CANON ANNUAL REPORT 2013

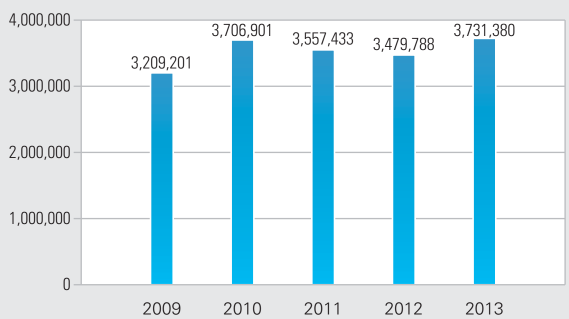
Fiscal Year Ended December 31, 2013

FINANCIAL HIGHLIGHTS

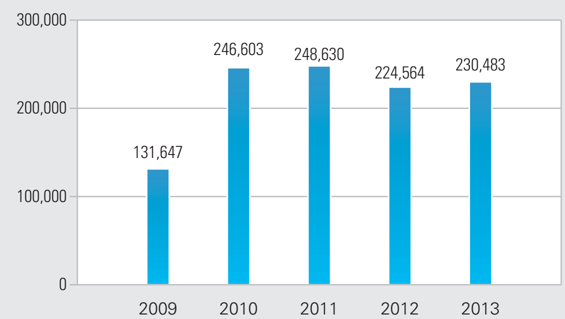
	Millions of yen (except per share amounts) 2013	2012	Change (%)	*Thousands of U.S. dollars (except per share amounts)* 2013
Net sales	¥3,731,380	¥3,479,788	+7.2	$35,536,952
Operating profit	337,277	323,856	+4.1	3,212,162
Income before income taxes	347,604	342,557	+1.5	3,310,514
Net income attributable to Canon Inc.	230,483	224,564	+2.6	2,195,076
Net income attributable to Canon Inc. stockholders per share:				
—Basic	¥ 200.78	¥ 191.34	+4.9	$ 1.91
—Diluted	200.78	191.34	+4.9	1.91
Total assets	¥4,242,710	¥3,955,503	+7.3	$40,406,762
Canon Inc. stockholders' equity	¥2,910,262	¥2,598,026	+12.0	$27,716,781

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 JPY105=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2013, solely for the convenience of the reader.

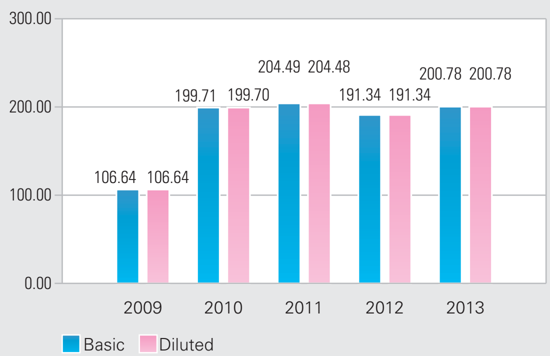
Net Sales
(Millions of yen)



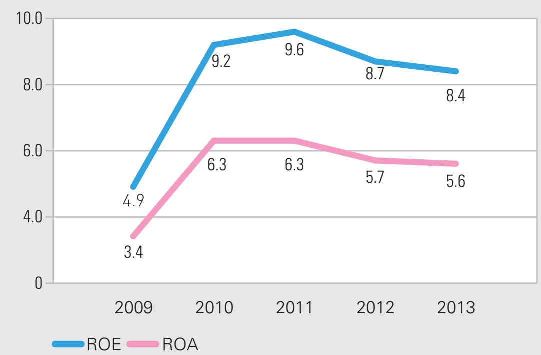
Net Income Attributable to Canon Inc.
(Millions of yen)



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



ROE/ROA
(%)



CORPORATE PROFILE

Canon develops, manufactures and markets a growing lineup of copying machines, printers, cameras and industrial and other equipment. Through these products, the Company meets growing customer needs that are becoming increasingly diversified and sophisticated. Today, the Canon brand is recognized and trusted throughout the world.

In 1996, Canon launched its Excellent Global Corporation Plan with the aim of becoming a company worthy of admiration and respect the world over. Currently, the Company is working to achieve the overwhelming No. 1 position in its existing core businesses and expand related and peripheral businesses by strengthening its advanced solutions business, centered on innovative products, and through other measures. At the same time, Canon is nurturing its operations in the fields of medical equipment and industrial equipment, the latter including intelligent robots, to establish new core businesses. The Company is working to fulfill its responsibilities to investors and society, emphasizing sound corporate governance and stepping up the implementation of activities that contribute to environmental and social sustainability.

CORPORATE PHILOSOPHY: *Kyosei*

Canon's corporate philosophy is *kyosei*.

It conveys our dedication to seeing all people, regardless of culture, customs, language or race, harmoniously living and working together in happiness into the future. Unfortunately, current factors related to economies, resources and the environment make realizing *kyosei* difficult.

Canon strives to eliminate these factors through corporate activities rooted in *kyosei*. Truly global companies must foster good relations with customers and communities, as well as with governments, regions and the environment as part of their fulfillment of social responsibilities.

For this reason, Canon's goal is to contribute to global prosperity and the well-being of mankind as we continue our efforts to bring the world closer to achieving *kyosei*.

CORPORATE GOAL

Canon sees itself growing and prospering over the next 100, and even 200, years. Toward this end, the Company has been promoting its Excellent Global Corporation Plan, launching Phase IV of the initiative in 2011. Building on the financial strengths that the Company has continuously reinforced through the implementation of the plan, Canon aims to join the ranks of the world's top 100 companies in terms of major management indicators.

TABLE OF CONTENTS

Cover Photo:
The Cinema EOS System Its ultra-high-sensitivity 4K camera succeeded in capturing the world's-first video of the comet ISON from the International Space Station. (The picture is a concept image.)

TO OUR STOCKHOLDERS

FUJIO MITARAI
Chairman & CEO
Canon Inc.

At Canon, we believe that change is progress and transformation is advancement. With this in mind, we will ride the wave of economic recovery and carry out further reforms in order to return Canon to a path of growth.

Performance in 2013

In 2013, conditions in the world economy remained very challenging despite initial expectations of recovery. Although the U.S. and Japanese economies headed toward moderate recoveries in the latter half of the year, economic stagnation in Europe remained unabated while China and other emerging nations faced slowdowns in growth. As for exchange rates, the yen depreciated significantly, reflecting a correction of its historically high value against the U.S. dollar and the euro during the previous several years.

Supported by the effects of the weak yen, we continued striving to boost the appeal of Canon products as well as maintain and improve our sound financial position while working relentlessly to enhance productivity and reduce costs. Accordingly, we achieved year-on-year sales and profit growth for the first time in three years.

In 2013, our office multifunction devices (MFDs) and laser printers performed well and we enjoyed increased sales of inkjet printers thanks to an expanded lineup of new products. Also, despite the decline in unit sales of compact digital cameras due mainly to the proliferation of smartphones, we were able to maintain our No. 1 global market share in terms of sales volume for both compact digital cameras and interchangeable-lens digital cameras. As a result, consolidated net sales for the year amounted to ¥3,731.4 billion, up 7.2% from the previous year. Moreover, a rigorous Groupwide effort to lower operating expenses, together with an improved gross profit ratio, led to operating profit of ¥337.3 billion, an increase of 4.1% from the previous year.

Having just summed up our performance in 2013, one item deserving of special attention is our gross profit ratio, the most important performance indicator for companies in the manufacturing sector, which, at 48.2%, surpassed that of the previous year despite the challenging business conditions we faced.

Over the five years since the collapse of Lehman Brothers, the contraction of the world economy has posed extremely serious challenges for global companies like Canon. Regardless of these challenges, Canon has generated average annual net income in excess of ¥200 billion for a cumulative total of more than ¥1 trillion over the period. We have also maintained a very healthy financial position with year-end cash and cash equivalents of around ¥790 billion, the equivalent of approximately 2.4 months of net sales. Moreover, our stockholders' equity ratio rose 2.9 points to 68.6%. Among Fortune 500 companies as of the end of 2013, this places Canon among the top 10 in the world.

In addition, during these five years, Canon has actively made large-scale investments, including the acquisition of Océ, while executing share buybacks totaling some ¥350 billion. We have pursued a rigorous cash flow management approach aimed at maintaining a robust financial position while solidifying our preparations for the future. This has enabled us to protect jobs and generate abundant cash reserves. In this way, despite the adverse conditions we faced in 2013, we declared an annual cash dividend of ¥130.00 per share, the same level as 2012 (which included a commemorative dividend that we issued to commemorate our 75th anniversary), underscoring our stable, yet proactive shareholder return policy.

Excellent Global Corporation Plan

Canon launched the Excellent Global Corporation Plan in 1996 and, over the nearly 20 years since it was introduced, we have reinforced our business foundation through the Plan's various phases.

During Phase I (1996—2000), we focused on shifting from nonconsolidated business management to consolidated business management while stressing the importance of total optimization over partial optimization, and of profit over sales. By emphasizing the importance of cash-flow management and comprehensively eliminating waste, we were able to reduce our debt by more than half while also significantly increasing productivity through the introduction of the cell production system and other measures.

In Phase II (2001—2005), we focused on reinforcing Canon's product competitiveness. We fully digitalized our copying machine and camera offerings, laying the groundwork for the successes that we enjoy today while also enabling us to become an essentially debt-free company.

During Phase III (2006—2010), we sought to expand Canon's business scope, broadening our businesses in the printing and medical equipment fields while actively carrying out M&A activities.

And in 2011, under the slogan "Aiming for the Summit: Speed & Sound Growth," we embarked on Phase IV, spanning the five-year period through 2015. Focusing on the six key strategies explained below, Phase IV calls for proactive, quick reforms ahead of the dramatically changing times along with the achievement of sound business growth through the further expansion of our corporate scale while maintaining high profitability.

The Excellent Global Corporation Plan

Phase I 1996–2000

Strengthened our financial structure by thoroughly eliminating wastefulness, with production reforms playing a major role, based on changing our mindset with a focus on total optimization and profitability.

Phase II 2001–2005

Recognized the need for digitalization and raised product competitiveness by enhancing our development infrastructure and reinforcing key components.

Phase III 2006–2010

Strove to achieve "Sound Growth," seeking high growth levels by establishing new businesses while raising the profitability of existing businesses. With the global economy plunging into the global recession, shifted direction towards "improving the quality of management."

Set up an even stronger financial structure and increased momentum towards a dramatic leap forward from now.

Phase IV 2011–2015

Tackle again the challenge of achieving "Sound Growth" through timely change in advance of changes in the times.

Slogan:
"Aiming for the Summit: Speed & Sound Growth"

Strategy 1

Achieving the overwhelming No. 1 position in all core businesses and expanding related and peripheral businesses

In 2013, within the office MFD segment, we enhanced our color machine lineup centered on the imageRUNNER ADVANCE series while also promptly responding to the solutions needs of offices utilizing cloud computing and other new network environments. Also, decisively acting on the market shift from offset to digital printing, we have bolstered our commercial printing business through the integration of Océ. Furthermore, we posted an increase in sales volume of inkjet printers through the introduction of new products offering enhanced support for cloud services and launched new large-format printers that have enabled us to capture several major orders. We also worked to expand sales of our DreamLabo commercial photo printer.

As for interchangeable-lens digital cameras, Canon retained the No. 1 share worldwide in terms of unit sales on the back of solid performances by new products targeting advanced-amateur users. And within the compact digital camera segment, we also maintained our No. 1 share of global sales volume through the launch of high-value-added models incorporating large image sensors and other advanced features that distinguish our products from smartphones. Furthermore, an ultrahigh-sensitivity 4K cinema camera from our Cinema EOS System lineup was used to successfully capture the world's first video of the comet ISON from the International Space Station, an achievement that added to the praise our Cinema EOS System has already garnered.

Within the industrial equipment segment, we will expedite the development of flat-panel-display lithography systems used to produce high-resolution panels for smartphones and other mobile devices, as well as next-generation semiconductor lithography systems incorporating nanoimprint lithography technology supporting the miniaturization of electronic features. In these ways, we will solidify our position in the lithography equipment sector.

Achieving the Overwhelming No.1 Position

Expand Existing Businesses

Cloud	Network Compatibility	Alliance	Smartphone Convenience

Expand Related and Peripheral Businesses

Cinema EOS System	DreamLabo	Océ

The Cinema EOS System combines a compact, lightweight body with easy-to-use functions and an attractive low price is widely used in motion picture production.

Strategy 2

Developing new business through globalized diversification and establishing the Three Regional Headquarters management system

For Canon, realizing sustainable future growth while competing against some of the world's leading companies would prove difficult if we focused on innovation from Japan alone. For this reason, we have been making rapid progress in establishing our Three Regional Headquarters management system. In Japan, one of the three regions, we have entered the clinical evaluation stage for a photoacoustic mammography device capable of the early detection of breast cancer. In the United States, Canon Virginia, Inc. plans to commence production in 2015 of a DNA diagnostic system developed by Canon U.S. Life Sciences, Inc. And in Europe, with Océ as a member of the Canon Group, we have designated their facilities as the development base for high-speed printers. Through this allocation, the globally diversified structure that we envision, with new businesses emerging continuously from Japan, North America and Europe, is finally beginning to take shape.

With regard to medical equipment, we are already expanding shipments of our mainstay digital radiography systems while in the industrial equipment segment we look forward to growing our network camera system business. The market for network cameras and camera systems is expected to grow by more than 20% annually, potentially surpassing ¥1 trillion in the future.

Our MR (mixed reality) system, which merges the real and virtual worlds in real time, has also earned high marks from automakers, construction companies, universities and other research institutions. We are also focusing our energies on commercializing a high-definition 4K-resolution display for professional use that complements our Cinema EOS System, as well as Super Machine Vision technology that would be used as "robotic eyes" in production processes.

Photoacoustic Mammography captures images of blood vessels around tumorous tissue using laser radiation. If realized, it would enable nearly pain-free exams without exposure to X-rays.

The Professional Use Display realizes faithful color reproduction, high resolution and high-contrast performance, equipped with an image engine for display use developed by Canon and meets professionals' advanced video production needs.

Strategy 3 | Establishing a world-leading globally optimized production system

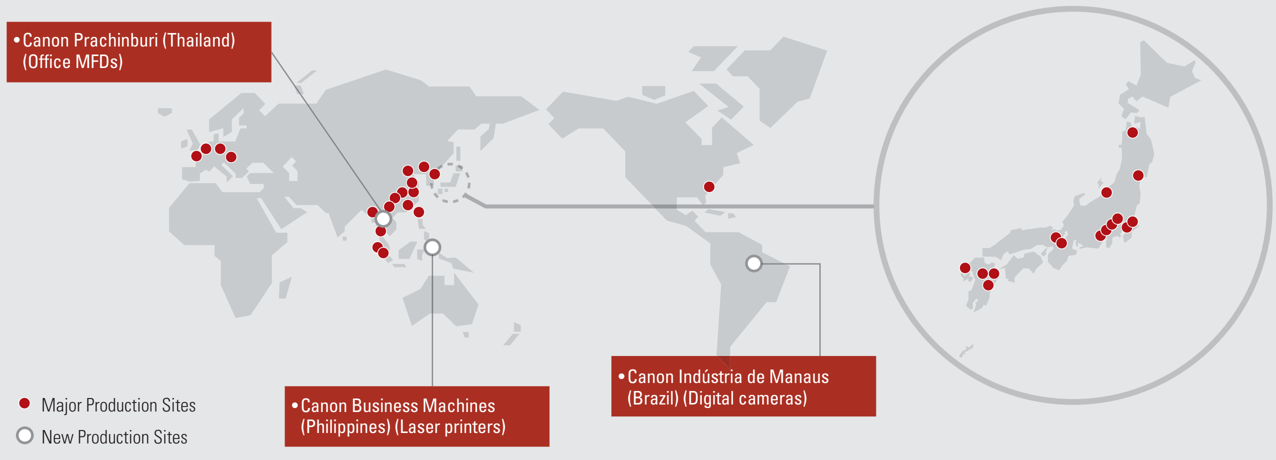
As part of our cost-reduction efforts, Canon is focusing on boosting in-house production and promoting automation.

With respect to increasing in-house production, we are identifying parts that account for high total purchasing costs with the aim of bringing the production of these items in-house. In 2013, for example, Canon Hi-Tech (Thailand) Ltd. began manufacturing printed circuit boards and, in the future, we also intend to expand in-house production to Canon Prachinburi (Thailand) Ltd. and Canon Vietnam Co., Ltd.

As for our efforts to promote automation, in 2013 we began deploying robots for the assembly of select EF lens units at our Utsunomiya Plant in Japan. As we realize additional enhancements for these systems to raise production capacity, we will further hone our automation technologies to make possible the automated assembly of cameras and lens bodies. In accordance with our production strategy for the future, in Japan, in addition to manufacturing high-value-added products, we will make use of our automation technologies to maintain and expand production. In the Americas and Europe as well, we will take advantage of automated production systems, mainly for consumables, to realize localized production. By shortening the distance from factory to market, we will be able to deliver products to consumers in a timely manner while reducing transportation costs and inventory in transit. In Asia, in addition to working to disperse the risk posed by concentrating production in a single location, we will enhance employee welfare programs and training systems to improve worker retention levels and raise productivity. In accordance with this strategy, in 2013 we established new companies in Thailand, the Philippines and Brazil, which have launched production of MFDs, laser printers and digital cameras, respectively, in addition to other products.

Based on a comprehensive evaluation of such factors as foreign exchange fluctuations, wages, taxation systems, infrastructure and country risk, Canon will continue striving to build a globally optimized production system from the perspective of total optimization.

Accelerate Cost Reduction by Expansion of New Production Sites



Strategy 4 — Comprehensively reinforcing global sales capabilities

As we see the economic scale of emerging nations, especially across Asia, exceeding that of developed countries, we are expanding and upgrading our sales networks and product lineups in accordance with the situation in each country. In China, in the roughly 350 cities with a population of one million or more, we are working to swiftly bolster our office equipment through the establishment of branches and offices. In India, we plan to increase the number of Canon-brand retail stores we have been rolling out in South and Southeast Asia from the current 108 locations to 300 by 2015, and will continue opening stores in other countries as well. In Brazil, meanwhile, we began local production of compact digital cameras in 2013, while in Russia we are making efforts to strengthen our sales capabilities. Additionally, in Africa, we have established Canon Kenya Limited.

As for developed countries, we are working to expand our market share by reinforcing online sales initiatives in the consumer segment, and enhancing our ability to respond to mass procurement orders from global clients in the office segment.

Strategy 5 — Building the foundations of an environmentally advanced corporation

In addition to fulfilling our social responsibilities to the natural environment, Canon aims to be a company that actively achieves corporate growth while protecting the environment. As we strive to raise the performance of our products, we develop energy-saving technologies and materials with low environmental burden to minimize our environmental impact and cut carbon dioxide emissions. In 2013, we focused our energies on developing and promoting MFDs with exceptional environmental performance, successfully achieving a year-on-year reduction in averaged life-cycle CO_2 emissions per product that exceeded our 3% target.

Additionally, in 1990, we launched our toner cartridge collection and recycling program and now carry out the localized recycling of cartridges in Japan, the United States, China and France. In 1996, we also started a collection service in Japan for used ink cartridges, and this program has since been expanded to include Asia, Oceania, North America and Europe.

Canon established Canon Kenya in January 2013 to capture demand in the fast-growing markets of eastern Africa and enhance its marketing and support structure.

Deleted due to portrait rights.

Canon recycles ink cartridges to minimize waste, collecting ink cartridges in ways that are convenient for customers and reusing recovered materials.

Strategy 6 Imparting a corporate culture, and cultivating human resources befitting a truly excellent global company

The global economic map is undergoing a major transformation in the wake of rapid advances in globalization and networking. In order to ensure that Canon develops as a truly excellent global company worthy of admiration and respect for 100, and even 200, years, we must have an exceptional global workforce capable of not only winning in the face of global competition but also delivering innovation.

At Canon sales companies around the world we already have many locally hired employees in upper management positions. In Europe, our largest regional market, the presidents of all of our sales companies are from the region. We will continue endeavoring to acknowledge and respond flexibly to the diversified value perspectives of local communities, respecting their cultures and customs. At the same time, we will foster and impart Canon's corporate culture of continuously embracing the challenge of innovation while nurturing global human resources who can excel on the world stage.

Managers from Group companies worldwide gather at the Canon Global Management Institute in Japan to study corporate strategies and engage in cross-cultural exchanges.

In Conclusion

The global economy seems to have bottomed out in 2013 and is expected to recover moderately in 2014 despite uncertainty about economic trends in emerging countries.

We have bolstered our defenses through the challenges we have faced while diligently making preparations to go on the offensive when the opportunity arises. In 2014, we aim to generate year-on-year increases in both sales and profit under a basic policy focusing on further reforms aimed at returning Canon to a growth track.

We have consistently transformed ourselves ahead of dramatic changes in the times and business environment, creating products that were the first of their kind in the world and that were No. 1 in their industries. Canon's history is a history of embracing challenges, and we believe that change is progress and transformation is advancement. We will call on our enterprising spirit and the San-Ji ("Three Selfs") Spirit that have been a part of our company since its founding, taking the initiative to transform ourselves once again and return to a path of growth.

We look forward to your continued understanding and support.

Fujio Mitarai
Chairman & CEO
Canon Inc.

AT A GLANCE

Business Units | **Main Products**

OFFICE BUSINESS UNIT


Office Multifunction Devices (MFDs)


Digital Production Printing Systems


Laser Printers


High Speed Continuous Feed Printers

- Office Multifunction Devices (MFDs)
- Laser Multifunction Printers (MFPs)
- Laser Printers
- Digital Production Printing Systems
- High Speed Continuous Feed Printers
- Wide-Format Printers
- Document Solution

IMAGING SYSTEM BUSINESS UNIT


Interchangeable Lens Digital Cameras


Digital Camcorders


Inkjet Printers


Broadcast Equipment

- Interchangeable Lens Digital Cameras
- Digital Compact Cameras
- Digital Camcorders
- Digital Cinema Cameras
- Interchangeable Lenses
- Inkjet Printers
- Large-Format Inkjet Printers
- Commercial Photo Printers
- Image Scanners
- Multimedia Projectors
- Broadcast Equipment
- Calculators

INDUSTRY AND OTHERS BUSINESS UNIT


Flat Panel Display (FPD) Lithography Equipment


Digital Radiography Systems

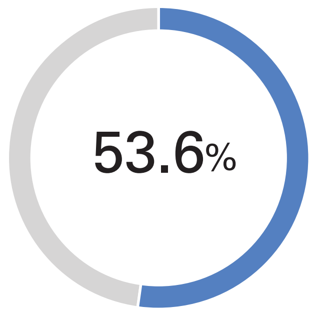

Semiconductor Lithography Equipment

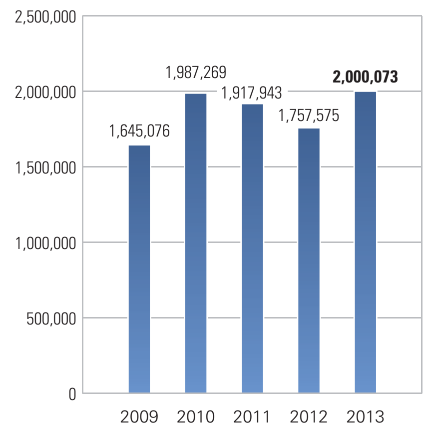

Network Cameras

- Semiconductor Lithography Equipment
- Flat Panel Display (FPD) Lithography Equipment
- Digital Radiography Systems
- Ophthalmic Equipment
- Vacuum Thin-Film Deposition Equipment
- Organic LED (OLED) Panel Manufacturing Equipment
- Die Bonders
- Micromotors
- Network Cameras
- Handy Terminals
- Document Scanners

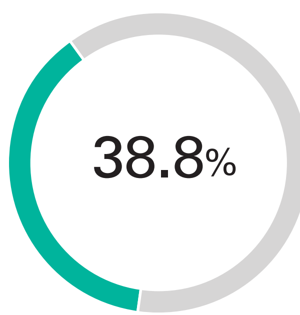
Outline | **Composition of Sales** *(%)* | **Net Sales** *(Millions of yen)*

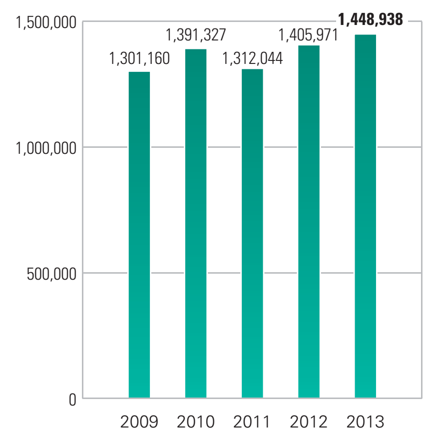
In this segment, Canon offers a comprehensive range of multifunction devices (MFDs), printers, and other equipment featuring high image quality, high resolution, and high speed. Leveraging these products, Canon works in close collaboration with various Group companies and alliance partners to deliver optimal solutions tailored to match the customer's business operations. These include various document solutions, such as office document management and the output of records. At the same time, the Company provides top-quality services and support in a swift and reliable manner.



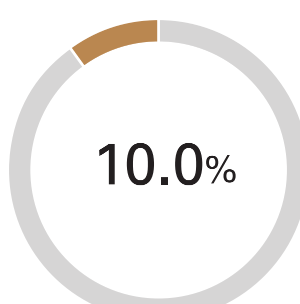


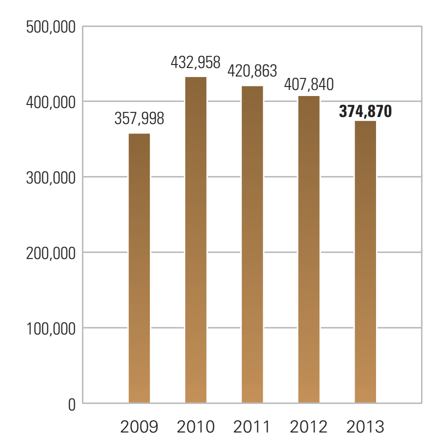
Canon's offerings in this segment include digital cameras, digital camcorders, digital cinema cameras, interchangeable lenses, inkjet printers, and calculators. Canon's digital cameras, digital camcorders and digital cinema cameras, designed to deliver unparalleled image quality, have earned particularly high acclaim worldwide, thanks to in-house developed lenses, CMOS image sensors, and image processors. Also widely popular are Canon's inkjet printers, which are easy to use and produce beautiful pictures at high speeds.





Applying optical technologies and image-processing technologies amassed over many years, Canon provides high-value-added products to a wide range of industries. The Company is already prominent globally as a manufacturer of flat panel display (FPD) lithography equipment and semiconductor lithography equipment. In addition, Canon is focusing on the medical equipment field - one of its next generation core businesses. The Company is aggressively promoting sales of its cutting-edge digital radiography systems and ophthalmic equipment, which employ Canon's highly regarded medical imaging technologies.



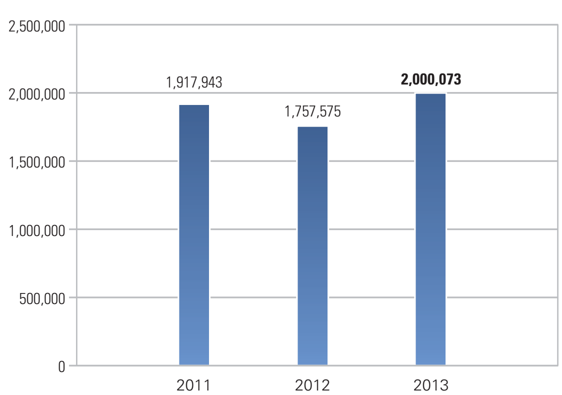


Note: The percentage figures for the three business units presented in the pie charts above do not add up to 100% because "Eliminations," used in consolidated accounting, were not included in calculation considerations.

OFFICE BUSINESS UNIT

Canon has expanded the functions of its office multifunction devices, which realize enhanced coordination with IT systems and are compatible with various types of system application software, offering an optimal usage environment for all sorts of document-related tasks.

Net Sales
(Millions of yen)



2013 Review

Amid the moderately growing market for office multifunction devices (MFDs), driven mainly by color models, we worked to increase sales in the area of MFDs and to expand the lineup of next-generation models of the imageRUNNER ADVANCE series with improved performance and increased functions. Our sales in the Americas struggled somewhat, whereas our unit sales in Japan, where demand was firm throughout the year, increased steadily. Moreover, sales performance in Europe and China was as strong as that of 2012. As a result, our office MFD sales outperformed the year 2012. While sales of color machines were generally robust in all geographic regions, sales of the imageRUNNER ADVANCE C5200 and C2200 series were particularly strong.

Digital production printing systems delivered solid sales performance in Asia and Oceania. The growth in unit sales of the imagePRESS C7010VP series in the Americas, in addition to orders received from large customers in Japan, contributed to the overall sales growth.

The imageRUNNER ADVANCE C2200 Series features models with improved operability, productivity and security that are designed to maximize ease of use.

The imagePRESS C7010VP delivers high-image-quality, high-precision printing that rivals offset printing, with a printing speed of up to 70 ppm for both color and monochrome output.

The Océ ColorStream 3000 Twin Series are high-speed, continuous-feed commercial printers for applications requiring high speed and high quality such as the printing of invoices, direct mail, etc. as demanded by the data print services (DPS) market.

As for Canon's laser multifunction printers (MFPs) and laser printers for small to mid-sized businesses, unit sales of color machines in the Americas and Europe increased, while overall unit sales surpassed the year of 2012.

In the area of OEM-brand laser multifunction printers and laser printers, both unit sales and sales revenue rose from the previous year as orders from OEM customers increased owing to the expansion of the market size for laser multifunction printers in the second half of the year.

Sales of high speed, continuous feed printers manufactured by Océ were strong particularly for the Océ ColorStream 3000 Twin series.

As a result of the above, sales for this business unit increased by 13.8% from the previous year, amounted to ¥2,000.1 billion on a consolidated basis.

2014 Initiatives

The market for MFDs is regaining strength, underpinned by upgraded product lineups and improved conditions in the solutions business. Canon will further improve image quality and other areas to become the overwhelming industry leader. We will also strengthen our market competitiveness by launching models powered by a new engine that delivers major cost-reduction benefits. To achieve growth in emerging markets, we will target steady increases in market share by working in close cooperation with Canon Finetech Inc., our consolidated subsidiary, and our sales companies.

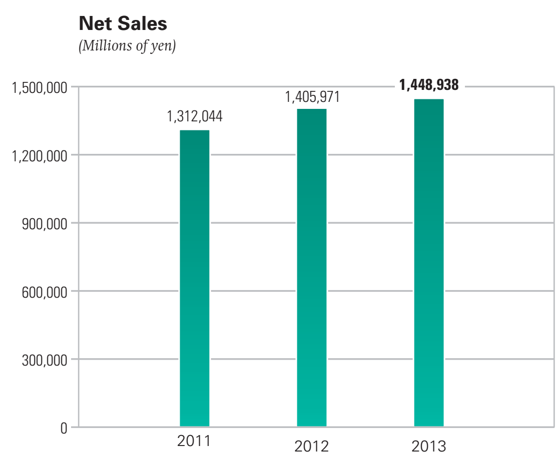
In the production printing market, we will seize the market trend of shift from offset printing to digital printing, with the aim of securing the No. 1 position in the commercial printing sector. We will also further penetrate the package printing market in order to grow our business.

With respect to laser printers, we will work to maintain and improve our overwhelming No. 1 market position by launching powerful products that offer great competitive advantages.

IMAGING SYSTEM BUSINESS UNIT

Deleted due to portrait rights.

Canon's digital SLR cameras, which use groundbreaking technology such as proprietary lenses, CMOS image sensors, and image processors, lead the world with their high image quality and contribute to sales.



2013 Review

As for interchangeable lens digital cameras area, although the market environment was difficult amid economic slowdowns in Europe and China, certain models such as EOS 5D Mark III and EOS Rebel T3i (EOS 600D in some areas) maintained strong performance. We also strived to increase sales by further expanding the product lineup including the launch of EOS 70D, which is equipped with an innovative AF technology called Dual Pixel CMOS AF, as well as EOS Rebel T5i (EOS 700D in some areas) and non-reflex camera EOS M2. As a result, although unit sales of interchangeable lens digital cameras were down from the previous year, we maintained our No.1 market share position in worldwide unit sales.

As for digital compact cameras, although total sales volume declined due to the market slowdown and the increasing popularity of smartphones, sales volume increased from the previous year for high-added-value models incorporating features that differentiate them from smartphones, such as large-size image sensors.

In the area of digital camcorders, we focused on the sales expansion of high value added products amid stagnation in global demand.

The EOS 70D, a digital SLR camera for advanced amateurs, features Canon's newly developed Dual Pixel CMOS AF autofocus technology that provides significantly improved AF performance during Live View shooting and when shooting movies.

The PIXMA MG7100 Series is designed for easy printing of photos and web pages even from smartphones or tablet PCs.

The imagePROGRAF iPF9400, a 60 inch large-format inkjet printer equipped with a 12-color ink system for the graphic arts industry, achieves high image quality, improved smooth color reproduction and boosted productivity.

Broadcast equipment delivered solid sales performance on the back of rising demand in emerging economies particularly China and the Middle East. Sales of DIGISUPER 95 and other field lenses for live sports broadcasts were brisk on a global basis.

As for inkjet printers, the overall market shrank as Asian and other emerging economies rapidly lost momentum. However, we launched new products designed to meet customer needs including PIXMA MG7100 series with improved cloud functions and smartphone compatibility while making sales expansion efforts for each model. As a result, our inkjet printer sales increased, supported also by the increase in sales volume of consumables. In addition, sales of both large-format inkjet printers and related consumables increased.

As a result of these efforts, sales for this business unit increased by 3.1% from the previous year to ¥1,448.9 billion on a consolidated basis.

2014 Initiatives

In the market for interchangeable lens digital cameras, Canon will concentrate on introducing highly appealing products that excel against the competition in terms of video recording functions, on top of basic performance. As for digital compact cameras, we will address the needs of people seeking to capture more beautiful images by developing revolutionary products and applications offering functions and enjoyment that smartphones cannot deliver.

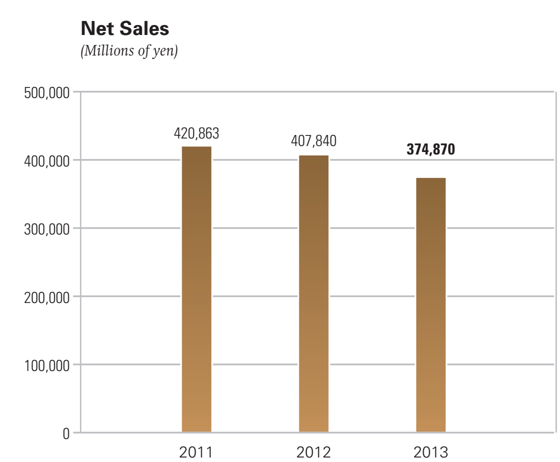
Through its Cinema EOS System, Canon will strive to become the top player in the motion picture industry. To this end, we will proactively address the needs of the news reporting and television content production markets, while offering solutions that incorporate peripheral equipment and 4K-resolution commercial-use displays.

In inkjet printers, we will target further expansion of market share by pursuing Canon's advantages, including connectivity with cameras, while also reinforcing our cloud-related capabilities. In addition, Canon will undertake active sales promotion for its DreamLabo commercial photo printers, such as web-based services offering photo merchandise with high image quality. As for large-format inkjet printers, we will expand and upgrade our lineup and step up sales of systems that deploy our color-matching technologies, with the aim of expanding overall sales.

INDUSTRY AND OTHERS BUSINESS UNIT

Deleted due to portrait rights.

Canon contributes to raising the bar for ophthalmic diagnosis precision through imaging technologies we have developed over the years. As we continue to focus on better image quality in a more compact design, we are always expanding our lineup of ophthalmic equipment in areas such as OCT devices capable of 3D scanning to support the diagnosis of retinal disorders that can lead to vision loss.



2013 Review

In relation to semiconductor lithography equipment, capital investment for memory devices was heading for recovery in the second half of the year after prolonged weakness. As a result, sales of FPA-5550iZ i-line steppers, which have been highly trusted for many years for their stable quality and operating rate, and FPA-6300ES6a KrF scanners, which have been received well due to high productivity, increased.

As for flat panel display (FPD) lithography equipment, as demand for high-resolution displays was increasing and the pace of increase in the use of liquid crystal display televisions in emerging economies was accelerating, investment in equipment used to manufacture large-sized panels started to show signs of recovery, and sales increased.

In medical equipment, new orders for portable products and new products equipped with non-generator connection mode contributed to sales increase in the area of digital radiography systems. In the area of ophthalmic equipment, sales of retinal cameras, measuring instruments and other products were strong. As a result, unit sales in both areas increased significantly.

As for network cameras, amid the trend for more

The FPA-5550iZ is an i-line stepper employing the FPA-5500 platform with proven high performance and reliability, which enables high throughput such as short exposure time through a high-acceleration wafer stage.

The CR-2 Plus AF is a digital non-mydriatic retinal camera with fundus auto-fluorescence photography mode, and features four automatic functions, auto-fundus, auto-focus, auto-capture and automatic exposure function, for easier and faster eye examinations.

The Network Camera lineup offers advanced-function models, capable in various situations, including a palm-sized full HD-model and a model for low-light conditions, which demonstrates its ability to monitor at night.

digitization and larger numbers of pixels and corresponding market expansion, we streamlined our business organization to enable us to speedily respond to such developments, while promoting the sales particularly those of full HD compatible products. As a result, in the area of high image quality products, our sales grew at a higher pace than the market.

Sales of document scanners manufactured by Canon Electronics Inc. increased, helped by brisk sales in the Americas and Europe.

Sales of semiconductor film deposition equipment manufactured by Canon ANELVA Corporation, organic LED (OLED) panel manufacturing equipment manufactured by Canon Tokki Corporation, and FA systems and semiconductor manufacturing equipment manufactured by Canon Machinery Inc. were all sluggish due to the weak appetite for capital investment by corporate customers.

As a result of the above, sales for this business unit decreased by 8.1% on a consolidated basis to ¥374.9 billion.

2014 Initiatives

Canon will strive to establish a solid foundation for its medical equipment business. In digital radiography systems, we will emphasize wireless connectivity and dynamic imaging, and in ophthalmic equipment we will focus on high-value-added offerings, such as optical coherence tomography (OCT) devices.

In addition, Canon will target mass production of DNA diagnostic systems. We will also promote clinical evaluation into photoacoustic mammography technologies to enable swifter detection and more accurate diagnoses of breast cancer than before.

In the optical product field, Canon will work to enhance its technological capabilities in next-generation semiconductor lithography equipment in order to capture a large market share in the future. We will also target the No. 1 market position in FPD lithography equipment by launching new products to follow our high-definition two-micron models.

The market for network cameras is expected to grow 20% or higher annually in the future. In response, Canon will seek the most effective customers among the broad range of potential users, from governments to convenience stores, with the aim of building a solid track record of our solutions.

2013 TOPICS

OFFICE BUSINESS UNIT

imageRUNNER ADVANCE C9280 PRO, EPEAT Gold rated

imageRUNNER ADVANCE Series Receive EPEAT Gold Rating

In the new digital imaging equipment category of EPEAT®, eight models in Canon's imageRUNNER ADVANCE series received an EPEAT Gold rating, the highest level of registration*. EPEAT is an environmental rating system, established to develop markets and encourage sales for greener electronics. Its approval is a prerequisite of the U.S. federal offices' procurement.

To be added to the EPEAT registry, an imaging device must meet at least 33 required environmental performance criteria, including reduction or elimination of toxic substances and energy conservation features. Products may achieve higher ratings by meeting some or all of 26 additional optional criteria. Gold qualification signifies that a product meets all required criteria and at least 75% of optional criteria. Canon will actively embrace EPEAT-related initiatives, inform consumers of environmental criteria as well as measure and reduce environmental impacts. At the same time, we will deliver products that meet environmental standards.

* As of December 31, 2013. For more information, please refer to the EPEAT website (http://www.epeat.net)

IMAGING SYSTEM BUSINESS UNIT

Cinema EOS System equipment was used to capture video of the comet ISON

Cinema EOS System Captures Video of Comet ISON

On November 23, 2013, an ultra-high-sensitivity 4K camera was used to successfully capture video of the comet ISON from the International Space Station. In a world-first achievement, Canon's Cinema EOS System was used to record the astronomical phenomenon. ISON was unique in that, among the many large comets that have passed through the solar system in recent years, none had traveled so close to the sun and thus be readily observable from earth. Accordingly, expectations were high that ISON would provide earthbound stargazers with a rare performance that would not likely be repeated anytime soon. After the video was shot, however, the comet is believed to have largely broken up and evaporated, meaning that it will no longer be visible in the night sky. The clear video images of the rare comet captured by the Cinema EOS System, therefore, will likely prove of high value to the scientific community.

Having already earned plaudits from Hollywood professionals and others working in the motion picture production industry, the Cinema EOS System's latest out-of-this-world achievement raises the realm of imaging expression to an all-new height.

IMAGING SYSTEM BUSINESS UNIT

PIXMA MG7100 series
*Color variations may differ by region.

New Canon PIXMA MG7100 Series Delivers Enhanced Connectivity to Cloud Services as well as Smartphones and Tablet Devices

Canon launched its PIXMA MG7100 series of inkjet printers, which support the New PIXMA Cloud Link to allow accessing directly from smartphones and tablet devices. New PIXMA Cloud Link enables access to various cloud services for printing from SNS (Social Networking Service) sites and online photo-sharing and storage-service sites, as well as Canon-original print content. Users can easily print out photos and documents stored in cloud-based services. The new PIXMA Print application for smartphones and tablet devices enables easy operation when away from home via an Internet connection.

For high printing quality, our six-color ink system incorporates dye-based ink for vivid and beautiful photos, which realizes rich expression and color stability resulted from using gray ink, and pigment-based black ink for clear, easy-to-read texts in documents.

INDUSTRY AND OTHERS BUSINESS UNIT

CXDI Wireless Series

Expanding the CXDI Wireless Digital Radiography Systems Lineup

Canon has been expanding and upgrading its lineup of digital radiography (DR) systems, which can be used for imaging various body parts from limbs to abdomen, chest and head. We focus on wireless models that capture images without a connection with an X-ray generator. The Canon CXDI-701C Wireless DR system, featuring a non generator connection mode, was released in 2013.

Compared with conventional analogue technologies, DR systems are able to display preview images much more quickly. Due to its high efficiency, DR systems are becoming increasingly widespread in the medical field. Moreover, models with the non generator connection mode do not need to synchronize signals with an X-ray generator, thus providing them more freedom and versatility to their image-capture process. Furthermore, such devices can be easily integrated into existing X-ray systems without making significant changes to their configurations.

DR systems employ a scintillator that converts X-rays into visible light, and a flat-panel sensor to directly pick up the light to generate an image, enabling images to be displayed instantly.

CORPORATE GOVERNANCE

Canon maintains sound corporate governance as part of efforts to maximize its stockholders' value and become a truly excellent global corporation.

Basic Policy and Corporate Governance Structure

Canon recognizes that management supervision functions and management transparency are vital to strengthening its corporate governance and further raising corporate value. Canon's basic governance structure comprises the General Meeting of Shareholders, the Board of Directors and the Audit & Supervisory Board. Furthermore, the Executive Committee and management committees are dedicated to addressing key issues. All of these bodies work together to ensure the appropriate management of the Group through an internal auditing structure underpinned by the Corporate Audit Center and an information disclosure system for management activities.

Board of Directors

Important business matters are discussed and ratified during meetings of the Board of Directors and Executive Committee. As of March 28, 2014, the board consisted of 19 directors, including two outside directors. In order to facilitate more practical and efficient decision making, the board is mostly composed of internal directors who have well-developed knowledge of the Company's affairs. In addition, Canon has outside directors so as to take various opinions on their broad experiences and insight in their respective fields of expertise in management's decision-making process.

At a monthly meeting of all company executives, CEO provides updates on earnings progress and important matters to implement in the future as a way to share crucial information.

Executive Officer System

Canon is endeavoring to realize more flexible and efficient management operations by maintaining an appropriately sized organization of directors and promoting capable human resources with accumulated executive knowledge across specific business areas.

Executive officers are appointed and dismissed by the

Directors and Audit & Supervisory Board Members *(as of April 1, 2014)*

Chairman & CEO

Fujio Mitarai

Executive Vice President & CFO

Toshizo Tanaka
Group Executive, Finance & Accounting Headquarters
Group Executive, Facilities Management Headquarters
Group Executive, Human Resources Management & Organization Headquarters

Executive Vice President & CTO

Toshiaki Ikoma
Group Executive, Corporate R&D
Group Executive, Medical Equipment Group

Senior Managing Directors

Yoroku Adachi
Chairman & CEO, Canon U.S.A., Inc.

Yasuo Mitsuhashi
Chief Executive, Peripheral Products Operations

Shigeyuki Matsumoto
Group Executive, Device Technology Development Headquarters

Toshio Homma
Group Executive, Procurement Headquarters

Hideki Ozawa
President & CEO, Canon (China) Co., Ltd.

Masaya Maeda
Chief Executive, Image Communication Products Operations

Directors

Yasuhiro Tani
Group Executive, Digital System Technology Development Headquarters

Kenichi Nagasawa
Group Executive, Corporate Intellectual Property & Legal Headquarters

Naoji Otsuka
Chief Executive, Inkjet Products Operations

Masanori Yamada
Group Executive, Network Visual Solution Business Promotion Headquarters

Aitake Wakiya
Deputy Group Executive, Finance & Accounting Headquarters

Kazuto Ono
Group Executive, Corporate Planning Development Headquarters

Akiyoshi Kimura
Chief Executive, Office Imaging Products Operations

Eiji Osanai
Group Executive, Production Engineering Headquarters

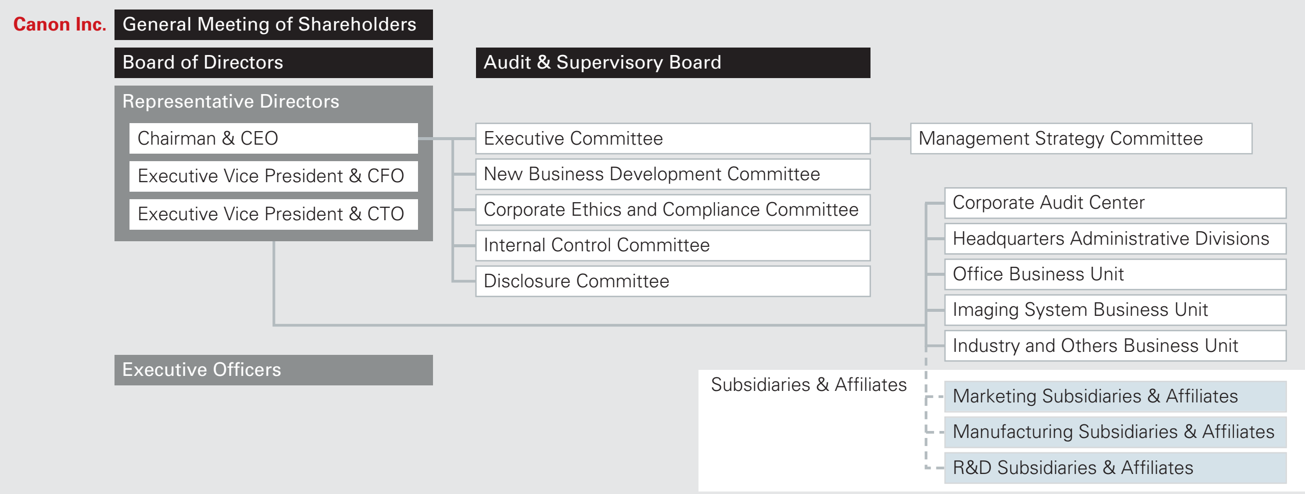
Kunitaro Saida *(Outside)*
Attorney

Haruhiko Kato *(Outside)*
President & CEO of Japan Securities Depository Center, Inc.

Audit & Supervisory Board Members

Kengo Uramoto
Makoto Araki
Tadashi Ohe *(Outside)*
Osami Yoshida *(Outside)*
Kuniyoshi Kitamura *(Outside)*

Governance Structure *(as of April 1, 2014)*



Board of Directors and have a term of office of one year. The number of executive officers was 17 as of April 1, 2014.

Audit & Supervisory Board

Canon has five members on the Audit & Supervisory Board, including three outside corporate auditors who have no personal, capital or business affiliations with the Company. Audit & Supervisory Board members' duties include attending meetings of the Board of Directors and of the Executive Committee, listening to business reports from directors, carefully examining documents related to important decisions and conducting strict audits of the Group's business and assets. Audit & Supervisory Board members also work closely with our independent registered public accounting firm and the Corporate Audit Center. Canon has notified the stock exchanges in Tokyo, Nagoya, Fukuoka and Sapporo of the designation of outside directors and members of the Audit & Supervisory Board as independent directors and auditors, as provided under the regulations of the stock exchanges.

Internal Audits

The Corporate Audit Center—the Company's internal auditing arm—as a separate dedicated organization conducts audits and evaluations and provides guidance on every business without exception, including the Group companies in Japan and abroad, in line with the internal audit guidelines. It reports the auditing results directly to the Audit & Supervisory Board, the management top, to improve operations. As of March 28, 2014, the Center had 71 members, and will enhance the structure to reinforce the auditing functions.

Internal Control Committee

In response to the Sarbanes-Oxley Act, including Section 404, which came into force during 2006, Canon continues to reinforce internal control systems and implement appropriate measures. The Internal Control Committee is responsible for Groupwide internal controls, including securing credibility of financial reporting.

In order to strengthen internal controls, Canon conducts comprehensive evaluations of internal controls across areas that include accounting, management oversight, legal compliance, IT systems and the promotion of corporate ethics. As of December 31, 2013, internal control over financial reporting has been assessed as effective by management and our independent registered public accounting firm. (Please refer to pages 93 and 95.)

Compliance

Shortly after its founding, Canon established the San-ji ("Three Selfs") Sprit principles: "self-motivation," or taking

At Group companies worldwide, employees carry with them compliance cards.

the initiative and being proactive in all things; "self-management," or conducting oneself responsibly and being accountable for all one's actions; and "self-awareness," or understanding one's situation and role in it. In 2001, Canon established the Canon Group Code of Conduct, inspired by the above Three Selfs. The Code has been translated into 13 languages from Japanese and each Group company makes efforts to enforce the Code.

Detailed policies and measures concerning the compliance activities of Canon are decided at the Corporate Ethics and Compliance Committee. With management by the Compliance Office, these policies and measures are mainly carried out by compliance leaders at each headquarters and Group company.

Disclosure

Canon makes every effort to disclose information on its management and business strategies as well as its performance results to all stakeholders in an accurate, fair and timely manner. To this end, Canon holds regular briefings and posts the latest information on its website together with a broad range of disclosure materials.

Canon has formulated its own Disclosure Guidelines and established the Disclosure Committee, which makes decisions regarding information disclosure, including necessity, content and timing. The Disclosure Committee makes such decisions after receiving reports on information that might need to be disclosed from the person in charge of the disclosure working group at each headquarters.

Significant Differences in Corporate Governance Practices between Canon and U.S. Companies Listed on the NYSE

Section 303A of the New York Stock Exchange (the "NYSE") Listed Company Manual (the "Manual") provides that companies listed on the NYSE must comply with certain corporate governance standards. However, foreign private issuers whose shares have been listed on the NYSE, such as Canon Inc. (the "Company"), are permitted, with certain exceptions, to follow the laws and practices of their home country in place of the corporate governance practices stipulated under the Manual. In such circumstances, the foreign private issuer is required to disclose the significant differences between the corporate governance practices under Section 303A of the Manual and those required in Japan. A summary of these differences as they apply to the Company is provided below.

1. Directors

Currently, the Company's board of directors does not have any director who could be regarded as an "independent director" under the NYSE Corporate Governance Rules for U.S. listed companies. Unlike the NYSE Corporate Governance Rules, the Corporation Law of Japan (the "Corporation Law") does not require Japanese companies with the Audit & Supervisory Board such as the Company, to appoint independent directors as members of the board of directors. The NYSE Corporate Governance Rules require non-management directors of U.S. listed companies to meet at regularly scheduled executive sessions without the presence of management. Unlike the NYSE Corporate Governance Rules, however, the Corporation Law does not require companies to implement an internal corporate organ or committee comprised solely of independent directors. Thus, the Company's board of directors currently does not include any non-management directors.

The Company currently has two outside directors under the Corporation Law. Under the Corporation Law, an "outside" director is any person who is not, and was not at any time during the past, an executive director (a director who engages in the execution of business), executive officer, manager or employee of the Company or its subsidiaries. Such qualifications for an "outside" director are different from the director independence requirements under the NYSE Corporate Governance Rules.

In addition, pursuant to the regulations of the Japanese stock exchanges, the Company is required to have one or more "independent director(s)/audit & supervisory board member(s)," defined under the relevant regulations of the Japanese stock exchanges as "outside directors" or "outside audit & supervisory board members" (as defined under the Corporation Law), who are unlikely to have any conflicts of interests with the Company's general shareholders. Each of the outside directors of the Company satisfies the "independent director/audit & supervisory board member" requirements under the regulations of the Japanese stock exchanges. The definition of "independent director/audit & supervisory board member" is different from that of the definition of independent director under the NYSE Corporate Governance Rules.

2. Committees

Under the Corporation Law, the Company may choose to:
(i) have an audit committee, nomination committee and compensation committee and abolish the post of the Audit & Supervisory Board Members; or
(ii) have the Audit & Supervisory Board.

The Company has elected to have the Audit & Supervisory Board, whose duties include monitoring and reviewing the management and reporting the results of these activities to the shareholders or board of directors of the Company. While the NYSE Corporate Governance Rules provide that U.S. listed companies must have an audit committee, nominating committee and compensation committee, each composed entirely of independent directors, the Corporation Law does not require companies to have specified committees, including those that are responsible for director nomination, corporate governance and executive compensation.

The Company's board of directors nominates candidates for directorships and submits a proposal at the general meeting of shareholders for shareholder approval. Pursuant to the

Countering Antisocial Forces

Canon has formulated a basic policy stipulating that no Canon Group company shall maintain relationships of any kind with antisocial forces that represent a threat to social order and security. To uphold this basic policy, Canon has established a department dedicated to activities aimed at countering such parties while reinforcing cooperative ties with applicable public authorities. In addition, Canon's Employment Regulations include a clause prohibiting such relationships, and the Company continues to step up efforts to ensure strict employee adherence.

Risk Management

As Canon pursues business expansion in various fields on a global scale, the business and other risks to which it may be exposed continue to diversify. With the goal of eliminating such risks altogether, while honoring the trust placed in it by its stakeholders, Canon works diligently to avoid or minimize its exposure, to this end assigning specifically designated management committees to address key issues.

In particular, the Executive Committee and various management committees engage in careful discussions regarding significant risk factors. The Corporate Audit Center preemptively identifies risk factors through audit activities. Also, Canon formulates in-house rules to guard against those risks and, in accordance with the policies formulated by the Internal Control Committee, strives to identify and assess relevant risks associated with individual business processes.

Corporation Law, the shareholders then vote to elect directors at the meeting. The Corporation Law requires that the total amount or calculation method of compensation for directors and Audit & Supervisory Board Members be determined by a resolution of the general meeting of shareholders respectively, unless the amount or calculation method is provided under the Articles of Incorporation. As the Articles of Incorporation of the Company do not provide an amount or calculation method, the amount of compensation for the directors and the Audit & Supervisory Board Members of the Company is determined by a resolution of the general meeting of shareholders. The allotment of compensation for each director from the total amount of compensation is determined by the Company's board of directors, and the allotment of compensation to each Audit & Supervisory Board Member is determined by consultation among the Company's Audit & Supervisory Board Members.

3. Audit Committee

The Company avails itself of paragraph (c)(3) of Rule 10A-3 of the Security Exchange Act, which provides that a foreign private issuer which has established the Audit & Supervisory Board shall be exempt from the audit committee requirements, subject to certain requirements which continue to be applicable under Rule 10A-3.

Pursuant to the requirements of the Corporation Law, the shareholders elect the Audit & Supervisory Board Members by resolution of a general meeting of shareholders. The Company currently has five Audit & Supervisory Board Members, although the minimum number of Audit & Supervisory Board Members required pursuant to the Corporation Law is three.

Unlike the NYSE Corporate Governance Rules, Japanese laws and regulations, including the Corporation Law, do not require the Audit & Supervisory Board Members to be experts in accounting or to have any other area of expertise. Under the Corporation Law, the Audit & Supervisory Board may determine the auditing policies and methods for investigating the business and assets of a Company, and may resolve other matters concerning the execution of the Audit & Supervisory Board Member's duties. The Audit & Supervisory Board prepares auditors' reports and may veto a proposal for the nomination of the Audit & Supervisory Board Members, accounting auditors and the determination of the amount of compensation for the accounting auditors put forward by the board of directors.

Under the Corporation Law, the half or more of a company's Audit & Supervisory Board Members must be "outside" Audit & Supervisory Board Members. These are individuals who are prohibited to have ever been a director, executive officer, manager, or employee of the Company or its subsidiaries. The Company's current Audit & Supervisory Board Member system meets these requirements. In addition, pursuant to the regulations of the Japanese stock exchanges, the Company is required to have one or more "independent director(s) or independent Audit & Supervisory Board Member(s)" which terms are defined under the relevant regulations of the Japanese stock exchanges as "outside directors" or "outside Audit & Supervisory Board Members" (each of which terms is defined under the Corporation Law) who are unlikely to have any conflict of interests with shareholders of the Company.

Among the five members on the Company's board of auditors, three are outside Audit & Supervisory Board Members. In addition, all such three outside Audit & Supervisory Board Members are also qualified as independent Audit & Supervisory Board Members under the regulations of the Japanese stock exchanges.

The qualifications for an "outside" or "independent" Audit & Supervisory Board Member under the Corporation Law or the regulations of the Japanese stock exchanges are different from the audit committee independence requirement under the NYSE Corporate Governance Rules.

4. Shareholder Approval of Equity Compensation Plans

The NYSE Corporate Governance Rules require that shareholders be given the opportunity to vote on all equity compensation plans and any material revisions of such plans, with certain limited exceptions. Under the Corporation Law, a Company is required to obtain shareholder approval regarding the stock options to be issued to directors and Audit & Supervisory Board Members as part of remuneration of directors and Audit & Supervisory Board Members.

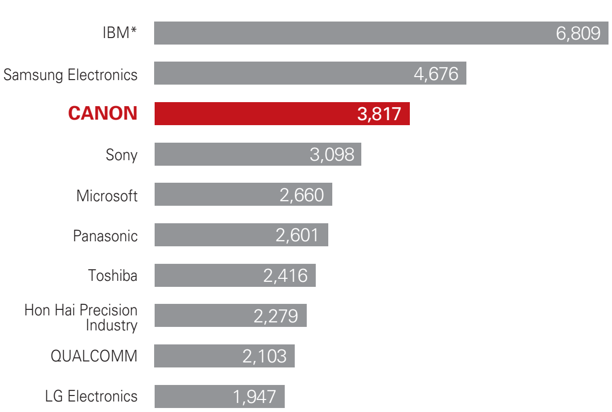
RESEARCH & DEVELOPMENT

Deleted due to portrait rights.

The computational imaging technology combines two techniques: a technique of acquiring subject fields information (images, 3D shapes, motions and materials of objects in them) and another technique of reconstruction new images based on the information. Canon is continuously working to realize new visual expression.

Seeking new possibilities, Canon is establishing an R&D structure spanning Japan, the United States and Europe under the Three Regional Headquarters management system. At the same time, Canon will develop the medical and industrial fields into new business pillars.

2013 Top Ten U.S. Patent Holders by Company



*IBM is an abbreviation for International Business Machines Corporation.

Source: U.S. Department of Commerce; based on weekly total numbers

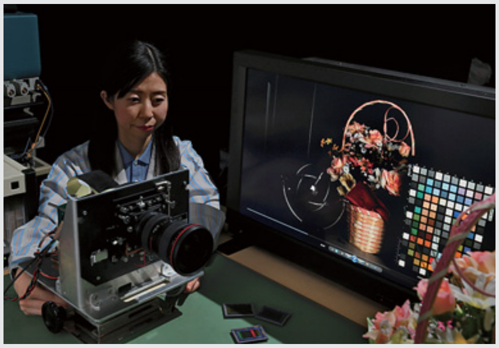
Upgrading Our Global R&D Structure

Canon's growth to date has been attributable to employing strong technologies to develop competitive products, mainly in Japan, and then disseminating those offerings around the world. Going forward, the Company will expand and upgrade its R&D organizations in the United States and Europe, laying the foundation for the Three Regional Headquarters system that Canon envisions.

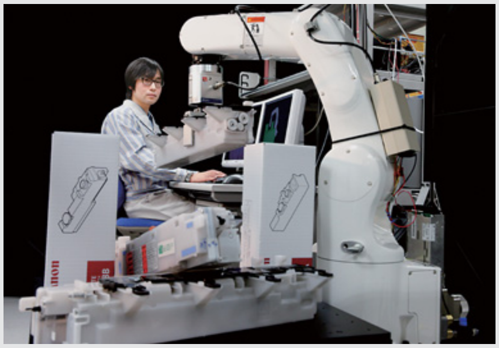
In the United States, Canon will set up centers to pursue activities ranging from research into fundamental technologies in healthcare and other new business fields to the application of cutting-edge technologies. In Europe, we will step up R&D in new business fields, spearheaded by existing R&D facilities.

R&D Expenses and Patents

Canon is bolstering R&D activities to enable the ongoing development of innovative products and services. In the year under review, R&D expenses amounted to ¥306.3 billion, up 3.3%, or ¥9.9 billion, from the previous year. The ratio of R&D expenses to net sales was 8.2%. By segment, the Company allocated ¥105.2 billion (34.3% of total R&D expenses) to the Office Business Unit, ¥84.4 billion (27.6%) to the Imaging System Business Unit, and ¥25.7 billion (8.4%) to the Industry and Others Business Unit. Basic R&D expenses not allocated to specific business units amounted to ¥91.0 billion (29.7%). This focus on R&D activities has



Canon built a super high-sensitivity, 35 mm full-frame CMOS sensor prototype that can capture images of things not visible to the naked eye and has demonstrated its capability in exceptionally low-brightness shooting.



Canon has integrated high-precision machine vision technology with information technology to develop intelligent robots that think and act on their own accord. This is one of many areas in which Canon has applied these technologies.

cemented Canon's high status in the field of intellectual property. In 2013, Canon was granted 3,817 patents in the United States, ranking it third in the world and the top-ranked Japanese company for a ninth consecutive year.

Reinforcing Core Technologies

Canon is concentrating efforts on pre-competitive fields, involving research that can take more than ten years. At the same time, the Company is continually bolstering activities centered on key parts and key devices in order to enhance the competitiveness of its products. In 2013, Canon successfully developed a high-sensitivity 35 mm full-frame CMOS sensor exclusively for Full HD video capture. The current limit for recording video of astral bodies with a commonly used electron-multiplying CCD sensor is magnitude-6 stars (equivalent to the visual capabilities of the naked eye). By comparison, the high-sensitivity CMOS sensor was able to capture video images of faint stars with magnitudes of 8.5 and higher.* In addition to astronomical and natural observation, Canon is looking into applying this CMOS sensor to medical research purposes as well as surveillance and crime-prevention equipment. Through the further development of innovative CMOS sensors, Canon aims to expand the realm of photographic possibilities while cultivating the world of visual expression.

* The brightness of a star decreases 2.5-times with each numerical increase in magnitude.

Medical and Industrial Equipment

Canon is working to establish two new business pillars: medical equipment and industrial equipment.

In medical devices, for some years Canon has been involved in the "CK Project" in collaboration with Kyoto University. Under the project, two of our technologies are currently at the clinical evaluation stage. One relates to a photoacoustic mammography device capable of diagnosing breast cancer more accurately than before, with minimal bodily impact during examination. The other relates to adaptive optics scanning laser ophthalmoscopy (AO-SLO), which contributes to the examination of the retina at the cellular level and the early detection of lifestyle-related diseases.

Furthermore, Canon is developing DNA diagnostic systems using Canon's unique technologies, including our expertise in CMOS sensor and inkjet methodologies, at our U.S. R&D Center. We aim to start the production from 2015 at Canon Virginia. If realized, the equipment will be the first Canon product born in the U.S.

In the industrial equipment field, Canon is working to develop intelligent robots and other systems through cutting-edge application technologies by integrating high-precision machine vision technology with information technology that operates as the brains of robotic systems. Canon is proceeding with R&D of these application technologies with a view to use them beyond intelligent robots in fields like risk prediction and the support and care of senior citizens.

PRODUCTION

Canon works to maintain and expand production, using our automation technologies while manufacturing high-value-added products in Japan. (the Utsunomiya Plant, Japan)

In addition to establishing a globally optimized production system, Canon seeks improved quality and productivity by putting a priority on conducting production operations itself to ensure the progress of its manufacturing expertise.

Belief in "Internal Production"

In-House Production	Automation	Man-Machine Cell
• Cost Reduction • Product Differentiation • Technology Protection • Production Flexibility • Lead Time Reduction • Quality Improvement	• Production Efficiency Improvement • Localized Production	• Production Efficiency Improvement • Cost Reduction from Design Phase • Lead Time Reduction • Further Automation
Internal Production		

Establishing a Globally Optimized Production System

Canon aims to establish a globally optimized production system that identifies the most suitable locations for the production of individual products based on a comprehensive assessment of various considerations. These factors include cost, taxation, logistics, the ease of parts procurement, and the workforce in each country and region. An optimized system will lead to additional improvements in productivity for the entire Canon Group.

In Thailand, Philippines, and Brazil, three manufacturing subsidiaries started operations in 2013. In this way, we are reinforcing our production system globally to meet growing demand for our products.

Improving Productivity

Canon continues to expedite production in optimal locations. At the same time, by putting a priority on conducting production operations in-house, we proceed to raise quality and reduce costs through progress in manufacturing by making full use of the expertise and insights of individual workers engaged in production. To this end, the Company has adopted a cell production

“Man-machine cells” production systems integrate processes where robots excel with processes that can only be performed by people to sharply enhance the productivity of cell production systems, enabling further improvement in quality and productivity. (Canon Hi-tech (Thailand) Ltd.)

Canon promotes local production for local consumption, mainly of consumables, using automation. We work to lower transport costs and reduce in-transit shipments and inventories as well as to enhance speed-to-market timeliness by shortening the distance to key markets. (Canon Virginia, Inc.)

system—an approach that fully utilizes the creativity of individual workers. Canon continues to improve productivity by making efforts to increase production efficiencies in cell production while rolling out “man-machine cell” production systems that integrate manual and automated processes.

For some time, Canon has prioritized in-house manufacturing, especially of image sensors and other key parts. At present, we are broadening this strategy to include molds and production equipment, as well as automation of production itself. In the United States, for example, we have implemented a business model for toner cartridges that incorporates everything from automated production to sales, collection, and recycling in the region of consumption of our products, and we plan to apply this model in Europe as well. In Japan, moreover, we introduced automated equipment in part of the assembly process for interchangeable lenses for digital SLR cameras, which requires a high degree of precision, in 2013. In addition to creating high-value-added products, Canon will expedite efforts to raise productivity in order to strengthen the cost-competitiveness of manufacturing products in Japan.

Meanwhile, by implementing IT innovations that link development, design, production, logistics, and sales and seek to achieve further efficiencies, Canon aims to establish advanced supply chain management that is capable of withstanding fluctuations in demand.

Environmental Friendly Manufacturing; Enhanced Product Quality

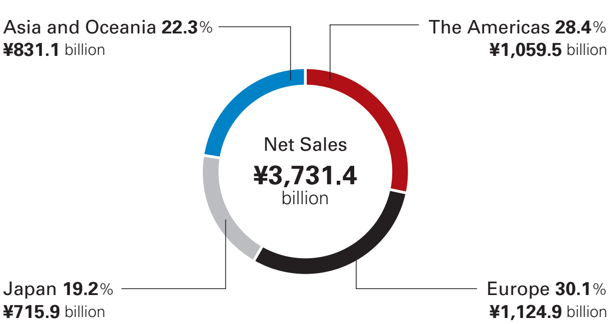
In addition to efforts aimed at boosting productivity, Canon promotes manufacturing operations that are friendly to the global environment while striving to improve overall product quality. With respect to manufacturing, we prioritize purchases of environmentally friendly products and parts and actively shift to transportation modes that have minimal environmental impact. To offer customers products that are safe while also providing trust and satisfaction, we implement stringent quality control measures at every process, from planning, development, procurement, and production to sales and after-sales service, based on our basic concept of quality, “no trouble, no claims.”

SALES & MARKETING

Canon (China) Co., Ltd. has held "Canon Grand Fairs," targeting the market of the country's 1.3 billion consumers including general consumers, to further spread and improve the Canon brand. The first fair was run in September 2012 and until March 2014 it was carried out in Beijing, Chengdu and Guangzhou.

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

Composition of Sales by Region



General Review

In all existing core businesses, Canon is strengthening its sales, marketing, and service capabilities by responding to actual conditions based on analyses of the features of each region.

In 2013, Canon sought to enhance its sales organization in China and cultivate that market further. We also focused on upgrading our sales networks in India, Russia, South America, and other emerging markets.

In the office equipment sector, we reinforced our solutions capabilities centered on the imageRUNNER ADVANCE series while further strengthening our business targeting the commercial printing sector through the integration of Océ. We also reinforced the Global Major Account activities to provide worldwide support for elite clients developing their operations globally.

For consumers, we worked to boost sales by launching products tailored to the market needs of specific countries and regions.

Japan

In the year under review, sales in Japan amounted to ¥715.9 billion, equivalent to 19.2% of consolidated net sales.

Thanks to proactive marketing, Canon maintained its No.1 position in the interchangeable lens digital camera market, with record-high shipments of both cameras

With the completion of a new headquarters with total floor space of 65,000 m^2, Canon U.S.A., Inc. has been transformed from a regional marketing company into a developer, manufacturer and marketer of products not available in Japan, and is going to create new value.

Deleted due to portrait rights.

Canon installed a Camera Service Center during IAAF World Championships Moscow 2013, providing world class service and technical support for professional photographers behind the scenes.

and lenses. We also made full use of the Nishi-Tokyo Data Center, which opened in 2012 and features state-of-the art facilities and security systems. In addition to stepping up data center services, we focused on expanding other outsourcing offerings, including cloud services aimed at enhancing competitiveness and addressing managerial problems and system administration services to support stable operation of systems.

The Americas

Sales in the Americas came to ¥1,059.5 billion, 28.4% of consolidated net sales.

For Canon Americas, 2013 was a year for upgrading its capabilities, in which we completed construction of our regional headquarters building in Melville, New York, and we commenced operations at a camera production facility in Brazil, our first manufacturing foray into South America. We also established Canon Solutions America, Inc. and completed integration of the sales networks for Canon and Océ products. Now, we have a continuous system from product sales to solutions services and after-sales support. This provided a major impetus to cross-selling of various offerings, including office multifunction devices, production printers, and large-format printers.

Europe (Europe, Middle East, Africa)

In Europe sales amounted to ¥1,124.9 billion (30.1% of consolidated net sales).

In 2013, under challenging economic circumstances, Canon Europe maintained and increased market share in key segments such as cameras, consumer inkjet and production printing.

Canon's acquisition of Belgium-based solutions specialist I.R.I.S. Group in 2013 was an important milestone in the strategy to accelerate growth in services and solutions. New Canon-Océ cross-selling opportunities with Canon Business Services also contributed to growth.

Canon Europe strengthened its sales and marketing functions in emerging markets, with increased presence in Africa.

Asia and Oceania

In 2013, sales in Asia and Oceania amounted to ¥831.1 billion, 22.3% of consolidated net sales.

Canon China held the Canon Grand Fair in Chengdu to further improve the company's brand image in the Midwestern market that has future growth potential. In South and Southeast Asia, we promoted establishing Canon "Image Square" brand retail stores and opened the 108th outlet in India and the second one in Vietnam.

In Oceania, we stepped up sales in New Zealand and worked to expand our solutions business.

CORPORATE SOCIAL RESPONSIBILITY

Deleted due to portrait rights.

Canon Vietnam Co., Ltd. continues the Canon Friendship School Chain Project. A program designed to establish educational environments for children living in economically disadvantaged areas. We are building new schools, enlarging or renovating old schools and furnishing them with donated desks, chairs, book shelves, and other items.

Canon is promoting CSR activities with the aim of becoming a truly excellent global corporation that is admired and respected the world over.

Canon Virginia, having acquired Responsible Recycling (R2) certification, is evidence of Canon's dedication as a company to managing products across their lifecycle from production through to collecting and recycling.

Canon's Basic Approach to CSR

Canon recognizes that its corporate activities are supported by the development of society as a whole, and contributes to the realization of a better society as a good corporate citizen, effectively leveraging its advanced technological strengths, global business deployment, and diverse, specialized human resources.

Environmental Activities

In 2013, Canon Virginia was named as the first manufacturer to achieve Responsible Recycling Practices for Electronics Recyclers (R2) certification.

The United States Environmental Protection Agency (EPA) was involved in establishing the R2 private industry inspection system. Moreover, eight models in Canon's imageRUNNER ADVANCE series received an EPEAT® Gold rating, the highest level of registration, in digital imaging equipment category, which was set up in 2013*. An approval from the environmental rating system is a prerequisite of the federal offices' procurement.

The U.S. government promotes safer and more effective recycling of electrical and electronic equipment by using R2-accredited recyclers. To be registered under EPEAT, manufacturers must entrust the recycling of all its used products to R2 or other-accredited recyclers. Canon Virginia will implement ever more effective recycling measures

Deleted due to portrait rights.

Canon Europe, as a WWF (World Wide Fund for Nature) Conservation Partner, is working to provide a range of support that goes beyond its participation in Arctic expedition, such as sponsoring the WWF-Canon Global Photo Network. ©Alexey Ebel/WWF-Canon

Deleted due to portrait rights.

The "Eyes on Yellowstone" program releases videos of wildlife in their natural environment online. These videos are used to educate children around the world.

as a recycler for the Group, while Canon will expedite to manage the lifecycle of its products, from development to recycling, within the Group.

* For more details, please see page 18.

WWF

Canon Europe is a Conservation Imaging Partner of the World Wide Fund for Nature (WWF) and supports its activities such as projects that raise awareness of climate change in the Arctic.

In 2013, Alexey Ebel, a Russian professional wildlife photographer, accompanied a team of WWF experts and scientists on the Laptev Sea expedition sponsored by Canon. He dedicated his time to documenting the Arctic environment during the expedition to raise awareness of the need for protection. Canon and WWF share the hope that the power of images will expose the state of the environment in the rapidly changing Arctic landscape.

Wildlife Protection in Yellowstone National Park

Canon U.S.A. supports "Eyes on Yellowstone," an educational and research program to manage and protect endangered wildlife species and promote education at Yellowstone National Park. Canon's imaging equipment has been used to monitor the lives of animals, create a video library, and gather information since 1995.

Social Contribution Activities

Canon conducts wide-ranging social contribution activities in all parts of the world, as a "good corporate citizen."

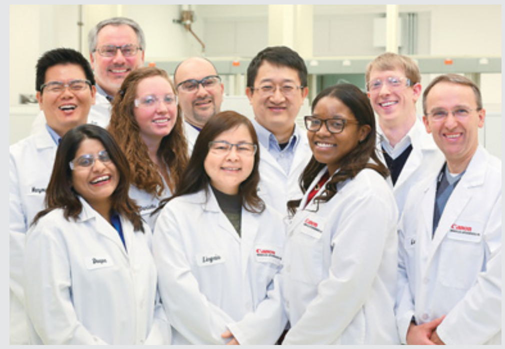
Canon Foundation Announces Fourth Grant Program Recipients

The Canon Foundation aims to contribute to the ongoing prosperity and well-being of mankind. It has offered two research grant programs, known as the Creation of Industrial Infrastructure grant and Pursuit of Ideals grant. In 2013, 16 projects were selected for the fourth research grant program.

The Tsuzuri Project

Canon and the non-profit organization Kyoto Culture Association jointly promote a project called the "Tsuzuri Project" (Official title: Cultural Heritage Inheritance Project.) The aim of the project is to preserve original cultural assets while maximizing the effective use of high-resolution facsimiles of cultural assets. These facsimiles are created by blending Canon's latest digital technology and traditional Japanese crafts, such as gold leaf craftwork. As a result of the project, original cultural assets can be kept in the more favorable environment of museums while copies can be used for educational purposes and public exhibits. Since the program began in 2007, the

In 2013, the Tsuzuri Project created high-resolution facsimiles of eight sliding doors owned by the Tenkyu-in Temple, a subtemple of the Myoshinji Temple, and donated them to the Tenkyu-in Temple. (Above: sliding doors with a picture of a tiger in a bamboo grove)



Without regard to national origin, race, and other matters of background, Canon hires, trains, and promotes personnel that can excel as a member of a global enterprise so that it can grow sustainability as a global company.

cumulative total of reproduced and donated items has reached 27 (as of March 2013.)

Canon Image Bridge

"Canon Image Bridge" is a social contribution initiative launched in 2013 to cover the entire Asian region. It follows the "Image Light of Hope" project in China spearheaded by Canon China since 2008. In the new initiative, Canon China and other members of the Canon Asia Marketing Group will serve as a bridge linking elementary and middle school children in various nations and regions of Asia via exchange cards. These cards are composed of photographs taken by children and words of their impressions. Canon collects the exchange cards and distributes them to children throughout Asia to foster cross-cultural communication. In 2013, around 4,200 children from 134 schools took part in this photo exchange project.

Addressing the Issue of Conflict Minerals

Seeking to ensure that customers can use Canon products with peace of mind, the Canon Group works together with business partners and industry entities to address the issue of conflict minerals.

Since 2012, Canon has held briefing sessions for domestic and overseas business partners at 16 locations to gain their understanding of the issue and request cooperation with related inquiries and, since 2013, the Company has been conducting full-scale investigations targeting products produced at manufacturing bases across the entire Canon Group.

Although tracing the complicated supply chain to confirm the origins of four types of metals used in products is no easy task, the Company has newly constructed a conflict minerals information management system and is accumulating essential data to enable the verification of conflict-free minerals at the parts and materials level.

Based on procedures performed through February 2014, no specific parts or materials have been found that have funded armed groups in conflict regions as defined by U.S. legislation. Because, however, there remain many parts and materials for which the smelters located upstream in the supply chain have not been identified, Canon continues working to increase the accuracy of inquiries and determine whether the supply chain is conflict-free.

In accordance with the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, Canon will report to the U.S. Securities and Exchange Commission by the end of May 2014 on the progress the Canon Group is making to address the conflict minerals issue and also disclose the information on the Company's website.

Cultivating Diverse Human Resources

Canon works constantly to foster global human resources capable of performing on the world stage, by taking advantage of international training programs and the like. Given our priority to keep production in-house, it is important for us to cultivate personnel with world-class skills and expertise on a global scale. In 2013, we continuously pursued initiatives geared specifically towards programs focused on developing local instructors at our manufacturing subsidiaries in Southeast Asia and China.

FINANCIAL SECTION

TABLE OF CONTENTS

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 plain paper copying machines, office multifunction devices ("MFDs"), laser printers, cameras, inkjet printers, semiconductor lithography equipment and flat panel display ("FPD") 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 three segments: the Office Business Unit, the Imaging System Business Unit, and the Industry and Others Business Unit.

Economic environment

Looking back at the global economy in 2013, although the U.S. and Japanese economies began heading toward moderate recoveries during the latter half of the year, the economic downturn in Europe continued to drag on while the economies of emerging countries such as China faced slowdowns. As such, contrary to expectations at the beginning of the year, the global economy remained stagnant. As for exchange rates, the correction of the historic high value of the yen continued, with a trend toward a weaker yen growing increasingly clear.

Market environment

As for the markets in which Canon operates amid these conditions, owing to the economic slowdown, flat demand led to a continuation of the harsh business environment especially for consumer products. Among MFDs, color models continued to drive growth while demand for laser printers realized a turnaround toward recovery. Although demand for interchangeable-lens digital cameras continued to show strong growth in Japan, demand overseas fell short of the previous year's level as the economic rebound in such markets as Europe and China takes longer than expected. As for digital compact cameras, demand continued to shrink in both developed countries as well as emerging markets. Overall market demand for inkjet printers, hit by the prolonged economic downturn, also declined in all major markets. In the industry and others sector, a rebound in capital investment for memory devices led to a pickup in demand for semiconductor lithography equipment in the latter half of the year, while demand for lithography equipment used in the production of FPDs showed healthy market growth for mid- and small-size panels used mainly in smartphones and tablet PCs, and a modest recovery for large-size panels.

The average value of the yen during the year was ¥97.84 against the U.S. dollar, a year-on-year depreciation of approximately ¥18, and ¥130.01 against the euro, a year-on-year depreciation of approximately ¥27.

Summary of operations

Despite the decline in demand for digital compact cameras and industrial equipment, net sales for the year increased 7.2% to ¥3,731.4 billion (U.S.$35,537 million) from the previous year. This was realized through the steady demands for MFDs and laser printers, along with an increase in sales of inkjet printers, made possible through sales-promotion efforts despite the harsh conditions posed by the shrinking inkjet printer market, as well as the positive effects of favorable currency exchange rates. The gross profit ratio rose 0.8 points year on year to 48.2% thanks to the effects of ongoing cost-cutting efforts along with the depreciation of the yen. Despite an increase in foreign-currency-denominated operating expenses after conversion into yen due to the depreciation of the yen, Group-wide efforts to thoroughly reduce spending contributed to limiting the increase in operating expenses to just ¥1,461.1 billion (U.S.$13,916 million), an increase of 10.2% year on year. Consequently, operating profit increased by 4.1% to ¥337.3 billion (U.S.$3,212 million). Other income decreased by ¥8.4 billion (U.S.$80 million) due to foreign currency exchange losses while income before income taxes increased by 1.5% year on year to ¥347.6 billion (U.S.$3,311 million). Net income attributable to Canon Inc. increased by 2.6% to ¥230.5 billion (U.S.$2,195 million). Accordingly, Canon achieved increases in both sales and profit.

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 on page 35.

Revenues

As Canon pursues the goal to become a truly excellent global company, 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 much 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 segment to be important for the purpose of assessing Canon's sales performance in various segments, taking into account recent market trends.

Gross profit ratio (ratio of gross profit to net sales) is another KPI for Canon. Through its reforms of product development, Canon has been striving to shorten product development lead times in order to launch new, competitively priced products at a faster pace. Furthermore, Canon has further achieved cost reductions through enhancement of efficiency in its production. Canon believes that these achievements have contributed to improving Canon's gross profit ratio, and will continue pursuing the curtailment of product development lead times and reductions of production costs.

Operating profit ratio (ratio of operating profit to net sales) 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.

Canon's management seeks to meet its liquidity and capital requirements primarily with cash flow from operations. Management also seeks debt-free operations. 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 has to be followed for success. Therefore, management believes that it is important to have sufficient financial strength so that the Company does not have to rely on external funds. Canon has continued to reduce its dependency on external funds for capital investments in favor of generating the necessary funds from its own operations.

Canon Inc. stockholders' equity to total assets ratio is another KPI for Canon. Canon believes that its stockholders' equity to total assets ratio measures its long-term sustainability. Canon also believes that achieving a high or rising stockholders' 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 stockholders' equity ratio will enable the company 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 stockholders' equity to total assets ratio.

KEY PERFORMANCE INDICATORS

	2013	2012	2011	2010	2009
Net sales (Millions of yen)	¥3,731,380	¥3,479,788	¥3,557,433	¥3,706,901	¥3,209,201
Gross profit to net sales ratio	48.2%	47.4%	48.8%	48.1%	44.5%
R&D expense to net sales ratio	8.2%	8.5%	8.7%	8.5%	9.5%
Operating profit to net sales ratio	9.0%	9.3%	10.6%	10.5%	6.8%
Inventory turnover measured in days	52 days	57 days	46 days	35 days	39 days
Debt to total assets ratio	0.1%	0.1%	0.3%	0.3%	0.3%
Canon Inc. stockholders' equity to total assets ratio	68.6%	65.7%	64.9%	66.4%	69.9%

Note: Inventory turnover measured in days; 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 ("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. 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 principally through the sale of office and imaging system products, equipment, supplies, and related services under separate contractual arrangements. Canon recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have been transferred to the customer or services have been rendered, the sales price is fixed or determinable, and collectibility is probable.

Revenue from sales of office products, such as office MFDs and laser printers, and imaging system products, such as digital cameras and inkjet printers, is recognized upon shipment or delivery, depending upon when title and risk of loss transfer to the customer.

Revenue from sales of optical equipment, such as semiconductor lithography equipment and FPD lithography equipment that are sold with customer acceptance provisions related to their functionality, is recognized when the equipment is installed at the customer site and the specific criteria of the equipment functionality are successfully tested and demonstrated by Canon. Service revenue is derived primarily from separately priced product maintenance contracts on equipment sold to customers and is measured at the stated amount of the contract and recognized as services are provided.

Canon also offers separately priced product maintenance contracts for most office products, for which the customer typically pays a stated base service fee plus a variable amount based on usage. Revenue from these service maintenance contracts is measured at the stated amount of the contract and recognized as services are provided and variable amounts are earned.

Revenue from the sale of equipment under sales-type leases is recognized at the inception of the lease. 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 the related revenue is recognized ratably over the lease term. When equipment leases are bundled with product maintenance contracts, revenue is first allocated considering the relative fair value of the lease and non-lease deliverables based upon the estimated relative fair values of each element. Lease deliverables generally include equipment, financing and executory costs, while non-lease deliverables generally consist of product maintenance contracts and supplies.

For all other arrangements with multiple elements, Canon allocates revenue to each element based on its relative selling price if such element meets the criteria for treatment as a separate unit of accounting. Otherwise, revenue is deferred until the undelivered elements are fulfilled and accounted for as a single unit of accounting.

Canon records estimated reductions to sales at the time of sale for sales incentive programs including product discounts, customer promotions and volume-based rebates. Estimated reductions to sales are based upon historical trends and other known factors at the time of sale. In addition, Canon provides price protection to certain resellers of its products, and records reductions to sales for the estimated impact of price protection obligations when announced. In 2011, the sales incentive program accrual were quite difficult to estimate compared to prior years because of the significant fluctuation in consumer product supplies from our manufacturing facilities, due to the earthquake in Japan and the flooding in Thailand. Although Canon utilized available data to produce its best estimate of promotion payments to be claimed in 2012, actual claims in 2012 were not as high as Canon had estimated. Moreover, in recent years, as a result of the market conditions and customer preferences, usage of incentive programs has shifted from mail-in rebates to instant rebates. Accordingly, the historical data relating to mail-in-rebates could not be used to determine instant rebates. Given the limited experience with instant rebates, this led Canon to maintain its estimated accruals for a longer period of time. As 2012 progressed and new information became available, Canon reviewed the 2011 accrual balance in order to determine whether the accrual needed to be revised during 2012. By using new additional statistical information and gathering sales and inventory data from customers. Canon was able to revise its estimates.

Estimated product warranty 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 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.

Allowance for doubtful receivables

Allowance for doubtful receivables is determined using a combination of factors to ensure that Canon's trade and financing receivables are not overstated due to uncollectibility. These factors include the length of time receivables are past due, the credit quality of customers, macroeconomic conditions and historical experience. Also, Canon records specific reserves for individual accounts when Canon becomes aware of a customer's inability to meet its financial obligations to Canon, due for example to bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables are further adjusted.

Valuation of inventories

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

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. Canon performs its impairment test of goodwill using the two-step approach at the reporting unit level, which is one level below the operating segment level. 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 performs the second step to measure an impairment charge in the amount by which the carrying amount of a reporting unit's goodwill exceeds its implied fair value. 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 flow 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. Intangible assets with finite useful lives consist primarily of software, license fees, patented technologies and customer relationships. Software and license fees are amortized using the straight-line method over the estimated useful lives, which range from 3 years to 5 years for software and 5 years to 10 years for license fees. Patented technologies are amortized using the straight-line method principally over the estimated useful life of 3 years. Customer relationships are amortized principally using the declining-balance method over the estimated useful life of 5 years.

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 restructuring 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, and withdrawal 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 2013, Canon estimated a weighted-average discount rate used to determine benefit obligations of 1.6% for Japanese plans and 3.8% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.1% for Japanese plans and 5.2% 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 2013, a decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately ¥97,589 million (U.S.$929 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 2013, a change of 50 basis points in the expected long-term rate of return on plan assets would cause a change of approximately ¥4,713 million (U.S.$45 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 deferral 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 accumulated other comprehensive income (loss), net of tax.

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS

	Millions of yen					*Thousands of U.S. dollars*
	2013	change	2012	change	2011	**2013**
Net sales	**¥3,731,380**	**+7.2%**	¥3,479,788	-2.2%	¥3,557,433	**$35,536,952**
Operating profit	**337,277**	**+4.1%**	323,856	-14.3%	378,071	**3,212,162**
Income before income taxes	**347,604**	**+1.5%**	342,557	-8.5%	374,524	**3,310,514**
Net income attributable to Canon Inc.	**230,483**	**+2.6%**	224,564	-9.7%	248,630	**2,195,076**

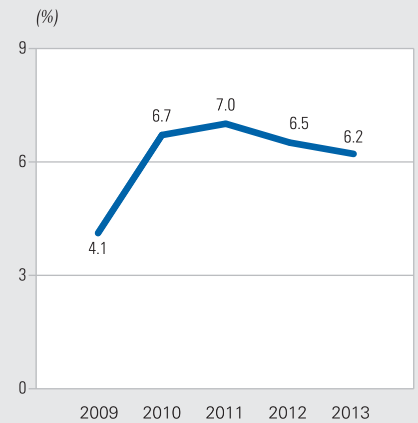
Sales

Canon's consolidated net sales in 2013 totaled ¥3,731,380 million (U.S.$35,537 million), representing a 7.2% increase from the previous year. This was realized through steady demands for MFDs and laser printers, along with an increase in sales of inkjet printers as well as the positive effects of favorable currency exchange rates, despite the decline in demand for digital compact cameras and industrial equipment.

Overseas operations are significant to Canon's operating results and generated 80.8% of total net sales in 2013. Such sales are denominated in the applicable local currency and are subject to fluctuations in the value of the yen relative to those currencies. Despite efforts to reduce the impact of currency fluctuations on operating results, including localization of manufacturing in some regions along with procuring parts and materials from overseas suppliers, Canon believes such fluctuations have had and will continue to have a significant effect on its results of operations.

The average value of the yen during the year was ¥97.84 against the U.S. dollar, a year-on-year depreciation of approximately ¥18, and ¥130.01 against the euro, a year-on-year depreciation of approximately ¥27. The effects of foreign exchange rate fluctuations positively affected net sales by approximately ¥514,000 million (U.S.$4,895 million) in 2013. This favorable impact consisted of approximately ¥257,000 million (U.S.$2,448 million) for the U.S. dollar denominated sales, ¥193,600 million (U.S.$1,844 million) for the euro denominated sales and ¥63,400 million (U.S.$604 million) for other foreign currency denominated sales.

Return on 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. The ratio of cost of sales to net sales for 2013 and 2012 was 51.8% and 52.6%, respectively.

Gross profit

Canon's gross profit in 2013 increased by 9.0% to ¥1,798,421 million (U.S.$17,128 million) from 2012. The gross profit ratio also increased by 0.8 points year on year to 48.2%. The growth of gross profit ratio was achieved due to the cost reductions and production innovation along with the positive 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. Despite group-wide efforts to thoroughly reduce spending, total operating expenses increased by 10.2% to ¥1,461,144 million (U.S.$13,916 million) in 2013 mainly due to the negative effect of depreciation of the yen.

Operating profit

Operating profit in 2013 increased 4.1% to a total of ¥337,277 million (U.S.$3,212 million) from 2012. The ratio of operating profit to net sales decreased 0.3% to 9.0% from 2012.

Other income (deductions)

Other income (deductions) for 2013 decreased ¥8,374 million (U.S.$80 million) to ¥10,327 million (U.S.$98 million), owing primarily to foreign currency exchange losses.

Income before income taxes

Income before income taxes in 2013 was ¥347,604 million (U.S.$3,311 million), an increase of 1.5% from 2012, and constituted 9.3% of net sales.

Income taxes

Provision for income taxes in 2013 decreased by ¥2,024 million (U.S.$19 million) from 2012. The effective tax rate during 2013 remained consistent with 2012. The effective tax rate for 2013 was 31.1%, which was lower than the statutory tax rate in Japan. This was mainly due to the tax credit for R&D expenses.

Net income attributable to Canon Inc.

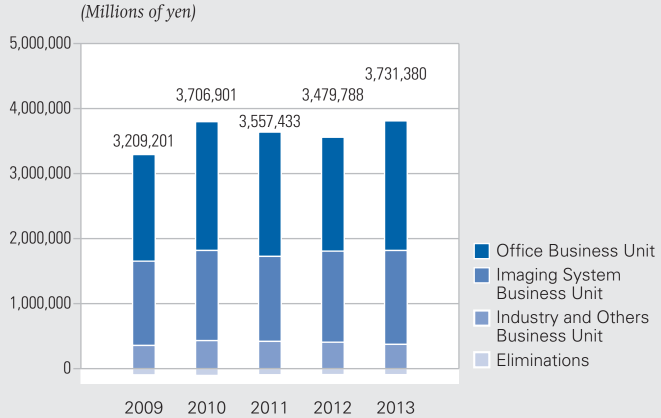
As a result, net income attributable to Canon Inc. in 2013 increased by 2.6% to ¥230,483 million (U.S.$2,195 million), which represents 6.2% of net sales.

Segment information

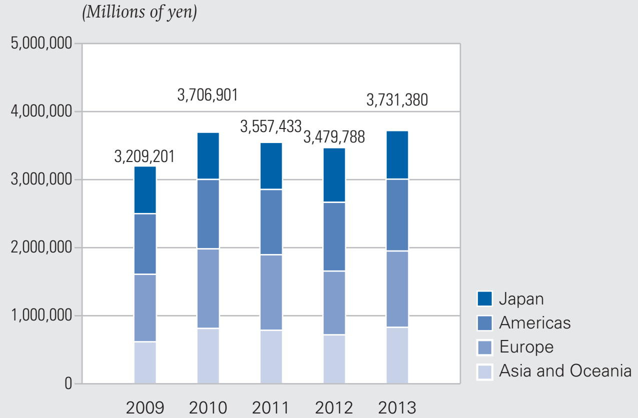
Canon divides its businesses into three segments: the Office Business Unit, the Imaging System Business Unit and the Industry and Others Business Unit.

- **The Office Business Unit** mainly includes Office multifunction devices (MFDs) / Laser multifunction printers (MFPs) / Laser printers / Digital production printing systems / High speed continuous feed printers / Wide-format printers / Document solutions
- **The Imaging System Business Unit** mainly includes Interchangeable lens digital cameras / Digital compact cameras / Digital camcorders / Digital cinema cameras / Interchangeable lenses / Inkjet printers / Large-format inkjet printers / Commercial photo printers / Image scanners / Multimedia projectors / Broadcast equipment / Calculators
- **The Industry and Others Business Unit** mainly includes Semiconductor lithography equipment / Flat panel display (FPD) lithography equipment / Digital radiography systems / Ophthalmic equipment / Vacuum thin-film deposition equipment / Organic LED (OLED) panel manufacturing equipment / Die bonders / Micromotors / Network cameras / Handy terminals / Document scanners

Sales by Segment
(Millions of yen)



Sales by Geographic Area
(Millions of yen)



Sales by segment

Please refer to the table of sales by segment in Note 21 of the Notes to Consolidated Financial Statements.

Canon's sales by segment are summarized as follows:

SALES BY SEGMENT

	Millions of yen					*Thousands of U.S. dollars*
	2013	change	2012	change	2011	**2013**
Office	**¥2,000,073**	**+13.8%**	¥1,757,575	-8.4%	¥1,917,943	**$19,048,314**
Imaging System	**1,448,938**	**+3.1%**	1,405,971	+7.2%	1,312,044	**13,799,410**
Industry and Others	**374,870**	**-8.1%**	407,840	-3.1%	420,863	**3,570,190**
Eliminations	**(92,501)**	**—**	(91,598)	—	(93,417)	**(880,962)**
Total	**¥3,731,380**	**+7.2%**	¥3,479,788	-2.2%	¥3,557,433	**$35,536,952**

Within the Office Business Unit, as for office MFDs, sales of color models increased from 2012 led by the imageRUNNER ADVANCE C5200/C2200 series. Results for high speed continuous feed printers and wide-format printers, sales of the Océ ColorStream 3000 series showed solid growth. With regard to laser printers, laser multifunction models recorded strong growth contributing to a year-on-year increase in sales volume. As a result, sales for the business unit totaled ¥2,000.1 billion (U.S.$19,048 million) in 2013, an increase of 13.8% year on year, while operating profit totaled ¥266.9 billion (U.S.$2,542 million), increasing 31.1%.

Within the Imaging System Business Unit, interchangeable-lens digital cameras maintained their top market share despite the challenging environment, which was marked by a drop in demand in Europe and China due to the economic downturn, although demand in Japan continued to expand. In particular, the EOS 5D Mark III and 70D advanced-amateur-model digital SLR cameras continued to realize healthy growth. Furthermore, in Japan, the new entry-level EOS Digital Rebel SL1 and T5i cameras proved popular. As for digital compact cameras, although total sales volume declined due to the market slowdown and the increasing popularity of smartphones, sales volume increased from 2012 for high-added-value models incorporating features that differentiate them from smartphones, such as large-size image sensors and models like the PowerShot SX50 HS and SX510 HS, which feature high-magnification zoom lenses. With regard to inkjet printers, despite the harsh market environment due to the rapid fall in demand in emerging markets, sales volume showed solid growth thanks to efforts to boost sales through the introduction of new products offering enhanced support for cloud services. As a result, sales for the business unit increased by 3.1% to ¥1,448.9 billion (U.S.$13,799 million) in 2013, while operating profit totaled ¥203.8 billion (U.S.$1,941 million), a decrease of 3.1%.

In the Industry and Others Business Unit, within semiconductor lithography equipment, despite an increase in sales volume for memory devices in the latter half of the year 2013 fueled by renewed investment in capital expenditure by memory manufacturers, sales volumes for the year decreased slightly owing to restrained capital expenditure in the first half. As for FPD lithography equipment, sales volume remained the same as for the previous year amid the recovery in investment for large-size panels. With respect to medical equipment, sales volume for Canon's mainstay digital radiography systems steadily increased. Consequently, sales for the business unit totaled ¥374.9 billion (U.S.$3,570 million) in 2013, a decrease of 8.1% year on year, while operating profit recorded a loss of ¥25.3 billion (U.S.$241 million), declining by ¥31.2 billion (U.S.$298 million) from 2012.

Intersegment sales of ¥92,501 million (U.S.$880,962 million), representing 2.4% of total sales, are eliminated from total sales for the three segments, and are described as "Eliminations."

Sales by geographic area

Please refer to the table of sales by geographic area in Note 21 of the Notes to Consolidated Financial Statements.

A geographical analysis indicates that net sales in 2013 increased in all areas except Japan.

In Japan, sales slightly decreased in 2013 due to the slowdown in the Industry and Others Business, although the interchangeable-lens digital cameras continued to expand.

In the Americas, despite the decline in sales of digital compact cameras from the previous year due to the significant slowdown in the market, increased sales of inkjet printers including consumable supplies, along with the depreciation of the yen against the U.S. dollar, caused sales to increase by 12.7% in 2013.

In Europe, although sales of interchangeable lens digital cameras declined due to shifting to low-end models as well as declining sales of digital compact cameras owing to shrinking market, amid increasing uncertainty in European economy sales of inkjet printers and MFDs showed steady sales growth. As a result, along with the effect of depreciation of the yen, sales increased by 10.9% in 2013.

In Asia and Oceania, sales of interchangeable lens digital cameras, which have been an engine for solid growth in Asia and Oceania, showed a slowdown in growth. In addition sales of digital compact cameras and laser printers faced harsh conditions. Inkjet printers including consumable supplies, on the other hand, showed steady sales growth. Reflecting these factors and the effect of depreciation of the yen, net sales increased by 3.2% in 2013.

A summary of net sales by geographic area is provided below.

SALES BY REGION

	Millions of yen					Thousands of U.S. dollars
	2013	change	2012	change	2011	**2013**
Japan	**¥ 715,863**	**-0.6%**	¥ 720,286	+3.7%	¥ 694,450	**$ 6,817,743**
Americas	**1,059,501**	**+12.7%**	939,873	-2.3%	961,955	**10,090,486**
Europe	**1,124,929**	**+10.9%**	1,014,038	-8.9%	1,113,065	**10,713,609**
Asia and Oceania	**831,087**	**+3.2%**	805,591	+2.2%	787,963	**7,915,114**
Total	**¥3,731,380**	**+7.2%**	¥3,479,788	-2.2%	¥3,557,433	**$35,536,952**

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

Operating profit by segment

Please refer to the table of segment information in Note 21 of the Notes to Consolidated Financial Statements.

Operating profit for the Office Business Unit in 2013 increased by ¥63,330 million (U.S.$603 million) to ¥266,908 million (U.S.$2,542 million). This increase resulted from the sales increase.

Operating profit for the Imaging System Business Unit in 2013 decreased by ¥6,524 million (U.S.$62 million) to ¥203,794 million (U.S.$1,941 million). This decrease resulted primarily from the increase in expense due to depreciation of the yen.

Operating profit for the Industry and Others Business Unit in 2013 declined by ¥31,241 million (U.S.$298 million), largely owing to the decrease in sales.

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 ratio. To reduce the financial risks from changes in foreign exchange rates, Canon utilizes derivative financial instruments, which consist principally of forward 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 21 of the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents in 2013 increased by ¥122,231 million (U.S.$1,164 million) to ¥788,909 million (U.S.$7,513 million), compared with ¥666,678 million in 2012 and ¥773,227 million in 2011. Canon's cash and cash equivalents are typically denominated both in Japanese yen and in U.S. dollars, with the remainder denominated in foreign currencies.

Net cash provided by operating activities in 2013 increased by ¥123,565 million (U.S.$1,177 million) from the previous year to ¥507,642 million (U.S.$4,835 million). Cash flow from operating activities consisted of the following key components: 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 2013, cash inflow from cash received from customers increased due to the increase in sales. There were no significant changes in Canon's collection rates. Cash outflow for payments for parts and materials decreased, as a result of our efforts to decrease inventory. Cash outflow for payments for selling, general and administrative expenses increased due to the impact of Japanese Yen on operating expenses denominated in foreign currencies. On the other hand, operation expenses in local currency base declined due to cost reduction activities of group companies. Cash outflow for income taxes increased due to the increase in taxable income.

Net cash used in investing activities in 2013 was ¥250,212 million (U.S.$2,383 million), increasing by ¥37,472 million (U.S.$357 million) from ¥212,740 million in 2012, due to the increasing amount of time deposits included in short-term investments. Purchases of fixed assets were focused on items relevant to new products.

Canon defines "free cash flow" by deducting cash flows from investing activities from cash flows from operating activities. For 2013, free cash flow totaled ¥257,430 million (U.S.$2,452 million) as compared with ¥171,337 million for 2012. Canon's management recognizes that constant and intensive investment in facilities and R&D is required to maintain and strengthen the competitiveness of its products. Canon's management seeks to meet its capital requirements with cash flow principally earned from its operations. Therefore, its capital resources are primarily sourced from internally generated funds.

Accordingly, Canon has included information with regard to free cash flow, as its management frequently monitors this indicator, and believes that such indicator is beneficial to the understanding of investors. Furthermore, Canon's management believes that this indicator is significant in understanding Canon's current liquidity and the alternatives uses in financing activities because it takes into consideration its operating and investing activities. 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 ¥222,181 million (U.S.$2,116 million) in 2013, mainly resulting from repurchase of treasury stock of ¥50,007 million (U.S.$476 million), and dividends of ¥155,627 million (U.S.$1,482 million). The Company paid dividends in 2013 of ¥135.00 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, long-term debt or short-term 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.

Short-term loans (including the current portion of long-term debt) amounted to ¥1,299 million (U.S.$12 million) at December 31, 2013 compared with ¥1,866 million at December 31, 2012. Long-term debt (excluding the current portion) amounted to ¥1,448 million (U.S.$14 million) at December 31, 2013 compared with ¥2,117 million at December 31, 2012.

Canon's long-term debt mainly consists of lease obligations.

In order to facilitate access to global capital markets, Canon obtains credit ratings from two rating agencies: Moody's Investors Services, Inc. ("Moody's") and Standard and Poor's Ratings Services ("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 March 14, 2014, Canon's debt ratings are: Moody's: Aa1 (long-term); S&P: AA (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.

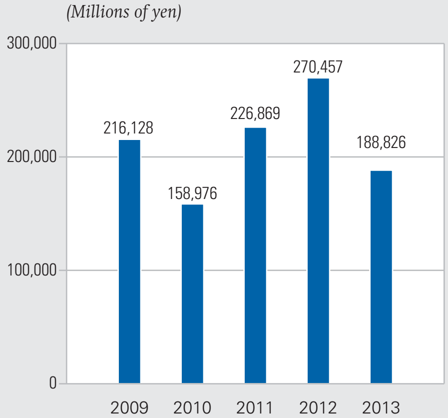
Following the natural disasters which occurred in 2011, Canon determined that its concerted focus on decreasing levels of total inventory, even for competitive and strong-selling products, had resulted in shortages of finished goods, adversely affecting its ability to capitalize on selling opportunities. As a consequence, Canon re-evaluated its priorities for targeting levels of finished goods inventory, and decided on a new management policy to increase levels of finished goods inventories at sales locations as a buffer in order to increase its resilience in response to unexpected natural or man-made disasters and consequent production line stoppages. Canon's initiative in recent periods to optimize inventory levels is intended to maintain an appropriate balance among relevant imperatives, including minimizing working capital, avoiding undue exposure to the risk of inventory obsolescence, and maintaining the ability to sustain sales despite the occurrence of unexpected disasters.

Reflecting the foregoing circumstances, Canon's total inventory turnover ratios were 52, 57, and 46 days at the end of the years 2013, 2012, and 2011, respectively and the increases over the last three years are in line with Canon's expectations and its revised inventory management policy.

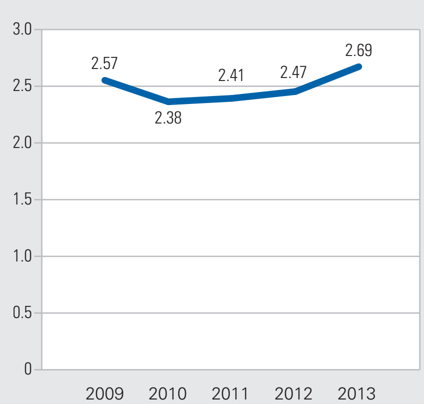
Increase in property, plant and equipment on an accrual basis in 2013 amounted to ¥188,826 million (U.S.$1,798 million) compared with ¥270,457 million in 2012 and ¥226,869 million in 2011. For 2014, Canon projects its increase in property, plant and equipment will be approximately ¥210,000 million (U.S.$2,000 million).

Employer contributions to Canon's worldwide defined benefit pension plans were ¥48,515 million (U.S.$462 million) in 2013, ¥30,421 million in 2012, and ¥30,510 million in 2011. In addition, employer contributions to Canon's worldwide defined contribution pension plans were ¥14,383 million (U.S.$137 million) in 2013, ¥13,021 million in 2012, and ¥12,511 million in 2011.

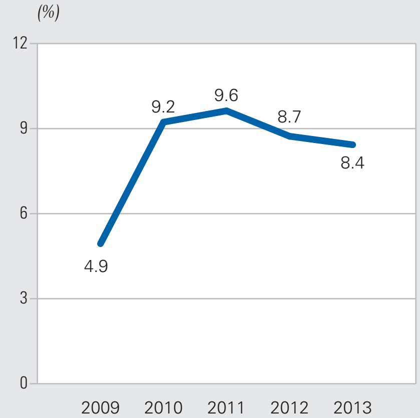
Increase in Property, Plant and Equipment
(Millions of yen)



Working Capital Ratio



Return on Canon Inc. Stockholders' Equity
(%)



Working capital in 2013 increased by ¥199,814 million (U.S.$1,903 million), to ¥1,437,635 million (U.S.$13,692 million), compared with ¥1,237,821 million in 2012 and ¥1,259,457 million in 2011. 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 2013 was 2.69 compared to 2.47 for 2012 and to 2.41 for 2011.

Return on assets (net income attributable to Canon Inc. divided by the average of total assets) was 5.6% in 2013, compared to 5.7% in 2012 and 6.3% in 2011.

Return on Canon Inc. stockholders' equity (net income attributable to Canon Inc. divided by the average of total Canon Inc. stockholders' equity) was 8.4% in 2013 compared with 8.7% in 2012 and 9.6% in 2011.

The debt to total assets ratio was 0.1%, 0.1% and 0.3% as of December 31, 2013, 2012 and 2011, respectively. Canon had short-term loans and long-term debt of ¥2,747 million (U.S.$26 million) as of December 31, 2013, ¥3,983 million as of December 31, 2012 and ¥11,711 million as of December 31, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

As part of its ongoing business, Canon does not participate in transactions that generate 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 bank loans of its employees, affiliates and other companies. Canon will have to perform under a guarantee if the borrower defaults on a payment within the contract periods of 1 year to 30 years in the case of employees with housing loans, and 1 year to 10 years in the case of affiliates and other companies. The maximum amount of undiscounted payments Canon would have had to make in the event of default by all borrowers was ¥12,315 million (U.S.$117 million) at December 31, 2013. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2013 were insignificant.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following summarizes Canon's contractual obligations at December 31, 2013.

		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:					
Capital lease obligations	¥ 2,482	¥ 1,213	¥ 1,098	¥ 171	¥ —
Other long-term debt	211	32	101	48	30
Operating lease obligations	96,064	28,523	37,915	16,446	13,180
Purchase commitments for:					
Property, plant and equipment	26,218	26,218	—	—	—
Parts and raw materials	73,914	73,914	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	20,649	20,649	—	—	—
Total	¥219,538	¥150,549	¥39,114	¥16,665	¥13,210

Note: 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. Contribution to defined benefit pension plans reflects the expected amount only for the next fiscal year, since contributions beyond the next fiscal year are not currently determinable due to uncertainties related to changes in actuarial assumptions, returns on plan assets and changes to plan membership.

		Payments due by period			
Thousands of U.S. dollars	*Total*	*Less than 1 year*	*1-3 years*	*3-5 years*	*More than 5 years*
Contractual obiligations:					
Long-term debt:					
Capital lease obligations	$ 23,637	$ 11,552	$ 10,457	$ 1,628	$ —
Other long-term debt	2,010	305	962	458	285
Operating lease obligations	914,895	271,648	361,096	156,628	125,523
Purchase commitments for:					
Property, plant and equipment	249,695	249,695	—	—	—
Parts and raw materials	703,943	703,943	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	196,657	196,657	—	—	—
Total	$2,090,837	$1,433,800	$372,515	$158,714	$125,808

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 established at the time revenue are 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, 2013, accrued product warranty costs amounted to ¥10,890 million (U.S.$104 million).

At December 31, 2013, commitments outstanding for the purchase of property, plant and equipment were approximately ¥26,218 million (U.S.$250 million), and commitments outstanding for the purchase of parts and raw materials were approximately ¥73,914 million (U.S.$704 million), both for use in the ordinary course of its business. Canon anticipates that funds needed to fulfill these commitments will be generated internally through operations.

During 2014, Canon expects to contribute ¥13,589 million (U.S.$129 million) to its Japanese defined benefit pension plans and ¥7,060 million (U.S.$67 million) to its foreign defined benefit pension plans.

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.

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Year 2013 marks the third year of the Excellent Global Corporation Plan, its 5-year (2011-2015) management plan. The slogan of the fourth phase ("Phase IV") is "Aiming for the Summit—Speed & Sound Growth" and there are three core strategies related to R&D:

- Achieve the overwhelming No.1 position in all core businesses and expand related and peripheral businesses;
- Develop new business through globalized diversification and establish the Three Regional Headquarters management system; and
- Build the foundations of an environmentally advanced corporation.

Canon has been striving to implement the three R&D related strategies as follows:

- Achieve the overwhelming No.1 position in all core businesses and expand related and peripheral businesses: Continue to introduce competitive products through innovation and aim at gaining profit through solutions and services.
- Develop new business through globalized diversification and establish the Three Regional Headquarters management system: Reinforce the businesses of commercial printing sector, medical imaging sector, industrial equipment sector and security and safety sector to develop into Canon's new pillars. Seek talents in Japan, US, and Europe to foster promising technologies and enhance R&D capabilities in global-scale dimensions by enabling product development in specialized area of each region, with actively utilizing M&A.
- Build the foundations of an environmentally advanced corporation: Focus on energy- and resource-conserving technologies to create products with the highest environmental performance.

Canon is pursuing collaboration among the government, industry and academia, and has strengthened relationships with universities and other research institutes worldwide, such as Kyoto University, Tokyo Institute of Technology, Osaka University, Stanford University, the University of Arizona, and the New Energy and Industrial Technology Development Organization to assist with fundamental research and to develop cutting-edge technologies. Additionally, Canon is currently working on a collaborative research with Massachusetts General Hospital (MGH) and Brigham and Women's Hospital (BWH) to develop biomedical optical imaging and medical robotics technologies at the Healthcare Optics Research Laboratory in Cambridge, Massachusetts, founded in June of 2013.

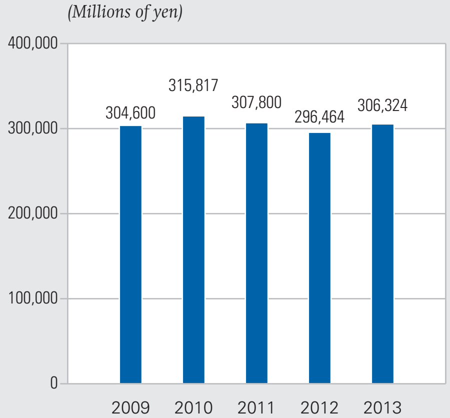
Canon has fully introduced 3D-CAD systems across the Canon Group, boosting R&D efficiency to curtail product development times and costs. Moreover, Canon enhanced and evolved its simulation, measurement, and analysis technologies by establishing leading-edge facilities, including one of Japan's highest-performance cluster computers. As such, Canon has succeeded in further reducing the need for prototypes, dramatically lowering costs and shortening product development lead times.

Canon's consolidated R&D expenses were ¥306,324 million (U.S.$2,917 million) in 2013, ¥296,464 million in 2012 and ¥307,800 million in 2011. The ratios of R&D expenses to the consolidated total net sales for 2013, 2012 and 2011 were 8.2%, 8.5% and 8.7%, respectively.

Canon believes that new products protected by patents will not easily allow competitors to compete with them, and will give them an advantage in establishing standards in the market and industry.

Canon obtained the third greatest number of private sector patents in 2013, according to the United States patent annual list, released by IFI CLAIMS® Patent Services.

R&D Expenses
(Millions of yen)



MARKET RISK EXPOSURES

Canon is exposed to market risks, including changes in foreign currency exchange rates, interest rates and prices of marketable securities and investments. In order to hedge the risks 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, all of which were classified as available-for-sale securities, were as follows at December 31, 2013.

	Millions of yen		*Thousands of U.S. dollars*	
Available-for-sale securities	*Cost*	*Fair value*	*Cost*	*Fair value*
Debt securities				
Due within one year	¥ —	¥ —	$ —	$ —
Due after one year through five years	10	10	95	95
Due after five years	819	778	7,800	7,409
Fund trusts	68	68	648	648
Equity securities	18,112	34,536	172,495	328,915
	¥19,009	¥35,392	$181,038	$337,067

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 at December 31, 2013. All of the foreign exchange contracts described in the following table have a contractual maturity date in 2014.

Millions of yen	*U.S.$*	*Euro*	*Others*	*Total*
Forwards to sell foreign currencies:				
Contract amounts	¥198,039	¥147,729	¥28,931	¥374,699
Estimated fair value	(7,299)	(6,795)	(598)	(14,692)
Forwards to buy foreign currencies:				
Contract amounts	¥ 40,844	¥ 3,882	¥ —	¥ 44,726
Estimated fair value	(27)	28	—	1

Thousands of U.S. dollars	*U.S.$*	*Euro*	*Others*	*Total*
Forwards to sell foreign currencies:				
Contract amounts	$1,886,086	$1,406,943	$275,533	$3,568,562
Estimated fair value	(69,514)	(64,714)	(5,696)	(139,924)
Forwards to buy foreign currencies:				
Contract amounts	$ 388,991	$ 36,971	$ —	$ 425,962
Estimated fair value	(257)	267	—	10

All of Canon's long-term debt is fixed rate debt. 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 currency exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (deductions) in the same period as the hedged items affect earnings. Substantially all such amounts recorded in accumulated other comprehensive income (loss) at year-end are expected to be recognized in earnings over the next twelve months. Canon excludes the time value component from the assessment of hedge effectiveness. Changes in the fair value of a foreign currency exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings and not considered hedge ineffectiveness.

The amount of the hedging ineffectiveness was not material for the years ended December 31, 2013, 2012 and 2011. The amounts of net losses excluded from the assessment of hedge effectiveness (time value component) which was recorded in other income (deductions) was ¥111 million (U.S.$1 million), ¥221 million and ¥457 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

As for the outlook in 2014, there are signs of brightness among developed countries with steady economic growth in the U.S. and Japan, and the European economy expected to realize a turnaround toward recovery. Although uncertainties remain in emerging countries such as China, since they are expected to maintain their course of moderate expansion, the global economy, having bottomed out in 2013, is also expected to realize a moderate recovery.

The year 2014 represents the fourth year of Phase IV (2011–2015) of the Excellent Global Corporation Plan. The Canon Group will work in unity, taking steps to realize sound business growth and overcome challenges to firmly return to a path of growth.

In order to achieve its targets, Canon will implement various measures under a basic policy of carrying out further reforms in order to return to the growth track.

- ***Bolstering Strengths of Existing Core Businesses by Creating Outstanding Hit Products***
  Canon aims to improve its market share for existing core businesses, developing appealing products that outperform the competition, not only in terms of basic performance, but also cost and usability. At the same time, Canon will strengthen the development of businesses derived from existing core businesses.
- ***Securely Launch and Steadily Expand New Businesses***
  Canon will work to accelerate the business expansion of network camera systems for which significant growth is expected. The Company will also focus on strengthening its business foundation for 4K reference displays and mixed-reality systems, while also concentrating on the commercialization of Super Machine Vision. In the medical field, Canon aims to realize the early launch of DNA diagnostic systems.
- ***Holistically Developing Global Sales Forces***
  In emerging markets, Canon will work to expand sales networks and enhance product lineups in accordance with conditions in each country. In developed countries, in addition to boosting the Company's ability to respond to Internet-based and other direct-order sales, Canon will strengthen its response to the centralized purchasing practices used by global corporations when procuring office products.
- ***Optimizing the Global Production System***
  Based on such factors as changes in local conditions in each country, Canon will work to realize the optimized global allocation of its production assets. The Company will also work to maintain or expand its production in Japan through automation, while also accelerating localized production of mainly consumables in the Americas and Europe through automated production systems.

- ***Exploring a New Dimension of Cost Reductions***
  Canon will strive to further accelerate procurement reforms as well as expand in-house production and promote automation. Additionally, the Company will work to significantly reduce product development times and achieve cost savings, promoting prototype-less production through the utilization of its super computer. Furthermore, it will move forward with the fundamental reform of manufacturing through the utilization of 3D printers.

In addition to the above, in order to return to a path of growth in the face of the dramatically changing business environment, Canon will select and concentrate on technological themes that will open the way to the future, further enhance product quality management, effectively make use of the Company's workforce, and carry out reforms such as thoroughly strengthening information security.

Forward looking statements

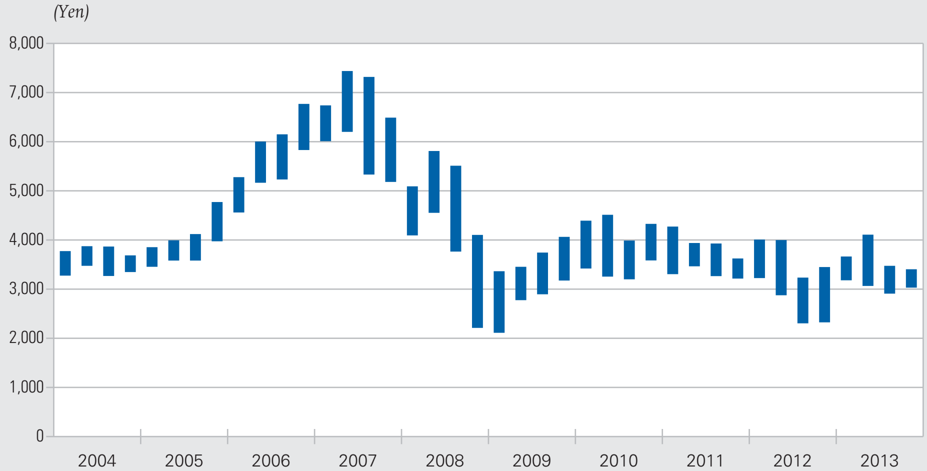
The foregoing discussion and other disclosure in this report contains forward-looking statements that reflect management's current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in the forward-looking statements. 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.

TEN-YEAR FINANCIAL SUMMARY

	Millions of yen (except per share amounts)			
	2013	2012	2011	2010
Net sales:				
Domestic	¥ 715,863	¥ 720,286	¥ 694,450	¥ 695,749
Overseas	3,015,517	2,759,502	2,862,983	3,011,152
Total	3,731,380	3,479,788	3,557,433	3,706,901
Percentage of previous year	107.2%	97.8%	96.0%	115.5%
Net income attributable to Canon Inc.	230,483	224,564	248,630	246,603
Percentage of sales	6.2%	6.5%	7.0%	6.7%
Advertising	86,398	83,134	81,232	94,794
Research and development expenses	306,324	296,464	307,800	315,817
Depreciation of property, plant and equipment	223,158	211,973	210,179	232,327
Increase in property, plant and equipment	188,826	270,457	226,869	158,976
Long-term debt, excluding current installments	¥ 1,448	¥ 2,117	¥ 3,368	¥ 4,131
Canon Inc. stockholders' equity	2,910,262	2,598,026	2,551,132	2,645,782
Total assets	4,242,710	3,955,503	3,930,727	3,983,820
Per share data:				
Net income attributable to Canon Inc. stockholders per share:				
Basic	¥ 200.78	¥ 191.34	¥ 204.49	¥ 199.71
Diluted	200.78	191.34	204.48	199.70
Dividend per share	130.00	130.00	120.00	120.00
Stock price:				
High	4,115	4,015	4,280	4,520
Low	2,913	2,308	3,220	3,205
Average number of common shares in thousands	1,147,934	1,173,648	1,215,832	1,234,817
Number of employees	194,151	196,968	198,307	197,386

Common Stock Price Range (Tokyo Stock Exchange)

(Yen)



2009	2008	2007	2006	2005	2004	*Thousands of U.S. dollars (except per share amounts)* 2013
¥ 702,344	¥ 868,280	¥ 947,587	¥ 932,290	¥ 856,205	¥ 849,734	**$ 6,817,743**
2,506,857	3,225,881	3,533,759	3,224,469	2,897,986	2,618,119	**28,719,209**
3,209,201	4,094,161	4,481,346	4,156,759	3,754,191	3,467,853	**35,536,952**
78.4%	91.4%	107.8%	110.7%	108.3%	108.4%	**107.2%**
131,647	309,148	488,332	455,325	384,096	343,344	**2,195,076**
4.1%	7.6%	10.9%	11.0%	10.2%	9.9%	**6.2%**
78,009	112,810	132,429	116,809	106,250	111,770	**822,838**
304,600	374,025	368,261	308,307	286,476	275,300	**2,917,371**
277,399	304,622	309,815	235,804	205,727	174,397	**2,125,314**
216,128	361,988	428,549	379,657	383,784	318,730	**1,798,343**
¥ 4,912	¥ 8,423	¥ 8,680	¥ 15,789	¥ 27,082	¥ 28,651	**$ 13,790**
2,688,109	2,659,792	2,922,336	2,986,606	2,604,682	2,209,896	**27,716,781**
3,847,557	3,969,934	4,512,625	4,521,915	4,043,553	3,587,021	**40,406,762**
¥ 106.64	¥ 246.21	¥ 377.59	¥ 341.95	¥ 288.63	¥ 258.53	**$ 1.91**
106.64	246.20	377.53	341.84	288.36	257.85	**1.91**
110.00	110.00	110.00	83.33	66.67	43.33	**1.24**
4,070	5,820	7,450	6,780	4,780	3,880	**39.19**
2,115	2,215	5,190	4,567	3,460	3,273	**27.74**
1,234,482	1,255,626	1,293,296	1,331,542	1,330,761	1,328,048	
168,879	166,980	131,352	118,499	115,583	108,257	

Notes:
1. U.S. dollar amounts are translated from yen at the rate of U.S.$1 = JPY105, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2013.
2. The Company made a three-for-two stock split on July 1, 2006. The average number of common shares and the per share data for the periods prior to the stock split have been adjusted to reflect the stock split.

CONSOLIDATED BALANCE SHEETS

Canon Inc. and Subsidiaries
December 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	2013	2012	2013
Current assets:			
Cash and cash equivalents (Note 1)	¥ 788,909	¥ 666,678	$ 7,513,419
Short-term investments (Note 3)	47,914	28,322	456,324
Trade receivables, net (Note 4)	608,741	573,375	5,797,533
Inventories (Note 5)	553,773	551,623	5,274,029
Prepaid expenses and other current assets (Notes 7, 12 and 17)	286,605	262,258	2,729,571
Total current assets	2,285,942	2,082,256	21,770,876
Noncurrent receivables (Note 18)	19,276	19,702	183,581
Investments (Note 3)	70,358	56,617	670,076
Property, plant and equipment, net (Notes 6 and 7)	1,278,730	1,260,364	12,178,381
Intangible assets, net (Note 8)	145,075	135,736	1,381,667
Other assets (Notes 7, 8, 11 and 12)	443,329	400,828	4,222,181
Total assets	¥4,242,710	¥3,955,503	$40,406,762
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term loans and current portion of long-term debt (Note 9)	¥ 1,299	¥ 1,866	$ 12,371
Trade payables (Note 10)	307,157	325,235	2,925,305
Accrued income taxes (Note 12)	53,196	60,057	506,629
Accrued expenses (Notes 11 and 18)	315,536	291,348	3,005,105
Other current liabilities (Notes 6, 12 and 17)	171,119	165,929	1,629,704
Total current liabilities	848,307	844,435	8,079,114
Long-term debt, excluding current installments (Note 9)	1,448	2,117	13,790
Accrued pension and severance cost (Note 11)	229,664	272,131	2,187,276
Other noncurrent liabilities (Note 12)	96,514	82,518	919,182
Total liabilities	1,175,933	1,201,201	11,199,362
Commitments and contingent liabilities (Note 18)			
Equity:			
Canon Inc. stockholders' equity:			
Common stock			
Authorized 3,000,000,000 shares; issued 1,333,763,464 shares in 2013 and 2012	174,762	174,762	1,664,400
Additional paid-in capital	402,029	401,547	3,828,848
Legal reserve (Note 13)	63,091	61,663	600,867
Retained earnings (Note 13)	3,212,692	3,138,976	30,597,067
Accumulated other comprehensive income (loss) (Note 14)	(80,646)	(367,249)	(768,057)
Treasury stock, at cost; 196,764,060 shares in 2013 and 180,972,173 shares in 2012	(861,666)	(811,673)	(8,206,344)
Total Canon Inc. stockholders' equity	2,910,262	2,598,026	27,716,781
Noncontrolling interests	156,515	156,276	1,490,619
Total equity	3,066,777	2,754,302	29,207,400
Total liabilities and equity	¥4,242,710	¥3,955,503	$40,406,762

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Canon Inc. and Subsidiaries
Years ended December 31, 2013, 2012 and 2011

	Millions of yen			*Thousands of U.S. dollars (Note 2)*
	2013	2012	2011	2013
Net sales	¥3,731,380	¥3,479,788	¥3,557,433	$35,536,952
Cost of sales (Notes 6, 8, 11 and 18)	1,932,959	1,829,822	1,820,670	18,409,133
Gross profit	1,798,421	1,649,966	1,736,763	17,127,819
Operating expenses (Notes 1, 6, 8, 11, 15 and 18):				
Selling, general and administrative expenses	1,154,820	1,029,646	1,050,892	10,998,286
Research and development expenses	306,324	296,464	307,800	2,917,371
	1,461,144	1,326,110	1,358,692	13,915,657
Operating profit	337,277	323,856	378,071	3,212,162
Other income (deductions):				
Interest and dividend income	6,579	6,792	8,432	62,657
Interest expense	(550)	(1,022)	(988)	(5,238)
Other, net (Notes 1, 3, 17 and 20)	4,298	12,931	(10,991)	40,933
	10,327	18,701	(3,547)	98,352
Income before income taxes	347,604	342,557	374,524	3,310,514
Income taxes (Note 12)	108,088	110,112	120,415	1,029,409
Consolidated net income	239,516	232,445	254,109	2,281,105
Less: Net income attributable to noncontrolling interests	9,033	7,881	5,479	86,029
Net income attributable to Canon Inc.	¥ 230,483	¥ 224,564	¥ 248,630	$ 2,195,076
	Yen			*U.S. dollars (Note 2)*
Net income attributable to Canon Inc. stockholders per share (Note 16):				
Basic	¥ 200.78	¥ 191.34	¥ 204.49	$ 1.91
Diluted	200.78	191.34	204.48	1.91
Cash dividends per share	130.00	130.00	120.00	1.24

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Canon Inc. and Subsidiaries
Years ended December 31, 2013, 2012 and 2011

	Millions of yen			*Thousands of U.S. dollars (Note 2)*
	2013	2012	2011	2013
Consolidated net income	¥239,516	¥232,445	¥254,109	$2,281,105
Other comprehensive income (loss), net of tax (Note 14):				
Foreign currency translation adjustments	251,576	133,735	(54,086)	2,395,962
Net unrealized gains and losses on securities	6,612	3,265	(2,116)	62,971
Net gains and losses on derivative instruments	2,056	(4,880)	(449)	19,581
Pension liability adjustments	32,669	(12,787)	(38,377)	311,133
	292,913	119,333	(95,028)	2,789,647
Comprehensive income	532,429	351,778	159,081	5,070,752
Less: Comprehensive income attributable to noncontrolling interests	14,688	10,824	1,765	139,885
Comprehensive income attributable to Canon Inc.	¥517,741	¥340,954	¥157,316	$4,930,867

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EQUITY

Canon Inc. and Subsidiaries

	Millions of yen								
	Common stock	*Additional paid-in capital*	*Legal reserve*	*Retained earnings*	*Accumulated other comprehensive income (loss)*	*Treasury stock*	*Total Canon Inc. stockholders' equity*	*Noncontrolling interests*	*Total equity*
Balance at December 31, 2010	¥174,762	¥400,425	¥57,930	¥2,965,237	¥(390,459)	¥(562,113)	¥2,645,782	¥163,855	¥2,809,637
Equity transactions with noncontrolling interests and other		1,193		(609)			584	(247)	337
Dividends paid to Canon Inc. stockholders				(152,784)			(152,784)		(152,784)
Dividends paid to noncontrolling interests								(2,838)	(2,838)
Transfer to legal reserve			1,074	(1,074)			—		—
Comprehensive income:									
Net income				248,630			248,630	5,479	254,109
Other comprehensive income (loss), net of tax (Note 14):									
Foreign currency translation adjustments					(53,251)		(53,251)	(835)	(54,086)
Net unrealized gains and losses on securities					(2,017)		(2,017)	(99)	(2,116)
Net gains and losses on derivative instruments					(462)		(462)	13	(449)
Pension liability adjustments					(35,584)		(35,584)	(2,793)	(38,377)
Total comprehensive income							157,316	1,765	159,081
Repurchase of treasury stock, net		(46)		(102)		(99,618)	(99,766)		(99,766)
Balance at December 31, 2011	174,762	401,572	59,004	3,059,298	(481,773)	(661,731)	2,551,132	162,535	2,713,667
Equity transactions with noncontrolling interests and other		(16)		152	(1,866)		(1,730)	(13,591)	(15,321)
Dividends paid to Canon Inc. stockholders				(142,362)			(142,362)		(142,362)
Dividends paid to noncontrolling interests								(3,492)	(3,492)
Transfer to legal reserve			2,659	(2,659)			—		—
Comprehensive income:									
Net income				224,564			224,564	7,881	232,445
Other comprehensive income (loss), net of tax (Note 14):									
Foreign currency translation adjustments					132,704		132,704	1,031	133,735
Net unrealized gains and losses on securities					3,148		3,148	117	3,265
Net gains and losses on derivative instruments					(4,882)		(4,882)	2	(4,880)
Pension liability adjustments					(14,580)		(14,580)	1,793	(12,787)
Total comprehensive income							340,954	10,824	351,778
Repurchase of treasury stock, net		(9)		(17)		(149,942)	(149,968)		(149,968)
Balance at December 31, 2012	174,762	401,547	61,663	3,138,976	(367,249)	(811,673)	2,598,026	156,276	2,754,302
Equity transactions with noncontrolling interests and other		**489**		**295**	**(655)**		**129**	**(11,182)**	**(11,053)**
Dividends to Canon Inc. stockholders				**(155,627)**			**(155,627)**		**(155,627)**
Dividends to noncontrolling interests								**(3,267)**	**(3,267)**
Transfer to legal reserve			**1,428**	**(1,428)**			**—**		**—**
Comprehensive income:									
Net income				**230,483**			**230,483**	**9,033**	**239,516**
Other comprehensive income, net of tax (Note 14):									
Foreign currency translation adjustments					**249,791**		**249,791**	**1,785**	**251,576**
Net unrealized gains and losses on securities					**6,097**		**6,097**	**515**	**6,612**
Net gains and losses on derivative instruments					**2,056**		**2,056**	**—**	**2,056**
Pension liability adjustments					**29,314**		**29,314**	**3,355**	**32,669**
Total comprehensive income							**517,741**	**14,688**	**532,429**
Repurchase of treasury stock, net		**(7)**		**(7)**		**(49,993)**	**(50,007)**		**(50,007)**
Balance at December 31, 2013	**¥174,762**	**¥402,029**	**¥63,091**	**¥3,212,692**	**¥ (80,646)**	**¥(861,666)**	**¥2,910,262**	**¥156,515**	**¥3,066,777**

	Thousands of U.S. dollars (Note 2)								
	Common stock	*Additional paid-in capital*	*Legal reserve*	*Retained earnings*	*Accumulated other comprehensive income (loss)*	*Treasury stock*	*Total Canon Inc. stockholders' equity*	*Noncontrolling interests*	*Total equity*
Balance at December 31, 2012	$1,664,400	$3,824,257	$587,267	$29,895,010	$(3,497,610)	$(7,730,219)	$24,743,105	$1,488,343	$26,231,448
Equity transactions with noncontrolling interests and other		4,657		2,809	(6,238)		1,228	(106,495)	(105,267)
Dividends to Canon Inc. stockholders				(1,482,162)			(1,482,162)		(1,482,162)
Dividends to noncontrolling interests								(31,114)	(31,114)
Transfer to legal reserve			13,600	(13,600)			—		—
Comprehensive income:									
Net income				2,195,076			2,195,076	86,029	2,281,105
Other comprehensive income, net of tax (Note 14):									
Foreign currency translation adjustments					2,378,962		2,378,962	17,000	2,395,962
Net unrealized gains and losses on securities					58,067		58,067	4,904	62,971
Net gains and losses on derivative instruments					19,581		19,581	—	19,581
Pension liability adjustments					279,181		279,181	31,952	311,133
Total comprehensive income							4,930,867	139,885	5,070,752
Repurchase of treasury stock, net		(66)		(66)		(476,125)	(476,257)		(476,257)
Balance at December 31, 2013	$1,664,400	$3,828,848	$600,867	$30,597,067	$ (768,057)	$(8,206,344)	$27,716,781	$1,490,619	$29,207,400

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Inc. and Subsidiaries
Years ended December 31, 2013, 2012 and 2011

	Millions of yen			*Thousands of U.S. dollars (Note 2)*
	2013	2012	2011	**2013**
Cash flows from operating activities:				
Consolidated net income	**¥239,516**	¥ 232,445	¥ 254,109	**$ 2,281,105**
Adjustments to reconcile consolidated net income to net cash provided by operating activities:				
Depreciation and amortization	**275,173**	258,133	261,343	**2,620,695**
Loss on disposal of fixed assets	**10,638**	11,242	8,937	**101,314**
Impairment loss of fixed assets	**—**	7	598	**—**
Impairment loss of investments	**39**	1,527	8,130	**371**
Equity in (earnings) losses of affiliated companies	**664**	(610)	7,368	**6,324**
Deferred income taxes	**16,791**	7,487	29,129	**159,914**
Decrease in trade receivables	**45,040**	5,030	9,991	**428,952**
(Increase) decrease in inventories	**85,577**	(24,805)	(109,983)	**815,019**
Increase (decrease) in trade payables	**(108,622)**	(102,293)	35,766	**(1,034,495)**
Increase (decrease) in accrued income taxes	**(9,432)**	12,427	(25,653)	**(89,829)**
Increase (decrease) in accrued expenses	**(15,635)**	(30,089)	8,938	**(148,905)**
Increase (decrease) in accrued (prepaid) pension and severance cost	**(15,568)**	5,515	(2,315)	**(148,267)**
Other, net	**(16,539)**	8,061	(16,796)	**(157,512)**
Net cash provided by operating activities	**507,642**	384,077	469,562	**4,834,686**
Cash flows from investing activities:				
Purchases of fixed assets (Note 6)	**(233,175)**	(316,211)	(238,129)	**(2,220,714)**
Proceeds from sale of fixed assets (Note 6)	**1,763**	4,861	3,273	**16,790**
Purchases of available-for-sale securities	**(5,771)**	(417)	(2,160)	**(54,962)**
Proceeds from sale and maturity of available-for-sale securities	**4,528**	344	1,934	**43,124**
(Increase) decrease in time deposits, net	**(12,483)**	103,137	(34,111)	**(118,886)**
Acquisitions of subsidiaries, net of cash acquired	**(4,914)**	(704)	29	**(46,800)**
Purchases of other investments	**(296)**	(796)	(373)	**(2,819)**
Other, net	**136**	(2,954)	12,994	**1,296**
Net cash used in investing activities	**(250,212)**	(212,740)	(256,543)	**(2,382,971)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	**1,483**	614	725	**14,124**
Repayments of long-term debt	**(2,334)**	(3,732)	(4,670)	**(22,229)**
Increase (decrease) in short-term loans, net	**(547)**	(5,055)	2,466	**(5,210)**
Dividends paid	**(155,627)**	(142,362)	(152,784)	**(1,482,162)**
Repurchases of treasury stock, net	**(50,007)**	(149,968)	(99,766)	**(476,257)**
Other, net	**(15,149)**	(19,236)	(3,484)	**(144,276)**
Net cash used in financing activities	**(222,181)**	(319,739)	(257,513)	**(2,116,010)**
Effect of exchange rate changes on cash and cash equivalents	**86,982**	41,853	(22,858)	**828,400**
Net change in cash and cash equivalents	**122,231**	(106,549)	(67,352)	**1,164,105**
Cash and cash equivalents at beginning of year	**666,678**	773,227	840,579	**6,349,314**
Cash and cash equivalents at end of year	**¥788,909**	¥ 666,678	¥773,227	**$ 7,513,419**

Supplemental disclosure for cash flow information:				
Cash paid during the year for:				
Interest	**¥ 500**	¥ 1,084	¥ 914	**$ 4,762**
Income taxes	**108,950**	98,096	120,696	**1,037,619**

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 subsidiaries (collectively "Canon") is one of the world's leading manufacturers in such fields as office products, imaging system products and industry and other products. Office products consist mainly of office multifunction devices ("MFDs"), laser multifunction printers ("MFPs"), laser printers, digital production printing systems, high speed continuous feed printers, wide-format printers and document solutions. Imaging system products consist mainly of interchangeable lens digital cameras, digital compact cameras, digital camcorders, digital cinema cameras, interchangeable lenses, inkjet printers, large-format inkjet printers, commercial photo printers, image scanners, multimedia projectors, broadcast equipment and calculators. Industry and other products consist mainly of semiconductor lithography equipment, flat panel display ("FPD") lithography equipment, digital radiography systems, ophthalmic equipment, vacuum thin-film deposition equipment, organic LED ("OLED") panel manufacturing equipment, die bonders, micromotors, network cameras, handy terminals and document scanners. Canon's consolidated net sales for the years ended December 31, 2013, 2012 and 2011 were distributed as follows: the Office Business Unit 53.6%, 50.5% and 53.9%, the Imaging System Business Unit 38.8%, 40.4% and 36.9%, the Industry and Others Business Unit 10.0%, 11.7% and 11.8%, and elimination between segments 2.4%, 2.6% and 2.6%, respectively. These percentages were computed by dividing segment net sales, including intersegment sales, by consolidated net sales, based on the segment operating results described in Note 21.

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 area. 80.8%, 79.3% and 80.5% of consolidated net sales for the years ended December 31, 2013, 2012 and 2011 were generated outside Japan, with 28.4%, 27.0% and 27.0% in the Americas, 30.1%, 29.1% and 31.3% in Europe, and 22.3%, 23.2% and 22.2% in Asia and Oceania, respectively.

Canon sells laser printers on an OEM basis to Hewlett-Packard Company; such sales constituted 17.6%, 17.0% and 19.3% of consolidated net sales for the years ended December 31, 2013, 2012 and 2011, respectively, and are included in the Office Business Unit.

Canon's manufacturing operations are conducted primarily at 28 plants in Japan and 18 overseas plants which are located in countries or 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 ("GAAP"). These adjustments were not recorded in the statutory books of account.

(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 significant 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 revenue recognition, allowance for doubtful receivables, valuation of inventories, impairment of long-lived assets, environmental liabilities, valuation of deferred tax assets, uncertain tax positions and employee retirement and severance benefit obligations. Actual results could differ materially from those estimates.

(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, including foreign exchange contracts, 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 was a net loss of ¥1,992 million ($18,971 thousand) for the year ended December 31, 2013, a net gain of ¥9,130 million for the year ended December 31, 2012 and a net loss of ¥3,287 million for the year ended December 31, 2011, 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 securities of ¥183,078 million ($1,743,600 thousand) and ¥141,729 million at December 31, 2013 and 2012, 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 marketable equity securities, investments in affiliated companies and non-marketable equity securities. Canon reports investments with maturities of less than one year as short-term investments.

Canon classifies investments in debt and marketable equity securities as available-for-sale or held-to-maturity securities. Canon does not hold any trading securities, which are bought and held primarily for the purpose of sale in the near term.

Available-for-sale securities are recorded at fair value. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. Unrealized holding gains and losses, net of the related tax effect, are reported as a separate component of accumulated other comprehensive income (loss) until realized. Held-to-maturity securities are recorded at amortized cost, adjusted for amortization of premiums and accretion of discounts.

Available-for-sale and held-to-maturity 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 debt securities for which the declines are deemed to be other-than-temporary and there is no intent to sell, impairments are separated into the amount related to credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income (loss). For debt securities for which the declines are deemed to be other-than-temporary and there is an intent to sell, impairments in their entirety are recognized in earnings. For equity securities for which the declines are deemed to be other-than-temporary, impairments in their entirety are recognized in earnings. Canon recognizes an impairment loss to the extent by which the cost basis of the investment exceeds the fair value of the investment.

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.

Non-marketable equity securities in companies over which Canon does not have the ability to exercise significant influence are stated at cost and reviewed periodically for impairment.

(h) Allowance for Doubtful Receivables

Allowance for doubtful trade and finance receivables is maintained for all customers based on a combination of factors, including aging analysis, macroeconomic conditions and historical experience. 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 market 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 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

Property, plant and equipment are stated at cost. 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.

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 the lease term, generally from 2 years to 5 years.

(l) 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. Canon performs its impairment test of goodwill using the two-step approach at the reporting unit level, which is one level below the operating segment level. 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 performs the second step to measure an impairment charge in the amount by which the carrying amount of a reporting unit's goodwill exceeds its implied fair value.

Intangible assets with finite useful lives consist primarily of software, license fees, patented technologies and customer relationships. Software and license fees are amortized using the straight-line method over the estimated useful lives, which range from 3 years to 5 years for software and 5 years to 10 years for license fees. Patented technologies are amortized using the straight-line method principally over the estimated useful life of 3 years. Customer relationships are amortized principally using the declining-balance method over the estimated useful life of 5 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 develops or obtains certain software to be sold where related costs are capitalized after establishment of technological feasibility.

(m) 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. Such liabilities are adjusted as further information develops or circumstances change. Costs of future obligations are not discounted to their present values.

(n) 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.

(o) 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.

(p) Net Income Attributable to Canon Inc. Stockholders per Share

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

(q) Revenue Recognition

Canon generates revenue principally through the sale of office and imaging system products, equipment, supplies, and related services under separate contractual arrangements. Canon recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have been transferred to the customer or services have been rendered, the sales price is fixed or determinable, and collectibility is probable.

Revenue from sales of office products, such as office MFDs and laser printers, and imaging system products, such as digital cameras and inkjet printers, is recognized upon shipment or delivery, depending upon when title and risk of loss transfer to the customer.

Canon also offers separately priced product maintenance contracts for most office products, for which the customer typically pays a stated base service fee plus a variable amount based on usage. Revenue from these service maintenance contracts is measured at the stated amount of the contract and recognized as services are provided and variable amounts are earned.

Revenue from the sale of equipment under sales-type leases is recognized at the inception of the lease. 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 equipment leases are bundled with product maintenance contracts, revenue is allocated based upon the estimated relative fair value of the lease and non-lease deliverables. Lease deliverables generally include equipment, financing and executory costs, while non-lease deliverables generally consist of product maintenance contracts and supplies.

Revenue from sales of optical equipment, such as semiconductor lithography equipment and FPD lithography equipment that are sold with customer acceptance provisions related to their functionality, is recognized when the equipment is installed at the customer site and the specific criteria of the equipment functionality are successfully tested and demonstrated by Canon. Service revenue is derived primarily from separately priced product maintenance contracts on equipment sold to customers and is measured at the stated amount of the contract and recognized as services are provided.

For all other arrangements with multiple elements, Canon allocates revenue to each element based on its relative selling price if such element meets the criteria for treatment as a separate unit of accounting. Otherwise, revenue is deferred until the undelivered elements are fulfilled and accounted for as a single unit of accounting.

Canon records estimated reductions to sales at the time of sale for sales incentive programs including product discounts, customer promotions and volume-based rebates. Estimated reductions to sales are based upon historical trends and other known factors at the time of sale. Canon regularly adjusts its estimates each period in the ordinary course of establishing sales incentive program accruals based on current information. During the year ended December 31, 2012, Canon revised its estimates for sales incentive program accruals based on new information which was not available at the time that the accrual was established due to unique circumstances, such as the earthquake in Japan and the flooding in Thailand that occurred in 2011 as well as a recent shift in usage of incentive programs from mail-in rebates to instant rebates. This change in estimate caused an increase in net income attributable to Canon Inc. of ¥10,785 million, and an increase in basic and diluted net income attributable to Canon Inc. stockholders per share of ¥9.19 each. During the years ended December 31, 2013 and 2011, such adjustments were not significant. Canon also provides price protection to certain resellers of its products, and records reductions to sales for the estimated impact of price protection obligations when announced.

Estimated product warranty costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses in the consolidated statements of income. Estimates for accrued product warranty costs are 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.

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

(r) Research and Development Costs

Research and development costs are expensed as incurred.

(s) Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were ¥86,398 million ($822,838 thousand), ¥83,134 million and ¥81,232 million for the years ended December 31, 2013, 2012 and 2011, respectively.

(t) Shipping and Handling Costs

Shipping and handling costs totaled ¥47,460 million ($452,000 thousand), ¥38,499 million and ¥43,308 million for the years ended December 31, 2013, 2012 and 2011, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

(u) 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. Gains and losses from hedging ineffectiveness are included in other income (deductions). Gains and losses related to the components of hedging instruments excluded from the assessment of hedge effectiveness are included in other income (deductions).

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.

(v) Guarantees

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

(w) Recently Issued Accounting Guidance

In February 2013, the FASB issued an amendment which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component, and to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. Canon adopted this amended guidance from the quarter beginning January 1, 2013. This adoption did not have a material impact on Canon's consolidated results of operations and financial condition. See Note 14 of the Notes to Consolidated Financial Statements.

2. BASIS OF FINANCIAL STATEMENT TRANSLATION

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥105 = U.S.$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on December 30, 2013. This translation should not be construed as a representation that the amounts shown could be converted into United States dollars at such rate.

3. INVESTMENTS

The cost, gross unrealized holding gains, gross unrealized holding losses and fair value for available-for-sale securities included in short-term investments and investments by major security type at December 31, 2013 and 2012 were as follows:

December 31 *Millions of yen*	*Cost*	*Gross unrealized holding gains*	*Gross unrealized holding losses*	*Fair value*
2013: Noncurrent:				
Government bonds	**¥ 338**	**¥ —**	**¥31**	**¥ 307**
Corporate bonds	**491**	**16**	**26**	**481**
Fund trusts	**68**	**—**	**—**	**68**
Equity securities	**18,112**	**16,450**	**26**	**34,536**
	¥19,009	**¥16,466**	**¥83**	**¥35,392**

Millions of yen	*Cost*	*Gross unrealized holding gains*	*Gross unrealized holding losses*	*Fair value*
2012: Current:				
Corporate bonds	¥ 30	¥ —	¥ —	¥ 30
Noncurrent:				
Government bonds	¥ 181	¥ —	¥ —	¥ 181
Corporate bonds	590	—	30	560
Fund trusts	1,192	43	1	1,234
Equity securities	14,866	7,033	564	21,335
	¥16,829	¥7,076	¥595	¥23,310

Thousands of U.S. dollars	*Cost*	*Gross unrealized holding gains*	*Gross unrealized holding losses*	*Fair value*
2013: Noncurrent:				
Government bonds	**$ 3,219**	**$ —**	**$296**	**$ 2,923**
Corporate bonds	**4,676**	**152**	**247**	**4,581**
Fund trusts	**648**	**—**	**—**	**648**
Equity securities	**172,495**	**156,667**	**247**	**328,915**
	$181,038	**$156,819**	**$790**	**$337,067**

Maturities of available-for-sale debt securities included in investments in the accompanying consolidated balance sheets were as follows at December 31, 2013:

December 31	*Millions of yen*		*Thousands of U.S. dollars*	
	Cost	*Fair value*	*Cost*	*Fair value*
Due within one year	**¥ —**	**¥ —**	**$ —**	**$ —**
Due after one year through five years	**10**	**10**	**95**	**95**
Due after five years	**819**	**778**	**7,800**	**7,409**
	¥829	**¥788**	**$7,895**	**$7,504**

Gross realized gains were ¥2,360 million ($22,476 thousand), ¥238 million and ¥204 million for the years ended December 31, 2013, 2012 and 2011, respectively. Gross realized losses, including write-downs for impairments that were other-than-temporary, were ¥2 million ($19 thousand), ¥1,545 million and ¥4,281 million for the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31, 2013, substantially all of the available-for-sale securities with unrealized losses had been in a continuous unrealized loss position for less than twelve months.

Time deposits with original maturities of more than three months are ¥47,914 million ($456,324 thousand) and ¥28,292 million at December 31, 2013 and 2012, respectively, and are included in short-term investments in the accompanying consolidated balance sheets.

Aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥14,794 million ($140,895 thousand) and ¥14,808 million at December 31, 2013 and 2012, respectively. These investments were not evaluated for impairment at December 31, 2013 and 2012, respectively, because (a) Canon did not estimate the fair value of those investments as it was not practicable to estimate the fair value of the investments and (b) Canon did not identify any events or changes in circumstances that might have had significant adverse effects on the fair value of those investments.

Investments in affiliated companies accounted for by the equity method amounted to ¥18,937 million ($180,352 thousand) and ¥17,345 million at December 31, 2013 and 2012, respectively. Canon's share of the net earnings (losses) in affiliated companies accounted for by the equity method, included in other income (deductions), were losses of ¥664 million ($6,324 thousand), earnings of ¥610 million and losses of ¥7,368 million for the years ended December 31, 2013, 2012 and 2011, respectively.

4. TRADE RECEIVABLES

Trade receivables are summarized as follows:

December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Notes	**¥ 15,461**	¥ 17,207	**$ 147,247**
Accounts	**606,010**	569,138	**5,771,524**
	621,471	586,345	**5,918,771**
Less allowance for doubtful receivables	**(12,730)**	(12,970)	**(121,238)**
	¥608,741	¥573,375	**$5,797,533**

5. INVENTORIES

Inventories are summarized as follows:

December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Finished goods	**¥406,443**	¥391,194	**$3,870,886**
Work in process	**128,120**	139,923	**1,220,191**
Raw materials	**19,210**	20,506	**182,952**
	¥553,773	¥551,623	**$5,274,029**

6. 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*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Land	**¥ 282,484**	¥ 272,233	**$ 2,690,324**
Buildings	**1,570,024**	1,447,838	**14,952,610**
Machinery and equipment	**1,736,107**	1,586,827	**16,534,352**
Construction in progress	**73,645**	112,919	**701,381**
	3,662,260	3,419,817	**34,878,667**
Less accumulated depreciation	**(2,383,530)**	(2,159,453)	**(22,700,286)**
	¥1,278,730	¥1,260,364	**$12,178,381**

Depreciation expenses for the years ended December 31, 2013, 2012 and 2011 were ¥223,158 million ($2,125,314 thousand), ¥211,973 million and ¥210,179 million, respectively.

Amounts due for purchases of property, plant and equipment were ¥33,585 million ($319,857 thousand) and ¥38,893 million at December 31, 2013 and 2012, 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.

7. FINANCE RECEIVABLES AND OPERATING LEASES

Finance receivables represent financing leases which consist of sales-type leases and direct-financing leases resulting from the sales of Canon's and complementary third-party products primarily in foreign countries. These receivables typically have terms ranging from 1 year to 6 years.

The components of the finance receivables, which are included in prepaid expenses and other current assets, and other assets in the accompanying consolidated balance sheets, are as follows:

December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Total minimum lease payments receivable	**¥278,621**	¥231,221	**$2,653,533**
Unguaranteed residual values	**9,566**	8,863	**91,105**
Executory costs	**(2,184)**	(2,598)	**(20,800)**
Unearned income	**(29,875)**	(27,521)	**(284,524)**
	256,128	209,965	**2,439,314**
Less allowance for credit losses	**(7,323)**	(6,908)	**(69,743)**
	248,805	203,057	**2,369,571**
Less current portion	**(91,025)**	(74,168)	**(866,904)**
	¥157,780	¥128,889	**$1,502,667**

The activity in the allowance for credit losses is as follows:

Years ended December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Balance at beginning of year	**¥ 6,908**	¥ 7,039	**$ 65,790**
Charge-offs	**(1,278)**	(1,304)	**(12,171)**
Provision	**212**	1,922	**2,019**
Other	**1,481**	(749)	**14,105**
Balance at end of year	**¥ 7,323**	¥ 6,908	**$ 69,743**

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 finance receivables are evaluated collectively based on historical experience of credit losses. 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. Finance receivables which are past due or individually evaluated for impairment at December 31, 2013 and 2012 are not significant.

The cost of equipment leased to customers under operating leases included in property, plant and equipment, net at December 31, 2013 and 2012 was ¥103,403 million ($984,790 thousand) and ¥80,186 million, respectively. Accumulated depreciation on equipment under operating leases at December 31, 2013 and 2012 was ¥78,821 million ($750,676 thousand) and ¥58,433 million, respectively.

The following is a schedule by year of the future minimum lease payments to be received under financing leases and non-cancelable operating leases at December 31, 2013.

Year ending December 31:	*Millions of yen*		*Thousands of U.S. dollars*	
	Financing leases	*Operating leases*	*Financing leases*	*Operating leases*
2014	¥109,408	¥ 7,639	$1,041,981	$ 72,752
2015	82,900	4,154	789,524	39,562
2016	51,963	2,148	494,886	20,457
2017	25,423	1,070	242,124	10,190
2018	8,427	309	80,257	2,943
Thereafter	500	419	4,761	3,991
	¥278,621	¥15,739	$2,653,533	$149,895

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets subject to amortization acquired during the years ended December 31, 2013 and 2012 totaled ¥42,630 million ($406,000 thousand) and ¥34,196 million, which primarily consist of software of ¥37,419 million ($356,371 thousand) and ¥33,985 million, respectively. The weighted average amortization periods for intangible assets in total acquired during the years ended December 31, 2013 and 2012 are approximately 4 years. The weighted average amortization periods for software acquired during the years ended December 31, 2013 and 2012 are approximately 4 years.

The components of intangible assets subject to amortization at December 31, 2013 and 2012 were as follows:

December 31	**2013**		2012	
Millions of yen	*Gross carrying amount*	*Accumulated amortization*	*Gross carrying amount*	*Accumulated amortization*
Software	**¥271,425**	**¥167,411**	¥225,894	¥131,875
Customer relationships	**50,792**	**39,957**	39,615	26,938
Patented technologies	**29,067**	**24,027**	25,900	19,028
License fees	**13,194**	**7,902**	20,142	14,573
Other	**32,319**	**16,094**	22,776	9,382
	¥396,797	**¥255,391**	¥334,327	¥201,796

December 31	**2013**	
Thousands of U.S. dollars	*Gross carrying amount*	*Accumulated amortization*
Software	**$2,585,000**	**$1,594,390**
Customer relationships	**483,733**	**380,543**
Patented technologies	**276,829**	**228,829**
License fees	**125,657**	**75,257**
Other	**307,800**	**153,276**
	$3,779,019	**$2,432,295**

Aggregate amortization expense for the years ended December 31, 2013, 2012 and 2011 was ¥52,015 million ($495,381 thousand), ¥46,160 million and ¥51,164 million, respectively. Estimated amortization expense for intangible assets currently held for the next five years ending December 31 is ¥46,573 million ($443,552 thousand) in 2014, ¥31,898 million ($303,790 thousand) in 2015, ¥21,241 million ($202,295 thousand) in 2016, ¥12,464 million ($118,705 thousand) in 2017, and ¥7,371 million ($70,200 thousand) in 2018.

Intangible assets not subject to amortization other than goodwill at December 31, 2013 and 2012 were not significant.

For management reporting purposes, goodwill is not allocated to the segments. Goodwill has been allocated to its respective segment for impairment testing.

The changes in the carrying amount of goodwill by segment, which is included in other assets in the consolidated balance sheets, for the years ended December 31, 2013 and 2012 were as follows:

Years ended December 31 *Millions of yen*	*Office*	*Imaging System*	*Industry and Others*	*Total*
2013: Balance at beginning of year	**¥111,348**	**¥12,674**	**¥6,821**	**¥130,843**
Goodwill acquired during the year	**4,083**	**—**	**—**	**4,083**
Translation adjustments and other	**23,981**	**1,203**	**1,530**	**26,714**
Balance at end of year	**¥139,412**	**¥13,877**	**¥8,351**	**¥161,640**

Millions of yen	*Office*	*Imaging System*	*Industry and Others*	*Total*
2012: Balance at beginning of year	¥102,060	¥12,088	¥4,873	¥119,021
Goodwill acquired during the year	—	—	961	961
Translation adjustments and other	9,288	586	987	10,861
Balance at end of year	¥111,348	¥12,674	¥6,821	¥130,843

Thousands of U.S. dollars	*Office*	*Imaging System*	*Industry and Others*	*Total*
2013: Balance at beginning of year	**$1,060,457**	**$120,705**	**$64,962**	**$1,246,124**
Goodwill acquired during the year	**38,886**	**—**	**—**	**38,886**
Translation adjustments and other	**228,390**	**11,457**	**14,572**	**254,419**
Balance at end of year	**$1,327,733**	**$132,162**	**$79,534**	**$1,539,429**

9. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans consisting of bank borrowings at December 31, 2013 and 2012 were ¥54 million ($514 thousand) and ¥319 million, respectively. The weighted average interest rates on short-term loans outstanding at December 31, 2013 and 2012 were 3.75% and 4.00%, respectively.

Long-term debt consisted of the following:

December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Loans, principally from banks, maturing in installments through 2024; bearing weighted average interest of 1.15% and 1.94% at December 31, 2013 and 2012, respectively	**¥ 211**	¥ 132	**$ 2,010**
Capital lease obligations	**2,482**	3,532	**23,637**
	2,693	3,664	**25,647**
Less current portion	**(1,245)**	(1,547)	**(11,857)**
	¥ 1,448	¥ 2,117	**$ 13,790**

The aggregate annual maturities of long-term debt outstanding at December 31, 2013 were as follows:

Year ending December 31:	*Millions of yen*	*Thousands of U.S. dollars*
2014	¥1,245	$11,857
2015	880	8,381
2016	319	3,038
2017	171	1,629
2018	48	457
Thereafter	30	285
	¥2,693	$25,647

Both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will 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*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Notes	**¥ 8,005**	¥ 11,971	**$ 76,238**
Accounts	**299,152**	313,264	**2,849,067**
	¥307,157	¥325,235	**$2,925,305**

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.

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, 2013, 2012 and 2011 were ¥14,383 million ($136,981 thousand), ¥13,021 million and ¥12,511 million, respectively.

Obligations and funded status

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

December 31	*Japanese plans*			*Foreign plans*		
	Millions of yen		*Thousands of U.S. dollars*	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**	**2013**	2012	**2013**
Change in benefit obligations:						
Benefit obligations at beginning of year	**¥ 651,520**	¥ 626,924	**$ 6,204,952**	**¥ 364,609**	¥ 262,130	**$ 3,472,467**
Service cost	**26,005**	25,738	**247,667**	**9,448**	5,884	**89,981**
Interest cost	**11,655**	11,788	**111,000**	**14,299**	13,176	**136,181**
Plan participants' contributions	**—**	—	**—**	**2,617**	2,315	**24,924**
Actuarial loss	**14,959**	6,049	**142,466**	**8,981**	45,145	**85,534**
Benefits paid	**(19,297)**	(18,979)	**(183,780)**	**(9,415)**	(10,407)	**(89,668)**
Curtailments and settlements	**—**	—	**—**	**(2,868)**	—	**(27,314)**
Foreign currency exchange rate changes	**—**	—	**—**	**98,901**	46,366	**941,914**
Benefit obligations at end of year	**684,842**	651,520	**6,522,305**	**486,572**	364,609	**4,634,019**
Change in plan assets:						
Fair value of plan assets at beginning of year	**495,452**	448,736	**4,718,590**	**249,534**	192,033	**2,376,514**
Actual return on plan assets	**84,382**	41,593	**803,638**	**20,640**	25,290	**196,571**
Employer contributions	**19,810**	22,589	**188,667**	**28,705**	7,832	**273,381**
Plan participants' contributions	**—**	—	**—**	**2,617**	2,315	**24,924**
Benefits paid	**(17,648)**	(17,466)	**(168,076)**	**(9,106)**	(9,825)	**(86,724)**
Settlements	**—**	—	**—**	**(2,656)**	—	**(25,295)**
Foreign currency exchange rate changes	**—**	—	**—**	**70,793**	31,889	**674,219**
Fair value of plan assets at end of year	**581,996**	495,452	**5,542,819**	**360,527**	249,534	**3,433,590**
Funded status at end of year	**¥(102,846)**	¥ (156,068)	**$ (979,486)**	**¥(126,045)**	¥ (115,075)	**$ (1,200,429)**

Amounts recognized in the consolidated balance sheets at December 31, 2013 and 2012 are as follows:

December 31	*Japanese plans*			*Foreign plans*		
	Millions of yen		*Thousands of U.S. dollars*	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**	**2013**	2012	**2013**
Other assets	**¥ 559**	¥ —	**$ 5,323**	**¥ 1,106**	¥ 1,371	**$ 10,533**
Accrued expenses	**—**	—	**—**	**(892)**	(383)	**(8,495)**
Accrued pension and severance cost	**(103,405)**	(156,068)	**(984,809)**	**(126,259)**	(116,063)	**(1,202,467)**
	¥(102,846)	¥(156,068)	**$ (979,486)**	**¥(126,045)**	¥(115,075)	**$ (1,200,429)**

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2013 and 2012 before the effect of income taxes are as follows:

December 31	*Japanese plans*			*Foreign plans*		
	Millions of yen		*Thousands of U.S. dollars*	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**	**2013**	2012	**2013**
Actuarial loss	**¥186,052**	¥253,748	**$1,771,924**	**¥50,344**	¥50,417	**$479,467**
Prior service credit	**(105,327)**	(117,633)	**(1,003,114)**	**(118)**	(261)	**(1,124)**
	¥ 80,725	¥ 136,115	**$ 768,810**	**¥50,226**	¥50,156	**$478,343**

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

December 31	*Japanese plans*			*Foreign plans*		
	Millions of yen		*Thousands of U.S. dollars*	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**	**2013**	2012	**2013**
Accumulated benefit obligation	**¥631,887**	¥620,589	**$ 6,017,971**	**¥464,195**	¥328,736	**$4,420,905**

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	*Japanese plans*			*Foreign plans*		
	Millions of yen		*Thousands of U.S. dollars*	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**	**2013**	2012	**2013**
Plans with projected benefit obligations in excess of plan assets:						
Projected benefit obligations	**¥676,308**	¥651,520	**$6,441,028**	**¥485,466**	¥360,742	**$4,623,486**
Fair value of plan assets	**572,903**	495,452	**5,456,219**	**358,315**	244,296	**3,412,524**
Plans with accumulated benefit obligations in excess of plan assets:						
Accumulated benefit obligations	**¥611,602**	¥615,551	**$5,824,781**	**¥463,089**	¥324,869	**$4,410,371**
Fair value of plan assets	**560,093**	489,929	**5,334,219**	**358,315**	244,296	**3,412,524**

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, 2013, 2012 and 2011 consisted of the following components:

Years ended December 31	*Japanese plans*				*Foreign plans*			
	Millions of yen			*Thousands of U.S. dollars*	*Millions of yen*			*Thousands of U.S. dollars*
	2013	2012	2011	**2013**	**2013**	2012	2011	**2013**
Service cost	**¥ 26,005**	¥ 25,738	¥ 25,875	**$ 247,667**	**¥ 9,448**	¥ 5,884	¥ 5,756	**$ 89,981**
Interest cost	**11,655**	11,788	12,354	**111,000**	**14,299**	13,176	12,748	**136,181**
Expected return on plan assets	**(15,273)**	(13,791)	(16,485)	**(145,458)**	**(13,949)**	(11,806)	(12,112)	**(132,847)**
Amortization of net transition obligation	**—**	—	722	**—**	**—**	—	—	**—**
Amortization of prior service credit	**(12,306)**	(13,079)	(13,674)	**(117,200)**	**(143)**	(116)	(93)	**(1,362)**
Amortization of actuarial loss	**13,546**	16,277	14,462	**129,010**	**2,005**	1,351	621	**19,095**
Loss on curtailments and settlements	**—**	—	—	**—**	**146**	—	—	**1,390**
	¥ 23,627	¥ 26,933	¥ 23,254	**$ 225,019**	**¥ 11,806**	¥ 8,489	¥ 6,920	**$ 112,438**

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011 are summarized as follows:

Years ended December 31	*Japanese plans*				*Foreign plans*			
	Millions of yen			*Thousands of U.S. dollars*	*Millions of yen*			*Thousands of U.S. dollars*
	2013	2012	2011	**2013**	**2013**	2012	2011	**2013**
Current year actuarial (gain) loss	**¥(54,150)**	¥(21,753)	¥48,615	**$ (515,714)**	**¥ 2,290**	¥31,661	¥13,649	**$ 21,810**
Amortization of actuarial loss	**(13,546)**	(16,277)	(14,462)	**(129,010)**	**(2,005)**	(1,351)	(621)	**(19,095)**
Prior service credit due to amendments	**—**	—	(1,913)	**—**	**—**	—	—	**—**
Amortization of prior service credit	**12,306**	13,079	13,674	**117,200**	**143**	116	93	**1,362**
Amortization of net transition obligation	**—**	—	(722)	**—**	**—**	—	—	**—**
Curtailments and settlements	**—**	—	—	**—**	**(358)**	—	—	**(3,409)**
	¥(55,390)	¥(24,951)	¥45,192	**$ (527,524)**	**¥ 70**	¥30,426	¥13,121	**$ 668**

The estimated prior service credit and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follows:

	Japanese plans		*Foreign plans*	
	Millions of yen	*Thousands of U.S. dollars*	*Millions of yen*	*Thousands of U.S. dollars*
Prior service credit	¥(12,801)	$ (121,914)	¥ (51)	$ (486)
Actuarial loss	9,989	95,133	1,800	17,143

Assumptions

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

December 31	Japanese plans		Foreign plans	
	2013	2012	**2013**	2012
Discount rate	**1.6%**	1.8%	**3.8%**	3.6%
Assumed rate of increase in future compensation levels	**3.0%**	3.0%	**2.3%**	2.2%

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

Years ended December 31	Japanese plans			Foreign plans		
	2013	2012	2011	**2013**	2012	2011
Discount rate	**1.8%**	1.9%	2.1%	**3.6%**	4.6%	4.9%
Assumed rate of increase in future compensation levels	**3.0%**	3.0%	3.0%	**2.2%**	2.4%	2.9%
Expected long-term rate of return on plan assets	**3.1%**	3.1%	3.6%	**5.2%**	5.4%	5.7%

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 comprised 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 20% is invested in equity securities, approximately 55% is invested in debt securities, and approximately 25% is invested in other investment vehicles, primarily consisting of investments in life insurance company general accounts.

Outside Japan, investment policies vary by country, but the long-term investment objectives and strategies remain consistent. Canon's model portfolio for foreign plans has been developed as follows: approximately 30% is invested in equity securities, approximately 50% is invested in debt securities, and approximately 20% is invested in other investment vehicles, primarily consisting of investments in real estate assets.

The equity securities are selected primarily from stocks that are listed on the securities exchanges. Prior to investing, Canon has investigated the business condition of the investee companies, and appropriately diversified 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 has investigated the quality of the issue, including rating, interest rate, and repayment dates, and has appropriately diversified the investments. Pooled funds are selected using strategies consistent with the equity and debt securities described above. As for investments in life insurance company general accounts, the contracts with the insurance companies include a guaranteed interest rate and return of capital. With respect to investments in foreign investment vehicles, Canon has investigated the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Canon has selected the appropriate investment country and currency.

The three levels of input used to measure fair value are more fully described in Note 20. The fair values of Canon's pension plan assets at December 31, 2013 and 2012, by asset category, are as follows:

December 31, 2013	Millions of yen							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (a)	¥ 51,159	¥ —	¥ —	¥ 51,159	¥ —	¥ —	¥—	¥ —
Foreign companies	10,347	—	—	10,347	43,681	—	—	43,681
Pooled funds (b)	—	145,417	—	145,417	—	104,933	—	104,933
Debt securities:								
Government bonds (c)	124,800	—	—	124,800	44,192	—	—	44,192
Municipal bonds	—	1,027	—	1,027	—	2,246	—	2,246
Corporate bonds	—	10,543	—	10,543	—	32,921	—	32,921
Pooled funds (d)	—	101,583	—	101,583	—	57,518	—	57,518
Mortgage backed securities (and other asset backed securities)	—	9,569	—	9,569	—	5,098	—	5,098
Life insurance company general accounts	—	109,097	—	109,097	—	15,420	—	15,420
Other assets	—	17,636	818	18,454	—	54,518	—	54,518
	¥186,306	¥394,872	¥818	¥581,996	¥87,873	¥272,654	¥—	¥360,527

December 31, 2012	Millions of yen							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (e)	¥34,387	¥ —	¥ —	¥ 34,387	¥ —	¥ —	¥—	¥ —
Foreign companies	6,560	—	—	6,560	13,149	—	—	13,149
Pooled funds (f)	—	99,631	—	99,631	—	60,142	—	60,142
Debt securities:								
Government bonds (g)	20,301	—	—	20,301	4,345	—	—	4,345
Municipal bonds	—	1,064	—	1,064	—	21	—	21
Corporate bonds	—	8,425	—	8,425	—	—	—	—
Pooled funds (h)	—	192,386	—	192,386	—	128,647	—	128,647
Mortgage backed securities (and other asset backed securities)	—	8,400	—	8,400	—	236	—	236
Life insurance company general accounts	—	113,179	—	113,179	—	1,857	—	1,857
Other assets	—	9,813	1,306	11,119	—	41,137	—	41,137
	¥61,248	¥432,898	¥1,306	¥495,452	¥17,494	¥232,040	¥—	¥249,534

December 31, 2013	*Thousands of U.S. dollars*							
	Japanese plans				*Foreign plans*			
	Level 1	*Level 2*	*Level 3*	*Total*	*Level 1*	*Level 2*	*Level 3*	*Total*
Equity securities:								
Japanese companies (a)	$ 487,229	$ —	$ —	$ 487,229	$ —	$ —	$—	$ —
Foreign companies	98,543	—	—	98,543	416,010	—	—	416,010
Pooled funds (b)	—	1,384,924	—	1,384,924	—	999,363	—	999,363
Debt securities:								
Government bonds (c)	1,188,571	—	—	1,188,571	420,876	—	—	420,876
Municipal bonds	—	9,781	—	9,781	—	21,390	—	21,390
Corporate bonds	—	100,410	—	100,410	—	313,533	—	313,533
Pooled funds (d)	—	967,457	—	967,457	—	547,790	—	547,790
Mortgage backed securities (and other asset backed securities)	—	91,133	—	91,133	—	48,552	—	48,552
Life insurance company general accounts	—	1,039,019	—	1,039,019	—	146,857	—	146,857
Other assets	—	167,962	7,790	175,752	—	519,219	—	519,219
	$1,774,343	$ 3,760,686	$ 7,790	$5,542,819	$836,886	$2,596,704	$—	$3,433,590

(a) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥572 million ($5,448 thousand).

(b) These funds invest in listed equity securities consisting of approximately 25% Japanese companies and 75% foreign companies for Japanese plans, and mainly foreign companies for foreign plans.

(c) This class includes approximately 85% Japanese government bonds and 15% foreign government bonds for Japanese plans, and mainly foreign government bonds for foreign plans.

(d) 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 85% foreign government bonds and 15% 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 ¥565 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 30% Japanese government bonds and 70% foreign government bonds for Japanese plans, and mainly foreign government bonds for foreign plans.

(h) These funds invest in approximately 65% Japanese government bonds, 25% foreign government bonds, 5% Japanese municipal bonds, and 5% corporate bonds for Japanese plans. These funds invest in approximately 30% foreign government bonds and 70% 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 and investments in life insurance company general accounts. 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.

The fair value of Level 3 assets, consisting of hedge funds, was ¥818 million ($7,790 thousand) and ¥1,306 million at December 31, 2013 and 2012, respectively. Amounts of actual returns on, and purchases and sales of, these assets during the years ended December 31, 2013 and 2012 were not significant.

Contributions

Canon expects to contribute ¥13,589 million ($129,419 thousand) to its Japanese defined benefit pension plans and ¥7,060 million ($67,238 thousand) to its foreign defined benefit pension plans for the year ending December 31, 2014.

Estimated future benefit payments

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

Year ending December 31:	*Japanese plans*		*Foreign plans*	
	Millions of yen	*Thousands of U.S. dollars*	*Millions of yen*	*Thousands of U.S. dollars*
2014	¥ 16,846	$ 160,438	¥11,782	$112,210
2015	18,489	176,086	11,417	108,733
2016	20,242	192,781	12,144	115,657
2017	21,713	206,790	12,713	121,076
2018	23,688	225,600	13,322	126,876
2019–2023	153,224	1,459,276	78,655	749,095

12. INCOME TAXES

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

Years ended December 31	*Millions of yen*		
	Japanese	*Foreign*	*Total*
2013: Income before income taxes	**¥251,351**	**¥96,253**	**¥347,604**
Income taxes:			
Current	**¥ 75,134**	**¥16,163**	**¥ 91,297**
Deferred	**4,005**	**12,786**	**16,791**
	¥ 79,139	**¥28,949**	**¥108,088**
2012: Income before income taxes	¥257,640	¥84,917	¥342,557
Income taxes:			
Current	¥ 73,573	¥29,052	¥102,625
Deferred	13,900	(6,413)	7,487
	¥ 87,473	¥22,639	¥110,112
2011: Income before income taxes	¥287,592	¥86,932	¥374,524
Income taxes:			
Current	¥ 67,671	¥23,615	¥ 91,286
Deferred	21,047	8,082	29,129
	¥ 88,718	¥31,697	¥120,415

	Thousands of U.S. dollars		
	Japanese	*Foreign*	*Total*
2013: Income before income taxes	**$2,393,819**	**$916,695**	**$3,310,514**
Income taxes:			
Current	**$ 715,562**	**$153,933**	**$ 869,495**
Deferred	**38,143**	**121,771**	**159,914**
	$ 753,705	**$275,704**	**$1,029,409**

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 38% for the year ended December 31, 2013 and approximately 40% for the years ended December 31, 2012 and 2011, respectively.

Amendments to the Japanese tax regulations were enacted into law on November 30, 2011. As a result of these amendments, the statutory income tax rate has been reduced from approximately 40% to 38% effective from the year ended December 31, 2013, and will be reduced to approximately 35% effective from the year ending December 31, 2016. Consequently, the statutory income tax rate utilized for deferred tax assets and liabilities which were or are expected to be settled or realized in the period from January 1, 2013 to December 31, 2015 is approximately 38% and for periods subsequent to December 31, 2015 the rate is approximately 35%. The adjustments of deferred tax assets and liabilities for this change in the tax rate amounted to ¥6,599 million and were reflected in income taxes in the consolidated statement of income for the year ended December 31, 2011.

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	**2013**	2012	2011
Japanese statutory income tax rate	**38.0%**	40.0%	40.0%
Increase (reduction) in income taxes resulting from:			
Expenses not deductible for tax purposes	**0.9**	0.8	0.6
Income of foreign subsidiaries taxed at lower than Japanese statutory tax rate	**(3.3)**	(4.3)	(4.3)
Tax credit for research and development expenses	**(5.4)**	(5.7)	(3.9)
Change in valuation allowance	**0.2**	(1.7)	(0.5)
Effect of enacted changes in tax laws and rates on Japanese tax	**—**	—	1.8
Other	**0.7**	3.0	(1.5)
Effective income tax rate	**31.1%**	32.1%	32.2%

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

December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Prepaid expenses and other current assets	**¥ 61,902**	¥ 62,358	**$ 589,543**
Other assets	**103,539**	121,934	**986,086**
Other current liabilities	**(3,621)**	(2,662)	**(34,486)**
Other noncurrent liabilities	**(63,129)**	(44,712)	**(601,229)**
	¥ 98,691	¥136,918	**$ 939,914**

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2013 and 2012 are presented below:

December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Deferred tax assets:			
Inventories	**¥ 12,988**	¥ 13,040	**$ 123,695**
Accrued business tax	**4,448**	4,754	**42,362**
Accrued pension and severance cost	**59,964**	86,442	**571,086**
Research and development—costs capitalized for tax purposes	**10,978**	12,658	**104,552**
Property, plant and equipment	**26,626**	28,780	**253,581**
Accrued expenses	**37,153**	36,528	**353,838**
Net operating losses carried forward	**38,439**	32,494	**366,086**
Other	**44,482**	41,366	**423,638**
	235,078	256,062	**2,238,838**
Less valuation allowance	**(35,055)**	(32,167)	**(333,857)**
Total deferred tax assets	**200,023**	223,895	**1,904,981**
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	**(10,876)**	(8,235)	**(103,581)**
Net unrealized gains on securities	**(5,740)**	(2,437)	**(54,667)**
Tax deductible reserve	**(6,160)**	(6,417)	**(58,667)**
Financing lease revenue	**(50,605)**	(41,417)	**(481,952)**
Prepaid pension and severance cost	**(671)**	(1,073)	**(6,390)**
Other	**(27,280)**	(27,398)	**(259,810)**
Total deferred tax liabilities	**(101,332)**	(86,977)	**(965,067)**
Net deferred tax assets	**¥ 98,691**	¥136,918	**$ 939,914**

The net changes in the total valuation allowance were an increase of ¥2,888 million ($27,505 thousand) for the year ended December 31, 2013, and decreases of ¥1,621 million and ¥1,519 million for the years ended December 31, 2012 and 2011, respectively.

Based upon 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 existing valuation allowance, at December 31, 2013.

At December 31, 2013, Canon had net operating losses which can be carried forward for income tax purposes of ¥167,138 million ($1,591,790 thousand) 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	*Thousands of U.S. dollars*
Within one year	¥ 1,453	$ 13,838
After one year through five years	23,656	225,295
After five years through ten years	46,346	441,390
After ten years through twenty years	62,054	590,990
Indefinite period	33,629	320,277
Total	¥167,138	$1,591,790

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 ¥29,833 million ($284,124 thousand) for a portion of undistributed earnings of foreign subsidiaries that arose for the year ended December 31, 2013 and prior years because Canon currently does not expect to have such amounts distributed or paid as dividends to the Company in the foreseeable future. Deferred tax liabilities will be recognized when Canon expects that it will realize those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. At December 31, 2013, such undistributed earnings of these subsidiaries were ¥939,460 million ($8,947,238 thousand).

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

Years ended December 31	*Millions of yen*			*Thousands of U.S. dollars*
	2013	2012	2011	**2013**
Balance at beginning of year	**¥ 7,711**	¥ 2,933	¥ 6,035	**$ 73,438**
Additions for tax positions of the current year	**312**	869	149	**2,971**
Additions for tax positions of prior years	**388**	4,903	431	**3,695**
Reductions for tax positions of prior years	**(3,141)**	(1,546)	(2,139)	**(29,914)**
Settlements with tax authorities	**(347)**	(41)	(1,264)	**(3,305)**
Other	**1,278**	593	(279)	**12,172**
Balance at end of year	**¥ 6,201**	¥ 7,711	¥ 2,933	**$ 59,057**

The total amounts of unrecognized tax benefits that would reduce the effective tax rate, if recognized, are ¥6,201 million ($59,057 thousand) and ¥7,711 million at December 31, 2013 and 2012, respectively.

Although Canon believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax audit settlements and any related litigation could affect the effective tax rate in the future period. Based on each of the items of which Canon is aware at December 31, 2013, 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, 2013 and 2012, and interest and penalties included in income taxes for the years ended December 31, 2013, 2012 and 2011 are 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 2012. While there has been no specific indication by the tax authority that Canon will be subject to a transfer pricing examination in the near future, the tax authority could conduct a transfer pricing examination for years after 2006. 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 2006 with few exceptions. The tax authorities are currently conducting income tax examinations of Canon's income tax returns for years after 2005 in major foreign tax jurisdictions.

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 the resolution of the stockholders. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Cash dividends and appropriations to the legal reserve charged to retained earnings for the years ended December 31, 2013, 2012 and 2011 represent dividends paid out during those years and the related appropriations to the legal reserve. Retained earnings at December 31, 2013 did not reflect current year-end dividends in the amount of ¥73,905 million ($703,857 thousand) which were approved by the stockholders in March 2014.

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 ¥1,055,590 million ($10,053,238 thousand) at December 31, 2013.

Retained earnings at December 31, 2013 included Canon's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥16,423 million ($156,410 thousand).

14. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2012 and 2011 are as follows:

Millions of yen	*Foreign currency translation adjustments*	*Unrealized gains and losses on securities*	*Gains and losses on derivative instruments*	*Pension liability adjustments*	*Total*
Balance at December 31, 2010	¥(325,612)	¥ 3,020	¥ 917	¥ (68,784)	¥(390,459)
Adjustments for the year	(53,251)	(2,017)	(462)	(35,584)	(91,314)
Balance at December 31, 2011	(378,863)	1,003	455	(104,368)	(481,773)
Adjustments for the year	131,129	3,143	(4,917)	(14,831)	114,524
Balance at December 31, 2012	¥(247,734)	¥ 4,146	¥(4,462)	¥(119,199)	¥(367,249)

Changes in accumulated other comprehensive income (loss) for the year ended December 31, 2013 are as follows:

Millions of yen	*Foreign currency translation adjustments*	*Unrealized gains and losses on securities*	*Gains and losses on derivative instruments*	*Pension liability adjustments*	*Total*
Balance at December 31, 2012	**¥ (247,734)**	**¥ 4,146**	**¥ (4,462)**	**¥ (119,199)**	**¥ (367,249)**
Equity transactions with noncontrolling interests and other	**(323)**	**(1)**	**(2)**	**(329)**	**(655)**
Other comprehensive income (loss) before reclassifications	**249,791**	**7,449**	**(7,551)**	**27,153**	**276,842**
Amounts reclassified from accumulated other comprehensive income (loss)	**—**	**(1,352)**	**9,607**	**2,161**	**10,416**
Net change during the year	**249,468**	**6,096**	**2,054**	**28,985**	**286,603**
Balance at December 31, 2013	**¥ 1,734**	**¥ 10,242**	**¥ (2,408)**	**¥ (90,214)**	**¥ (80,646)**

Thousands of U.S. dollars	*Foreign currency translation adjustments*	*Unrealized gains and losses on securities*	*Gains and losses on derivative instruments*	*Pension liability adjustments*	*Total*
Balance at December 31, 2012	$ (2,359,372)	$ 39,486	$ (42,495)	$ (1,135,229)	$ (3,497,610)
Equity transactions with noncontrolling interests and other	(3,076)	(10)	(19)	(3,133)	(6,238)
Other comprehensive income (loss) before reclassifications	2,378,962	70,943	(71,914)	258,600	2,636,591
Amounts reclassified from accumulated other comprehensive income (loss)	—	(12,876)	91,495	20,581	99,200
Net change during the year	2,375,886	58,057	19,562	276,048	2,729,553
Balance at December 31, 2013	$ 16,514	$ 97,543	$ (22,933)	$ (859,181)	$ (768,057)

Reclassifications out of accumulated other comprehensive income (loss) for the year ended December 31, 2013 are as follows:

Year ended December 31, 2013	*Amount reclassified from accumulated other comprehensive income (loss)*[*1]		
	Millions of yen	*Thousands of U.S. dollars*	*Affected line items in consolidated statements of income*
Unrealized gains and losses on securities	¥ (2,358)	$(22,457)	Other, net
	613	5,838	Income taxes
	(1,745)	(16,619)	Consolidated net income
	393	3,743	Net income attributable to noncontrolling interests
	(1,352)	(12,876)	Net income attributable to Canon Inc.
Gains and losses on derivative instruments	15,387	146,543	Other, net
	(5,780)	(55,048)	Income taxes
	9,607	91,495	Consolidated net income
	—	—	Net income attributable to noncontrolling interests
	9,607	91,495	Net income attributable to Canon Inc.
Pension liability adjustments			
	3,460	32,952	See Note 11
	(1,037)	(9,876)	Income taxes
	2,423	23,076	Consolidated net income
	(262)	(2,495)	Net income attributable to noncontrolling interests
	2,161	20,581	Net income attributable to Canon Inc.
Total amount reclassified, net of tax and noncontrolling interests	¥ 10,416	$ 99,200	

*1 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*
2013:			
Foreign currency translation adjustments	**¥ 253,707**	**¥ (2,131)**	**¥251,576**
Net unrealized gains and losses on securities:			
Amount arising during the year	**12,669**	**(4,312)**	**8,357**
Reclassification adjustments for gains and losses realized in net income	**(2,358)**	**613**	**(1,745)**
Net change during the year	**10,311**	**(3,699)**	**6,612**
Net gains and losses on derivative instruments:			
Amount arising during the year	**(12,145)**	**4,594**	**(7,551)**
Reclassification adjustments for gains and losses realized in net income	**15,387**	**(5,780)**	**9,607**
Net change during the year	**3,242**	**(1,186)**	**2,056**
Pension liability adjustments:			
Amount arising during the year	**51,860**	**(21,614)**	**30,246**
Reclassification adjustments for gains and losses realized in net income	**3,460**	**(1,037)**	**2,423**
Net change during the year	**55,320**	**(22,651)**	**32,669**
Other comprehensive income (loss)	**¥ 322,580**	**¥(29,667)**	**¥292,913**
2012:			
Foreign currency translation adjustments	¥ 134,930	¥ (1,195)	¥133,735
Net unrealized gains and losses on securities:			
Amount arising during the year	3,418	(1,004)	2,414
Reclassification adjustments for gains and losses realized in net income	1,307	(456)	851
Net change during the year	4,725	(1,460)	3,265
Net gains and losses on derivative instruments:			
Amount arising during the year	(10,647)	4,041	(6,606)
Reclassification adjustments for gains and losses realized in net income	2,440	(714)	1,726
Net change during the year	(8,207)	3,327	(4,880)
Pension liability adjustments:			
Amount arising during the year	(13,888)	(1,738)	(15,626)
Reclassification adjustments for gains and losses realized in net income	4,433	(1,594)	2,839
Net change during the year	(9,455)	(3,332)	(12,787)
Other comprehensive income (loss)	¥ 121,993	¥ (2,660)	¥119,333
2011:			
Foreign currency translation adjustments	¥ (53,839)	¥ (247)	¥ (54,086)
Net unrealized gains and losses on securities:			
Amount arising during the year	(7,571)	3,010	(4,561)
Reclassification adjustments for gains and losses realized in net income	4,077	(1,632)	2,445
Net change during the year	(3,494)	1,378	(2,116)
Net gains and losses on derivative instruments:			
Amount arising during the year	4,221	(1,708)	2,513
Reclassification adjustments for gains and losses realized in net income	(5,006)	2,044	(2,962)
Net change during the year	(785)	336	(449)
Pension liability adjustments:			
Amount arising during the year	(59,928)	20,252	(39,676)
Reclassification adjustments for gains and losses realized in net income	2,038	(739)	1,299
Net change during the year	(57,890)	19,513	(38,377)
Other comprehensive income (loss)	¥(116,008)	¥20,980	¥ (95,028)

Years ended December 31	*Thousands of U.S. dollars*		
	Before-tax amount	*Tax (expense) or benefit*	*Net-of-tax amount*
2013:			
Foreign currency translation adjustments	**$2,416,257**	**$ (20,295)**	**$2,395,962**
Net unrealized gains and losses on securities:			
Amount arising during the year	**120,657**	**(41,067)**	**79,590**
Reclassification adjustments for gains and losses realized in net income	**(22,457)**	**5,838**	**(16,619)**
Net change during the year	**98,200**	**(35,229)**	**62,971**
Net gains and losses on derivative instruments:			
Amount arising during the year	**(115,667)**	**43,753**	**(71,914)**
Reclassification adjustments for gains and losses realized in net income	**146,543**	**(55,048)**	**91,495**
Net change during the year	**30,876**	**(11,295)**	**19,581**
Pension liability adjustments:			
Amount arising during the year	**493,904**	**(205,847)**	**288,057**
Reclassification adjustments for gains and losses realized in net income	**32,952**	**(9,876)**	**23,076**
Net change during the year	**526,856**	**(215,723)**	**311,133**
Other comprehensive income (loss)	**$3,072,189**	**$ (282,542)**	**$2,789,647**

15. STOCK-BASED COMPENSATION

On May 1, 2011, based on the approval of the stockholders, the Company granted stock options to its directors, executive officers and certain employees to acquire 912,000 shares of common stock. These option awards vest after two years of continued service beginning on the grant date and have a four year contractual term. The grant-date fair value per share of the stock options granted during the year ended December 31, 2011 was ¥772.

On May 1, 2010, based on the approval of the stockholders, the Company granted stock options to its directors, executive officers and certain employees to acquire 890,000 shares of common stock. These option awards vest after two years of continued service beginning on the grant date and have a four year contractual term. The grant-date fair value per share of the stock options granted during the year ended December 31, 2010 was ¥988.

On May 1, 2009, based on the approval of the stockholders, the Company granted stock options to its directors, executive officers and certain employees to acquire 954,000 shares of common stock. These option awards vest after two years of continued service beginning on the grant date and have a four year contractual term. The grant-date fair value per share of the stock options granted during the year ended December 31, 2009 was ¥699.

On May 1, 2008, based on the approval of the stockholders, the Company granted stock options to its directors, executive officers and certain employees to acquire 592,000 shares of common stock. These option awards vest after two years of continued service beginning on the grant date and have a four year contractual term. The grant-date fair value per share of the stock options granted during the year ended December 31, 2008 was ¥1,247.

The compensation cost recognized for these stock options for the years ended December 31, 2013, 2012 and 2011 was ¥95 million ($905 thousand), ¥364 million and ¥748 million, respectively, and is included in selling, general and administrative expenses in the consolidated statements of income.

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

Year ended December 31	2011
Expected term of option (in years)	4.0
Expected volatility	36.44%
Dividend yield	3.16%
Risk-free interest rate	0.44%

A summary of option activity under the stock option plans as of and for the years ended December 31, 2013, 2012 and 2011 is presented below:

	Shares	Weighted-average exercise price		Weighted-average remaining contractual term	Aggregate intrinsic value	
		Yen	U.S. dollars	Year	Millions of yen	Thousands of U.S. dollars
Outstanding at January 1, 2011	2,220,000	¥4,354		2.5	¥722	
Granted	912,000	3,990				
Exercised	(65,800)	3,287				
Forfeited	(24,000)	4,282				
Outstanding at December 31, 2011	3,042,200	4,268		2.0	88	
Exercised	(10,800)	3,287				
Forfeited	(305,000)	4,493				
Outstanding at December 31, 2012	2,726,400	4,247		1.6	37	
Exercised	**(8,600)**	**3,287**	**$31.30**			
Forfeited	**(60,400)**	**4,461**	**42.49**			
Outstanding at December 31, 2013	**2,657,400**	**¥4,245**	**$40.43**	**1.0**	**¥ 28**	**$267**
Exercisable at December 31, 2013	**2,657,400**	**¥4,245**	**$40.43**	**1.0**	**¥ 28**	**$267**

At December 31, 2013, all outstanding option awards were vested.

A summary of the status of the Company's nonvested shares at December 31, 2013, and changes during the year ended December 31, 2013, is presented below:

Year ended December 31, 2013	Shares	Weighted-average grant-date fair value	
		Yen	U.S. dollars
Nonvested at beginning of year	**738,000**	**¥772**	**$ 7.35**
Vested	**(738,000)**	**772**	**7.35**
Forfeited	**—**	**—**	**—**
Nonvested at end of year	**—**	**—**	**—**

The total fair value of shares vested during the years ended December 31, 2013, 2012 and 2011 was ¥570 million ($5,429 thousand), ¥848 million and ¥547 million, respectively. Cash received from the exercise of stock options for the years ended December 31, 2013, 2012 and 2011 was ¥28 million ($267 thousand), ¥35 million and ¥216 million, respectively.

16. NET INCOME ATTRIBUTABLE TO CANON INC. STOCKHOLDERS PER SHARE

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

Years ended December 31	*Millions of yen*			*Thousands of U.S. dollars*
	2013	2012	2011	**2013**
Net income attributable to Canon Inc.	**¥230,483**	¥224,564	¥248,630	**$ 2,195,076**

	Number of shares		
Average common shares outstanding	**1,147,933,835**	1,173,647,835	1,215,832,419
Effect of dilutive securities:			
Stock options	**8,466**	20,574	60,552
Diluted common shares outstanding	**1,147,942,301**	1,173,668,409	1,215,892,971

	Yen			*U.S. dollars*
Net income attributable to Canon Inc. stockholders per share:				
Basic	**¥200.78**	¥191.34	¥204.49	**$1.91**
Diluted	**200.78**	191.34	204.48	**1.91**

The computation of diluted net income attributable to Canon Inc. stockholders per share for the years ended December 31, 2013, 2012 and 2011 excludes certain outstanding stock options because the effect would be anti-dilutive.

17. 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 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.

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 Japanese 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 are 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 through other income (deductions) in the same period as the hedged items affect earnings. Substantially all amounts recorded in accumulated other comprehensive income (loss) at year-end are expected to be recognized in earnings over the next twelve months. Canon excludes the time value component from the assessment of hedge effectiveness. 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 and not considered hedge ineffectiveness.

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, 2013 and 2012 are set forth below:

December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
To sell foreign currencies	**¥374,699**	¥420,272	**$3,568,562**
To buy foreign currencies	**44,726**	66,563	**425,962**

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, 2013 and 2012.

Derivatives designated as hedging instruments

December 31		*Fair value*		
		Millions of yen		*Thousands of U.S. dollars*
	Balance sheet location	**2013**	2012	**2013**
Assets:				
Foreign exchange contracts	Prepaid expenses and other current assets	**¥ 44**	¥ 443	**$ 419**
Liabilities:				
Foreign exchange contracts	Other current liabilities	**2,267**	4,472	**21,590**

Derivatives not designated as hedging instruments

December 31		*Fair value*		
		Millions of yen		*Thousands of U.S. dollars*
	Balance sheet location	**2013**	2012	**2013**
Assets:				
Foreign exchange contracts	Prepaid expenses and other current assets	**¥ 210**	¥ 388	**$ 2,000**
Liabilities:				
Foreign exchange contracts	Other current liabilities	**12,678**	21,021	**120,743**

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, 2013, 2012 and 2011.

Derivatives in cash flow hedging relationships

Years ended December 31	*Gain (loss) recognized in OCI (effective portion)*	*Gain (loss) reclassified from accumulated OCI into income (effective portion)*		*Gain (loss) recognized in income (ineffective portion and amount excluded from effectiveness testing)*	
Millions of yen	*Amount*	*Location*	*Amount*	*Location*	*Amount*
2013: Foreign exchange contracts	**¥ 3,242**	Other, net	**¥(15,387)**	Other, net	**¥(111)**
2012: Foreign exchange contracts	(8,207)	Other, net	(2,440)	Other, net	(221)
2011: Foreign exchange contracts	(785)	Other, net	5,006	Other, net	(457)
Thousands of U.S. dollars					
2013: Foreign exchange contracts	**$30,876**	Other, net	**$(146,543)**	Other, net	**$(1,057)**

Derivatives not designated as hedging instruments

Years ended December 31		*Gain (loss) recognized in income on derivative*			
		Millions of yen			*Thousands of U.S. dollars*
	Location	**2013**	2012	2011	**2013**
Foreign exchange contracts	Other, net	**¥(61,787)**	¥(30,602)	¥11,168	**$(588,448)**

18. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At December 31, 2013, commitments outstanding for the purchase of property, plant and equipment approximated ¥26,218 million ($249,695 thousand), and commitments outstanding for the purchase of parts and raw materials approximated ¥73,914 million ($703,943 thousand).

Canon occupies sales offices and other facilities under lease arrangements accounted for as operating leases. Deposits made under such arrangements aggregated ¥13,448 million ($128,076 thousand) and ¥13,313 million at December 31, 2013 and 2012, respectively, and are included in noncurrent receivables in the accompanying consolidated balance sheets. Rental expenses under such operating lease arrangements amounted to ¥44,562 million ($424,400 thousand), ¥40,273 million and ¥38,167 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Future minimum lease payments required under noncancelable operating leases that have initial or remaining lease terms in excess of one year at December 31, 2013 are as follows:

Year ending December 31:	*Millions of yen*	*Thousands of U.S. dollars*
2014	¥28,523	$ 271,648
2015	20,337	193,686
2016	17,578	167,410
2017	10,046	95,676
2018	6,400	60,952
Thereafter	13,180	125,523
Total future minimum lease payments	¥96,064	$ 914,895

Guarantees

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

For each guarantee provided, Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract periods of 1 year to 30 years, in the case of employees with housing loans, and of 1 year to 10 years, in the case of affiliates and other companies. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥12,315 million ($117,286 thousand) at December 31, 2013. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2013 were not significant.

Canon also issues contractual product warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term.

Changes in accrued product warranty cost for the years ended December 31, 2013 and 2012 are summarized as follows:

Years ended December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Balance at beginning of year	**¥ 12,163**	¥ 11,691	**$ 115,838**
Addition	**13,467**	13,553	**128,257**
Utilization	**(12,922)**	(12,503)	**(123,067)**
Other	**(1,818)**	(578)	**(17,314)**
Balance at end of year	**¥ 10,890**	¥ 12,163	**$ 103,714**

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, or cash flows.

19. 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, 2013 and 2012 are set forth below. The following summary excludes cash and cash equivalents, trade receivables, finance receivables, noncurrent receivables, short-term loans, trade payables and accrued expenses for which fair values approximate their carrying amounts. The summary also excludes investments which are disclosed in Note 3.

December 31	*Millions of yen*				*Thousands of U.S. dollars*	
	2013		2012		**2013**	
	Carrying amount	*Estimated fair value*	*Carrying amount*	*Estimated fair value*	*Carrying amount*	*Estimated fair value*
Long-term debt, including current installments	**¥ (2,693)**	**¥ (2,693)**	¥ (3,664)	¥ (3,654)	**$ (25,647)**	**$ (25,647)**
Foreign exchange contracts:						
Assets	**254**	**254**	831	831	**2,419**	**2,419**
Liabilities	**(14,945)**	**(14,945)**	(25,493)	(25,493)	**(142,333)**	**(142,333)**

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 20.

Foreign exchange contracts

The fair values of foreign exchange contracts are measured based on the market price obtained from financial institutions.

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

At December 31, 2013 and 2012, one customer accounted for approximately 15% and 18% of consolidated trade receivables, respectively. Although Canon does not expect that the customer will fail to meet its obligations, Canon is potentially exposed to concentrations of credit risk if the customer failed to perform according to the terms of the contracts.

20. 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, 2013 and 2012.

December 31 *Millions of yen*	*Level 1*	*Level 2*	*Level 3*	*Total*
2013: Assets:				
Cash and cash equivalents	**¥ —**	**¥183,078**	**¥ —**	**¥183,078**
Available-for-sale (noncurrent):				
Government bonds	**307**	**—**	**—**	**307**
Corporate bonds	**—**	**141**	**340**	**481**
Fund trusts	**11**	**57**	**—**	**68**
Equity securities	**34,536**	**—**	**—**	**34,536**
Derivatives	**—**	**254**	**—**	**254**
Total assets	**¥34,854**	**¥183,530**	**¥340**	**¥218,724**
Liabilities:				
Derivatives	**¥ —**	**¥ 14,945**	**¥ —**	**¥ 14,945**
Total liabilities	**¥ —**	**¥ 14,945**	**¥ —**	**¥ 14,945**

Millions of yen	*Level 1*	*Level 2*	*Level 3*	*Total*
2012: Assets:				
Cash and cash equivalents	¥ —	¥141,729	¥ —	¥141,729
Available-for-sale (current):				
Corporate bonds	30	—	—	30
Available-for-sale (noncurrent):				
Government bonds	181	—	—	181
Corporate bonds	—	116	444	560
Fund trusts	159	1,075	—	1,234
Equity securities	21,335	—	—	21,335
Derivatives	—	831	—	831
Total assets	¥21,705	¥143,751	¥444	¥165,900
Liabilities:				
Derivatives	¥ —	¥ 25,493	¥ —	¥ 25,493
Total liabilities	¥ —	¥ 25,493	¥ —	¥ 25,493

December 31 *Thousands of U.S. dollars*	*Level 1*	*Level 2*	*Level 3*	*Total*
2013: Assets:				
Cash and cash equivalents	**$ —**	**$1,743,600**	**$ —**	**$1,743,600**
Available-for-sale (noncurrent):				
Government bonds	**2,923**	**—**	**—**	**2,923**
Corporate bonds	**—**	**1,343**	**3,238**	**4,581**
Fund trusts	**105**	**543**	**—**	**648**
Equity securities	**328,915**	**—**	**—**	**328,915**
Derivatives	**—**	**2,419**	**—**	**2,419**
Total assets	**$331,943**	**$1,747,905**	**$3,238**	**$2,083,086**
Liabilities:				
Derivatives	**$ —**	**$ 142,333**	**$ —**	**$ 142,333**
Total liabilities	**$ —**	**$ 142,333**	**$ —**	**$ 142,333**

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 cash and cash equivalents are valued based on market approach, using quoted prices for identical assets in markets that are not active. Level 3 investments are mainly comprised of corporate bonds, which are valued based on cost approach, using unobservable inputs as the market for the assets was not active at the measurement date.

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.

The following table presents the changes in Level 3 assets measured on a recurring basis, consisting primarily of corporate bonds, for the years ended December 31, 2013 and 2012.

Years ended December 31	*Millions of yen*		*Thousands of U.S. dollars*
	2013	2012	**2013**
Balance at beginning of year	**¥444**	¥454	**$ 4,229**
Total gains or losses (realized or unrealized):			
Included in earnings	**1**	3	**9**
Included in other comprehensive income (loss)	**36**	2	**343**
Purchases, issuances, and settlements	**(141)**	(15)	**(1,343)**
Balance at end of year	**¥340**	¥444	**$ 3,238**

Gains and losses included in earnings are mainly related to corporate bonds still held at December 31, 2013 and 2012, and are reported in "Other, net" in the consolidated statements of income.

Assets and liabilities measured at fair value on a nonrecurring basis

During the years ended December 31, 2013 and 2012, there were no circumstances that required any significant assets or liabilities to be measured at fair value on a nonrecurring basis.

21. SEGMENT INFORMATION

Canon operates its business in three segments: the Office Business Unit, the Imaging System Business Unit, and the Industry and Others Business Unit, which are based on the organizational structure and information reviewed by Canon's management to evaluate results and allocate resources.

The primary products included in each segment are as follows:

Office Business Unit:

Office multifunction devices (MFDs) / Laser multifunction printers (MFPs) / Laser printers / Digital production printing systems / High speed continuous feed printers / Wide-format printers / Document solutions

Imaging System Business Unit:

Interchangeable lens digital cameras / Digital compact cameras / Digital camcorders / Digital cinema cameras / Interchangeable lenses / Inkjet printers / Large-format inkjet printers / Commercial photo printers / Image scanners / Multimedia projectors / Broadcast equipment / Calculators

Industry and Others Business Unit:

Semiconductor lithography equipment / Flat panel display (FPD) lithography equipment / Digital radiography systems / Ophthalmic equipment / Vacuum thin-film deposition equipment / Organic LED (OLED) panel manufacturing equipment / Die bonders / Micromotors / Network cameras / 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 evaluates performance of, and allocates resources to, each segment based on operating profit.

Information about operating results and assets for each segment as of and for the years ended December 31, 2013, 2012 and 2011 is as follows:

Millions of yen	*Office*	*Imaging System*	*Industry and Others*	*Corporate and eliminations*	*Consolidated*
2013: Net sales:					
External customers	**¥1,993,898**	**¥1,448,186**	**¥289,296**	**¥ —**	**¥3,731,380**
Intersegment	**6,175**	**752**	**85,574**	**(92,501)**	**—**
Total	**2,000,073**	**1,448,938**	**374,870**	**(92,501)**	**3,731,380**
Operating cost and expenses	**1,733,165**	**1,245,144**	**400,201**	**15,593**	**3,394,103**
Operating profit (loss)	**¥ 266,908**	**¥ 203,794**	**¥ (25,331)**	**¥ (108,094)**	**¥ 337,277**
Total assets	**¥ 954,803**	**¥ 584,856**	**¥328,202**	**¥2,374,849**	**¥4,242,710**
Depreciation and amortization	**88,344**	**56,564**	**37,072**	**93,193**	**275,173**
Capital expenditures	**54,644**	**44,112**	**27,040**	**101,682**	**227,478**
2012: Net sales:					
External customers	¥1,751,960	¥1,404,394	¥323,434	¥ —	¥3,479,788
Intersegment	5,615	1,577	84,406	(91,598)	—
Total	1,757,575	1,405,971	407,840	(91,598)	3,479,788
Operating cost and expenses	1,553,997	1,195,653	401,930	4,352	3,155,932
Operating profit	¥ 203,578	¥ 210,318	¥ 5,910	¥ (95,950)	¥ 323,856
Total assets	¥ 927,543	¥ 614,328	¥337,899	¥2,075,733	¥3,955,503
Depreciation and amortization	77,660	53,664	34,264	92,545	258,133
Capital expenditures	58,402	58,142	44,086	146,031	306,661
2011: Net sales:					
External customers	¥1,912,112	¥1,311,023	¥334,298	¥ —	¥3,557,433
Intersegment	5,831	1,021	86,565	(93,417)	—
Total	1,917,943	1,312,044	420,863	(93,417)	3,557,433
Operating cost and expenses	1,658,678	1,100,750	396,563	23,371	3,179,362
Operating profit	¥ 259,265	¥ 211,294	¥ 24,300	¥ (116,788)	¥ 378,071
Total assets	¥ 907,433	¥ 452,809	¥362,638	¥2,207,847	¥3,930,727
Depreciation and amortization	93,196	45,609	29,685	92,853	261,343
Capital expenditures	53,888	48,192	37,648	122,753	262,481

Thousands of U.S. dollars	*Office*	*Imaging System*	*Industry and Others*	*Corporate and eliminations*	*Consolidated*
2013: Net sales:					
External customers	**$18,989,504**	**$13,792,248**	**$2,755,200**	**$ —**	**$35,536,952**
Intersegment	**58,810**	**7,162**	**814,990**	**(880,962)**	**—**
Total	**19,048,314**	**13,799,410**	**3,570,190**	**(880,962)**	**35,536,952**
Operating cost and expenses	**16,506,333**	**11,858,514**	**3,811,438**	**148,505**	**32,324,790**
Operating profit (loss)	**$ 2,541,981**	**$ 1,940,896**	**$ (241,248)**	**$ (1,029,467)**	**$ 3,212,162**
Total assets	**$ 9,093,362**	**$ 5,570,057**	**$3,125,733**	**$ 22,617,610**	**$40,406,762**
Depreciation and amortization	**841,371**	**538,705**	**353,067**	**887,552**	**2,620,695**
Capital expenditures	**520,419**	**420,114**	**257,524**	**968,400**	**2,166,457**

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. 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 and corporate properties. Capital expenditures represent the additions to property, plant and equipment and intangible assets measured on an accrual basis.

In 2013, based on the realignment of Canon's internal reporting structure, certain financial assets have been transferred from Corporate to the Office Business Unit. Corresponding amounts of total assets as of December 31, 2012 and 2011 have been reclassified to conform with the current year presentation.

Information about product sales to external customers by business unit for the years ended December 31, 2013, 2012 and 2011 is as follows:

Years ended December 31	*Millions of yen*			*Thousands of U.S. dollars*
	2013	2012	2011	**2013**
Office				
Monochrome copiers	**¥ 312,973**	¥ 274,021	¥ 276,225	**$ 2,980,695**
Color copiers	**381,848**	324,851	322,321	**3,636,648**
Printers	**841,436**	766,382	902,756	**8,013,676**
Others	**457,641**	386,706	410,810	**4,358,485**
Total	**1,993,898**	1,751,960	1,912,112	**18,989,504**
Imaging System				
Cameras	**973,517**	990,549	928,047	**9,271,590**
Inkjet printers	**363,070**	312,429	315,526	**3,457,810**
Others	**111,599**	101,416	67,450	**1,062,848**
Total	**1,448,186**	1,404,394	1,311,023	**13,792,248**
Industry and Others				
Lithography equipment	**62,116**	62,892	81,556	**591,581**
Others	**227,180**	260,542	252,742	**2,163,619**
Total	**289,296**	323,434	334,298	**2,755,200**
Consolidated	**¥3,731,380**	¥3,479,788	¥3,557,433	**$35,536,952**

Information by major geographic area as of and for the years ended December 31, 2013, 2012 and 2011 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Net sales:				
Japan	¥ 715,863	¥ 720,286	¥ 694,450	$ 6,817,743
Americas	1,059,501	939,873	961,955	10,090,486
Europe	1,124,929	1,014,038	1,113,065	10,713,609
Asia and Oceania	831,087	805,591	787,963	7,915,114
Total	¥3,731,380	¥3,479,788	¥3,557,433	$35,536,952
Long-lived assets:				
Japan	¥ 984,231	¥1,032,598	¥1,070,412	$ 9,373,629
Americas	131,660	112,163	85,824	1,253,905
Europe	111,609	91,904	83,296	1,062,943
Asia and Oceania	196,305	159,435	89,334	1,869,571
Total	¥1,423,805	¥1,396,100	¥1,328,866	$13,560,048

Net sales are attributed to areas based on the location where the product is shipped 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 ¥960,213 million ($9,144,886 thousand), ¥763,870 million and ¥779,652 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Long-lived assets represent property, plant and equipment and intangible assets for each geographic area.

The following information is based on the location of the Company and its subsidiaries as of and for the years ended December 31, 2013, 2012 and 2011. In addition to the disclosure requirements under U.S. GAAP, Canon discloses this information in order to provide financial statements users with useful information.

Millions of yen	*Japan*	*Americas*	*Europe*	*Asia and Oceania*	*Corporate and eliminations*	*Consolidated*
2013: Net sales:						
External customers	**¥ 797,501**	**¥ 1,056,096**	**¥ 1,124,603**	**¥ 753,180**	**¥ —**	**¥ 3,731,380**
Intersegment	**1,855,181**	**11,774**	**53,281**	**881,765**	**(2,802,001)**	**—**
Total	**2,652,682**	**1,067,870**	**1,177,884**	**1,634,945**	**(2,802,001)**	**3,731,380**
Operating cost and expenses	**2,326,351**	**1,043,487**	**1,171,357**	**1,574,125**	**(2,721,217)**	**3,394,103**
Operating profit	**¥ 326,331**	**¥ 24,383**	**¥ 6,527**	**¥ 60,820**	**¥ (80,784)**	**¥ 337,277**
Total assets	**¥ 1,152,398**	**¥ 447,039**	**¥ 496,549**	**¥ 631,827**	**¥ 1,514,897**	**¥ 4,242,710**
2012: Net sales:						
External customers	¥ 834,406	¥ 932,987	¥1,010,922	¥ 701,473	¥ —	¥3,479,788
Intersegment	1,829,834	23,767	5,650	781,836	(2,641,087)	—
Total	2,664,240	956,754	1,016,572	1,483,309	(2,641,087)	3,479,788
Operating cost and expenses	2,336,536	937,111	972,585	1,437,527	(2,527,827)	3,155,932
Operating profit	¥ 327,704	¥ 19,643	¥ 43,987	¥ 45,782	¥ (113,260)	¥ 323,856
Total assets	¥1,206,702	¥ 339,918	¥ 457,592	¥ 548,583	¥ 1,402,708	¥3,955,503
2011: Net sales:						
External customers	¥ 807,883	¥952,833	¥1,109,256	¥ 687,461	¥ —	¥3,557,433
Intersegment	1,873,157	16,217	4,681	744,179	(2,638,234)	—
Total	2,681,040	969,050	1,113,937	1,431,640	(2,638,234)	3,557,433
Operating cost and expenses	2,273,336	948,593	1,069,489	1,388,580	(2,500,636)	3,179,362
Operating profit	¥ 407,704	¥ 20,457	¥ 44,448	¥ 43,060	¥ (137,598)	¥ 378,071
Total assets	¥1,236,468	¥250,131	¥ 427,030	¥ 442,263	¥ 1,574,835	¥3,930,727

Thousands of U.S. dollars	*Japan*	*Americas*	*Europe*	*Asia and Oceania*	*Corporate and eliminations*	*Consolidated*
2013: Net sales:						
External customers	**$ 7,595,248**	**$10,058,057**	**$10,710,505**	**$ 7,173,142**	**$ —**	**$35,536,952**
Intersegment	**17,668,390**	**112,133**	**507,438**	**8,397,763**	**(26,685,724)**	**—**
Total	**25,263,638**	**10,170,190**	**11,217,943**	**15,570,905**	**(26,685,724)**	**35,536,952**
Operating cost and expenses	**22,155,724**	**9,937,971**	**11,155,781**	**14,991,667**	**(25,916,353)**	**32,324,790**
Operating profit	**$ 3,107,914**	**$ 232,219**	**$ 62,162**	**$ 579,238**	**$ (769,371)**	**$ 3,212,162**
Total assets	**$10,975,219**	**$ 4,257,514**	**$ 4,729,038**	**$ 6,017,400**	**$14,427,591**	**$40,406,762**

22. SUBSEQUENT EVENT

On February 18, 2014, the Board of Directors of the Company approved and implemented a plan to repurchase up to 18 million shares of the Company's common stock at a cost of up to ¥50,000 million ($476,190 thousand) for the period from February 19, 2014 to April 4, 2014. Such repurchases are intended to improve capital efficiency and ensure flexible capital strategy. Common stock repurchased in the Tokyo Stock Exchange between February 19, 2014 and March 4, 2014 under the aforementioned plan was 15,957,600 shares at a cost of ¥50,000 million ($476,190 thousand).

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) promulgated under the Securities Exchange Act of 1934, as amended, 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 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 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.

Canon's management assessed the effectiveness of internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (1992 framework) (the "COSO criteria").

Based on its assessment, management concluded that, as of December 31, 2013, Canon's internal control over financial reporting was effective based on the COSO criteria.

Canon's independent registered public accounting firm, Ernst & Young ShinNihon LLC, has issued an audit report on the effectiveness of Canon's internal control over financial reporting.

Fujio Mitarai
Chairman & CEO

Toshizo Tanaka
Executive Vice President and CFO

March 28, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

EY
Building a better working world

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

The Board of Directors and Stockholders of
Canon Inc.

We have audited the accompanying consolidated balance sheets of Canon Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Canon Inc. and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Canon Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 28, 2014 expressed an unqualified opinion thereon.

We have also recomputed the translation of the consolidated financial statements as of and for the year ended December 31, 2013 into United States dollars. In our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 2.

Ernst & Young ShinNihon LLC

March 28, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Building a better working world

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

The Board of Directors and Stockholders of
Canon Inc.

We have audited Canon Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Canon Inc. and subsidiaries' 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, Canon Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Canon Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013, all expressed in Japanese yen, and our report dated March 28, 2014 expressed an unqualified opinion thereon.

Ernst & Young ShinNihon LLC

March 28, 2014

TRANSFER AND REGISTRAR'S OFFICE

Canon Inc.

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

Manager of the Register of Stockholders

Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

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

JPMorgan Chase Bank, N.A.
1 Chase Manhattan Plaza, Floor 58, New York, N.Y.
10005-1401, U.S.A.

STOCKHOLDER INFORMATION

Stock Exchange Listings:

Tokyo, Nagoya, Fukuoka, Sapporo and New York stock exchanges

American Depositary Receipts are traded on the New York Stock Exchange (CAJ).

Ordinary General Meeting of Shareholders:

March 28, 2014, in Tokyo

Further Information:

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

MAJOR CONSOLIDATED SUBSIDIARIES

(As of December 31, 2013)

Manufacturing

Canon Precision Inc.
Fukushima Canon Inc.
Canon Chemicals Inc.
Canon Components, Inc.
Canon Electronics Inc.
Canon Finetech Inc.
Nisca Corporation
Canon Tokki Corporation
Canon ANELVA Corporation
Nagahama Canon Inc.
Canon Machinery Inc.
Oita Canon Materials Inc.
Oita Canon Inc.
Nagasaki Canon Inc.
Canon Virginia, Inc.
Canon Bretagne S.A.S.
Océ-Technologies B.V.
OPTOPOL Technology Sp. z o.o.
Canon Dalian Business Machines, Inc.
Canon (Suzhou) Inc.
Canon Zhongshan Business Machines Co., Ltd.
Canon Zhuhai, Inc.
Canon Inc., Taiwan
Canon Vietnam Co., Ltd.
Canon Hi-Tech (Thailand) Ltd.
Canon Opto (Malaysia) Sdn. Bhd.

Research & Development

Canon Research Centre France S.A.S.
Canon Information Systems Research Australia Pty. Ltd.

Marketing & Other

Canon Marketing Japan Inc.
Canon System and Support Inc.
Canon Software Inc.
Canon IT Solutions Inc.
Canon U.S.A., Inc.
Canon Canada Inc.
Canon Solutions America, Inc.
Canon Latin America, Inc.
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 (China) Co., Ltd.
Canon Hongkong Co., Ltd.
Canon Singapore Pte. Ltd.
Canon Australia Pty. Ltd.

Canon

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

 PUB.BEP023-01 0414