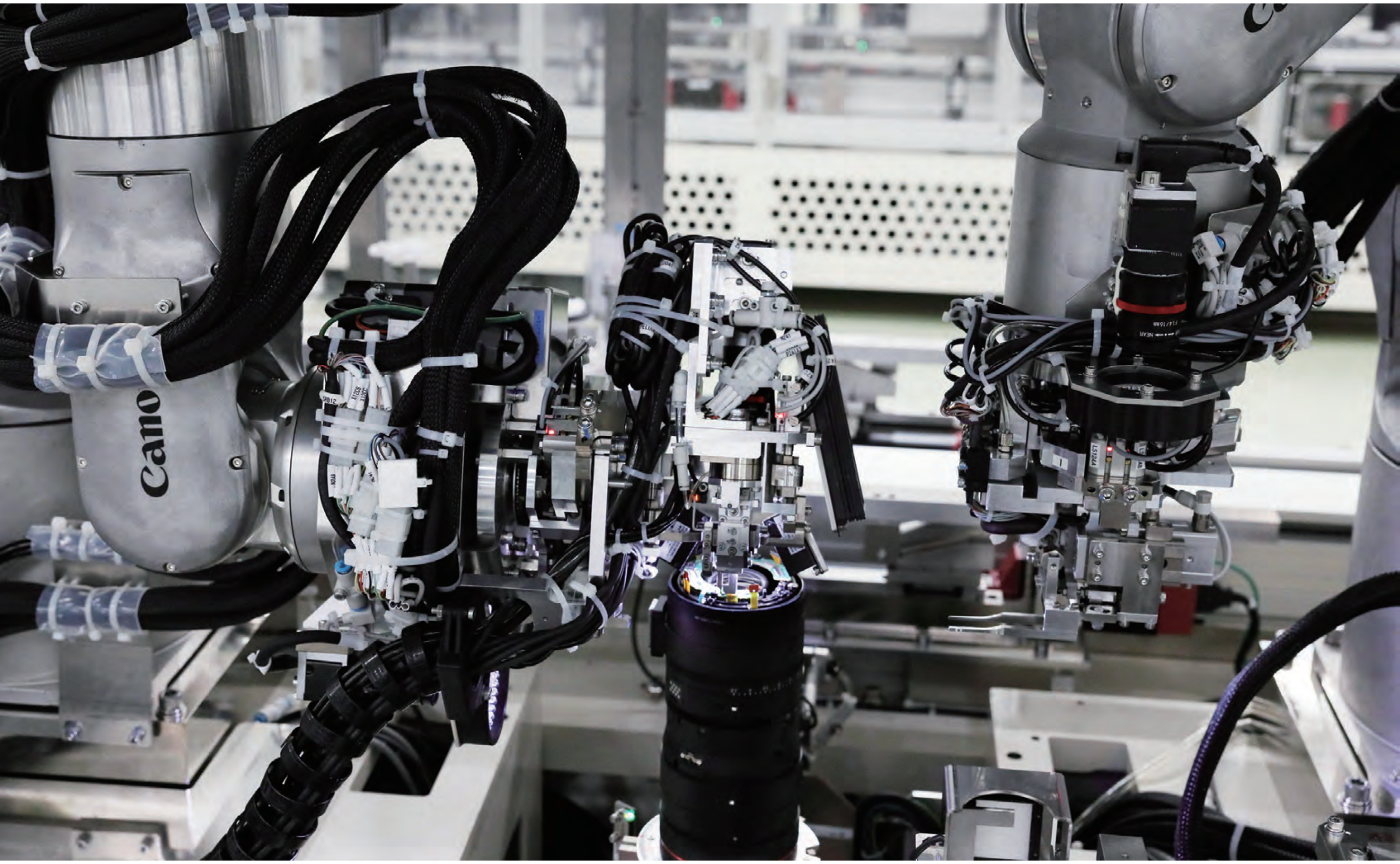
Canon has reached an agreement with US-based Cleveland Clinic Foundation to form a strategic research partnership to develop innovative medical imaging solutions and healthcare IT technologies. The partnership will undertake joint research by leveraging Cleveland Clinic's expertise in biomedical research and clinical care, alongside Canon's imaging technology. Research will be focused on the three major components of pre-clinical imaging, human imaging, and image analysis in the fields of cardiology, neurology, and musculoskeletal medicine with the aim of continuously providing technologies and solutions that meet the expectations of medical professionals and patients alike.

Canon strives to further improve production-engineering technology, including the automation of assembly lines, whilst also focusing on the development of human resources armed with outstanding technical skills. To ensure customer satisfaction, the company works to improve and ensure Canon Quality at each stage of the product lifecycle.

Production Automation and In-house Production

By transcending the boundaries between divisions to leverage the technologies honed in different businesses, Canon is integrating the processes for many of its products, from the production of materials to processing, in an effort to achieve more efficient production.

To produce high-quality products at low cost, we rolled out fully automated production lines, first for toner cartridges, and then for cameras. Also, Canon endeavors to create original products by actively pursuing the in-house production of not



Automated production process for interchangeable lenses

Young engineers entering competitions to further hone their technique

Meister contributing to Canon's manufacturing with a wide range of skills and knowledge

only CMOS sensors and other key devices and components, but also production equipment like automatic assembly machines and high-precision processing equipment, as well as molding dies.

Development of Human Resources

To further enhance its manufacturing capabilities, Canon is actively engaged in the development of technicians to support production. We are focusing on nurturing our most skilled technicians in specialist fields, known as Master Craftsmen, and those who contribute to the advancement of manufacturing with their wide-ranging skills and knowledge of mainly assembly and component processing, known as Meisters. These technicians contribute to the improvement of Canon's production-engineering technology and play an active role at the front line of production by passing on the skills they have honed over the years to the next generation.

Globally Optimized Production

Given the unsettled state of world affairs, supply chain restructuring is a major challenge for manufacturers. Canon employs a globally optimized production system under which it comprehensively determines the most rational locations to produce products. This decision takes into account country and region-specific factors such as costs, tax systems, logistics, ease of procuring parts, and labor. In Japan, production is centered around high-value-added products with the use of automation and in-house production capabilities with an eye on improving quality and keeping costs down. In emerging countries and regions, we are boosting productivity by further honing the skills of employees and we manufacture products by utilizing agile and flexible systems that leverage the characteristics of each region.

Quality Control

Guided by our "no claims, no trouble" basic policy on product quality, we have drawn up our own rules in the form of a quality management system that we adhere to exhaustively. This guarantees that our products are safe, can be enjoyed with peace of mind, and provide satisfaction to our customers. Our unique quality standards not only comply with international quality management standards and relevant laws and regulations in each country or region, but they also take safety into account, based on assumptions of how our products will be used by customers. Moreover, we endeavor to bring to market only the products that have satisfied our quality standards after putting them through rigorous evaluations with well-developed testing equipment and thoroughgoing checks in each manufacturing process, from development through to production.

Canon reinforces its sales and marketing capabilities by providing innovative products and advanced solutions tailored to meet the characteristics of each region.

Japan

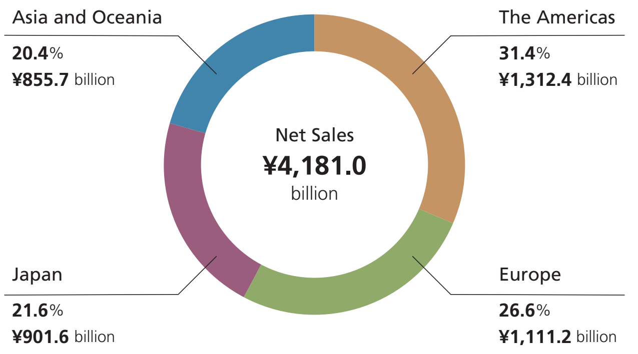
Sales in Japan amounted to ¥901.6 billion, or 21.6% of consolidated net sales.

Mirrorless camera sales increased, mainly for new products of entry-level models. Of our mainstay business equipment, sales volumes for office MFPs increased, buoyed by a recovery in product supply. In the IT solutions business, sales to large corporations in the system integration (SI) services and data center businesses were boosted by active IT investments by corporations. Alongside the recovery in the provision of business PCs, sales to SMEs in our core focus area of maintenance and operations services for mainly IT equipment also increased. Going forward, we will make every effort to further enhance profitability in Canon products businesses and expand sales in the IT solutions business in line with improvements in profitability.

Mountain bikers being photographed for autofocus testing at CP+ 2023

Canon Europe was Official Imaging Supplier of Rugby World Cup France 2023

Composition of Sales by Region



The Americas

Sales in the Americas amounted to ¥1,312.4 billion, or 31.4% of consolidated net sales.

Canon U.S.A. handles operations for North, Central, and South America. In the US, following the previous year, it maintained its firm grip on the number one share of unit sales for both color and monochrome office MFDs. Meanwhile, Canon's lineup of entry-level mirrorless cameras, including the EOS R50 and EOS R100 models, was enhanced. In this product category too, Canon U.S.A. has held the leading market share in terms of sales volume for the last three years and the number one share in terms of sales revenue for the last two years. Sales of laser and inkjet printers grew sharply after sales to the B2B market gained momentum.

In the medical business, a new group company, Canon Healthcare USA, Inc. was established in 2023. It will seek to collaborate with distinguished medical institutions and realize product development and solutions tailored to healthcare market trends and clinical needs.

Europe (Europe, Middle East, Africa)

Sales in Europe region amounted to ¥1,111.2 billion, or 26.6% of consolidated net sales.

Canon Europe operates in the EMEA region - Europe, Middle East and Africa in approximately 120 countries.

We are expanding business in a range of areas such as commercial and industrial printing, office digital services, B2B imaging and in developing markets. We supported Rugby World Cup France 2023, where Canon Professional Services (CPS) aided professional photographers capture the tournament; and through an innovative mentoring scheme we supported a new generation of professional photographers with young people participating from every nation in the tournament. Through this sponsorship, alongside other partnerships, we are promoting our brand purpose of 'Imaging to transform our world.'

Asia and Oceania

Sales in Asia and Oceania amounted to ¥855.7 billion, or 20.4% of consolidated net sales.

Canon China and Canon Marketing Asia oversee operations in China, India, South Asia, and Southeast Asia.

In particular, in the key market of India, we established showroom-cum-offices in the two cities of Mumbai and Kolkata in 2023 with the aim of providing entirely new product experiences to customers. Also, in the rapidly expanding Chinese market, where the potential for growth is significant, we are developing and marketing products more suited to the market there in line with our "in China, for China" strategy. We are also endeavoring to further enhance the recognition of the Canon brand in the Asian region. For example, we were the only foreign company among The "Official Sponsors" of the 19th Asian Games held in 2023 in Hangzhou, China. Held once every four years, the Asian Games is the largest sports event in Asia.

Environment

Canon seeks to supply products and services that enrich people's lives while also reducing environmental impact based on initiatives across the entire product lifecycles.

A. Bird Branch Project activity in progress in the Shimomaruko Forest on the grounds of Canon's global headquarters
B. Canon promotes the closed-loop recycling of used toner cartridges
C. Remanufacturing of office MFDs at Canon Giessen (Germany)

Basic Approach

In 2008, Canon expressed "Action for Green" as our environmental vision, positioning "environmental value" as the main concept in initiatives to realize a society that achieves a beneficial balance between lifestyle enrichment and the environment. To create this value, Canon seeks to supply products and services that enrich people's lives while also reducing environmental impact based on initiatives across the entire product lifecycles.

We are focusing on four material areas : (1) Climate change; (2) Resource efficiency; (3) Chemical substances; and (4) Biodiversity. In particular, we endeavor to take heed of, and reduce, CO_2 emissions and other environmental impacts not only in our own business activities such as development, production, and sales, but also at each stage of a product lifecycle, including those of suppliers and customers. To further accelerate these activities, we are seeking to generate a heightened level of awareness among all employees by establishing the slogan of *Minimum Energy 360* for all employees to embrace based on the idea of minimizing energy usage in all directions (360°). In addition, we support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and we constantly disclose climate-related information in our securities reports, integrated reports, sustainability reports, and on our website.

Climate change

By working closely with society and implementing a number of initiatives across the entire product lifecycles, Canon aims to achieve net-zero CO_2 emissions by 2050.

We have set targets to reduce our Scope 1 and 2 emissions by 42% and Scope 3 emissions (categories 1 and 11) by 25% compared to 2022 levels by the year 2030. These targets have been certified by the Science Based Targets initiative (SBTi). We also have a longstanding goal of 3% average annual improvement in the index of lifecycle CO_2 emissions per product unit as a yardstick for reducing our environmental footprint across the entire product lifecycles.

For example, in 2023 we achieved a 15% reduction*[1] in power consumption in the series of imageRUNNER ADVANCE DX C3900 office MFD by adopting industry-leading low-temperature fixing toner with significantly improved fixing temperature over conventional toner, thereby placing it among the industry's top performers in terms of typical energy consumption (TEC) *[2].

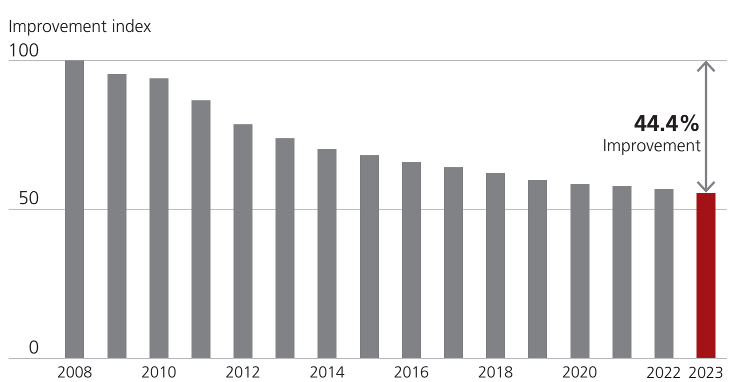
In addition, we have promoted reduced energy consumption by undertaking a thorough-going analysis of the required operating environment for production equipment in the on-site manufacturing process and using its findings for instance to reduce equipment operating time, cut out excess use of pressurized air and cooling water, and adjust air conditioner settings.

As a result of these initiatives, in 2023 we reduced our Scope 1 and 2 emissions by 10.3% and Scope 3 (categories 1 and 11) emissions by 18.5% compared to 2022 levels. We also achieved a 44.4% improvement (average annual improvement of 3.95%) in lifecycle CO_2 emissions per product compared to 2008.

Our GHG emissions data are disclosed every year and verified by third-party assurance.

*1. A3 model only. The previous model was "imageRUNNER ADVANCE DX C3835F/C3830F/C3826F" (released in October 2021).
*2. In comparison with products used in the International Energy Star Program (Digital color multifunction machine with copy/fax/scanner function of 25~35 sheets/minute class). As of August 1, 2023. (Research by Canon)

Lifecycle CO_2 Emissions Improvement Index per Product



*Indexed to 2008=100

Resource efficiency

Canon operates five recycling centers in four regions around the world. Having established systems under which we can recycle resources in the regions where they are consumed, we continue to promote more efficient use of limited resources and reduce waste. In particular, we are pursuing a form of recycling that turns used products into new ones, including the remanufacturing of MFDs and the closed-loop recycling of toner cartridges. Also, at the Canon Eco Technology Park that opened in 2018, we strive to realize state-of-the-art material recycling. Moreover, Canon's digital printing business is targeting a resources recycling rate of 20% by 2025 and 50% by 2030. This rate represents the weighting of recycled materials as a percentage of total sales volume.

We are also working to reduce, reuse, and recycle plastic waste at our business sites worldwide, for instance, by switching from polystyrene foam to pulp mold for use in product packaging materials in order to reduce, and ultimately phase out, single-use plastics, a movement that is gaining traction on a global scale.

For the PowerShot V10 vlogging camera, we have almost eliminated the single-use plastics used in the cushioning and packaging materials by replacing the plastic trays and bags with cardboard, plant-based non-woven fabric, and paper materials.

Canon is also developing products designed for reuse and recycling. In order to recycle plastics, it is necessary to accurately sort out various types such as colors and sizes. Canon has developed a technology that enables the sorting of black plastic, which has been difficult in the past, by combining its own measurement and control technology based on a laser measurement system called Raman spectroscopy. This is expected to accelerate plastic reuse and promote the creation of a circular economy.

We are also promoting the recycling of water resources. The Kitsuki Plant of Oita Canon Materials, which faces out to Beppu Bay in an area blessed with precious natural resources and an abundance of living things, has installed a closed drainage system that discharges only rainwater in consideration of the impact on the local ecosystem. It also conducts coastal and riverside cleanup activities and runs educational programs, including factory tours and environmental outreach classes, to raise awareness about the importance of water resources.

Chemical substances

Canon strictly manages chemical substances in products as well as those used in manufacturing processes to prevent pollution of the global environment and adverse effects on people's health. Our basic approach to management involves confirming products do not contain regulated chemical substances that exceed the prescribed standard and production sites do not discharge regulated chemical substances that exceed the prescribed standard. Particularly for chemical substances in products, we have built a group-wide environmental assurance system, and we develop products in conformity with standards established in-house that are in line with the most stringent regulations in the world.

Biodiversity

Canon recognizes biodiversity as essential for a sustainable society. We express our Biodiversity Policy to carry out various activities to conserve and protect biodiversity under "Nature Positive" slogan which applies to the entire Canon Group. As part of these activities, we globally run the Canon Bird Branch Project.

The site of Canon's global headquarters in Tokyo is home to the thickly wooded Shimomaruko Forest of approximately 1,000 trees. An environment conducive to wild bird life is maintained owing mainly to the installation and cleaning of nesting boxes for birds. Surveys on the migration of wild birds to the site are also carried out. In recognition of this initiative, the Shimomaruko Forest has been certified by the Ministry of the Environment of Japan as a site of natural symbiosis. As part of the project to certify such sites of natural symbiosis, the Japanese government recognizes areas where biodiversity is being protected through private initiatives and other means with the aim of achieving the 30by30 target, a worldwide initiative to effectively conserve at least 30% of the earth's land and oceans as healthy ecosystems by 2030. The areas certified as sites of natural symbiosis are then registered in a global database of OECMs (other effective area-based conservation measures), excluding those that overlap with places already designated as protected areas. Elsewhere, Canon U.S.A. is making an effort to protect sea life by supporting the New York Marine Rescue Center (NYMRC), an organization engaged in the rescue and rehabilitation of injured marine mammals and sea turtles. Canon Business Machines (Philippines) is engaged in activities aimed at preventing the environmental impact of dumped garbage, promoting the healthy renewal of animal and plant ecosystems, and maintaining and protecting sound forest environments. Employees regularly volunteer to clean up the designated area of forest reserve.

Social

We have inherited the spirit of "Respect for humanity" from the time of our founding and we aim to realize a society in which all people can live and work together in happiness into the future.

A. Visitors appreciate the high-resolution facsimile of "Scenes in and around Kyoto (Funaki Version)," a national treasure in the collection of Tokyo National Museum
B. Photography and videography workshop of the Canon Young People Programme at the UN SDG Action Awards
C. Photography and videography workshop in Nigeria as part of the *Miraisha* Programme

Basic Approach

Canon adopted *kyosei* as its corporate philosophy in 1988 with the aim of creating a society in which all people, regardless of culture, customs, language or race, harmoniously living and working together in happiness into the future. In keeping with this corporate philosophy, we carry out a multitude of initiatives for the benefit of people and society, contribute to the achievement of the SDGs, and strive for the achievement of Canon's own sustained growth and development, all the while fulfilling our role as a member of society. Such measures include respecting human rights, promoting diversity, upholding occupational safety and health management, developing human resources, and implementing sociocultural support activities.

Respecting Human Rights

In accordance with the United Nations' Guiding Principles on Business and Human Rights, we have expressed the Canon Group Human Rights Policy. Guided by this policy, we set in motion a human rights due diligence process to identify significant human rights risks in the Canon Group. We also put in place a grievance mechanism, roll out e-learning program and conduct human rights awareness training, engage in dialogue with stakeholders, and address human rights risks in supply chains. In 2023, our initiatives were highlighted on the websites of the International Labor Organization (ILO) and the Japan External Trade Organization (JETRO) as outstanding examples of human rights due diligence. We have also expanded the scope of the e-learning program to Group companies overseas in an effort to promote awareness and understanding.

Promoting Diversity

Under our corporate philosophy of *kyosei*, Canon respects global diversity and actively encourages the fair hiring and promotion of employees, regardless of gender, age, or disability. We make every effort to empower female employees, and we support the intentions of male employees to participate in child rearing, help employees balance work and nursing care duties, and encourage the active participation of employees with disabilities. In particular, we are focusing on female empowerment and encouraging men to participate in childcare. And after establishing the ratio of women in management positions and the percentage of male employees taking childcare leave as KPIs, we continue to implement various initiatives. As part of this, we have established VIVID, a company-wide horizontally integrated organization spearheaded by the Executive Vice President. VIVID stands for Vital workforce and Value Innovation through Diversity. For example, it provides a female leadership training that aims to nurture female candidates for managerial positions, holds lectures with female executives as keynote speakers, and organizes online seminars for those employees who have returned to work from childcare leave and their superiors. The ratio of women in management positions reached 3.8% in 2023 compared to 1.4% in 2011, which includes the appointment of two female executive officers. We are also steadily advancing other measures to enable male employees to help out more with child-rearing, nursing care, and other obligations.

Percentage of Male Employees Taking Childcare Leave (Canon Inc.)

(%)

2019	2020	2021	2022	2023
16.3	27.7	33.4	47.7	**65.8**

Ratio of Female Employees by Position (Canon Inc.)

(%)

	2019	2020	2021	2022	2023
Employees	16.1	16.5	16.6	16.8	**16.9**
Managers	2.9	3.0	3.3	3.6	**3.8**
Executives	3.9	4.2	4.0	3.8	**4.0**

A female executive officer who lectures employees in her department

Responsible Procurement in the Supply Chain

Canon is committed to the fulfillment of procurement that takes CSR into consideration in cooperation with its business partners. In 2019, we joined the Responsible Business Alliance (RBA), and then in 2023 we conducted a self-inspection using SAQ for major suppliers. No serious risks were identified in the SAQ. Also, every year we produce and publicly disclose a conflict minerals report with third-party assurance.

Sociocultural Support Activities

To commemorate Canon's 70th anniversary, in 2008 we established the Canon Institute for Global Studies and the Canon Foundation.

The Canon Institute for Global Studies is a think tank that investigates and analyzes issues from a global perspective and makes policy recommendations with an eye on the future of Japan and the world, mainly in the fields of macroeconomics, resources and energy, the environment, and diplomacy and security. In addition, the Canon Foundation provides grants to assist a broad range of science and technological research with the goal of contributing to the advancement of science and technology. Its activities are based on the concept of assisting research studies in cutting-edge science and technology fields with the aim of creating new value for society.

Furthermore, as a company that contributes to the development of visual culture, since 2007, Canon and Kyoto Culture Association (NPO) have been working on the Tsuzuri Project (officially named the Cultural Heritage Inheritance Project) with the aim of preserving original cultural assets and utilizing high-resolution facsimiles. By combining Canon's advanced imaging technologies, ranging from input to image processing and output, with traditional Kyoto craftsmanship, we have produced high-resolution facsimiles of important Japanese cultural assets. These cultural assets include folding screens, sliding doors known as *fusuma*, and handscrolls. These facsimiles have been donated to temples and shrines, local municipalities, and museums with a special connection to them so they can be widely viewed by the public.

In 2023, we held special exhibitions at Fukushima City Museum of Photography, featuring the facsimiles of five national treasures, at Canon's showroom in Tokyo, showcasing the diverse beauty of Japanese art, and at Kenninji Temple in Kyoto, displaying the facsimiles of 19 masterpieces from the collection of the Smithsonian National Museum of Asian Art.

Meanwhile, as part of its efforts to help bring about a sustainable society, Canon Europe is running the Canon Young People Programme (YPP) in 33 countries in Europe, the Middle East, and Africa. The workshops of the program aim to provide young people with opportunities to express themselves through photographs and videos with the incorporation of creative visual storytelling and critical thinking based on the concepts of the SDGs. The program was attended by more than 1,500 students in 2023. In addition, the program's workshops were also held at some international events of the United Nations, including the Fifth United Nations Conference on the Least Developed Countries (LDC5) in Qatar and the UN SDG Action Awards in Italy.

Also, in Africa, where the unemployment rate of young people is a serious problem, Canon Europe is promoting its *Miraisha* Programme with the aim of improving the technical skills of young people in the region and expanding their opportunities for employment in the photography, video production, and printing industries. *Miraisha* is a portmanteau of the Japanese word for future, *mirai*, and the Swahili word for life, *maisha*. So far, photography, videography, and printing workshops have been held in Kenya, Ghana, Nigeria, and other African countries in collaboration with local government agencies, professional photographers selected as Canon Ambassadors, and Canon-certified *Miraisha* trainers.

Governance


Fujio Mitarai, Chairman & CEO speeching at an executive meeting

Fundamental Approach

In order to establish a sound corporate governance structure and continuously raise corporate value, Canon believes that it is essential to improve management transparency and strengthen management supervising functions.

Governance Structure

Basic Policy

Canon is globally expanding its business in various business fields, including printing, medical, imaging, and industrial, and aims to aggressively expand into new business fields in the future. In order to make prompt decisions in each business field, and make important decisions on matters that straddle the entire Canon Group or several business fields from a company-wide perspective and at the same time secure appropriate decision making and execution of operation, Canon judges the corporate governance structure below to be effective.

Board of Directors

While the focus of the organizational structure of the Board of Directors is on Representative Directors that oversee company-wide business strategies or execution such as the CEO, COO, CFO, CTO, and Representative Directors or Executive Directors that oversee multiple business fields or headquarters functions, at least two Independent Outside Directors are appointed while also assuring that they account for one third or more of the total number of Directors, in order to secure sound management. The Board of Directors, in accordance with laws and regulations, makes important decisions and supervises the execution of duties by officers.

Other decisions and execusion are made by the CEO and other Representative Directors. And under the direction and supervision of the Representative Directors, Executive Officers that are elected through resolution of the Board of Directors make decisions and execute operations of each business field or function.

The Board of Directors consists of ten members, six Directors from inside Canon Inc., including three Representative Directors, and four Outside Directors that qualify as Independent Directors (including one female), chaired by the CEO. Additionally, there will be 37 Executive Officers, including two females and one non-Japanese as of April 1, 2024.

Audit & Supervisory Board

As a body which is in charge of the audit of operations, under the principles of autonomy, which is independent from the Board of Directors, Canon has full-time Audit & Supervisory Board Members that are familiar with Canon's businesses or its management structure, and Independent Outside Audit & Supervisory Board Members that have extensive knowledge in specialized areas such as law, finance and accounting, and internal control. The Audit & Supervisory Board, which is composed of these individuals, cooperates with the Canon Accounting Auditors and internal audit division, oversees the status of duty execution of operations and corporate assets to secure the soundness of management.

There are five Audit & Supervisory Board Members of which three are Independent Outside Audit & Supervisory Board Members.

In accordance with auditing policies and plans decided at Audit & Supervisory Board meetings, the Audit & Supervisory Board Members attend Board of Directors' meetings and other important gatherings such as Corporate Strategy Committee meetings. They are also able to listen to reports from Directors and employees, review documents related to important decisions, and conduct audits by investigating etc. the situation of businesses and property of Canon Inc. and its subsidiaries. Additionally, the Office of Audit & Supervisory Board Members is independent from the control of the Directors etc., and it has a dedicated staff. The Audit & Supervisory Board Members can order headquarter management and other operations to conduct investigations in cases of necessity. In this way, the Audit & Supervisory Board plays a role in monitoring management, conducting strict audits of Directors' execution of duty, including the status of development of the internal control system. Furthermore, the Audit & Supervisory Board Members cooperate closely with the accounting auditors and Canon Inc.'s internal auditing arm, and such cooperation services to improve each monitoring function.

Procedures in the Nomination of Directors etc.

Canon Inc. established the "Nomination and Remuneration Advisory Committee," a non-statutory committee, which consists of the CFO, four Independent Outside Directors and one Independent Outside Audit & Supervisory Board Member. At the time, Director and Audit & Supervisory Board Member candidates are nominated and Executive Officers are appointed, including the selection of a successor for the chief executive officer position, the CEO recommends candidates thereof from among individuals that have been recognized as having met the prescribed requirements, and the Committee checks the fairness and validity of such recommendation prior to submission to and deliberation by the Board of Directors. Additionally, as for Audit & Supervisory Board Member candidates, prior to deliberation of the Board of Directors, consent of the Audit & Supervisory Board shall be acquired.

Requirements of Director and Audit & Supervisory Board Member Candidates and Executive Officers

Director and Audit & Supervisory Board Member candidates and Executive Officers are people that have the ability to fairly and effectively execute duties and, in principle, are selected from people that have met the following requirements, regardless of personal attributes such as gender, nationality, age etc.

Representative Directors and Executive Directors	Have a true understanding of the corporate philosophy and code of conduct of Canon Inc. At the same time, have broad familiarity with Canon Inc.'s businesses and operations, gained through, for example, Executive Officer experience. Have the ability to make effective decisions that overlook multiple businesses and functions. In addition to this, the CEO shall be a person with the ability to lead the Canon Group, having, in particular, a wealth of knowledge and skill related to management and a clear vision and a strong sense of responsibility.
Independent Outside Directors	In addition to meeting the independence standard that is separately determined by the Board of Directors, have an abundance of experience and superior insight into fields such as business management, risk management, law, and economics.
Audit & Supervisory Board Members	Be familiar with Canon Inc.'s businesses or its management structure or have an abundance of experience and superior insight into professional fields such as law, finance, accounting, and internal control. As for Outside Audit & Supervisory Board Members, additionally meet the independence standards that are separately determined by the Board of Directors.
Executive Officers	Have been highly evaluated in terms of character and ability in managerial assessment and managerial talent training programs, and also have sufficient knowledge, experience and judgment ability, to shoulder the responsibility of execution in specific fields, and truly understand the corporate philosophy and code of conduct of Canon Inc.

Corporate Strategy Committee, Risk Management Committee, and Disclosure Committee

Canon Inc. established the Corporate Strategy Committee, consisting of Directors including Independent Outside Directors, Audit & Supervisory Board Members and some Executive Officers. Among items to be decided by the CEO, the Committee undertakes prior deliberations on important matters pertaining to Canon Group strategies.

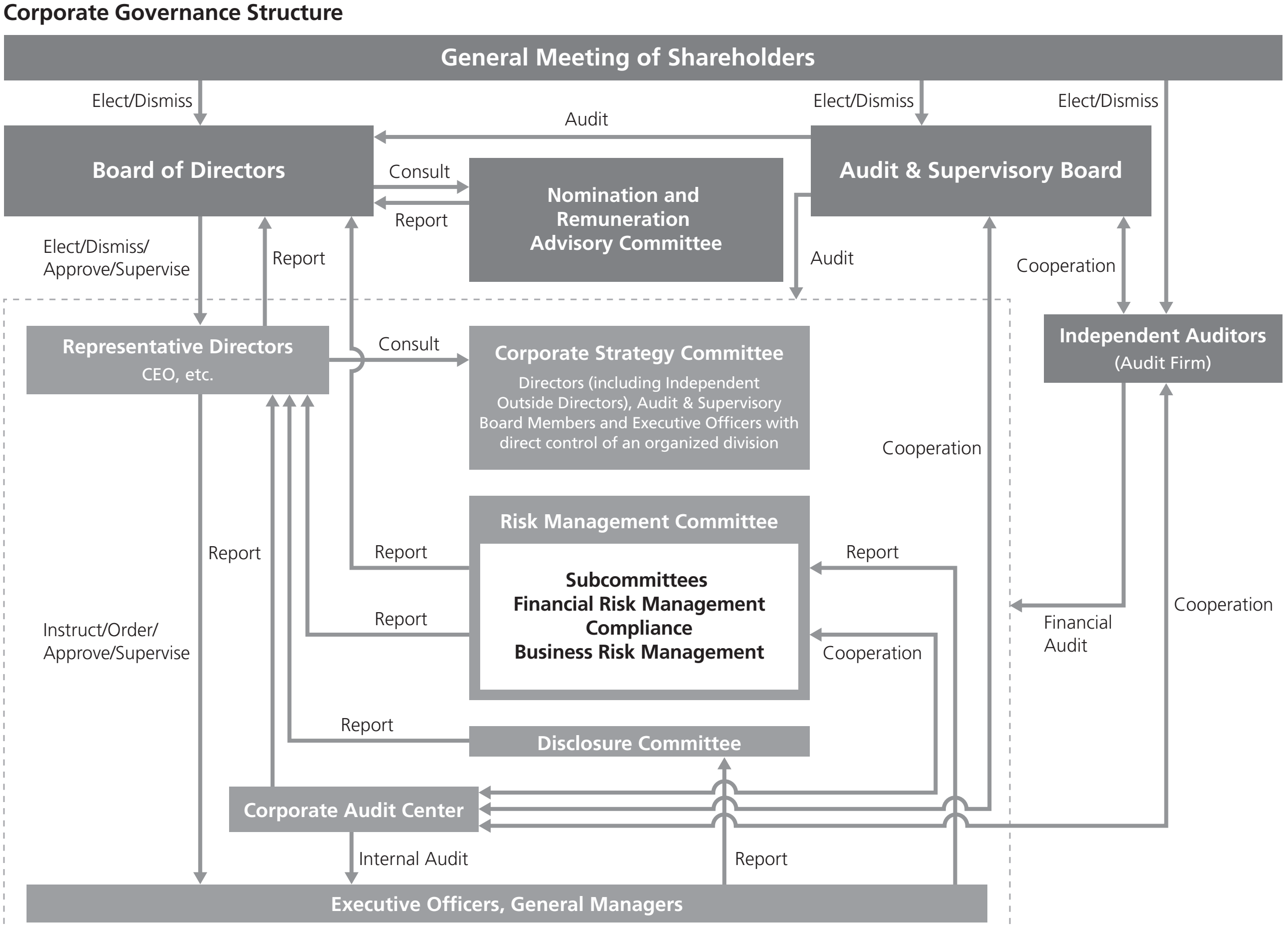
Based on a resolution passed by the Board of Directors, Canon Inc. set up the Risk Management Committee, which formulates policy and action proposals regarding improvement of the Canon Group risk management system. The Risk Management Committee consists of three entities: the Financial Risk Management Subcommittee, which is tasked with improving systems to ensure reliability of financial reporting; the Compliance Subcommittee, which is tasked with promoting corporate ethics and improving legal compliance systems; and the Business Risk Management Subcommittee, which is charged with improving systems to manage overall business risks, including risks related to product quality and information leak. The Risk Management Committee verifies the risk management system's improvement and implementation and reports the status to the CEO and the Board of Directors.

In addition, the Disclosure Committee was established to undertake deliberations pertaining to information disclosure, including content and timing, to ensure important corporate information will be disclosed in a timely and accurate manner.

Internal Audit Division

Canon Inc. has established the Corporate Audit Center as its internal auditing division, which audits, evaluates, and makes recommendations on compliance and internal control systems etc. The Corporate Audit Center also conducts audits on topics such as quality, and health and safety. Audit results are reported not only to the CEO and CFO, but also to the Audit & Supervisory Board Members and the Audit & Supervisory Board. In addition, Canon Inc. has established a system in which reports are also regularly given to outside directors and those outside directors can request submission of proposals to the Board of Directors, as necessary.

Corporate Governance Structure



Details of Canon Inc.'s corporate governance structure are available on Canon Inc.'s website under "an overview of Corporate Governance at Canon Inc."
https://global.canon/en/ir/strategies/governance.html

FINANCIAL SECTION

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FINANCIAL OVERVIEW

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 2023, despite the unstable situations such as the Ukraine crisis and armed conflicts in the Middle East, the global economy recovered modestly thanks to the termination of the COVID-19 pandemic which had restricted economic activity for a prolonged period. In the United States, consumer spending remained solid thanks to the strong employment situation and increases in real income. In Europe, however, the economy was lagging with strong uninterrupted downward pressure on the economy due to the inflation and the continuation of tight monetary policies. In China, the economy continued its deceleration trend due to a sluggish real estate market and the lack of recovery in the personal consumption. In other emerging countries, the economy remained solid, mostly centering around consumer spending and the service industry. In Japan, the economy recovered moderately, with consumer spending showing signs of picking up on the back of improvement in the employment and personal income environment.

Market environment

In the markets in which Canon operates, despite the recovery of product supplies following the resolution of component shortages and logistical disruptions, demand was lagging due to tight monetary policies associated with inflation, the sluggish Chinese and European economy, and increasing uncertainty surrounding geopolitical risks. On a product basis, despite stagnant market conditions in China, demand for office multifunction devices (MFDs) remained firm thanks to solid demand for printing equipment offering high productivity in other countries. For inkjet printers, the demand from customers working from home slowed. For laser printers, demand slowed due to the curbing of corporate investments. For medical equipment, demand remained firm, particularly in Japan and Europe. For cameras, demand remained solid thanks to the need for high-quality visual expression from professionals and enthusiasts. The market of network cameras continued to grow. For semiconductor lithography equipment, although demand for memory devices remained weak, the market has grown, particularly for power devices, analog devices and sensors. For FPD (Flat Panel Display) lithography equipment, the market continued to shrink due to restrained investments by panel manufacturers.

The average value of the yen for the year was ¥140.85 against the U.S. dollar, a year-on-year depreciation of approximately ¥9, and ¥152.20 against the euro, a year-on-year depreciation of approximately ¥14.

Summary of operations

In 2023, net sales for the year increased by 3.7% year-on-year to ¥4,180,972 million thanks to the recovery of product supplies and solid demand for network cameras and other new businesses, as well as the favorable effects of the depreciation of the yen. The sales were the second highest since 2007. Gross profit as a percentage of net sales increased by 1.8 points year-on-year to 47.1% due to a reduction in costs of components and logistics, and the favorable effects of the depreciation of the yen. Gross profit increased by 7.7% year-on-year to ¥1,968,910 million. Operating expenses increased by 8.1% year-on-year to ¥1,593,544 million due to an increase in sales related expenses with the normalization of sales activity. In addition, operating expenses denominated in foreign currencies increased thanks to the depreciation of the yen. As a result, operating profit increased by 6.2% year-on-year to ¥375,366 million. Other income (deductions) increased by ¥16,360 million year-on-year to ¥15,401 million due to a decrease of currency exchange losses, which were substantially incurred last year. As a result, income before income taxes increased by 10.9% year-on-year to ¥390,767 million and net income attributable to Canon Inc. increased by 8.4% year-on-year to ¥264,513 million. Consequently, sales and income increased for the third consecutive year.

Total assets increased by ¥321,047 million to ¥5,416,577 million at December 31, 2023, compared with the end of the previous year. In addition to the impact of the depreciation of the yen, goodwill and other acquired assets increased following acquisitions made during the year such as Minaris Medical Co., Ltd. Fixed assets increased as a result of continued capital investment to improve efficiency and productivity. In 2023, long-term loans decreased due to the full repayment of loans for the acquisition of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation). However, total liabilities increased by ¥64,370 million to ¥1,810,870 million at December 31, 2023, compared with the end of the previous year mainly due to an increase of short-term loans in response to the increase in required working capital. Total equity increased by ¥256,677 million to ¥3,605,707 million at December 31, 2023, compared with the end of the previous year, mainly due to an increase in retained earnings resulting from net income attributable to Canon, and an increase in accumulated other comprehensive income due to the depreciation of the yen offset by the payment of dividends to Canon Inc. shareholders and the repurchases of treasury stock decreased total equity. As a result of the aforementioned items, Canon Inc. shareholders' equity as a percentage of total assets increased by 0.8 points to 61.9%.

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 considered to be KPIs by Canon. 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 because 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 work-in-process inventories by decreasing production lead times in order to promptly recover related product expenses, while balancing risks of supply chain disruptions by optimizing finished goods inventories 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 time to realize profit from a business due to lead times required for R&D, manufacturing and sales. Therefore, management believes that it is important to have sufficient financial strength. Canon will continue to reduce its dependency on external funds for capital investments in favor of generating the necessary funds from its own operations, but it is possible that Canon utilizes debt following a decision to invest on a large scale for future growth.

Canon Inc. shareholders' equity to total assets ratio is another KPI for Canon. Canon believes that its shareholders' equity to total assets ratio measures its long-term sustainability. Canon also believes that achieving a high or rising shareholders' equity ratio indicates that Canon has maintained a strong financial position or further improved its ability to fund debt obligations and other unexpected expenses. In the long-term, Canon's management believes a high shareholders' equity ratio will enable Canon to maintain a high level of stable investments for its future operations and development. As Canon puts strong emphasis on its R&D activities, management believes that it is important to maintain a stable financial base and, accordingly, a high level of its shareholders' equity to total assets ratio. On the other hand, Canon will optimize the capital structure by effectively utilizing debt for growth investment.

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, and pursues asset efficiency resulting from proper inventory levels and consolidation of production sites as well. In addition, Canon will improve return on Canon Inc. shareholders' equity in order to achieve investment for growth while maintaining the financial soundness with an optimal capital structure by effectively utilizing debt.

KEY PERFORMANCE INDICATORS

	2023	2022	2021	2020	2019
Net sales (Millions of yen)	**4,180,972**	4,031,414	3,513,357	3,160,243	3,593,299
Gross profit to net sales ratio	**47.1%**	45.3%	46.3%	43.5%	44.8%
R&D expense to net sales ratio	**7.9%**	7.6%	8.2%	8.6%	8.3%
Operating profit to net sales ratio	**9.0%**	8.8%	8.0%	3.5%	4.9%
Income before income taxes to net sales ratio	**9.3%**	8.7%	8.6%	4.1%	5.4%
Inventory turnover measured in days	**66 days**	69 days	66 days	60 days	59 days
Debt to total assets ratio	**9.6%**	8.2%	6.8%	10.9%	10.8%
Canon Inc. shareholders' equity to total assets ratio	**61.9%**	61.1%	60.5%	55.7%	56.3%
Return on Canon Inc. shareholders' equity	**8.2%**	8.1%	7.9%	3.2%	4.5%

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 CT systems and 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

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 charge 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 charge 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 2023 and determined that there were no reporting units that failed the impairment test as the fair value of each reporting unit exceeded its respective carrying amount. However, with regard to goodwill attributed to the Medical Reporting Unit, fair value in excess of reported carrying amount as a percentage is lower than other reporting units. As a result, a future reduction in cash flows of the related business could trigger an impairment. The goodwill related to this reporting unit as of December 31, 2023 is ¥565,687 million. 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 8 years, trademarks are 15 years, patents and developed technology are from 9 years to 21 years, license fees are 7 years, and customer relationships are from 14 years to 16 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 2023, Canon estimated a weighted-average discount rate used to determine benefit obligations of 1.5% for Japanese plans and 3.7% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.2% for Japanese plans and 5.7% 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 2023, a decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately ¥73,295 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 2023, a decrease of 50 basis points in the expected long-term rate of return on plan assets would increase approximately ¥5,477 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				
	2023	change	2022	change	2021
Net sales	**4,180,972**	**+3.7%**	4,031,414	+14.7%	3,513,357
Products and Equipment	**3,314,627**	**+2.6%**	3,231,837	+15.2%	2,804,680
Services	**866,345**	**+8.4%**	799,577	+12.8%	708,677
Operating profit	**375,366**	**+6.2%**	353,399	+25.4%	281,918
Income before income taxes	**390,767**	**+10.9%**	352,440	+16.4%	302,706
Net income attributable to Canon Inc.	**264,513**	**+8.4%**	243,961	+13.6%	214,718

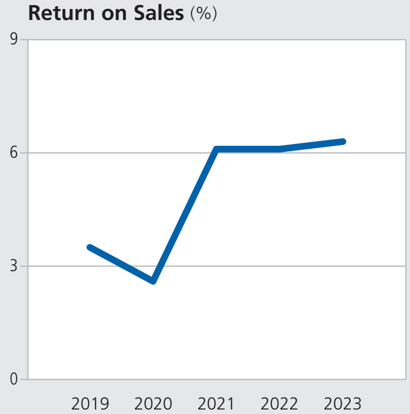
Note: See note to KEY PERFORMANCE INDICATORS

Sales

In the current business term, despite the unstable situations such as the Ukraine crisis and armed conflicts in the Middle East, the global economy recovered modestly thanks to the termination of the COVID-19 pandemic which had restricted economic activity for a prolonged period. In the markets in which Canon operates, due to the recovery of product supplies and solid demand for network cameras and other new businesses, Canon's consolidated net sales in 2023 totaled ¥4,180,972 million, an increase of 3.7% from the previous year. The sales were the second highest since 2007. Net sales of products and equipment totaled ¥3,314,627 million, a year-on-year increase of 2.6%, while net sales of services totaled ¥866,345 million, a year-on-year increase of 8.4%.

Overseas operations are significant to Canon's operating results and generated 78.4% of total net sales in 2023. 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 ¥140.85 against the U.S. dollar, a year-on-year depreciation of approximately ¥9, and ¥152.20 against the euro, a year-on-year depreciation of approximately ¥14. The effects of foreign exchange rate fluctuations positively affected net sales by ¥188,454 million in 2023. This favorable impact consisted of approximately ¥89,253 million of favorable impact for the U.S. dollar denominated sales and favorable impact of ¥91,469 million for the euro denominated sales, and favorable impact of ¥7,732 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 2023, prices for parts and the cost of distribution became more stable in contrast to their earlier rise. In addition, there was progress to reduce costs from the second half of the year. Under these conditions, the ratios of cost of sales to net sales for 2023 and 2022 were 52.9% and 54.7%, respectively. Cost of sales as a percentage of net sales decreased by 1.8 points.

Gross profit

Canon's gross profit in 2023 increased by 7.7% to ¥1,968,910 million from 2022. The gross profit to net sales ratio increased by 1.8 points to 47.1%. The increase in the gross profit was mainly due to a reduction in costs of components and logistics, and the favorable effects of 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 2023 increased by 8.1% year on year to ¥1,593,544 million due to an increase in sales related expenses with the normalization of sales activity. In addition, operating expenses denominated in foreign currencies increased thanks to the depreciation of the yen. Operating expenses as a percentage of net sales increased by 1.6 points to 38.1%.

Operating profit
Operating profit in 2023 increased by 6.2% from 2022 to a total of ¥375,366 million. The operating profit to net sales ratio increased by 0.2 points to 9.0% from 2022.

Other income (deductions)
Other income (deductions) for 2023 was a gain of ¥15,401 million, an increase of ¥16,360 million from 2022 mainly due to a decrease of currency exchange losses, which were substantially incurred last year.

Income before income taxes
Income before income taxes in 2023 was ¥390,767 million, an increase of 10.9% from 2022, and constituted 9.3% of net sales.

Income taxes
Income taxes in 2023 increased by ¥13,990 million from 2022. The effective tax rate for 2023 was 27.2%, 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 2023 increased by 8.4% to ¥264,513 million, which represents 6.3% 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 / Clinical chemistry analyzers / Digital radiography systems / Ophthalmic equipment

- **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 / Projectors

- **The Industrial Business Unit** mainly includes Semiconductor lithography equipment / FPD lithography equipment / OLED display manufacturing equipment / Vacuum thin-film deposition equipment / Die bonders

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, unit sales of equipment for the production printing market increased compared with the previous year, thanks to enhancing its product lineup by adding the imagePRESS V1350 and new Colorado series products that were well-received in the market. MFDs for offices continued to sell well, exceeding unit sales from the previous year, as the product supply shortage was abated, while demand for products including the imageRUNNER ADVANCE DX C3900, which is low and mid-speed color MFD series, was solid. As for inkjet printers, the number of unit sales decreased compared with the previous year as the surge in demand from users working from home subsided. As for laser printers, despite middle and high-speed color MFD products that were well-received, unit sales decreased compared with the previous year due to the curbing of corporate investments. These factors resulted in total sales for the business unit of ¥2,346,076 million, a year-on-year increase of 3.2%, while income before income taxes increased by 3.9% year-on-year to ¥235,061 million, mainly due to cost-cutting activities and the decrease in logistics costs.

As for the Medical Business Unit, sales remained firm thanks to a recovery of investments in large-size equipment previously held back due to the COVID-19 pandemic and firm sales of magnetic resonance imaging (MRI) systems, diagnostic X-ray systems and diagnostic ultrasound systems mainly in Japan and Europe. These factors resulted in total sales for the business unit of ¥553,780 million, a year-on-year increase of 7.9%, the highest recorded sales in the history of the business unit. Income before income taxes increased by 0.8% year-on-year to ¥32,139 million due to active investments to augment its workforce in order to enhance its sales capacity.

As for the Imaging Business Unit, sales of interchangeable-lens digital cameras, in particular mirrorless cameras like the EOS R6 Mark II, a full-frame mirrorless camera released the year before last, and the new entry-level EOS R50 and EOS R100 mirrorless cameras launched last year, remained solid. Sales of RF-series interchangeable-lenses remained solid as well. Sales of network cameras increased thanks to solid demand and enhanced sales activity against the background of diversifying applications. These factors resulted in total sales for the business unit of ¥861,625 million, a year-on-year increase of 7.2%, while income before income taxes increased by 14.4% year-on-year to ¥146,433 million due to an increase in the sales ratio of high-value-added mirrorless camera and solid profit of network cameras.

As for the Industrial Business Unit, sales of semiconductor lithography equipment remained strong, particularly for those used in the production of power devices. As a result, unit sales exceeded the previous year. For FPD lithography equipment, however, unit sales decreased compared with the previous year due to reduced investments by panel manufacturers as the panel market worsened. These factors resulted in total sales for the business unit of ¥314,719 million, a year-on-year decrease of 4.4%, while income before income taxes totaled ¥59,166 million, a year-on-year decrease of 0.1%.

SALES BY SEGMENT

	Millions of yen				
	2023	change	2022	change	2021
Printing	**2,346,076**	**+3.2%**	2,272,610	+16.7%	1,946,656
Medical	**553,780**	**+7.9%**	513,331	+6.9%	480,362
Imaging	**861,625**	**+7.2%**	803,480	+22.9%	653,532
Industrial	**314,719**	**-4.4%**	329,232	-2.5%	337,721
Others and Corporate	**189,791**	**-10.6%**	212,349	+18.8%	178,784
Eliminations	**(85,019)**	**—**	(99,588)	—	(83,698)
Total	**4,180,972**	**+3.7%**	4,031,414	+14.7%	3,513,357

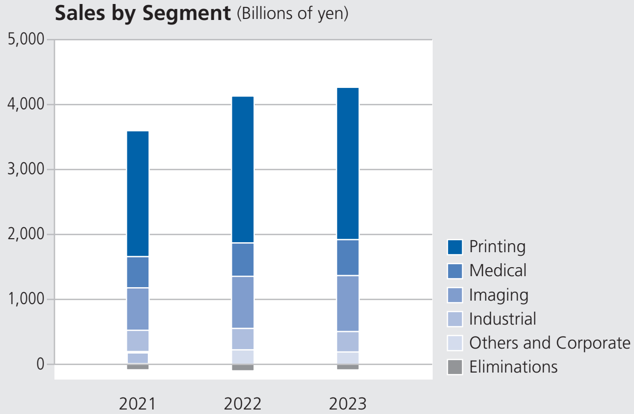
Note: A certain business, which was previously included in Others, has been presented within the Printing Business Unit from 2023. Sales by segment amounts for the years ended December 31, 2022 and 2021 also have been reclassified.

SALES BY GEOGRAPHIC AREA

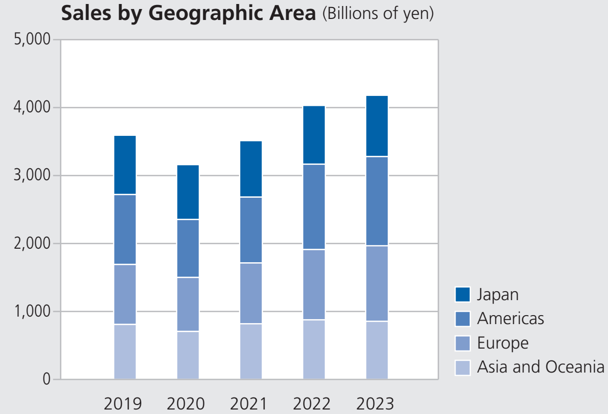
	Millions of yen				
	2023	change	2022	change	2021
Japan	**901,589**	**+4.3%**	864,808	+4.1%	830,378
Americas	**1,312,438**	**+4.5%**	1,255,405	+29.6%	968,839
Europe	**1,111,211**	**+7.5%**	1,034,008	+15.5%	894,898
Asia and Oceania	**855,734**	**-2.4%**	877,193	+7.1%	819,242
Total	**4,180,972**	**+3.7%**	4,031,414	+14.7%	3,513,357

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 4.3% from the previous year mainly owing to an increase in sales of IT solutions for offices.

In the Americas, net sales increased by 4.5% from the previous year mainly owing to an increase in unit sales of network cameras and depreciation of the yen.

In Europe, net sales increased by 7.5% from the previous year mainly owing to an increase in sales of office MFDs and depreciation of the yen.

In Asia and Oceania, net sales decreased by 2.4% from the previous year mainly owing to decrease in sales of FPD 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 geographic 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 ¥39,222 million to ¥401,323 million in fiscal 2023 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 ¥188,587 million to ¥451,190 million in fiscal 2023 compared to the previous year as a result of mainly due to an improvement in working capital caused by an increase in profit and a reduction in inventory. The major component 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, R&D expenses and income taxes.

For fiscal 2023, 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 increased by ¥94,552 million to ¥275,372 million in fiscal 2023 mainly due to an acquisition of Minaris Medical Co., Ltd., which has in vitro diagnostics and automated analyzer businesses, as well as continued capital investments to improve efficiency and productivity. Purchases of fixed assets increased by ¥41,781 million to ¥230,308 million in fiscal 2023.

Canon defines "free cash flow" as cash flows from operating activities less cash flows from investing activities. For fiscal 2023, free cash flow increased by ¥94,035 million to ¥175,818 million as compared with ¥81,783 million for fiscal 2022.

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.

Net cash used in financing activities totaled ¥156,729 million in fiscal 2023, mainly due to a decrease of long-term loans by ¥54,000 million as a result of the repayment of loans which was provided for the acquisition of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation) , and repurchases of ¥100,000 million of treasury stock, as well as dividends paid increasing by ¥11,500 million from the previous year resulting from an increase in the previous year's year-end dividend and this term's interim dividend. On the other hand, short-term loans increased in response to the increase in required working capital. The Company paid dividends in fiscal 2023 of ¥130.00 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.

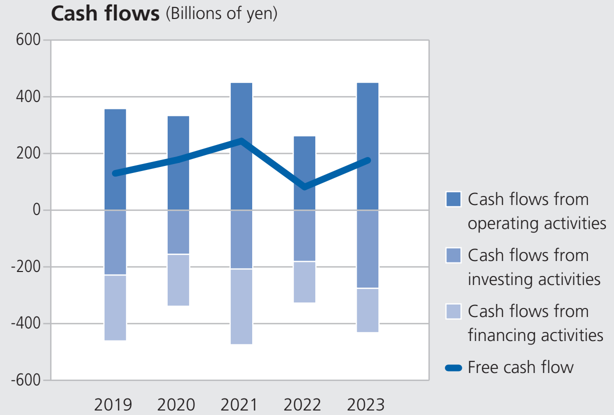
As of February 29, 2024, Canon's debt ratings are: S&P: A (long-term), A-1 (short-term); and R&I: AA (long-term). Canon does not have any rating downgrade triggers that would accelerate the maturity of a material amount of its debt. A downgrade in Canon's credit ratings or outlook could, however, increase 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.

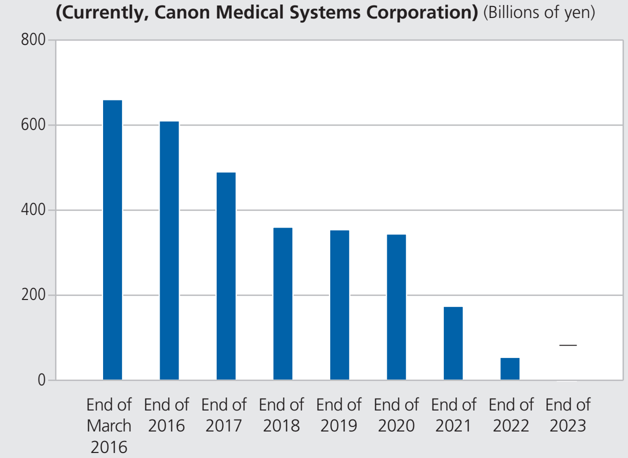
Canon provides guarantees for its employees, affiliates and other companies. The guarantees for the employees are principally made for their housing loans. The guarantees for affiliates and other companies are made for their lease obligations and bank loans to ensure that those companies operate with 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 11 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

Cash flows (Billions of yen)



Outstanding balances of loans for the acquisition of Toshiba Medical Systems Corporation (Currently, Canon Medical Systems Corporation) (Billions of yen)



¥1,678 million at December 31, 2023. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2023 were not significant.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes Canon's contractual obligations at December 31, 2023.

		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	—	—	—	—	—
Other debt	4,249	1,295	1,791	1,012	151
Operating lease obligations	136,422	38,769	54,124	26,657	16,872
Purchase commitments for:					
Property, plant and equipment	113,636	113,636	—	—	—
Parts and raw materials	243,676	243,676	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	30,034	30,034	—	—	—
Total	528,017	427,410	55,915	27,669	17,023

Note: See Note 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, 2023 accrued product warranty costs are included in accrued expenses and amounted to ¥23,290 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 total inventory turnover measured in days were 66, 69, and 66 days at the end of the fiscal years 2023, 2022, and 2021, respectively. The inventory turnover in 2023 decreased mainly due to a decrease in inventories of products at sales companies, from the situation in 2022 that was focused on securing electronic parts, raw materials and important parts amid a shortage of semiconductor components and international logistics disruption.

Canon is committed to cash flow management in order to strengthen its financial base. While actively investing to expand its business performance, Canon is also ensuring stable free cash flow by keeping total capital investments within the range of depreciation and amortization.

Increase in property, plant and equipment on an accrual basis in 2023 amounted to ¥201,140 million compared with ¥156,593 million in 2022 and ¥151,914 million in 2021. For 2024, 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 ¥51,647 million in 2023, ¥31,705 million in 2022 and ¥43,782 million in 2021. Employer contributions to Canon's worldwide defined contribution pension plans were ¥27,667 million in 2023, ¥24,346 million in 2022, and ¥22,660 million in 2021. In addition, employer contributions to the multiemployer pension plan of certain subsidiaries were ¥5,447 million in 2023, ¥4,720 million in 2022 and ¥4,822 million in 2021.

Working capital in 2023 decreased by ¥5,651 million to ¥784,910 million, compared with ¥790,561 million in 2022 and ¥817,512 million in 2021. The decrease was primarily due to an increase 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 2023 was 1.55 compared to 1.58 for 2022 and to 1.77 for 2021.

Return on assets (net income attributable to Canon Inc. divided by the average of total assets) was 5.0% in 2023, compared to 5.0% in 2022 and 4.6% in 2021.

Return on Canon Inc. shareholders' equity (net income attributable to Canon Inc. divided by the average of total Canon Inc. shareholders' equity) was 8.2% in 2023 compared with 8.1% in 2022 and 7.9% in 2021. 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 fiscal 2023, loans decreased by ¥54,000 million due to the repayment of loans which was provided for the acquisition of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation). On the other hand, short-term loans were increased in response to the increase in required working capital. As a result, **the debt to total assets ratios** were 9.6%, 8.2% and 6.8% as of December 31, 2023, 2022 and 2021, respectively. Canon had short-term loans, current operating lease liabilities, long-term debt, and noncurrent operating lease liabilities of ¥517,317 million, ¥417,413 million, ¥320,971 million as of December 31, 2023, 2022, and 2021, respectively.

Canon Inc. shareholders' equity to total assets ratios were 61.9%, 61.1% and 60.5% as of December 31, 2023, 2022 and 2021, respectively. The ratio as of December 31, 2023 increased from the previous fiscal year as a result of an increase in retained earnings resulting from net income attributable to Canon, and an increase in accumulated other comprehensive income due to the depreciation of the yen.

Non-GAAP Financial Measures

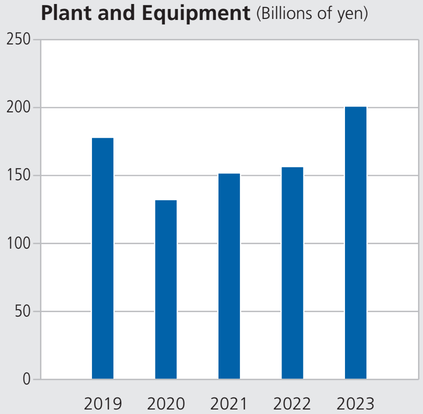
Canon has reported its financial results in accordance with U.S. GAAP. In addition, Canon has discussed its results using the combination of two GAAP cash flow measures, Net cash provided by operating activities and Net cash used for investing activities, which Canon refers to as "Free Cash Flow" which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

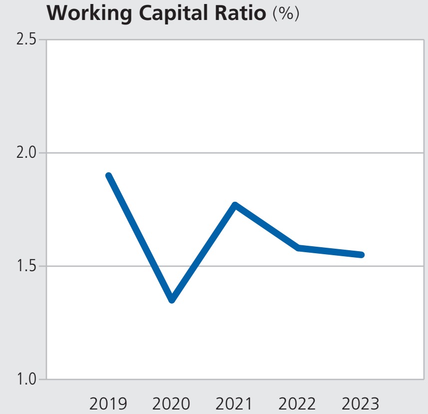
FREE CASH FLOW

	Millions of yen	
	2023	2022
Net cash provided by operating activities	**451,190**	262,603
Net cash used in investing activities	**(275,372)**	(180,820)
Free cash flow	**175,818**	81,783

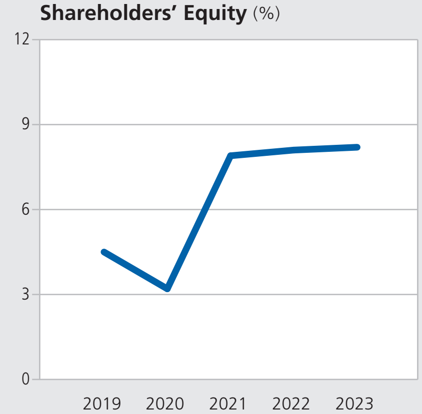
Increase in Property, Plant and Equipment (Billions of yen)



Working Capital Ratio (%)



Return on Canon Inc. Shareholders' Equity (%)



RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

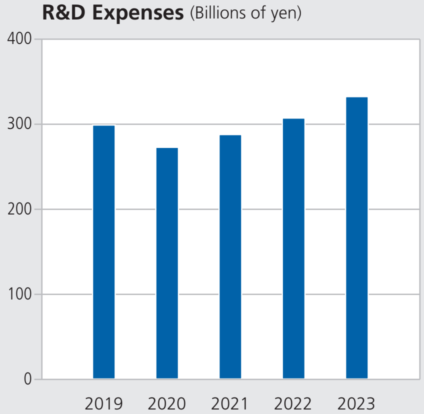
Since its founding, Canon has been promoting diversification of our business through development of core competency management, which combines core competency technologies ("core technologies"), which create industry-leading core products, with fundamental technologies that form the basis of our technology 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 (Billions of yen)



R&D expenses were ¥331,914 million in fiscal 2023 and ¥306,730 million in fiscal 2022. The R&D expenses to net sales ratios were 7.9% in fiscal 2023 and 7.6% in fiscal 2022.

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 fifth greatest number of patents in the United States in 2023, 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, 2023.

	Millions of yen
	Fair value
Fund trusts and others	808
Equity securities	27,283
	28,091

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, 2023. All of the foreign exchange contracts described in the following table have a contractual maturity date in 2024.

Millions of yen	U.S.$	Euro	Others	Total
Forwards to sell foreign currencies:				
Contract amounts	91,145	88,922	13,986	194,053
Estimated fair value	2,108	1,423	(78)	3,453
Forwards to buy foreign currencies:				
Contract amounts	13,305	719	10,092	24,116
Estimated fair value	(144)	(5)	(332)	(481)

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, 2023 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 and 2022, impact of the spread of COVID-19 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 planned measures. Each industry-oriented business group will work to expand the entire Canon Group, by focusing investments on new business areas with high growth potential to strengthen and expand them.

Although it expects to continue operating its business in a climate of political and economic uncertainty going forward, Canon will vigorously push forward to achieve its performance targets for 2025 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

Canon will expand by thoroughly strengthening the competitiveness of our four industry-oriented groups to promote business portfolio transformation.

(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, Canon's sales are growing. This reflects the enhanced imaging quality and productivity that have spread throughout the industry as Canon incorporates the opinions of our customers who are printing companies. To further accelerate growth in the future, Canon needs to expand our business domain by making a full-scale entry into the industrial printing field, specifically targeting labels and packages. And in line with this, Canon will push ahead with the launch of new products including Canon's first water-based inkjet label printer, which was announced last year.

As for office and home printing, a reimagining of a print environment not restricted by working places is required to better suit the hybrid work styles combining office- and tele-work that were triggered by the spread of COVID-19. Canon will provide optimal printing equipment for the place by leveraging its strength of having two digital printing technologies, namely electrophotography and inkjet, and offer new printing solutions in the DX era by connecting these devices utilizing the cloud.

(2) Medical Group

Canon aims to establish a solid presence in the field of diagnostic imaging systems, which serves as the core of the medical business, particularly in CT where it aims to achieve the No. 1 global market share position. While it already has a lineup that can hold its own against global competitions, it is working to further expand it, strengthening sales power 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, in addition to increasing the number of staff and other measures, Canon set up a new marketing company last year. In November, Canon entered a partnership with Cleveland Clinic, an advanced medical institution. Through such measures, Canon will promote joint research with medical institutions and strengthen relationships with medical practitioners who serve as key opinion leaders. In addition, Photon Counting CT, the next generation CT, is receiving increasing attention as many papers based on Canon's equipment have been presented at academic conferences in the United States. With increasing attention, Canon will work to improve Canon's presence by accelerating the development of Photon Counting CT. In emerging countries, Canon established a local corporation in India and Saudi Arabia last year, and Canon will strive to expand sales in these regions and elsewhere.

(3) Imaging Group

As for interchangeable-lens cameras, to maintain the market size and further improve our position as a leading company of cameras, Canon needs to continue to provide attractive products to users who seek high-quality images. In response to the shifting need for mirrorless cameras, Canon will continue introducing new mirrorless cameras to its lineup that ranges from entry-class to professional models.

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. Therefore, it is important to respond to diversified needs. Last year, Canon released a camera equipped with a SPAD sensor offering the world's highest 3.2 million pixels* developed by Canon, for advanced surveillance of international borders, critical infrastructure etc., and going forward as well, it will continue to enhance its lineup of both hardware and software.

* Among SPAD sensors used for video shooting. As of July 31, 2023 (Based on Canon research). Approx. 2.1 million effective pixels.

(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 began construction of a new plant at our production site in Utsunomiya at the end of last year that will become operational from 2025.

Furthermore, Canon aims for the early sale of "nanoimprint lithography," a new system released last year to expand sales. Unlike conventional lithography technology that uses light to expose circuit patterns, this device, which forms circuit patterns by pressing a patterned mold like a stamp, has attracted inquiries from many manufacturers because it can significantly reduce production costs and power consumption. Canon will proceed with assessment and confirmation jointly with customers to realize practical applications starting with memory and expanding to other areas such as logic and even non-semiconductor devices, including meta-lens.

2. Reorganize global supply chain

In an uncertain and unstable global environment, the supply chain is the lifeline of a manufacturer, and from not only an economical, but also from a stability and sustainability perspective, Canon needs to reorganize. In addition to consolidating production sites in countries and regions where Canon sees political and social stability, in order to promote the return of production of high-value-added products to Japan, Canon will reinforce our automation technology and technology for in-house production through cooperation among design, production technology and production sites.

3. Strengthen technological research capability

Under four groups largely reorganized by industry, Canon is carrying out the development of new products and solutions based on proprietary technology through the integration of core technologies it has cultivated with the technologies of companies that it has acquired. On top of that, now that technological innovations that could dramatically change the world are consistently being created, there is a need to actively incorporate the latest technologies constantly to further enhance the added value of products. To this end, Canon will establish a system for conducting research on a global scale and acquire necessary technologies promptly through investments in companies engaged in advanced technology as well as through M&A.

Moreover, Canon will strengthen and develop a system to certify talented engineers as "top scientists" and "top engineers" to respond to the rapid advancement of technology from a human resource perspective as well.

4. Address cybersecurity risks

As for information security risks that are an increasing global threat, Canon considers this to be an important management issue and have established a management system for the entire group, including production facilities. While working on countermeasures against information leakage from within the Group and malware and other cyberattacks from outside, Canon is also taking other steps such as raising the awareness of employees.

In the unlikely event that an information security incident occurs, Canon has established a dedicated team, CSIRT*, to deal with it promptly, which also endeavors to collect information in ordinary times. 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)

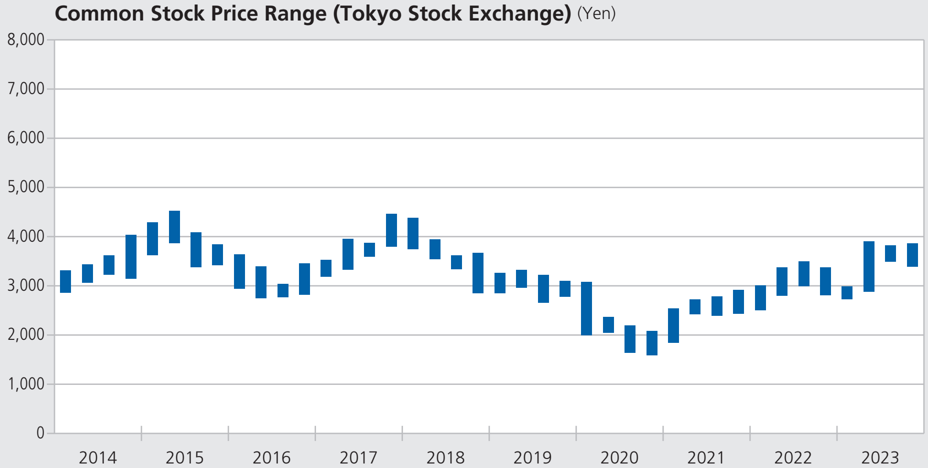
Forward looking statements

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; and 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.

TEN-YEAR FINANCIAL SUMMARY

	Millions of yen (except per share amounts)			
	2023	2022	2021	2020
Net sales:				
Domestic	**901,589**	864,808	830,378	806,305
Overseas	**3,279,383**	3,166,606	2,682,979	2,353,938
Total	**4,180,972**	4,031,414	3,513,357	3,160,243
Percentage of previous year	**103.7%**	114.7%	111.2%	87.9%
Net income attributable to Canon Inc.	**264,513**	243,961	214,718	83,318
Percentage of sales	**6.3%**	6.1%	6.1%	2.6%
Advertising	**52,570**	45,986	36,812	31,273
Research and development expenses	**331,914**	306,730	287,338	272,312
Depreciation and amortization	**238,676**	226,492	221,246	227,825
Capital expenditure	**231,725**	183,291	179,000	161,727
Long-term debt, excluding current installments	**2,954**	2,417	179,750	4,834
Canon Inc. shareholders' equity	**3,353,022**	3,113,105	2,873,773	2,575,031
Total assets	**5,416,577**	5,095,530	4,750,888	4,625,614
Per share data:				
Net income attributable to Canon Inc. shareholders per share:				
Basic	**264.20**	236.71	205.35	79.37
Diluted	**264.08**	236.63	205.29	79.35
Dividend per share	**140.00**	120.00	100.00	80.00
Stock price:				
High	**3,912**	3,516	2,938	3,099
Low	**2,754**	2,538	1,876	1,627
Average number of common shares in thousands	**1,001,200**	1,030,644	1,045,633	1,049,802
Number of employees	**169,151**	180,775	184,034	181,897

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



2019	2018	2017	2016	2015	2014	Thousands of U.S. dollars (except per share amounts) **2023**
872,534	869,577	884,828	706,979	714,280	724,317	**$ 6,349,218**
2,720,765	3,082,360	3,195,187	2,694,508	3,085,991	3,002,935	**23,094,247**
3,593,299	3,951,937	4,080,015	3,401,487	3,800,271	3,727,252	**29,443,465**
90.9%	96.9%	119.9%	89.5%	102.0%	99.9%	**103.7%**
124,964	252,441	242,081	150,334	219,943	254,627	**1,862,768**
3.5%	6.4%	5.9%	4.4%	5.8%	6.8%	**6.3%**
46,665	58,729	61,207	58,707	80,907	79,765	**370,211**
298,503	315,842	333,371	306,537	332,678	311,896	**2,337,423**
237,327	251,554	261,881	250,096	273,327	263,480	**1,680,817**
211,228	200,504	181,389	208,379	243,130	224,760	**1,631,866**
357,340	361,962	493,238	611,289	881	1,148	**$ 20,803**
2,685,496	2,820,644	2,863,986	2,776,327	2,959,929	2,971,963	**23,612,831**
4,771,918	4,902,955	5,201,626	5,142,279	4,431,720	4,464,854	**38,144,908**
116.79	233.80	223.03	137.66	201.41	228.88	**$ 1.86**
116.77	233.78	223.03	137.66	201.40	228.88	**1.86**
160.00	160.00	160.00	150.00	150.00	150.00	**0.99**
3,338	4,395	4,472	3,656	4,539	4,045	**27.55**
2,687	2,876	3,218	2,780	3,402	2,889	**19.39**
1,069,957	1,079,753	1,085,439	1,092,071	1,092,018	1,112,510	
187,041	195,056	197,776	197,673	189,571	191,889	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of U.S.$1 = JPY142, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 29, 2023.

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 2014 respectively.

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

CONSOLIDATED BALANCE SHEETS

Canon Inc. and Subsidiaries
December 31, 2023 and 2022

	Millions of yen	
ASSETS	**2023**	2022
Current assets:		
Cash and cash equivalents (Notes 1 and 22)	**401,323**	362,101
Short-term investments (Notes 2 and 22)	**3,822**	10,905
Trade receivables (Note 3)	**655,460**	636,803
Inventories (Note 4)	**796,881**	808,312
Current lease receivables (Notes 1 and 6)	**150,324**	137,038
Prepaid expenses and other current assets (Notes 15, 18 and 22)	**231,605**	215,990
Allowance for credit losses (Notes 3 and 6)	**(15,329)**	(15,235)
Total current assets	**2,224,086**	2,155,914
Noncurrent receivables (Note 20)	**11,734**	12,996
Investments (Notes 2 and 22)	**78,505**	65,128
Property, plant and equipment, net (Note 5)	**1,095,879**	1,035,065
Operating lease right-of-use assets (Note 19)	**126,125**	117,843
Intangible assets, net (Notes 7 and 8)	**274,942**	280,995
Goodwill (Notes 7 and 8)	**1,045,400**	972,626
Noncurrent lease receivables (Notes 1 and 6)	**321,065**	279,332
Other assets (Notes 11 and 12)	**242,659**	179,297
Allowance for credit losses (Note 6)	**(3,818)**	(3,666)
Total assets	**5,416,577**	5,095,530

LIABILITIES AND EQUITY		
Current liabilities:		
Short-term loans and current portion of long-term debt (Notes 9 and 21)	**386,200**	296,384
Short-term loans related to financial services	**38,900**	41,200
Other short-term loans and current portion of long-term debt	**347,300**	255,184
Trade payables (Note 10)	**309,930**	355,930
Accrued income taxes (Note 12)	**56,983**	48,414
Accrued expenses (Notes 11 and 20)	**373,544**	365,847
Current operating lease liabilities (Note 19)	**35,559**	33,281
Other current liabilities (Notes 5, 15, 18 and 22)	**276,960**	265,497
Total current liabilities	**1,439,176**	1,365,353
Long-term debt, excluding current portion of long-term debt (Notes 9 and 21)	**2,954**	2,417
Accrued pension and severance cost (Note 11)	**171,779**	189,215
Noncurrent operating lease liabilities (Note 19)	**92,604**	85,331
Other noncurrent liabilities (Notes 12 and 15)	**104,357**	104,184
Total liabilities	**1,810,870**	1,746,500
Equity:		
Canon Inc. shareholders' equity:		
Common stock		
Authorized 3,000,000,000 shares; issued 1,333,763,464 shares in 2023 and 2022	**174,762**	174,762
Additional paid-in capital (Note 13)	**404,935**	404,838
Legal reserve (Note 13)	**61,634**	64,509
Retained earnings (Note 13)	**3,801,212**	3,664,735
Accumulated other comprehensive income (loss) (Note 14)	**268,758**	62,623
Treasury stock, at cost; 345,964,752 shares in 2023 and 318,250,096 shares in 2022	**(1,358,279)**	(1,258,362)
Total Canon Inc. shareholders' equity	**3,353,022**	3,113,105
Noncontrolling interests	**252,685**	235,925
Total equity	**3,605,707**	3,349,030
Total liabilities and equity	**5,416,577**	5,095,530

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Canon Inc. and Subsidiaries
Years ended December 31, 2023, 2022 and 2021

	Millions of yen		
	2023	2022	2021
Net sales (Notes 6,14,15 and 18)			
Products and Equipment	**3,314,627**	3,231,837	2,804,680
Services	**866,345**	799,577	708,677
	4,180,972	4,031,414	3,513,357
Cost of sales (Notes 5, 8, 11 and 19)			
Products and Equipment	**1,799,211**	1,828,555	1,552,766
Services	**412,851**	375,057	332,799
	2,212,062	2,203,612	1,885,565
Gross profit	**1,968,910**	1,827,802	1,627,792
Operating expenses (Notes 1, 5, 8, 11, 14, 16, 19 and 20):			
Selling, general and administrative expenses	**1,261,630**	1,167,673	1,058,536
Research and development expenses	**331,914**	306,730	287,338
	1,593,544	1,474,403	1,345,874
Operating profit	**375,366**	353,399	281,918
Other income (deductions):			
Interest and dividend income	**13,425**	5,177	2,232
Interest expense	**(2,267)**	(1,046)	(647)
Other, net (Notes 1, 2, 11, 14 and 18)	**4,243**	(5,090)	19,203
	15,401	(959)	20,788
Income before income taxes	**390,767**	352,440	302,706
Income taxes (Note 12)	**106,346**	92,356	71,866
Consolidated net income	**284,421**	260,084	230,840
Less: Net income attributable to noncontrolling interests	**19,908**	16,123	16,122
Net income attributable to Canon Inc.	**264,513**	243,961	214,718
	Yen		
Net income attributable to Canon Inc. shareholders per share (Note 17):			
Basic	**264.20**	236.71	205.35
Diluted	**264.08**	236.63	205.29

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Canon Inc. and Subsidiaries
Years ended December 31, 2023, 2022 and 2021

	Millions of yen		
	2023	2022	2021
Consolidated net income	**284,421**	260,084	230,840
Other comprehensive income (loss), net of tax (Note 14):			
Foreign currency translation adjustments	**184,836**	186,563	120,439
Net unrealized gains and losses on securities	**60**	(34)	—
Net gains and losses on derivative instruments	**1,394**	449	(972)
Pension liability adjustments	**24,289**	29,897	56,508
	210,579	216,875	175,975
Comprehensive income (loss)	**495,000**	476,959	406,815
Less: Comprehensive income attributable to noncontrolling interests	**24,352**	18,581	19,102
Comprehensive income (loss) attributable to Canon Inc.	**470,648**	458,378	387,713

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EQUITY

Canon Inc. and Subsidiaries
Years ended December 31, 2023, 2022 and 2021

	Millions of yen									
	Common stock	Additional paid-in capital	Legal reserve	Other Retained earnings	Total Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total Canon Inc. shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2020	174,762	404,620	69,436	3,409,371	3,478,807	(324,789)	(1,158,369)	2,575,031	209,010	2,784,041
Equity transactions with noncontrolling interests and other		(62)						(62)	1,725	1,663
Dividends to Canon Inc. shareholders (85.00 yen per share)				(88,891)	(88,891)			(88,891)		(88,891)
Dividends to noncontrolling interests									(5,181)	(5,181)
Transfers to legal reserve		(1,429)	(1,421)	2,850	1,429			—		—
Comprehensive income (loss):										
Net income				214,718	214,718			214,718	16,122	230,840
Other comprehensive income (loss), net of tax (Note 14):										
Foreign currency translation adjustments						119,165		119,165	1,274	120,439
Net unrealized gains and losses on securities										
Net gains and losses on derivative instruments						(994)		(994)	22	(972)
Pension liability adjustments						54,824		54,824	1,684	56,508
Total comprehensive income (loss)								387,713	19,102	406,815
Repurchases and reissuance of treasury stock		(10)		(11)	(11)		3	(18)		(18)
Balance at December 31, 2021	174,762	403,119	68,015	3,538,037	3,606,052	(151,794)	(1,158,366)	2,873,773	224,656	3,098,429
Equity transactions with noncontrolling interests and other		298	(4,538)	4,536	(2)			296	(1,151)	(855)
Dividends to Canon Inc. shareholders (115.00 yen per share)				(119,326)	(119,326)			(119,326)		(119,326)
Dividends to noncontrolling interests									(6,161)	(6,161)
Transfers to legal reserve		1,432	1,032	(2,464)	(1,432)			—		—
Comprehensive income (loss):										
Net income				243,961	243,961			243,961	16,123	260,084
Other comprehensive income (loss), net of tax (Note 14):										
Foreign currency translation adjustments						185,768		185,768	795	186,563
Net unrealized gains and losses on securities						(34)		(34)		(34)
Net gains and losses on derivative instruments						466		466	(17)	449
Pension liability adjustments						28,217		28,217	1,680	29,897
Total comprehensive income (loss)								458,378	18,581	476,959
Repurchases and reissuance of treasury stock		(11)		(9)	(9)		(99,996)	(100,016)		(100,016)
Balance at December 31, 2022	174,762	404,838	64,509	3,664,735	3,729,244	62,623	(1,258,362)	3,113,105	235,925	3,349,030
Equity transactions with noncontrolling interests and other		**158**	**(3,534)**	**3,534**	**—**			**158**	**(97)**	**61**
Dividends to Canon Inc. shareholders (130.00 yen per share)				**(130,870)**	**(130,870)**			**(130,870)**		**(130,870)**
Dividends to noncontrolling interests									**(7,495)**	**(7,495)**
Transfers to legal reserve			**659**	**(659)**	**—**			**—**		**—**
Comprehensive income (loss):										
Net income				**264,513**	**264,513**			**264,513**	**19,908**	**284,421**
Other comprehensive income (loss), net of tax (Note 14):										
Foreign currency translation adjustments						**183,650**		**183,650**	**1,186**	**184,836**
Net unrealized gains and losses on securities						**60**		**60**		**60**
Net gains and losses on derivative instruments						**1,352**		**1,352**	**42**	**1,394**
Pension liability adjustments						**21,073**		**21,073**	**3,216**	**24,289**
Total comprehensive income (loss)								**470,648**	**24,352**	**495,000**
Repurchases and reissuance of treasury stock		**(61)**		**(41)**	**(41)**		**(99,917)**	**(100,019)**		**(100,019)**
Balance at December 31, 2023	**174,762**	**404,935**	**61,634**	**3,801,212**	**3,862,846**	**268,758**	**(1,358,279)**	**3,353,022**	**252,685**	**3,605,707**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Inc. and Subsidiaries
Years ended December 31, 2023, 2022 and 2021

	Millions of yen		
	2023	2022	2021
Cash flows from operating activities:			
Consolidated net income	**284,421**	260,084	230,840
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Depreciation and amortization	**238,676**	226,492	221,246
Loss (gain) on disposal of fixed assets	**4,025**	(6,458)	7,745
Deferred income taxes	**(10,353)**	(7,800)	(9,826)
Decrease (increase) in trade receivables	**16,625**	(78,203)	44,678
Decrease (increase) in inventories	**65,595**	(108,510)	(61,017)
Increase in lease receivables (Note 6)	**(24,838)**	(30,379)	(1,075)
(Decrease) increase in trade payables	**(57,631)**	3,293	52,138
Increase in accrued income taxes	**6,880**	3,472	24,017
(Decrease) increase in accrued expenses	**(16,083)**	23,407	(8,673)
Decrease in accrued pension and severance cost	**(32,208)**	(42,580)	(41,477)
Contribution of cash to retirement benefit trust	**(18,000)**	—	—
Other, net	**(5,919)**	19,785	(7,568)
Net cash provided by operating activities	**451,190**	262,603	451,028
Cash flows from investing activities:			
Purchases of fixed assets (Note 5)	**(230,308)**	(188,527)	(177,350)
Proceeds from sale of fixed assets (Note 5)	**3,670**	14,733	3,796
Proceeds from maturity of held to maturity securities	**—**	2,151	—
Purchases of securities	**(11,755)**	(21,558)	(2,162)
Proceeds from sale and maturity of securities	**16,582**	7,680	1,714
Acquisitions of businesses, net of cash acquired (Note 7)	**(54,570)**	(5,890)	(31,751)
Other, net	**1,009**	10,591	(1,503)
Net cash used in investing activities	**(275,372)**	(180,820)	(207,256)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt (Note 9)	**—**	300	175,100
Repayments of long-term debt (Note 9)	**(55,893)**	(122,067)	(347,029)
Decrease in short-term loans related to financial services, net (Note 9)	**(2,300)**	(1,100)	(2,700)
Increase (decrease) in other short-term loans, net (Note 9)	**140,213**	197,826	(175)
Dividends paid	**(130,870)**	(119,326)	(88,891)
Repurchases and reissuance of treasury stock, net	**(100,019)**	(100,016)	(17)
Other, net (Note 1)	**(7,860)**	(2,461)	(3,654)
Net cash used in financing activities	**(156,729)**	(146,844)	(267,366)
Effect of exchange rate changes on cash and cash equivalents	**20,133**	25,767	17,305
Net change in cash and cash equivalents	**39,222**	(39,294)	(6,289)
Cash and cash equivalents at beginning of year	**362,101**	401,395	407,684
Cash and cash equivalents at end of year	**401,323**	362,101	401,395
Supplemental disclosure for cash flow information:			
Cash paid during the year for:			
Interest	**2,191**	994	599
Income taxes	**107,036**	102,579	71,573

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canon Inc. and Subsidiaries

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

Canon Inc. (the "Company") and its subsidiaries (collectively "Canon") is one of the world's leading manufacturers of office multi-function devices ("MFDs"), laser printers, ink-jet printers, medical equipment, cameras and lithography equipment. Canon reports in four reportable segments: the Printing Business Unit, the Medical Business Unit, the Imaging Business Unit and the Industrial Business Unit with Others and Corporate. Products of the Printing Business Unit consist mainly of digital continuous feed presses, digital sheet-fed presses, large format printers, office MFDs, document solutions, laser multifunction printers ("MFPs"), laser printers, inkjet printers, image scanners and calculators. Products of the Medical Business Unit consist mainly of computed tomography ("CT") systems, diagnostic ultrasound systems, diagnostic X-ray systems, magnetic resonance imaging ("MRI") systems, clinical chemistry analyzers, digital radiography systems and ophthalmic equipment. Products of the Imaging Business Unit consist mainly of 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 and projectors. Products of the Industrial Business Unit consist mainly of semiconductor lithography equipment, Flat Panel Display ("FPD") lithography equipment, Organic Light-Emitting Diode ("OLED") display manufacturing equipment, vacuum thin-film deposition equipment and die bonders. Others consist mainly of handy terminals and document scanners. Sales are made principally under the Canon brand name, almost entirely through sales subsidiaries. These subsidiaries are responsible for marketing and distribution, and primarily sell to retail dealers in their geographic areas. Further segment information is described in Note 23.

Canon sells laser printers on an OEM basis to HP Inc.; such sales constituted 10.1%, 12.0% and 11.6% of consolidated net sales for the years ended December 31, 2023, 2022 and 2021, respectively, and are included in the Printing Business Unit.

Canon's manufacturing operations are conducted primarily at 29 plants in Japan and 13 overseas plants which are located in countries and regions such as the United States, Germany, France, the Netherlands, Taiwan, China, Malaysia, Thailand, Vietnam and Philippines.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan. Foreign subsidiaries maintain their books of account in conformity with financial accounting standards of the countries of their domicile.

Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with U.S. generally accepted accounting principles ("U.S. GAAP"). These adjustments were not recorded in the statutory books of account.

Canon has reclassified certain items in the consolidated statements of cash flows for the year ended December 31, 2022 and 2021 to conform to the current year's presentation.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its majority owned subsidiaries and those variable interest entities where the Company or its consolidated subsidiaries are the primary beneficiaries. All intercompany balances and transactions have been eliminated.

(d) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant estimates and assumptions are reflected in valuation and disclosure of accounts including: revenue recognition, allowance for credit losses, inventories, securities, long-lived assets, leases, goodwill and other intangible assets with indefinite useful lives, environmental liabilities, deferred tax assets, uncertain tax positions, employee retirement and severance benefit obligations, accrued product warranty costs and business combinations. Actual results could differ materially from those estimates. In addition, actual results and outcomes of the Company may differ from management's estimates and assumptions due to pandemic, geopolitical risk and economic slowdown including impacts of rising inflation.

(e) Translation of Foreign Currencies

Assets and liabilities of the Company's subsidiaries located outside Japan with functional currencies other than Japanese yen are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from translation of financial statements are excluded from earnings and are reported in other comprehensive income (loss).

Gains and losses resulting from foreign currency transactions and translation of assets and liabilities denominated in foreign currencies are included in other income (deductions) in the consolidated statements of income. Foreign currency exchange gains and losses were net losses of ¥22,835 million, ¥34,772 million and ¥21,746 million for the years ended December 31, 2023, 2022 and 2021, respectively.

(f) Cash Equivalents

All highly liquid investments acquired with original maturities of three months or less are considered to be cash equivalents.

Certain debt securities with original maturities of less than three months, classified as available-for-sale debt securities of ¥2,073 million and ¥627 million at December 31, 2023 and 2022, respectively, are included in cash and cash equivalents in the consolidated balance sheets.

(g) Investments

Investments consist primarily of time deposits with original maturities of more than three months, debt and equity securities and investments in affiliated companies.

Canon classifies investments in debt securities as held-to-maturity securities and available-for-sale securities. Canon does not hold any trading securities which are bought and held primarily for the purpose of sale in the near term. Canon reports investments with maturities of less than one year as short-term investments.

Available-for-sale debt securities and equity securities with readily determinable fair value that are not accounted for under the equity method are recorded at fair value which is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. The changes in fair value for equity securities are included in other, net in the consolidated statements of income. The changes in fair value for available-for-sale debt securities are included in net unrealized gains and losses on securities in the consolidated statements of comprehensive income.

Held-to-maturity debt securities are recorded at amortized cost. The fair values of held-to-maturity debt securities are mainly measured at the quoted market price.

Available-for-sale debt securities are regularly reviewed for other-than-temporary declines in the carrying amount based on criteria that include the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and Canon's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value. For available-for-sale debt securities for which the declines are deemed to be other-than-temporary and there is no intent to sell, the impairment is separated into the amount related to credit loss, which is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income (loss). For available-for-sale debt securities for which the declines are deemed to be other-than-temporary and there is an intent to sell, the impairment in its entirety is recognized in earnings. Canon recognizes an impairment loss to the extent the cost basis of the investment exceeds the fair value of the investment.

Canon measures non-marketable equity securities without readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer.

Realized gains and losses are determined by the average cost method and reflected in earnings.

Investments in affiliated companies over which Canon has the ability to exercise significant influence, but does not hold a controlling financial interest, are accounted for by the equity method.

(h) Allowance for Credit Losse

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.

(i) 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.

(j) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, and acquired intangible assets 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. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset and the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated sum of undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(k) Property, Plant and Equipment, net

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.

The depreciation period ranges from 3 years to 60 years for buildings and 1 year to 20 years for machinery and equipment.

Gains and losses from the sale of property, plant and equipment are included in selling, general and administrative expenses in the consolidated statements of income.

(l) Leases

As for lessor accounting, Canon provides leasing arrangements 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 customers will exercise these options. The majority of Canon's lease contracts do not contain bargain purchase options for their customers. Assets leased to others under operating leases are stated at cost and depreciated to the estimated residual value of the assets by the straight-line method over a period of generally 2 years to 50 years.

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 account 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 the most of Canon's leases cannot be determined, Canon uses incremental borrowing rates 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.

(m) 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 charge in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

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 8 years, trademarks are 15 years, patents and developed technology are from 9 years to 21 years, license fees are 7 years, and customer relationships are from 14 years to 16 years. Certain costs incurred in connection with developing or obtaining internal-use software are capitalized. These costs consist primarily of payments made to third parties and the salaries of employees working on such software development. Costs incurred in connection with developing internal-use software are capitalized at the application development stage. In addition, Canon capitalizes the cost which was incurred subsequent to the stage of assuring the technological feasibility of the software, either developed or acquired, for marketing purposes.

(n) 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.

(o) Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Canon records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not realizable.

Canon recognizes the financial statement effects of tax positions when it is more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Interest and penalties accrued related to unrecognized tax benefits are included in income taxes in the consolidated statements of income.

(p) Stock-Based Compensation

Canon measures stock-based compensation cost at the grant date, based on the fair value of the award, and recognizes the cost on a straight-line basis over the requisite service period, which is the vesting period.

(q) Net Income Attributable to Canon Inc. Shareholders per Share

Basic net income attributable to Canon Inc. shareholders per share is computed by dividing net income attributable to Canon Inc. shareholders by the weighted-average number of common shares outstanding during each year. Diluted net income attributable to Canon Inc. shareholders per share includes the effect from potential issuances of common stock based on the assumptions that all stock options were exercised.

(r) 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. For further information, please refer to Note 15.

(s) Research and Development Costs

Research and development costs are expensed as incurred.

(t) Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were ¥52,570 million, ¥45,986 million and ¥36,812 million for the years ended December 31, 2023, 2022 and 2021, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

(u) Shipping and Handling Costs

Shipping and handling costs totaled ¥64,707 million, ¥62,126 million and ¥53,347 million for the years ended December 31, 2023, 2022 and 2021, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

(v) Derivative Financial Instruments

All derivatives are recognized at fair value and are included in prepaid expenses and other current assets, or other current liabilities in the consolidated balance sheets.

Canon uses and designates certain derivatives as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge). Canon formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. Canon also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Canon discontinues hedge accounting prospectively. Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the hedged item, and reclassified in the same income statement line item in which the earnings effect of the hedged item is reported.

Canon also uses certain derivative financial instruments which are not designated as hedges. The changes in fair values of these derivative financial instruments are immediately recorded in earnings.

Canon classifies cash flows from derivatives as cash flows from operating activities in the consolidated statements of cash flows.

(w) Guarantees

Canon recognizes, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing guarantees.

(x) Recent Accounting Guidance

Recently adopted accounting guidance

In October 2021, ASU No. 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers"-ASC 805 ("Business Combinations"), was issued by the Financial Accounting Standards Board ("FASB"). The standard requires us to apply ASC 606 "Revenue from Contracts with Customers" to recognize and measure contract assets and contract liabilities acquired in a business combination. Canon adopted the standard from interim and annual reporting periods beginning January 1, 2023. The adoption of this standard did not have a material impact on its consolidated results of operations and financial condition.

In March 2022, ASU No. 2022-02, "Troubled Debt Restructurings and Vintage Disclosures"-ASC 326 ("Credit Losses"), was issued by FASB. The standard requires us to expand disclosures for certain loan re-financings and restructurings, and requires current-period gross write-offs by year of origination for financing receivables and net investments in leases. Canon adopted the standard from interim and annual reporting periods beginning January 1, 2023. The adoption of this standard did not have a material impact on its consolidated results of operations and financial condition.

In September 2022, ASU No. 2022-04, "Disclosure of Supplier Finance Program Obligations"-ASC 405-50 ("Liabilities - Supplier Finance Programs"), was issued by FASB. The standard requires entities that use supplier finance programs in connection with the purchase of goods and services to disclose the key terms of the programs and information about obligations outstanding at the end of the reporting period, including a rollforward of those obligations. Canon adopted the standard, which requires disclosure of the key terms of the programs and information about obligations outstanding, from interim and annual reporting periods beginning January 1, 2023. The standard's requirement to disclose a rollforward of obligations outstanding is effective for annual reporting periods beginning after December 15, 2023. The adoption of this standard did not have an effect on its consolidated results of operations and financial condition. For further information, please refer to Note 10.

Recently issued accounting guidance not yet adopted
In November 2023, ASU No. 2023-07, "Improvements to Reportable Segment Disclosures"-ASC 280 ("Segment Reporting"), was issued by FASB. The standard requires us to disclose significant segment expenses by reportable segment if they are regularly provided to the chief operating decision maker (CODM) and to provide a qualitative disclosure describing the composition of the other segment items. Also, all existing annual disclosures about segment profit or loss must be provided on an interim basis in addition to disclosure of significant segment expenses and other segment items as noted above. The standard is effective for annual reporting periods beginning after December 15, 2023 and for interim reporting periods beginning after December 15, 2024. The amendments in the standard apply retrospectively to all prior periods presented in the financial statements. Canon is currently evaluating the effect that the adoption of the standard will have on its disclosure information. Canon does not expect the adoption of the standard will have an effect on its consolidated results of operation and financial condition.

In December 2023, ASU No. 2023-09, "Improvements to Income Tax Disclosures"-ASC 740 ("Income Taxes"), was issued by FASB. The standard requires us to disclose certain categories in the tax rate reconciliation table, the amount of corporate income tax paid (domestic and foreign), income from continuing operations before income tax (domestic and foreign), and income tax expense from continuing operations (domestic and foreign). The standard is effective for annual reporting periods beginning after December 15, 2024. Canon is currently evaluating the effect that the adoption of the standard will have on its disclosure information. Canon does not expect the adoption of the standard will have an effect on its consolidated results of operation and financial condition.

2. INVESTMENTS

The cost, gross unrealized holding gains, gross unrealized holding losses and fair value for available-for-sale debt securities included in short-term investments and investments by major security type at December 31, 2023 and 2022 are as follows:

December 31	Millions of yen			
	2023			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	**883**	**1**	**—**	**884**
Noncurrent:				
Corporate bonds	**8,242**	**56**	**19**	**8,279**
	9,125	**57**	**19**	**9,163**

December 31	Millions of yen			
	2022			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	9,277	35	11	9,301
Noncurrent:				
Corporate bonds	4,850	—	65	4,785
	14,127	35	76	14,086

Maturities of available-for-sale debt securities included in short-term investments and investments in the accompanying consolidated balance sheets at December 31, 2023 are as follows:

	Millions of yen
	Fair value
Due within one year	**884**
Due after one year through five years	**8,279**
Total	**9,163**

The unrealized and realized gains and losses related to equity securities for the years ended December 31, 2023, 2022 and 2021 are as follows:

Years ended December 31	Millions of yen		
	2023	2022	2021
Net gains (losses) recognized during the period on equity securities	**8,323**	(6,267)	8,958
Less: Net gains (losses) recognized during the period on equity securities sold during the period	**126**	117	467
Unrealized gains (losses) recognized during the period on equity securities still held at December 31	**8,197**	(6,384)	8,491

The carrying amount of non-marketable equity securities without readily determinable fair value totaled ¥10,282 million and ¥6,808 million at December 31, 2023 and 2022, respectively. The impairment or other adjustments resulting from observable price changes recorded during the years ended December 31, 2023 and 2022 were not significant.

Time deposits with original maturities of more than three months are ¥2,938 million and ¥1,604 million at December 31, 2023 and 2022, respectively, and are included in short-term investments in the accompanying consolidated balance sheets.

Investments in affiliated companies accounted for by the equity method are as follows:

Years ended December 31	Millions of yen, except percentage data		
	2023 Ownership percentage	**2023**	2022
Canon Korea Inc.	**50%**	**15,424**	14,073
Others	**—**	**13,166**	14,428
	—	**28,590**	28,501

The difference between the carrying amount of investment in each affiliate and Canon's share of its net assets is immaterial.

Canon's share of the net earnings in affiliated companies accounted for by the equity method, included in other income (deductions), were losses of ¥485 million for the year ended December 31, 2023, and earnings of ¥2,174 million and ¥1,396 million for the years ended December 31, 2022 and 2021, respectively.

3. TRADE RECEIVABLES

Trade receivables are summarized as follows:

December 31	Millions of yen	
	2023	2022
Notes	**33,570**	30,535
Accounts	**621,890**	606,268
Trade receivables	**655,460**	636,803
Less allowance for credit losses	**(13,276)**	(13,305)
	642,184	623,498

4. INVENTORIES

Inventories are summarized as follows:

December 31	Millions of yen	
	2023	2022
Finished goods	**468,394**	486,826
Work in process	**255,849**	253,026
Raw materials	**72,638**	68,460
	796,881	808,312

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and are summarized as follows:

December 31	Millions of yen	
	2023	2022
Land	**283,530**	275,261
Buildings	**1,851,645**	1,760,058
Machinery and equipment	**1,983,907**	1,893,745
Construction in progress	**56,840**	60,914
Finance lease right-of-use assets	**8,606**	7,315
Cost	**4,184,528**	3,997,293
Less accumulated depreciation	**(3,088,649)**	(2,962,228)
Property, plant and equipment, net	**1,095,879**	1,035,065

Depreciation expense for the years ended December 31, 2023, 2022 and 2021 was ¥177,624 million, ¥162,841 million and ¥156,333 million, respectively.

Amounts due for purchases of property, plant and equipment were ¥26,322 million and ¥24,745 million at December 31, 2023 and 2022, respectively, and are included in other current liabilities in the accompanying consolidated balance sheets. Fixed assets presented in the consolidated statements of cash flows include property, plant and equipment and intangible assets.

6. LESSOR ACCOUNTING

Lease income is included in products and equipment sales in the accompanying consolidated statements of income. Supplemental income statement information is as follows:

Years ended December 31	Millions of yen		
	2023	2022	2021
Lease income – sales-type and direct financing leases			
Revenue at lease commencement	**162,464**	122,941	84,895
Interest income on lease receivables	**26,789**	20,919	18,351
Sales-type and direct financing leases income total	**189,253**	143,860	103,246
Lease income – operating leases	**40,248**	34,798	27,122
Variable lease income	**5,822**	5,606	5,277
Total lease income	**235,323**	184,264	135,645

Lease Receivables

Lease receivables represent financing leases, which consist of sales-type leases and direct financing leases. These receivables typically have terms ranging from 1 year to 20 years. Lease receivables within one year and more than one year are presented in current lease receivables and noncurrent lease receivables in the accompanying consolidated balance sheets, respectively. The components of the lease receivables are as follows:

December 31	Millions of yen	
	2023	2022
Total minimum lease payments receivable	**511,737**	442,870
Unguaranteed residual values	**13,613**	13,560
Executory costs	**—**	—
Unearned income	**(53,961)**	(40,060)
	471,389	416,370
Less allowance for credit losses	**(5,871)**	(5,596)
	465,518	410,774
Less current portion	**(148,271)**	(135,108)
	317,247	275,666

Allowance for Credit Losses

The activities in the allowance for credit losses are as follows:

Years ended December 31	Millions of yen	
	2023	2022
Balance at beginning of year	**5,596**	3,791
Write-offs	**(2,339)**	(3,605)
Provision	**2,075**	3,769
Translation adjustments and other	**539**	1,641
Balance at end of year	**5,871**	5,596

Canon has policies in place to ensure that its products are sold to customers with an appropriate credit history and continuously monitors its customers' credit quality based on information including length of period in arrears, macroeconomic conditions, initiation of legal proceedings against customers and bankruptcy filings. The allowance for credit losses of lease receivables is evaluated collectively 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. Lease receivables which are past due or individually evaluated for impairment at December 31, 2023 and 2022 are not significant.

Equipment leased to customers

The cost of equipment leased to customers under operating leases included in property, plant and equipment, net at December 31, 2023 and 2022 was ¥181,022 million and ¥151,858 million, respectively. Accumulated depreciation on equipment under operating leases at December 31, 2023 and 2022 was ¥101,515 million and ¥93,215 million, respectively.

Maturity Analysis

The following is a schedule by year of the future minimum lease payments to be received under finance leases and non-cancellable operating leases at December 31, 2023.

Year ending December 31:	Millions of yen	
	Financing leases	Operating leases
2024	170,795	14,697
2025	138,154	8,523
2026	98,515	5,156
2027	62,667	3,211
2028	29,026	1,181
Thereafter	12,580	451
	511,737	33,219

Information about transferring lease receivables

Canon has syndication arrangements to sell its entire interests in lease receivables to the third-party financial institutions. The transactions under the arrangements are accounted for as sales in accordance with ASC 860 "Transfers and Servicing." The transfers of lease receivables for the year ended December 31, 2023 were ¥45,775 million while there were no significant transfers of lease receivables for the year ended December 31, 2022 and 2021. The amount that remained uncollected was ¥50,453 million and ¥13,077 million at December 31, 2023 and 2022, respectively. Cash proceeds from the transactions are included in increase in lease receivables under the cash flow from operating activities in the consolidated statements of cash flows. Canon continues to provide collection and administrative services for the financial institutions. The amount associated with the servicing liability measured at fair value was not significant at December 31, 2023 and 2022. Canon also retains limited recourse obligations which cover credit defaults. The recourse obligations were not significant at December 31, 2023 and 2022.

7. ACQUISITIONS

On July 3, 2023, Canon Medical Systems Corporation, a subsidiary of the Company, acquired 100% of the issued shares of Minaris Medical Co., Ltd. and Minaris Medical America, Inc., (hereinafter referred to collectively as "Minaris Medical") from Resonac Corporation for cash consideration of ¥33,418 million.

In the medical business, Canon is working to strengthen its core business of diagnostic imaging systems, while also working to expand into areas such as healthcare IT and in-vitro diagnostics. This acquisition will allow synergy between Minaris Medical's diverse solutions in the in-vitro diagnostics business, and Canon's technologies in the fields of automated biochemical analyzers, diagnostic imaging, and healthcare IT. By leveraging this synergy, Canon will be able to provide added value to meet the demands of the market.

The acquisition was accounted for using the acquisition method of accounting. Acquisition-related costs were expensed as incurred and were not material.

The final allocation of the purchase price to the assets acquired and the liabilities assumed on the acquisition date was as follows:

	Millions of yen
Current assets	9,249
Intangible assets	8,394
Goodwill	17,842
Others	5,365
Assets acquired	40,850
Liabilities assumed	7,432
Net assets acquired	33,418

The intangible assets acquired, which are subject to amortization, are composed of ¥6,416 million of customer relationships, ¥1,949 million of patents and developed technology and ¥26 million of software. The useful lives of the customer relationships, patents and developed technology, and software are approximately 21 years, approximately 10 years and 5 years, respectively. The weighted average useful life of the total intangible assets is approximately 17 years. The intangible assets acquired, which are not subject to amortization, composed by ¥3 million of other intangible assets.

Goodwill is composed of the synergy effects of merging Minaris Medical and Canon which is not tax deductible. For management reporting purposes, goodwill is not allocated to the business unit. The goodwill is allocated to the reporting unit belonging to the Medical Business Unit for impairment testing. Net sales and net income of Minaris Medical generated from the acquisition date which is reflected in the consolidated statement of income for the year ended December 31, 2023 was not material.

The operating results with the assumption of including the financial statements of Minaris Medical in Canon's consolidated financial statements for the year ended December 31, 2022 and the year beginning on January 1, 2023 were not disclosed because the impact was not material.

On October 2, 2023, Canon Marketing Japan Inc., a subsidiary of the Company, acquired 93.10% of the issued shares of Tokyo Nissan Computer System Co., Ltd. (currently, TCS Co., Ltd., changed the company name on November 1, 2023, "TCS") excluding treasury stock through a public tender offer for cash consideration of ¥10,249 million in order to expand its IT solution business. In addition, on November 1, 2023, it acquired 6.90% of the issued shares of the acquired company through a squeeze out so that the acquired company became its wholly owned subsidiary company for a total cash consideration of ¥11,009 million.

The acquisition was accounted for using the acquisition method of accounting. Acquisition-related costs were expensed as incurred and were not material.

The final allocation of the purchase price to the assets acquired and the liabilities assumed on the acquisition date was as follows:

	Millions of yen
Current assets	4,476
Intangible assets	3,841
Goodwill	4,579
Others	707
Assets acquired	13,603
Liabilities assumed	2,594
Net assets acquired	11,009

The intangible assets acquired are composed of ¥3,712 million of customer relationships and ¥129 million of software, and are subject to amortization. The useful lives of the customer relationships and the software are 15 years and 5 years, respectively. The weighted average useful life of the total intangible assets is approximately 15 years.

Goodwill is composed of future excess profitability expected from business development. For management reporting purposes, goodwill is not allocated to the business unit. The goodwill is allocated to the reporting unit belonging to the Printing Business Unit for impairment testing. Net sales and net income of TCS generated from the acquisition date which is reflected in the consolidated statement of income for the year ended December 31, 2023 was not material. The operating results with the assumption of including the financial statements of TCS in Canon's consolidated financial statements for the year ended December 31, 2022 and the year beginning on January 1, 2023 were not disclosed because the impact was not material.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets subject to amortization acquired during the year ended December 31, 2023, including those recorded from businesses acquired as stated in Note 7, totaled ¥42,820 million, which primarily consist of software of ¥30,064 million. The weighted average amortization periods for intangible assets in total acquired during the year ended December 31, 2023 are approximately 8 years. The weighted average amortization period for software acquired during the year ended December 31, 2023 is approximately 5 years.

Intangible assets subject to amortization acquired during the year ended December 31, 2022, including those recorded from businesses acquired, totaled ¥26,698 million, which primarily consist of software of ¥26,342 million. The weighted average amortization periods for intangible assets in total acquired during the year ended December 31, 2022 are approximately 5 years. The weighted average amortization period for software acquired during the year ended December 31, 2022 is approximately 5 years.

The components of intangible assets subject to amortization at December 31, 2023 and 2022 were as follows:

December 31	Millions of yen			
	2023		2022	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Software	**463,275**	**357,657**	428,693	327,568
Customer relationships	**174,441**	**84,223**	161,424	70,900
Patents and developed technology	**129,418**	**79,273**	140,136	84,020
Trademarks	**51,540**	**30,655**	46,122	24,446
License fees	**12,474**	**10,407**	12,139	6,972
Other	**16,158**	**12,341**	15,251	10,959
	847,306	**574,556**	803,765	524,865

Aggregate amortization expense for the years ended December 31, 2023, 2022 and 2021 was ¥61,052 million, ¥63,651 million and ¥64,913 million, respectively. Estimated amortization expense for intangible assets currently held for the next five years ending December 31 is ¥55,278 million in 2024, ¥47,940 million in 2025, ¥41,037 million in 2026, and ¥27,478 million in 2027, and ¥24,197 million in 2028.

Intangible assets not subject to amortization other than goodwill at December 31, 2023 and 2022 were not significant.

For management reporting purposes, goodwill is not allocated to the business unit. Goodwill has been allocated to its respective reporting unit consisting of each business unit for impairment testing.

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2023 and 2022 were as follows:

Year ended December 31	Millions of yen					
	2023					
	Printing	Medical	Imaging	Industrial	Others and Corporate	Total
Goodwill - gross	**157,561**	**542,695**	**296,825**	**10,975**	**693**	**1,008,749**
Accumulated impairment losses	**(36,123)**	**—**	**—**	**—**	**—**	**(36,123)**
Balance at beginning of year	**121,438**	**542,695**	**296,825**	**10,975**	**693**	**972,626**
Goodwill acquired during the year	**4,579**	**17,842**	**—**	**—**	**—**	**22,421**
Translation adjustments and other	**9,931**	**5,150**	**34,509**	**755**	**8**	**50,353**
Goodwill - gross	**176,067**	**565,687**	**331,334**	**11,730**	**701**	**1,085,519**
Accumulated impairment losses	**(40,119)**	**—**	**—**	**—**	**—**	**(40,119)**
Balance at end of year	**135,948**	**565,687**	**331,334**	**11,730**	**701**	**1,045,400**

Year ended December 31	Millions of yen					
	2022					
	Printing	Medical	Imaging	Industrial	Others and Corporate	Total
Goodwill - gross	146,025	537,183	293,749	9,512	706	987,175
Accumulated impairment losses	(33,325)	—	—	—	—	(33,325)
Balance at beginning of year	112,700	537,183	293,749	9,512	706	953,850
Goodwill acquired during the year	1,114	947	—	—	—	2,061
Translation adjustments and other	7,624	4,565	3,076	1,463	(13)	16,715
Goodwill - gross	157,561	542,695	296,825	10,975	693	1,008,749
Accumulated impairment losses	(36,123)	—	—	—	—	(36,123)
Balance at end of year	121,438	542,695	296,825	10,975	693	972,626

9. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans related to financial services are external loans held by Canon's lease subsidiaries for the purpose of financing its customers through loans. Short-term loans related to financial services consisting of bank borrowings at December 31, 2023 and 2022 were ¥38,900 million and ¥41,200 million, and other short-term loans consisting of bank borrowings were ¥346,005 million and ¥200,012 million respectively. The weighted average interest rate on short-term borrowings outstanding at December 31, 2023 and 2022 were 0.14% and 0.14%, respectively. Unused overdraft facilities at December 31, 2023 was ¥404,000 million. The overdraft facilities bear interest at a rate equal to a base rate plus a spread.

Long-term debt consisted of the following:

December 31	Millions of yen	
	2023	2022
Loan from banks; bearing interest rates of 0.22% at December 31, 2022 *1	**—**	54,000
Other debt *2	**4,249**	3,589
	4,249	57,589
Less current portion	**(1,295)**	(55,172)
	2,954	2,417

*1 During the year ended December 31, 2023, Canon prepaid ¥54,000 million of the outstanding loan under the unsecured revolving credit facility contracts which had an expiration date in December 2023.
*2 Other debt consisted of Bank loans and finance lease obligations as of December 31, 2023 and 2022.

The aggregate annual maturities of long-term debt outstanding at December 31, 2023 were as follows:

Year ending December 31:	Millions of yen
2024	1,295
2025	1,008
2026	783
2027	603
2028	409
Thereafter	151
	4,249

Both short-term and long-term bank loans are primarily made under general agreements which provide that security and guarantees for present and future indebtedness shall be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank.

10. TRADE PAYABLES

Trade payables are summarized as follows:

December 31	Millions of yen	
	2023	2022
Notes	**73,926**	82,702
Accounts	**236,004**	273,228
	309,930	355,930

Canon has supplier finance programs with particular third-party financial institutions where Canon agrees to pay the financial institutions after 90 to 180 days based on the contracts agreed to with the suppliers. The financial institutions offer earlier payment of the invoices at the sole discretion of the supplier for a discounted amount. Canon does not provide assets pledged as security or any other forms of guarantees under the arrangements. Canon is not a party to any arrangement between its suppliers and the financial institutions. The amount of liabilities under these programs, which is included in the above trade payables, as of December 31, 2023 and 2022 were ¥87,026 million and ¥95,389 million, respectively.

11. EMPLOYEE RETIREMENT AND SEVERANCE BENEFITS

The Company and certain of its subsidiaries have contributory and noncontributory defined benefit pension plans covering substantially all of their employees. Benefits payable under the plans are based on employee earnings and years of service. The Company and certain of its subsidiaries also have defined contribution pension plans covering substantially all of their employees.

Obligations and funded status

Reconciliations of beginning and ending balances of the projected benefit obligations and the fair value of the plan assets are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2023	2022	**2023**	2022
Change in benefit obligations:				
Projected benefit obligations at beginning of year	**794,749**	909,634	**343,703**	476,230
Service cost	**24,073**	29,063	**2,668**	7,551
Interest cost	**11,080**	4,851	**12,172**	7,301
Plan participants' contributions	**—**	—	**837**	741
Actuarial (gain) loss	**(18,765)**	(101,222)	**20,137**	(158,318)
Benefits paid	**(47,644)**	(46,055)	**(14,856)**	(19,420)
Acquisition	**2,232**	—	**—**	—
Plan amendments	**—**	(44)	**(263)**	608
Curtailments and settlements	**—**	(1,478)	**—**	(1,669)
Foreign currency exchange rate changes	**—**	—	**46,201**	30,679
Projected benefit obligations at end of year	**765,725**	794,749	**410,599**	343,703
Change in plan assets:				
Fair value of plan assets at beginning of year	**683,828**	756,743	**288,551**	394,912
Actual return on plan assets	**67,792**	(50,994)	**12,312**	(135,292)
Employer contributions	**31,889**	13,400	**19,758**	18,305
Plan participants' contributions	**—**	—	**837**	741
Benefits paid	**(36,674)**	(35,321)	**(14,776)**	(19,420)
Acquisition	**2,384**	—	**—**	—
Settlements	**—**	—	**—**	(106)
Foreign currency exchange rate changes	**—**	—	**39,443**	29,411
Fair value of plan assets at end of year	**749,219**	683,828	**346,125**	288,551
Funded status at end of year	**(16,506)**	(110,921)	**(64,474)**	(55,152)

Amounts recognized in the consolidated balance sheets at December 31, 2023 and 2022 are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2023	2022	**2023**	2022
Other assets	**78,211**	7,469	**17,943**	18,442
Accrued expenses	**(3,885)**	(1,461)	**(1,470)**	(1,308)
Accrued pension and severance cost	**(90,832)**	(116,929)	**(80,947)**	(72,286)
	(16,506)	(110,921)	**(64,474)**	(55,152)

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2023 and 2022 before the effect of income taxes are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2023	2022	**2023**	2022
Actuarial loss	**53,787**	123,711	**111,234**	92,620
Prior service credit	**(7,671)**	(13,662)	**(7,921)**	(8,597)
	46,116	110,049	**103,313**	84,023

The accumulated benefit obligation for all defined benefit plans was as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2023	2022	**2023**	2022
Accumulated benefit obligation	**752,165**	769,140	**394,104**	329,843

The projected benefit obligations and the fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2023	2022	**2023**	2022
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**181,684**	765,781	**406,779**	340,589
Fair value of plan assets	**92,955**	650,680	**340,508**	283,701
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligations	**177,499**	740,658	**364,970**	321,630
Fair value of plan assets	**92,955**	650,680	**313,862**	277,541

Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss)

Net periodic benefit cost for Canon's employee retirement and severance defined benefit plans for the years ended December 31, 2023, 2022 and 2021 consisted of the following components:

Years ended December 31	Millions of yen					
	Japanese plans			Foreign plans		
	2023	2022	2021	**2023**	2022	2021
Service cost	**24,073**	29,063	30,194	**2,668**	7,551	3,827
Interest cost	**11,080**	4,851	4,815	**12,172**	7,301	5,965
Expected return on plan assets	**(21,708)**	(23,161)	(21,618)	**(15,098)**	(17,001)	(15,221)
Amortization of prior service credit	**(5,991)**	(6,743)	(8,303)	**(939)**	(1,114)	(818)
Amortization of actuarial loss	**4,956**	5,230	8,768	**4,309**	5,989	7,341
(Gain) loss on curtailments and settlements	**119**	(666)	—	**—**	(627)	—
	12,529	8,574	13,856	**3,112**	2,099	1,094

Service cost component of net periodic benefit cost for Canon's employee retirement and severance defined benefit plans is included in cost of sales and operating expenses in the consolidated statements of income. The components other than the service cost component are included in other, net of other income (deductions) in the consolidated statements of income.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended December 31, 2023, 2022 and 2021 are summarized as follows:

Years ended December 31	Millions of yen					
	Japanese plans			Foreign plans		
	2023	2022	2021	**2023**	2022	2021
Current year actuarial (gain) loss	**(64,849)**	(27,067)	(28,135)	**22,923**	(6,024)	(29,936)
Current year prior service credit	**—**	(44)	(41)	**(263)**	608	(10,617)
Amortization of actuarial loss	**(4,956)**	(5,230)	(8,768)	**(4,309)**	(5,989)	(7,341)
Amortization of prior service credit	**5,991**	6,743	8,303	**939**	1,114	818
Curtailments and settlements	**(119)**	(10)	—	**—**	(14)	(531)
	(63,933)	(25,608)	(28,641)	**19,290**	(10,305)	(47,607)

Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

December 31	Japanese plans		Foreign plans	
	2023	2022	**2023**	2022
Discount rate	**1.5%**	1.2%	**3.7%**	4.1%
Assumed rate of increase in future compensation levels	**2.3%**	2.6%	**2.1%**	2.5%
Interest crediting rate for cash balance plans	**1.7%**	1.8%	**1.7%**	1.0%

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

Years ended December 31	Japanese plans			Foreign plans		
	2023	2022	2021	**2023**	2022	2021
Discount rate	**1.2%**	0.5%	0.5%	**4.1%**	1.5%	1.5%
Assumed rate of increase in future compensation levels	**2.6%**	2.6%	2.6%	**2.5%**	0.7%	0.9%
Expected long-term rate of return on plan assets	**3.2%**	3.1%	3.0%	**5.7%**	5.7%	4.4%
Interest crediting rate for cash balance plans	**1.8%**	1.9%	1.9%	**1.0%**	1.0%	1.0%

Canon determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. Canon considers the current expectations for future returns and the actual historical returns of each plan asset category.

Plan assets

Canon's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, Canon formulates a "model" portfolio which comprises of the optimal combination of equity securities and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the "model" portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. Canon evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the "model" portfolio. Canon revises the "model" portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Canon's model portfolio for Japanese plans consists of three major components: approximately 30% is invested in equity securities, approximately 50% is invested in debt securities, and approximately 20% is invested in other products, such as investments in insurance contracts including life insurance company general accounts.

Outside Japan, investment policies vary by country, but Canon's model portfolio for foreign plans consists of three major components: approximately 10% is invested in equity securities, approximately 40% is invested in debt securities, and approximately 50% is invested in other products, such as investments in real estate assets.

The target allocation percentages of plan assets set by Canon's investment policies approximate the actual allocation percentages of plan assets at December 31, 2023 and 2022.

The equity securities are selected primarily from stocks that are listed on securities exchanges. Prior to investing, Canon investigates the business condition of the investee companies, and appropriately diversifies investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds, public debt instruments, and corporate bonds. Prior to investing, Canon investigates the quality of the issue, including rating, interest rate, and repayment dates, and appropriately diversifies the investments. Pooled funds are selected using strategies consistent with the equity and debt securities described above. As for insurance contracts, there are several types of insurance contracts between Canon and the life insurance companies including life insurance company general accounts which guarantee the payments of interest based on expected interest rates and return of capital, and insured pension plans which cover future designated contractual benefit payments to covered participants. With respect to investments in foreign financial products, Canon investigates the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Canon selects the appropriate investment country and currency.

The three levels of input used to measure fair value are more fully described in Note 22. The fair values of Canon's pension plan assets at December 31, 2023 and 2022, by asset category, are as follows:

December 31	Millions of yen							
	2023							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (a)	**111,525**	**—**	**—**	**111,525**	**—**	**—**	**—**	**—**
Foreign companies	**20,175**	**—**	**—**	**20,175**	**9,957**	**—**	**—**	**9,957**
Pooled funds (b)	**—**	**184,673**	**—**	**184,673**	**—**	**30,684**	**—**	**30,684**
Debt securities:								
Government bonds (c)	**115,204**	**—**	**—**	**115,204**	**—**	**—**	**—**	**—**
Municipal bonds	**—**	**1,319**	**—**	**1,319**	**—**	**4,069**	**—**	**4,069**
Corporate bonds	**—**	**15,740**	**—**	**15,740**	**—**	**7,183**	**—**	**7,183**
Pooled funds (d)	**—**	**161,386**	**—**	**161,386**	**—**	**162,456**	**—**	**162,456**
Mortgage backed securities (and other asset backed securities)	**—**	**14,309**	**—**	**14,309**	**—**	**10,855**	**—**	**10,855**
Insurance contracts	**—**	**74,214**	**—**	**74,214**	**—**	**14,732**	**31,303**	**46,035**
Other assets	**—**	**35,840**	**3,454**	**39,294**	**—**	**51,606**	**—**	**51,606**
Investment measured at net asset value	**—**	**—**	**—**	**11,380**	**—**	**—**	**—**	**23,280**
	246,904	**487,481**	**3,454**	**749,219**	**9,957**	**281,585**	**31,303**	**346,125**

December 31	Millions of yen							
	2022							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (e)	92,382	—	—	92,382	—	—	—	—
Foreign companies	10,373	—	—	10,373	9,382	—	—	9,382
Pooled funds (f)	—	167,605	—	167,605	—	31,481	—	31,481
Debt securities:								
Government bonds (g)	69,331	—	—	69,331	—	—	—	—
Municipal bonds	—	1,071	—	1,071	—	3,244	—	3,244
Corporate bonds	—	13,986	—	13,986	—	16,970	—	16,970
Pooled funds (h)	—	134,266	—	134,266	—	113,005	—	113,005
Mortgage backed securities (and other asset backed securities)	—	11,309	—	11,309	—	9,804	—	9,804
Insurance contracts	—	95,029	—	95,029	—	13,153	27,824	40,977
Other assets	—	75,736	1,189	76,925	—	33,927	—	33,927
Investment measured at net asset value	—	—	—	11,551	—	—	—	29,761
	172,086	499,002	1,189	683,828	9,382	221,584	27,824	288,551

(a) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥321 million.
(b) These funds invest in listed equity securities consisting of approximately 20% Japanese companies and 80% foreign companies for Japanese plans, and mainly foreign companies for foreign plans.
(c) This class includes approximately 75% Japanese government bonds and 25% foreign government bonds for Japanese plans, and mainly foreign government bonds for foreign plans.
(d) These funds invest in approximately 30% Japanese government bonds, 55% foreign government bonds, 5% Japanese municipal bonds, and 10% corporate bonds for Japanese plans. These funds invest in approximately 75% foreign government bonds and 25% corporate bonds for foreign plans.
(e) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥236 million.
(f) These funds invest in listed equity securities consisting of approximately 20% Japanese companies and 80% foreign companies for Japanese plans, and mainly foreign companies for foreign plans.
(g) This class includes approximately 65% Japanese government bonds and 35% foreign government bonds for Japanese plans.
(h) These funds invest in approximately 30% Japanese government bonds, 50% foreign government bonds, 5% Japanese municipal bonds, and 15% corporate bonds for Japanese plans. These funds invest in approximately 55% foreign government bonds and 45% corporate bonds for foreign plans.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not necessarily indicate the risks or ratings of the assets.

Level 1 assets are comprised principally of equity securities and government bonds, which are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions.

Level 2 assets are comprised principally of pooled funds that invest in equity and debt securities, corporate bonds, investments in life insurance company general accounts and other assets. Pooled funds are valued at their net asset values that are calculated by the sponsor of the fund and have daily liquidity. Corporate bonds are valued using quoted prices for identical assets in markets that are not active. Investments in life insurance company general accounts are valued at conversion value. Other assets are comprised principally of interest bearing cash and hedge funds.

The fair values of Level 3 asset, consisting of investments in insured pension plans and hedge funds, were ¥34,757 million and ¥29,013 million at December 31, 2023 and 2022, respectively. Actual returns on, purchases and sales of these assets during the years ended December 31, 2023 and 2022 were not significant.

Contributions
Canon expects to contribute ¥14,629 million to its Japanese defined benefit pension plans and ¥15,405 million to its foreign defined benefit pension plans for the year ending December 31, 2024.

Estimated future benefit payments
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year ending December 31:	Millions of yen	
	Japanese plans	Foreign plans
2024	47,863	16,232
2025	47,882	16,480
2026	46,112	17,536
2027	50,964	18,637
2028	49,809	19,766
2029 – 2033	221,514	113,478

Multiemployer pension plans
The amounts of cost recognized for the multiemployer pension plans primarily in the Netherlands for the years ended December 31, 2023, 2022 and 2021 were ¥5,447 million, ¥4,720 million and ¥4,822 million, respectively. The multiemployer pension plan in which the subsidiaries in the Netherlands participated was 110.3% funded as of December 31, 2022. The terms of the collective bargaining agreements are negotiated on a regular basis between the local labor unions and participating employers. Canon is not liable for other participating employers' obligations under the terms and conditions of the agreements.

Defined contribution plans

The amounts of cost recognized for the defined contribution pension plans of the Company and certain of its subsidiaries for the years ended December 31, 2023, 2022 and 2021 were ¥27,667 million, ¥24,346 million and ¥22,660 million, respectively.

12. INCOME TAXES

Domestic and foreign components of income before income taxes and the current and deferred income tax expense attributable to such income are summarized as follows:

Years ended December 31	Millions of yen		
	2023		
	Japanese	Foreign	Total
Income before income taxes	**243,123**	**147,644**	**390,767**
Income taxes:			
Current	**77,628**	**39,071**	**116,699**
Deferred	**(9,056)**	**(1,297)**	**(10,353)**
	68,572	**37,774**	**106,346**

Years ended December 31	Millions of yen		
	2022		
	Japanese	Foreign	Total
Income before income taxes	177,235	175,205	352,440
Income taxes:			
Current	53,104	47,052	100,156
Deferred	(1,129)	(6,671)	(7,800)
	51,975	40,381	92,356

Years ended December 31	Millions of yen		
	2021		
	Japanese	Foreign	Total
Income before income taxes	165,927	136,779	302,706
Income taxes:			
Current	47,491	34,201	81,692
Deferred	6,883	(16,709)	(9,826)
	54,374	17,492	71,866

The Company and its domestic subsidiaries are subject to a number of income taxes, which, in the aggregate, represent a statutory income tax rate of approximately 31% for the years ended December 31, 2023, 2022 and 2021.

A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes is as follows:

Years ended December 31	**2023**	2022	2021
Japanese statutory income tax rate	**31.0%**	31.0%	31.0%
Increase (reduction) in income taxes resulting from:			
Expenses not deductible for tax purposes	**0.8**	0.6	0.7
Income of foreign subsidiaries taxed at lower than Japanese statutory tax rate	**(2.3)**	(3.1)	(3.9)
Tax credit for research and development expenses	**(3.4)**	(2.8)	(3.2)
Change in valuation allowance	**0.4**	(0.3)	(3.9)
Deferred tax liabilities on undistributed earnings of foreign subsidiaries	**1.4**	1.6	4.5
Tax credit at foreign subsidiaries	**(0.2)**	(0.5)	(0.3)
Effect of enacted changes in tax laws	**(0.0)**	0.0	(1.0)
Other	**(0.5)**	(0.3)	(0.2)
Effective income tax rate	**27.2%**	26.2%	23.7%

Net deferred income tax assets and liabilities are included in the accompanying consolidated balance sheets under the following captions:

December 31	Millions of yen	
	2023	2022
Other assets	**119,086**	131,063
Other noncurrent liabilities	**(40,853)**	(38,518)
	78,233	92,545

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2023 and 2022 are presented below:

December 31	Millions of yen	
	2023	2022
Deferred tax assets:		
Inventories	**14,141**	14,107
Accrued business tax	**3,658**	2,732
Accrued pension and severance cost	**32,667**	55,986
Research and development – costs capitalized for tax purposes	**8,474**	7,119
Property, plant and equipment	**42,731**	40,549
Operating lease liabilities	**23,523**	20,515
Accrued expenses	**27,457**	28,080
Net operating losses carried forward	**38,025**	34,045
Other	**53,393**	48,675
	244,069	251,808
Less valuation allowance	**(21,230)**	(17,732)
Total deferred tax assets	**222,839**	234,076
Deferred tax liabilities:		
Undistributed earnings of foreign subsidiaries	**(17,903)**	(20,306)
Tax deductible reserve	**(3,396)**	(3,658)
Financing lease revenue	**(18,384)**	(17,335)
Operating lease right-of-use assets	**(22,749)**	(20,090)
Intangible assets	**(43,168)**	(46,054)
Other	**(39,006)**	(34,088)
Total deferred tax liabilities	**(144,606)**	(141,531)
Net deferred tax assets	**78,233**	92,545

The net changes in the total valuation allowance were an increase of ¥3,498 million, a decrease of ¥1,341 million and a decrease of ¥11,679 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Based on the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that Canon will realize the benefits of these deferred tax assets, net of the valuation allowance, at December 31, 2023.

At December 31, 2023, Canon had net operating losses which can be carried forward for income tax purposes of ¥181,743 million to reduce future taxable income. Periods available to reduce future taxable income vary in each tax jurisdiction and generally range from one year to an indefinite period as follows:

	Millions of yen
Within one year	3,194
After one year through five years	11,743
After five years through ten years	34,381
After ten years through twenty years	8,788
Indefinite period	123,637
	181,743

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries as the tax law provides a means by which the dividends from a domestic subsidiary can be received tax free.

Canon has not recognized deferred tax liabilities of ¥19,211 million for a portion of undistributed earnings of foreign subsidiaries of ¥758,139 million as of December 31, 2023 because Canon intends to permanently reinvest such undistributed earnings of foreign subsidiaries. Deferred tax liabilities will be recognized when such undistributed earnings are no longer permanently reinvested.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Years ended December 31	Millions of yen		
	2023	2022	2021
Balance at beginning of year	**8,354**	9,813	8,572
Additions for tax positions of the current year	**—**	583	1,168
Additions for tax positions of prior years	**342**	220	216
Reductions for tax positions of prior years	**(445)**	(2,538)	—
Settlements with tax authorities	**(171)**	(594)	(62)
Other	**716**	870	(81)
Balance at end of year*	**8,796**	8,354	9,813

* The unrecognized tax benefits were offset by deferred tax assets in the amount of ¥1,960 million, ¥1,800 million and ¥1,695 million as of December 31, 2023, 2022 and 2021, respectively, and reported under "other noncurrent liabilities" on the consolidated balance sheets.

The total amounts of unrecognized tax benefits that would reduce the effective tax rate, if recognized, were ¥8,796 million and ¥8,354 million at December 31, 2023 and 2022, respectively.

Although Canon believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax examination settlements and any related litigation could affect the effective tax rate in a future period. Based on each of the items of which Canon is aware at December 31, 2023, no significant changes to the unrecognized tax benefits are expected within the next twelve months.

Canon recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes. Both interest and penalties accrued at December 31, 2023 and 2022, and interest and penalties included in income taxes for the years ended December 31, 2023, 2022 and 2021 were not significant.

Canon files income tax returns in Japan and various foreign tax jurisdictions. In Japan, Canon is no longer subject to regular income tax examinations by the tax authority for years before 2021. Canon is also no longer subject to a transfer pricing examination by the tax authority for years before 2021. In other major foreign tax jurisdictions, including the United States and the Netherlands, Canon is no longer subject to income tax examinations by tax authorities for years before 2014 with a few exceptions.

13. LEGAL RESERVE AND RETAINED EARNINGS

The Corporation Law of Japan provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Corporation Law of Japan also provides that additional paid-in capital and legal reserve are available for appropriations by resolution of the shareholders. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of their respective countries.

Cash dividends and appropriations to the legal reserve charged to retained earnings for the years ended December 31, 2023, 2022 and 2021 represent dividends paid out during those years and the related appropriations to the legal reserve. Retained earnings at December 31, 2023 did not reflect current year-end dividends in the amount of ¥69,146 million which were approved by the shareholders in March 2024.

The amount available for dividends under the Corporation Law of Japan is based on the amount recorded in the Company's nonconsolidated books of account in accordance with financial accounting standards of Japan. Such amount was ¥1,078,675 million at December 31, 2023.

Retained earnings at December 31, 2023 included Canon's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥20,642 million.

14. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2023, 2022 and 2021 are as follows:

	Millions of yen				
	Foreign currency translation adjustments	Net unrealized gains and losses on securities	Gains and losses on derivative instruments	Pension liability adjustments	Total
Balance at December 31, 2020	(113,646)	—	100	(211,243)	(324,789)
Other comprehensive income (loss) before reclassifications	119,689	—	(3,330)	49,759	166,118
Amounts reclassified from accumulated other comprehensive income (loss)	(524)	—	2,336	5,065	6,877
Net change during the year	119,165	—	(994)	54,824	172,995
Balance at December 31, 2021	5,519	—	(894)	(156,419)	(151,794)
Other comprehensive income (loss) before reclassifications	189,827	(44)	(7,430)	25,768	208,121
Amounts reclassified from accumulated other comprehensive income (loss)	(4,059)	10	7,896	2,449	6,296
Net change during the year	185,768	(34)	466	28,217	214,417
Balance at December 31, 2022	191,287	(34)	(428)	(128,202)	62,623
Other comprehensive income (loss) before reclassifications	**183,663**	**102**	**(756)**	**19,275**	**202,284**
Amounts reclassified from accumulated other comprehensive income (loss)	**(13)**	**(42)**	**2,108**	**1,798**	**3,851**
Net change during the year	**183,650**	**60**	**1,352**	**21,073**	**206,135**
Balance at December 31, 2023	**374,937**	**26**	**924**	**(107,129)**	**268,758**

Reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2023, 2022 and 2021 are as follows:

Years ended December 31	Amount reclassified from accumulated other comprehensive income (loss) *			Affected line items in consolidated statements of income
	Millions of yen			
	2023	2022	2021	
Foreign currency translation adjustments	**(32)**	(5,883)	(759)	Selling, general and administrative expenses
	10	1,824	235	Income taxes
	(22)	(4,059)	(524)	Consolidated net income
	9	—	—	Net income attributable to noncontrolling interests
	(13)	(4,059)	(524)	Net income attributable to Canon Inc.
Net unrealized gains and losses on securities	**(53)**	13	—	Other, net
	11	(3)	—	Income taxes
	(42)	10	—	Consolidated net income
	—	—	—	Net income attributable to noncontrolling interests
	(42)	10	—	Net income attributable to Canon Inc.
Gains and losses on derivative instruments	**2,790**	10,683	3,285	Net Sales
	(764)	(2,889)	(959)	Income taxes
	2,026	7,794	2,326	Consolidated net income
	82	102	10	Net income attributable to noncontrolling interests
	2,108	7,896	2,336	Net income attributable to Canon Inc.
Pension liability adjustments	**2,454**	3,386	7,519	Other, net
	(525)	(561)	(1,625)	Income taxes
	1,929	2,825	5,894	Consolidated net income
	(131)	(376)	(829)	Net income attributable to noncontrolling interests
	1,798	2,449	5,065	Net income attributable to Canon Inc.
Total amount reclassified, net of tax and noncontrolling interests	**3,851**	6,296	6,877	

* Amounts in parentheses indicate gains in consolidated statements of income.

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments, including amounts attributable to noncontrolling interests, are as follows:

Years ended December 31	Millions of yen		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2023:			
Foreign currency translation adjustments			
Amount arising during the year	**186,559**	**(1,701)**	**184,858**
Reclassification adjustments for gains and losses realized in net income	**(32)**	**10**	**(22)**
Net change during the year	**186,527**	**(1,691)**	**184,836**
Net unrealized gains and losses on securities:			
Amount arising during the year	**129**	**(27)**	**102**
Reclassification adjustments for gains and losses realized in net income	**(53)**	**11**	**(42)**
Net change during the year	**76**	**(16)**	**60**
Net gains and losses on derivative instruments:			
Amount arising during the year	**(848)**	**216**	**(632)**
Reclassification adjustments for gains and losses realized in net income	**2,790**	**(764)**	**2,026**
Net change during the year	**1,942**	**(548)**	**1,394**
Pension liability adjustments:			
Amount arising during the year	**42,189**	**(19,829)**	**22,360**
Reclassification adjustments for gains and losses realized in net income	**2,454**	**(525)**	**1,929**
Net change during the year	**44,643**	**(20,354)**	**24,289**
Other comprehensive income (loss)	**233,188**	**(22,609)**	**210,579**
2022:			
Foreign currency translation adjustments			
Amount arising during the year	191,679	(1,057)	190,622
Reclassification adjustments for gains and losses realized in net income	(5,883)	1,824	(4,059)
Net change during the year	185,796	767	186,563
Net unrealized gains and losses on securities:			
Amount arising during the year	(54)	10	(44)
Reclassification adjustments for gains and losses realized in net income	13	(3)	10
Net change during the year	(41)	7	(34)
Net gains and losses on derivative instruments:			
Amount arising during the year	(10,057)	2,712	(7,345)
Reclassification adjustments for gains and losses realized in net income	10,683	(2,889)	7,794
Net change during the year	626	(177)	449
Pension liability adjustments:			
Amount arising during the year	32,527	(5,455)	27,072
Reclassification adjustments for gains and losses realized in net income	3,386	(561)	2,825
Net change during the year	35,913	(6,016)	29,897
Other comprehensive income (loss)	222,294	(5,419)	216,875
2021:			
Foreign currency translation adjustments			
Amount arising during the year	122,075	(1,112)	120,963
Reclassification adjustments for gains and losses realized in net income	(759)	235	(524)
Net change during the year	121,316	(877)	120,439
Net gains and losses on derivative instruments:			
Amount arising during the year	(4,596)	1,298	(3,298)
Reclassification adjustments for gains and losses realized in net income	3,285	(959)	2,326
Net change during the year	(1,311)	339	(972)
Pension liability adjustments:			
Amount arising during the year	68,729	(18,115)	50,614
Reclassification adjustments for gains and losses realized in net income	7,519	(1,625)	5,894
Net change during the year	76,248	(19,740)	56,508
Other comprehensive income (loss)	196,253	(20,278)	175,975

15. REVENUE

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 CT systems and 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.

Disaggregated revenue by timing is as follows. Disaggregated revenue by business unit, product and geographic area are described in Note 23.

	Millions of yen						
	Printing*	Medical	Imaging	Industrial	Others* and Corporate	Eliminations	Consolidated
2023:							
Revenue recognized at a point in time	**1,703,204**	**377,979**	**852,580**	**251,042**	**178,349**	**(85,019)**	**3,278,135**
Revenue recognized over time	**642,872**	**175,801**	**9,045**	**63,677**	**11,442**	**—**	**902,837**
Total	**2,346,076**	**553,780**	**861,625**	**314,719**	**189,791**	**(85,019)**	**4,180,972**
2022:							
Revenue recognized at a point in time	1,684,439	348,138	795,442	259,317	201,284	(99,588)	3,189,032
Revenue recognized over time	588,171	165,193	8,038	69,915	11,065	—	842,382
Total	2,272,610	513,331	803,480	329,232	212,349	(99,588)	4,031,414
2021:							
Revenue recognized at a point in time	1,426,852	329,323	646,849	241,379	169,298	(83,698)	2,730,003
Revenue recognized over time	519,804	151,039	6,683	96,342	9,486	—	783,354
Total	1,946,656	480,362	653,532	337,721	178,784	(83,698)	3,513,357

* A certain business, which was previously included in Others, has been presented within the Printing Business Unit from 2023. Changes in the disaggregated revenue by timing for the fiscal year ended December 31, 2022 and 2021 also have been reclassified.

Revenue recognized over time includes primarily revenue from maintenance service in the products of the Printing Business Unit and the Medical Business Unit and sales of certain equipment of the Industrial Business Unit which do not have an alternative use and for which Canon has enforceable right to payment to the customers for the performance completed to date.

Canon recognizes contract assets primarily for unbilled receivables mainly arising from service contracts for the products of the Printing Business Unit. Contract assets are reclassified to trade receivables when they are billed under the terms of the contract. The difference between the opening and closing balances of contract assets primarily results from the timing difference of Canon's performance and billing to customers. Contract assets at December 31, 2023 and 2022 were ¥45,354 million and ¥39,251 million, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheets.

Canon typically bills the customer when the performance obligation is satisfied and collects the payment in relatively short term except for certain maintenance service of the products of the Printing Business Unit and the Medical Business Unit and certain industrial equipment for which Canon occasionally receives the payment in advance from customers. The amount received in excess of revenue recognized is recorded as deferred revenue until the performance obligation for distinct goods or services are satisfied. Deferred revenue at December 31, 2023 and 2022 were ¥141,578 million and ¥141,840 million, respectively, and are included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets. Revenue recognized for the year ended December 31, 2023, which had been included in the deferred revenue balance at December 31, 2022, was ¥115,182 million.

Remaining performance obligations for products and equipment at December 31, 2023 primarily arise from the sales of certain industrial equipment, amounting to ¥202,674 million, 69% of which is expected to be recognized as revenue within one year, 29% within two years and the remaining 2% within three years. Disclosure of remaining performance obligations is not required for the majority of services since the related revenue is recognized on an as billed basis applying the right to invoice practical expedient or is generated from the contracts with an original expected duration of less than one year. Service revenue recognized from the fixed maintenance service contracts for the products of the Printing Business Unit and the Medical Business Unit with original expected duration of more than one year is ¥73,896 million for the year ended December 31, 2023 and the average remaining period for these fixed contracts at December 31, 2023 is about two years.

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

16. STOCK-BASED COMPENSATION

On April 28, 2023, based on the approval of the board of directors, the Company granted stock options to its directors and executive officers to acquire 84,000 shares of common stock. Those to whom stock acquisition rights are granted (the "Holder(s)") shall be entitled to exercise all the stock acquisition rights together within 10 days (in case the last day is not a business day, the following business day) from after the date when they cease to hold any position as a director or an executive officer of the Company. These option awards have a 30 year exercisable period. The grant-date fair value per share of the stock options was ¥2,799.

On March 27, 2023, based on the approval of the board of directors, the Company granted stock options to its executive officer to acquire 9,300 shares of common stock. Those to whom stock acquisition rights are granted (the "Holder(s)") shall be entitled to exercise all the stock acquisition rights together within 10 days (in case the last day is not a business day, the following business day) from after the date when they cease to hold any position as a director or an executive officer of the Company. These option awards have a 30 year exercisable period. The grant-date fair value per share of the stock options was ¥2,445.

On April 28, 2022, based on the approval of the board of directors, the Company granted stock options to its directors and executive officers to acquire 69,000 shares of common stock. Those to whom stock acquisition rights are granted (the "Holder(s)") shall be entitled to exercise all the stock acquisition rights together within 10 days (in case the last day is not a business day, the following business day) from after the date when they cease to hold any position as a director or an executive officer of the Company. These option awards have a 30 year exercisable period. The grant-date fair value per share of the stock options was ¥2,541.

The compensation cost recognized for these stock options for the years ended December 31, 2023, 2022 and 2021 was ¥258 million, ¥175 million and ¥97 million, respectively and is included in selling, general and administrative expenses in the consolidated statements of income.

The fair value of the option award was estimated on the date of grant using the Black-Sholes option pricing model that incorporates the assumptions presented below:

Years ended December 31	2023		2022	2021
	*1	*2		
Expected term of option (in years)	**4.0**	**4.0**	5.0	5.0
Expected volatility	**28.25%**	**28.26%**	25.88%	24.83%
Dividend yield	**4.08%**	**3.64%**	3.28%	3.04%
Risk-free interest rate	**(0.00%)**	**0.06%**	(0.02%)	(0.10%)

*1 Granted on March 27, 2023
*2 Granted on April 28, 2023

A summary of option activity under the stock option plans as of and for the years ended December 31, 2023, 2022 and 2021 is presented below:

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
		Yen	Year	Millions of yen
Outstanding at January 1, 2021	247,600	1	28.4	324
Granted	43,700	1		
Exercised	(4,800)	1		
Outstanding at December 31, 2021	286,500	1	27.8	802
Granted	69,000	1		
Exercised	(4,900)	1		
Outstanding at December 31, 2022	350,600	1	27.2	1,001
Granted	**93,300**	**1**		
Exercised	**(25,700)**	**1**		
Outstanding at December 31, 2023	**418,200**	**1**	**26.9**	**1,513**
Exercisable at December 31, 2023	**418,200**	**1**	**26.9**	**1,513**

The total fair values of shares vested were ¥258 million, ¥175 million, and ¥97 million for the years ended December 31, 2023, 2022, and 2021, respectively. Cash received from the exercise of stock options for the years ended December 31, 2023, 2022 and 2021 were not significant.

17. NET INCOME ATTRIBUTABLE TO CANON INC. SHAREHOLDERS PER SHARE

A reconciliation of the numerators and denominators of basic and diluted net income attributable to Canon Inc. shareholders per share computations is as follows:

Years ended December 31	Millions of yen		
	2023	2022	2021
Basic net income attributable to Canon Inc.	**264,513**	243,961	214,718
Diluted net income attributable to Canon Inc.	**264,508**	243,957	214,714

	Number of shares		
Weighted average common shares outstanding	**1,001,199,905**	1,030,644,385	1,045,632,588
Effect of dilutive securities:			
Stock options	**404,097**	334,875	277,066
Diluted common shares outstanding	**1,001,604,002**	1,030,979,260	1,045,909,654

	Yen		
Net income attributable to Canon Inc. shareholders per share:			
Basic	**264.20**	236.71	205.35
Diluted	**264.08**	236.63	205.29

18. DERIVATIVES AND HEDGING ACTIVITIES

Risk management policy

Canon operates internationally, exposing it to the risk of changes in foreign currency exchange rates. Derivative financial instruments are comprised principally of foreign 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 speculative 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.

Foreign currency exchange rate risk management

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 yen. These contracts are primarily used to hedge the foreign currency exposure of forecasted intercompany sales and intercompany trade receivables that are denominated in foreign currencies. In accordance with Canon's policy, a specific portion of foreign currency exposure resulting from forecasted intercompany sales is hedged using foreign exchange contracts which principally mature within three months.

Cash flow hedge

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, 2023 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.

Derivatives not designated as hedges

Canon has entered into certain foreign exchange contracts to primarily offset the earnings impact related to fluctuations in foreign currency exchange rates associated with certain assets denominated in foreign currencies. Although these foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting, the contracts are effective from an economic perspective. The changes in the fair value of these contracts are recorded in earnings immediately.

Contract amounts of foreign exchange contracts at December 31, 2023 and 2022 are set forth below:

December 31	Millions of yen	
	2023	2022
To sell foreign currencies	**194,053**	149,080
To buy foreign currencies	**24,116**	26,224

Fair value of derivative instruments in the consolidated balance sheets

The following tables present Canon's derivative instruments measured at gross fair value as reflected in the consolidated balance sheets at December 31, 2023 and 2022.

Derivatives designated as hedging instruments

December 31		Millions of yen	
		Fair value	
	Balance sheet location	**2023**	2022
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	**2,205**	176
Liabilities:			
Foreign exchange contracts	Other current liabilities	**13**	416

Derivatives not designated as hedging instruments

December 31		Millions of yen	
		Fair value	
	Balance sheet location	**2023**	2022
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	**1,695**	2,539
Liabilities:			
Foreign exchange contracts	Other current liabilities	**915**	846

Effect of derivative instruments in the consolidated statements of income
The following tables present the effect of Canon's derivative instruments in the consolidated statements of income for the years ended December 31, 2023, 2022 and 2021.

Derivatives in cash flow hedging relationships

Years ended December 31	Millions of yen		
	Gain (loss) recognized in OCI	Gain (loss) reclassified from accumulated OCI into income	
	Amount	Location	Amount
2023: Foreign exchange contracts	**(848)**	Net sales	**(2,790)**
2022: Foreign exchange contracts	(10,057)	Net sales	(10,683)
2021: Foreign exchange contracts	(4,596)	Net sales	(3,285)

Derivatives not designated as hedging instruments

Years ended December 31		Millions of yen		
		Gain (loss) recognized in income on derivative		
	Location	**2023**	2022	2021
Foreign exchange contracts	Other, net	**(13,996)**	(11,926)	(6,099)

19. LESSEE ACCOUNTING

Lease costs are included in cost of sales or selling general and administrative expense in accompanying consolidated statements of income. Supplemental income statement information is as follows:

Years ended December 31	Millions of yen		
	2023	2022	2021
Operating lease cost	**48,207**	45,109	39,699
Short-term lease cost	**16,237**	15,566	13,961
Other lease cost	**280**	219	71
Total	**64,724**	60,894	53,731

Operating lease cash flow
Supplemental cash flow information is as follows:

Years ended December 31	Millions of yen		
	2023	2022	2021
Cash paid for amount included in the measurement of lease liabilities			
Operating cash flows from operating leases	**44,068**	42,178	39,879
Noncash activity - Rights of use assets obtained in exchange for lease liabilities			
Operating leases	**45,510**	56,854	21,588

Maturity Analysis

The following is a schedule by year of the future minimum lease payments under operating leases at December 31, 2023.

Years ending December 31:	Millions of yen
2024	38,769
2025	30,690
2026	23,434
2027	16,211
2028	10,446
Thereafter	16,872
Total future minimum lease payments	136,422
Less Imputed Interest	(8,259)
	128,163

Remaining lease term and discount rate

The following is remaining lease term and discount rate under operating leases at December 31, 2023 and 2022.

December 31	**2023**	2022
Weighted-average remaining lease term	**53 months**	54 months
Weighted-average discount rate	**2.7%**	2.5%

20. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At December 31, 2023, commitments outstanding for the purchase of property, plant and equipment approximated ¥113,636 million, and commitments outstanding for the purchase of parts and raw materials approximated ¥243,676 million.

Guarantees

Canon occupies sales offices and other facilities under lease arrangements accounted for as operating leases. Deposits mainly for restoration made under such arrangements aggregated ¥10,516 million and ¥10,086 million at December 31, 2023 and 2022, respectively, and are included in noncurrent receivables in the accompanying consolidated balance sheets.

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 facilitate financing.

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 11 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 ¥1,678 million at December 31, 2023. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2023 were not significant.

Canon also offers assurance-type warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. Estimated product warranty costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses in the accompanying consolidated statements of income. Estimates for accrued product warranty costs are based on historical experience. Accrued product warranty costs are included in accrued expenses in the accompanying consolidated balance sheets and the changes for the years ended December 31, 2023 and 2022 are summarized as follows:

Years ended December 31	Millions of yen	
	2023	2022
Balance at beginning of the year	**20,887**	16,949
Additions	**19,859**	19,678
Utilization	**(16,001)**	(14,934)
Other	**(1,455)**	(806)
Balance at end of the year	**23,290**	20,887

Legal proceedings

Canon is involved in various claims and legal actions arising in the ordinary course of business. Canon has recorded provisions for liabilities when it is probable that liabilities have been incurred and the amount of loss can be reasonably estimated. Canon reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of the negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Based on its experience, although litigation is inherently unpredictable, Canon believes that any damage amounts claimed in outstanding matters are not a meaningful indicator of Canon's potential liability. In the opinion of management, any reasonably possible range of losses from outstanding matters would not have a material adverse effect on Canon's consolidated financial position, results of operations, and cash flows.

21. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

Fair value of financial instruments

The estimated fair values of Canon's financial instruments at December 31, 2023 and 2022 are set forth below. The following summary excludes cash and cash equivalents, trade receivables, noncurrent receivables, short-term loans, trade payables and accrued expenses, and the fair values of these instruments approximate their carrying amounts. The summary also excludes investments and derivative instruments which are disclosed in Note 2 and Note 22, and Note 18, respectively.

December 31	Millions of yen			
	2023		2022	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Long-term debt, including current portion of long-term debt	**(161)**	**(161)**	(54,205)	(54,205)

The following methods and assumptions are used to estimate the fair value in the above table.

Long-term debt

Canon's long-term debt instruments are classified as Level 2 instruments and valued based on the present value of future cash flows associated with each instrument discounted using current market borrowing rates for similar debt instruments of comparable maturity. The levels are more fully described in Note 22.

Limitations of fair value estimates

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Concentrations of credit risk

No single customer accounted for more than 10 percent of consolidated trade receivables as of December 31, 2023 or 2022.

22. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy that prioritizes the inputs used to measure fair value is as follows:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity's own assumptions about the assumptions that market participants would use in establishing a price.

Assets and liabilities measured at fair value on a recurring basis

The following tables present Canon's assets and liabilities that are measured at fair value on a recurring basis consistent with the fair value hierarchy at December 31, 2023 and 2022.

December 31	Millions of yen			
	2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	—	2,073	—	2,073
Short-term investment:				
Available-for-sale:				
Corporate bonds	—	884	—	884
Investments:				
Available-for-sale:				
Corporate bonds	—	8,279	—	8,279
Fund trusts and others	351	457	—	808
Equity securities	27,283	—	—	27,283
Prepaid expenses and other current assets:				
Derivatives	—	3,900	—	3,900
Total assets	27,634	15,593	—	43,227
Liabilities:				
Other current liabilities:				
Derivatives	—	928	—	928
Total liabilities	—	928	—	928

December 31	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	—	627	—	627
Short-term investment:				
Available-for-sale:				
Corporate bonds	—	9,301	—	9,301
Investments:				
Available-for-sale:				
Corporate bonds	—	4,785	—	4,785
Fund trusts and others	255	383	—	638
Equity securities	21,770	—	—	21,770
Prepaid expenses and other current assets:				
Derivatives	—	2,715	—	2,715
Total assets	22,025	17,811	—	39,836
Liabilities:				
Other current liabilities:				
Derivatives	—	1,262	—	1,262
Total liabilities	—	1,262	—	1,262

Level 1 investments are comprised principally of Japanese equity securities, which are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions. Level 2 assets and liabilities are comprised principally of corporate bonds included in cash and cash equivalents, investments or short-term investments, and derivatives. Corporate bonds included in cash and cash equivalents, and investments or short-term investments are valued using quoted prices for identical assets in markets that are not active or quotes obtained from counterparties or third parties.

Derivative financial instruments are comprised of foreign exchange contracts. Level 2 derivatives are valued using quotes obtained from counterparties or third parties, which are periodically validated by pricing models using observable market inputs, such as foreign currency exchange rates and interest rates, based on market approach.

Assets and liabilities measured at fair value on a nonrecurring basis

There were no significant assets or liabilities to be measured at fair value on a nonrecurring basis during the year ended December 31, 2023 and 2022.

23. SEGMENT INFORMATION

Canon reports in four reportable segments: the Printing Business Unit, the Medical Business Unit, the Imaging Business Unit, and the Industrial Business Unit with Others and Corporate, which are based on the organizational structure and information reviewed by Canon's management to evaluate results and allocate resources.

A certain business, which was previously included in Others, has been presented within the Printing Business Unit from 2023. Operating results for the fiscal year ended December 31, 2022 and 2021 have been reclassified as a result of this change. However, the line items pertaining to total assets, depreciation and amortization, and capital expenditures were not reclassified since they were not material.

The primary products included in each segment are as follows:

Printing Business Unit:
Digital continuous feed presses / Digital sheet-fed presses / Large format printers / Office multifunction devices (MFDs) / Document solutions / Laser multifunction printers (MFPs) / Laser printers / Inkjet printers / Image scanners / Calculators

Medical Business Unit:
Computed tomography (CT) systems / Diagnostic ultrasound systems / Diagnostic X-ray systems / Magnetic resonance imaging (MRI) systems / Clinical chemistry analyzers / Digital radiography systems / Ophthalmic equipment

Imaging Business Unit:
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 / Projectors

Industrial Business Unit:
Semiconductor lithography equipment / FPD (Flat panel display) lithography equipment / OLED display manufacturing equipment / Vacuum thin-film deposition equipment / Die bonders

Others:
Handy terminals / Document scanners

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1. Canon evaluate results and allocate resources for each segment based on income before income taxes.

Information about operating results and assets for each segment as of and for the years ended December 31, 2023, 2022 and 2021 is as follows:

	Millions of yen						
	Printing	Medical	Imaging	Industrial	Others and Corporate	Eliminations	Consolidated
2023:							
Net sales:							
External customers	**2,339,718**	**552,296**	**861,456**	**303,807**	**123,695**	**—**	**4,180,972**
Intersegment	**6,358**	**1,484**	**169**	**10,912**	**66,096**	**(85,019)**	**—**
Total	**2,346,076**	**553,780**	**861,625**	**314,719**	**189,791**	**(85,019)**	**4,180,972**
Operating cost and expenses	**2,117,767**	**522,131**	**716,046**	**256,121**	**276,136**	**(82,595)**	**3,805,606**
Operating profit	**228,309**	**31,649**	**145,579**	**58,598**	**(86,345)**	**(2,424)**	**375,366**
Other income (deductions)	**6,752**	**490**	**854**	**568**	**12,454**	**(5,717)**	**15,401**
Income before income taxes	**235,061**	**32,139**	**146,433**	**59,166**	**(73,891)**	**(8,141)**	**390,767**
Total assets	**1,247,666**	**361,251**	**406,390**	**244,275**	**3,180,186**	**(23,191)**	**5,416,577**
Depreciation and amortization	**69,712**	**14,041**	**22,062**	**12,931**	**119,930**	**—**	**238,676**
Capital expenditures	**65,175**	**12,094**	**28,922**	**10,432**	**115,102**	**—**	**231,725**
2022:							
Net sales:							
External customers	2,266,074	513,028	803,057	320,817	128,438	—	4,031,414
Intersegment	6,536	303	423	8,415	83,911	(99,588)	—
Total	2,272,610	513,331	803,480	329,232	212,349	(99,588)	4,031,414
Operating cost and expenses	2,060,219	482,326	676,850	271,213	286,144	(98,737)	3,678,015
Operating profit	212,391	31,005	126,630	58,019	(73,795)	(851)	353,399
Other income (deductions)	13,806	890	1,403	1,194	(12,147)	(6,105)	(959)
Income before income taxes	226,197	31,895	128,033	59,213	(85,942)	(6,956)	352,440
Total assets	1,224,187	356,799	349,338	233,969	2,952,891	(21,654)	5,095,530
Depreciation and amortization	72,946	13,418	20,374	12,195	107,559	—	226,492
Capital expenditures	66,550	11,956	17,841	15,271	71,673	—	183,291
2021:							
Net sales:							
External customers	1,941,821	480,029	651,494	328,164	111,849	—	3,513,357
Intersegment	4,835	333	2,038	9,557	66,935	(83,698)	—
Total	1,946,656	480,362	653,532	337,721	178,784	(83,698)	3,513,357
Operating cost and expenses	1,719,790	450,942	574,814	292,854	276,007	(82,968)	3,231,439
Operating profit	226,866	29,420	78,718	44,867	(97,223)	(730)	281,918
Other income (deductions)	7,259	4,876	(256)	434	14,978	(6,503)	20,788
Income before income taxes	234,125	34,296	78,462	45,301	(82,245)	(7,233)	302,706
Total assets	1,009,922	311,247	236,143	212,156	2,999,754	(18,334)	4,750,888
Depreciation and amortization	69,549	12,435	21,840	11,193	106,229	—	221,246
Capital expenditures	63,609	11,888	12,069	10,127	81,307	—	179,000

Intersegment sales are recorded at the same prices used in transactions with third parties. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable. Corporate expenses include certain corporate research and development expenses. Amortization costs of identified intangible assets resulting from the purchase price allocation of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation) are also included in corporate expenses. Segment assets are based on those directly associated with each segment. Corporate assets primarily consist of cash and cash equivalents, investments, deferred tax assets, goodwill, identified intangible assets from acquisitions and corporate properties. Capital expenditures represent the additions to property, plant and equipment and intangible assets measured on an accrual basis.

Information about sales by product and service to external customers for each segment for the years ended December 31, 2023, 2022 and 2021 is as follows:

Years ended December 31	Millions of yen		
	2023	2022	2021
Printing			
Production	**401,237**	362,052	288,555
Office multifunction devices	**620,843**	566,503	473,421
Office others	**362,618**	320,713	279,366
Office	**983,461**	887,216	752,787
Laser printers	**606,639**	647,192	560,159
Inkjet printers and Others	**348,381**	369,614	340,320
Prosumer	**955,020**	1,016,806	900,479
Total	**2,339,718**	2,266,074	1,941,821
Medical			
Diagnostic equipment	**552,296**	513,028	480,029
Imaging			
Cameras	**544,366**	509,464	432,885
Network cameras and Others	**317,090**	293,593	218,609
Total	**861,456**	803,057	651,494
Industrial			
Optical equipment	**212,505**	240,332	215,890
Industrial equipment	**91,302**	80,485	112,274
Total	**303,807**	320,817	328,164
Others and Corporate	**123,695**	128,438	111,849
Consolidated	**4,180,972**	4,031,414	3,513,357

Certain businesses, which were previously included in Office multifunction devices and Others and Corporate, have been presented as Inkjet printers and Others from 2023. Operating results for the fiscal year ended December 31, 2022 and 2021 have also been reclassified.

Information by major geographic area as of and for the years ended December 31, 2023, 2022 and 2021 is as follows:

	Millions of yen		
	2023	2022	2021
Net sales:			
Japan	**901,589**	864,808	830,378
Americas	**1,312,438**	1,255,405	968,839
Europe	**1,111,211**	1,034,008	894,898
Asia and Oceania	**855,734**	877,193	819,242
Total	**4,180,972**	4,031,414	3,513,357
Long-lived assets:			
Japan	**966,960**	953,140	986,638
Americas	**174,877**	167,968	152,137
Europe	**217,244**	173,774	158,297
Asia and Oceania	**137,865**	139,021	141,915
Total	**1,496,946**	1,433,903	1,438,987

Net sales are attributed to areas based on the location where the products are shipped and the services are performed to the customers. Other than in Japan and the United States, Canon does not conduct business in any individual country in which its sales in that country exceed 10% of consolidated net sales. Net sales in the United States were ¥1,232,452 million, ¥1,183,022 million and ¥907,909 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Long-lived assets represent property, plant and equipment, intangible assets, and operating lease right-of-use assets for each geographic area.

24. SUBSEQUENT EVENT

On January 4, 2024, Canon borrowed ¥140 billion under its existing overdraft facilities with Mizuho Bank, Ltd. and MUFG Bank, Ltd. for required operating funds. The overdraft facilities bear interest at a rate equal to a base rate plus a spread.

On January 29, 2024, the Board of Directors of Canon Marketing Japan Inc., a subsidiary of the Company, approved a plan to establish a corporate venture capital fund, Canon Marketing Japan MIRAI Fund, for the purpose of accelerating open innovation with startups that possess cutting-edge technologies and business ideas. The Canon Marketing Japan MIRAI Fund will be invested by Canon Marketing Japan Inc. and Global Brain Corporation for ¥10 billion over the planned 10 year investment period. The investment ratio is 99.5% and 0.5%, respectively.

On January 30, 2024, the Board of Directors of Canon approved a plan to repurchase its own shares under the Article 156, as applied pursuant to Paragraph 3, Article 165, of the Companies Act of Japan, as follows.

1. **Reason for repurchase:**
   Canon decided to acquire its own shares with the aim of further improving its corporate value through active growth investment and enhancing shareholder returns by improving capital efficiency. As a part of this approach for shareholder returns, Canon passed a resolution to acquire its own shares.
2. **Total number of shares to be repurchased:**
   Up to 33 million shares
3. **Total cost of repurchase:**
   Up to ¥100 billion
4. **Period of repurchase:**
   From February 1, 2024 to January 31, 2025

On March 26, 2024, Canon entered into a syndicated loan financing arrangement for ¥100 billion from March 29, 2024 to March 31, 2026 with MUFG Bank, Ltd. as a arranger for required operating funds. Applicable interest rate is equal to a base rate plus a spread.

On March 5, 2024, the Board of Directors of Canon Marketing Japan Inc., a subsidiary of the Company, approved a plan to acquire Primagest, Inc. and its three subsidiaries, making them owned subsidiaries. A share transfer agreement was finalized on the same date. The acquisition will enable Canon to further expand BPO business and create new services by combining its technology and development capabilities. On March 29, 2024, Canon Marketing Japan Inc. intends to acquire 100% of the issued shares of Primagest, Inc. for cash consideration of ¥37 billion.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Years ended December 31	Millions of yen				
	Balance at beginning of period	Addition-charged to income	Deduction bad debts written off	Translation adjustments and other	Balance at end of period
2023:					
Allowance for credit losses					
Trade receivables	**13,305**	**529**	**(1,399)**	**841**	**13,276**
Lease receivables	**5,596**	**2,075**	**(2,339)**	**539**	**5,871**
2022:					
Allowance for credit losses					
Trade receivables	12,494	817	(1,167)	1,161	13,305
Lease receivables	3,791	3,769	(3,605)	1,641	5,596
2021:					
Allowance for credit losses					
Trade receivables	11,645	1,857	(1,540)	532	12,494
Lease receivables	3,068	2,331	(2,157)	549	3,791

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Canon is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Canon; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of Canon are being made only in accordance with authorizations of management and directors of Canon; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Canon's assets that could have a material effect on the financial statements.

Because there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Canon's management assessed the effectiveness of internal control over financial reporting as of December 31, 2023. In making this assessment, management used the criteria established in Internal Control–Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on its assessment, management concluded that, as of December 31, 2023, Canon's internal control over financial reporting was effective.

Fujio Mitarai
Chairman & CEO

Toshizo Tanaka
Executive Vice President & CFO

March 28, 2024

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of
Canon Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Canon Inc. and subsidiaries (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2023, and the related notes and the schedule of valuation and qualifying accounts (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2024, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill—Medical Reporting Unit—Refer to Notes 1 and 8 to the Financial Statements

Critical Audit Matter Description

The Company tests goodwill for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. The fair value of a reporting unit is determined primarily based on a discounted cash flow analysis, which involves estimates of projected future cash flows and discount rates. The Company's total consolidated goodwill was ¥1,045,400 million (19.3% of Total assets) as of December 31, 2023, of which ¥565,687 million (54.1% of Goodwill) was allocated to the Medical Reporting Unit. The estimates of projected future cash flows for the Medical Reporting Unit are based on a mid-term management plan and a long-term growth rate for the subsequent periods ("the long-term growth rate") that considered the future market growth of medical equipment and growth in geographies where the Company operates its medical business. The estimate of the discount rate is determined based on the weighted average cost of capital, which considers primarily market and industry data as well as specific risk factors.

The Company has completed its impairment test in the fourth quarter of 2023 and determined that the Medical Reporting Unit did not fail the impairment test as the fair value of the reporting unit exceeded its carrying amount; however, the fair value in excess of reported carrying value as a percentage is lower than other reporting units. As a result, a future reduction in cash flows of the Medical Reporting Unit could trigger an impairment.

Given the goodwill attributed to the Medical Reporting Unit represents 54.1% of the total consolidated goodwill and there are significant judgements made by management to estimate the fair value of the Medical Reporting Unit, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the projected future cash flows and the discount rate required a high degree of auditor judgment and an increased extent of effort, including the need to involve fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the projected future cash flows, the discount rate and the long-term growth rate used by management to estimate the fair value of the Medical Reporting Unit included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over management's estimates and assumptions used in the projected future cash flows, the discount rate and the long-term growth rate.
- We evaluated management's ability to accurately project future cash flows by comparing actual results to management's historical projections.
- We made inquiries of management to understand significant assumptions used in the projected future cash flows.
- We evaluated the reasonableness of management's projected future cash flows by comparing the projections to actual results, documents reported to management, and other related documents for respective revenue, cost of sales and other elements,

which together comprise management's projected future cash flows.

- We evaluated the reasonableness of management's significant assumptions regarding the revenue growth rate used in the projected future cash flows, which could have a significant impact on the fair value of the Medical Reporting Unit, by comparing the revenue growth rate to the expected market growth rate for each type of medical equipment and each region in which the Company operates its medical business as included in independent third-party industry reports.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the valuation methodology, the discount rate and the long-term growth rate by:
  - —examining whether the valuation methodology used, including the determination of the discount rate and the long-term growth rate, was consistent with existing valuation practices that are both generally accepted in practice and acceptable in the circumstance.
  - —testing the underlying data used in the determination of the discount rate and the long-term growth rate, and the mathematical accuracy of the calculation; and
  - —developing a range of independent estimates and comparing those to the discount rate and the long-term growth rate selected by management.

Deloitte Touche Tohmatsu LLC

March 28, 2024

We have served as the Company's auditor since 2020.

Deloitte.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of
Canon Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Canon Inc. and subsidiaries (the "Company") as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2023, of the Company and our report dated March 28, 2024, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte Touche Tohmatsu LLC

March 28, 2024

TRANSFER AND REGISTRAR'S OFFICE

Canon Inc.

30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan

Manager of the Register of Shareholders

Mizuho Trust & Banking Co., Ltd.
1-3-3, Marunouchi, Chiyoda-ku, Tokyo 100-8241, Japan

Depositary and Agent with Respect to American Depositary Receipts for Common Shares

JPMorgan Chase Bank, N.A.
383 Madison Avenue, Floor 11, New York, NY 10179, USA

SHAREHOLDER INFORMATION

Stock Exchange Listings:

Tokyo, Nagoya, Fukuoka and Sapporo Stock exchanges

Ordinary General Meeting of Shareholders:

March of each year

Further Information:

For publications or information, please contact the Public Affairs Headquarters, Canon Inc., Tokyo, or access Canon's Website at global.canon/en

MAJOR CONSOLIDATED SUBSIDIARIES

(As of December 31, 2023)

Manufacturing

Canon Precision Inc.
Canon Tokki Corporation
Fukushima Canon Inc.
Canon Medical Systems Corporation
Canon Electron Tubes & Devices Co., Ltd.
Canon Components, Inc.
Canon Semiconductor Equipment Inc.
Canon Chemicals Inc.
Canon Electronics Inc.
Canon Finetech Nisca Inc.
Minaris Medical Co., Ltd.
Canon ANELVA Corporation
Nagahama Canon Inc.
Canon Machinery Inc.
Oita Canon Materials Inc.
Oita Canon Inc.
Nagasaki Canon Inc.
Miyazaki Canon Inc.
Canon Virginia, Inc.
Quality Electrodynamics, LLC
Canon Bretagne S.A.S.
Canon Production Printing Netherlands B.V.
Canon Production Printing Germany GmbH & Co.KG
Axis Communications AB
Canon Dalian Business Machines, Inc.
Canon (Suzhou) Inc.
Canon Zhongshan Business Machines Co., Ltd.
Canon Inc., Taiwan
Canon Vietnam Co., Ltd.
Canon Hi-Tech (Thailand) Ltd.
Canon Prachinburi (Thailand) Ltd.
Canon Business Machines (Philippines), Inc.
Canon Opto (Malaysia) Sdn. Bhd.
Canon Machinery (Malaysia) Sdn. Bhd.

Research & Development

Canon Research Centre France S.A.S.

Marketing & Other

Canon Marketing Japan Inc.
Canon System and Support Inc.
Canon IT Solutions Inc.
Canon Medical Finance Co., Ltd.
Canon U.S.A., Inc.
Canon Canada Inc.
Canon Solutions America, Inc.
Canon Financial Services, Inc.
Canon Medical Systems USA, Inc.
Axis AB
Canon Europa N.V.
Canon Europe Ltd.
Canon Ru LLC
Canon (UK) Ltd.
Canon Deutschland GmbH
Canon (Schweiz) AG
Canon Nederland N.V.
Canon France S.A.S.
Canon Middle East FZ-LLC
Canon Italia S.p.A.
Canon Medical Systems Europe B.V.
Milestone Systems A/S
Canon (China) Co., Ltd.
Canon Hongkong Co., Ltd.
Canon Semiconductor Equipment Taiwan, Inc.
Canon Singapore Pte. Ltd.
Canon India Pvt. Ltd.
Canon Australia Pty. Ltd.

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