

# FINANCIAL SECTION

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# FINANCIAL OVERVIEW

## GENERAL

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

## OVERVIEW

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

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

## Economic environment

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

## Market environment

In the markets in which Canon operates, despite the recovery of product supplies following the resolution of component shortages and logistical disruptions, demand was lagging due to tight monetary policies associated with inflation, the sluggish Chinese and European economy, and increasing uncertainty surrounding geopolitical risks. On a product basis, despite stagnant market conditions in China, demand for office multifunction devices (MFDs) remained firm thanks to solid demand for printing equipment offering high productivity in other countries. For inkjet printers, the demand from customers working from home slowed. For laser printers, demand slowed due to the curbing of corporate investments.

For medical equipment, demand remained firm, particularly in Japan and Europe. For cameras, demand remained solid thanks to the need for high-quality visual expression from professionals and enthusiasts. The market of network cameras continued to grow. For semiconductor lithography equipment, although demand for memory devices remained weak, the market has grown, particularly for power devices, analog devices and sensors. For FPD (Flat Panel Display) lithography equipment, the market continued to shrink due to restrained investments by panel manufacturers.

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

## Summary of operations

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

Total assets increased by ¥321,047 million to ¥5,416,577 million at December 31, 2023, compared with the end of the previous year. In addition to the impact of the depreciation of the yen, goodwill and other acquired assets increased following acquisitions made during the year such as Minaris Medical Co., Ltd. Fixed assets increased as a result of continued capital investment to improve efficiency and productivity. In 2023, long-term loans decreased due to the full repayment of loans for the acquisition of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation). However, total liabilities increased by ¥64,370 million to ¥1,810,870 million at December 31, 2023, compared with the end of the previous year mainly due to an increase of short-term loans in response to the increase in required working capital. Total equity increased by ¥256,677 million to ¥3,605,707 million at December 31, 2023, compared with the end of the previous

year, mainly due to an increase in retained earnings resulting from net income attributable to Canon, and an increase in accumulated other comprehensive income due to the depreciation of the yen offset by the payment of dividends to Canon Inc. shareholders and the repurchases of treasury stock decreased total equity. As a result of the aforementioned items, Canon Inc. shareholders' equity as a percentage of total assets increased by 0.8 points to 61.9%.

### Key performance indicators

The following are the key performance indicators ("KPIs") that Canon uses in managing its business. The changes from year to year in these KPIs are set forth in the table shown below.

#### Net sales and profit ratio

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

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

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

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

### Cash flow management

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

Inventory turnover measured in days is a KPI because it measures the efficiency of supply chain management. Inventories have inherent risks of becoming obsolete, physically damaged or otherwise decreasing significantly in value, which may adversely affect Canon's operating results. To mitigate these risks, management believes that it is crucial to continue reducing work-in-process inventories by decreasing production lead times in order to promptly recover related product expenses, while balancing risks of supply chain disruptions by optimizing finished goods inventories in order to avoid losing potential sales opportunities.

The debt to total assets ratio is also one of the KPIs. For a manufacturing company like Canon, it generally takes considerable time to realize profit from a business due to lead times required for R&D, manufacturing and sales. Therefore, management believes that it is important to have sufficient financial strength. Canon will continue to reduce its dependency on external funds for capital investments in favor of generating the necessary funds from its own operations, but it is possible that Canon utilizes debt following a decision to invest on a large scale for future growth.

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

### Return on equity

Return on Canon Inc. shareholders' equity, calculated as the ratio of net income divided by shareholders' equity, is one of the KPIs for Canon. Canon seeks to increase profitability by reviewing its business structure and optimization of expenses, and pursues asset efficiency resulting from proper inventory levels and consolidation of production sites as well. In addition, Canon will improve return on Canon Inc. shareholders' equity in order to achieve investment for growth while maintaining the financial soundness with an optimal capital structure by effectively utilizing debt.

**KEY PERFORMANCE INDICATORS**

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

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

**Revenue recognition**

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

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

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

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

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

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

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

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

### **Allowance for credit losses**

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

### **Valuation of inventories**

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

### **Impairment of long-lived assets**

Long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds its estimated sum of undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Determining the fair value of the asset involves the use of estimates and assumptions.

### **Property, plant and equipment**

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

## Lease

As for lessor accounting, Canon provides leasing arrangement to its customers primarily for the sale of office products. Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and related revenue is recognized ratably over the lease term. When product leases are bundled with maintenance contracts, revenue is allocated based upon the estimated standalone selling prices of the lease and non-lease components. Lease components generally include product and financing while non-lease components generally consist of maintenance contracts and supplies. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into account to determine the lease term when it is reasonably certain that the customers will exercise these options. The majority of Canon's lease contracts do not contain bargain purchase options for their customers.

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

## Business combinations

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

## Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon recognizes an impairment charge in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Fair value of a reporting unit is determined primarily based on the discounted cash flow analysis which involves estimates of projected future cash flows and discount rates. Estimates of projected future cash flows are primarily based on Canon's forecast of future growth rates. Estimates of discount rates are determined based on the weighted average cost of capital, which considers primarily market and industry data as well as specific risk factors. Canon has completed its impairment test in the fourth quarter of 2023 and determined that there were no reporting units that failed the impairment test as the fair value of each reporting unit exceeded its respective carrying amount. However, with regard to goodwill attributed to the Medical Reporting Unit, fair value in excess of reported carrying amount as a percentage is lower than other reporting units. As a result, a future reduction in cash flows of the related business could trigger an impairment. The goodwill related to this reporting unit as of December 31, 2023 is ¥565,687 million. Future cash flows for the Medical Reporting Unit were based on a mid-term management plan that considered the future market growth of medical equipment and growth in geographies where Canon operates its medical business. Intangible assets with finite useful lives consist primarily of software, trademarks, patents and developed technology, license fees and customer relationships, which are amortized using the straight-line method. The estimated useful lives of software are primarily from 3 years to 8 years, trademarks are 15 years, patents and developed technology are from 9 years

to 21 years, license fees are 7 years, and customer relationships are from 14 years to 16 years, respectively.

### Income tax uncertainties

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

### Valuation of deferred tax assets

Canon currently has significant deferred tax assets, which are subject to periodic recoverability assessments. Realization of Canon's deferred tax assets is principally dependent upon its achievement of projected future taxable income. Canon's judgments regarding future profitability may change due to future market conditions, its ability to continue to successfully execute its operating activities and other factors. Any changes in these factors may require possible recognition of significant valuation allowances to reduce the net carrying value of these deferred tax asset balances. When Canon determines that certain deferred tax assets may not be recoverable, the amounts, which may not be realized, are charged to income tax expense and will adversely affect net income.

### Employee retirement and severance benefit plans

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

In preparing its financial statements for 2023, Canon estimated a weighted-average discount rate used to determine benefit obligations of 1.5% for Japanese plans and 3.7% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.2% for Japanese plans and 5.7% for foreign plans. In estimating the discount rate, Canon uses available information about rates of return on high-quality fixed-income government and corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. Canon establishes the expected long-term rate of return on plan assets based on management's expectations of the long-term return of the

various plan asset categories in which it invests. Management develops expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

Decreases in discount rates lead to increases in actuarial pension benefit obligations which, in turn, could lead to an increase in service cost and amortization cost through amortization of actuarial gain or loss, a decrease in interest cost, and vice versa. For 2023, a decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately ¥73,295 million. The net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, is deferred until subsequent periods.

Decreases in expected returns on plan assets may increase net periodic benefit cost by decreasing the expected return amounts, while differences between expected value and actual fair value of those assets could affect pension expense in the following years, and vice versa. For 2023, a decrease of 50 basis points in the expected long-term rate of return on plan assets would increase approximately ¥5,477 million in net periodic benefit cost. Canon multiplies management's expected long-term rate of return on plan assets by the value of its plan assets to arrive at the expected return on plan assets that is included in pension expense. Canon defers recognition of the difference between this expected return on plan assets and the actual return on plan assets. The net deferred amount affects future pension expense.

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

### Environmental Liabilities

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

### Recently Issued Accounting Guidance

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

## CONSOLIDATED RESULTS OF OPERATIONS

### SUMMARY OF OPERATIONS

	Millions of yen				
	2023	change	2022	change	2021
Net sales	<b>4,180,972</b>	<b>+3.7%</b>	4,031,414	+14.7%	3,513,357
Products and Equipment	<b>3,314,627</b>	<b>+2.6%</b>	3,231,837	+15.2%	2,804,680
Services	<b>866,345</b>	<b>+8.4%</b>	799,577	+12.8%	708,677
Operating profit	<b>375,366</b>	<b>+6.2%</b>	353,399	+25.4%	281,918
Income before income taxes	<b>390,767</b>	<b>+10.9%</b>	352,440	+16.4%	302,706
Net income attributable to Canon Inc.	<b>264,513</b>	<b>+8.4%</b>	243,961	+13.6%	214,718

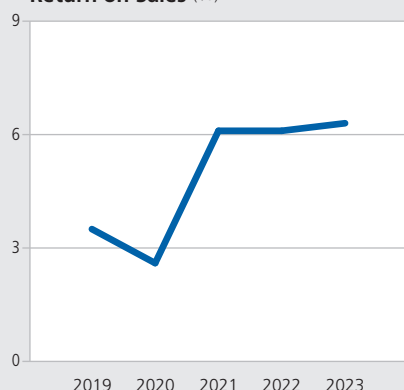
Note: See note to KEY PERFORMANCE INDICATORS

### Sales

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

Overseas operations are significant to Canon's operating results and generated 78.4% of total net sales in 2023. Such sales are denominated in the applicable local currencies and are subject to fluctuations in the value of the yen relative to those currencies. Despite efforts to reduce the impact of currency fluctuations on operating results, including localization of manufacturing in some regions along with procuring parts and materials from overseas suppliers, Canon believes such fluctuations have had and will continue to have a significant effect on its results of operations.

Return on Sales (%)



The average value of the yen during the year was ¥140.85 against the U.S. dollar, a year-on-year depreciation of approximately ¥9, and ¥152.20 against the euro, a year-on-year depreciation of approximately ¥14. The effects of foreign exchange rate fluctuations positively affected net sales by ¥188,454 million in 2023. This favorable impact consisted of approximately ¥89,253 million of favorable impact for the U.S. dollar denominated sales and favorable impact of ¥91,469 million for the euro denominated sales, and favorable impact of ¥7,732 million for other foreign currency denominated sales.

### Cost of sales

Cost of sales principally reflects the cost of raw materials, parts and labor used by Canon in the manufacture of its products. A portion of the raw materials used by Canon is imported or includes imported materials. Many of these raw materials are subject to fluctuations in world market prices accompanied by fluctuations in foreign exchange rates that may affect Canon's cost of sales. Other components of cost of sales include depreciation expenses, maintenance expenses, light and fuel expenses, and rent expenses. In 2023, prices for parts and the cost of distribution became more stable in contrast to their earlier rise. In addition, there was progress to reduce costs from the second half of the year. Under these conditions, the ratios of cost of sales to net sales for 2023 and 2022 were 52.9% and 54.7%, respectively. Cost of sales as a percentage of net sales decreased by 1.8 points.

### Gross profit

Canon's gross profit in 2023 increased by 7.7% to ¥1,968,910 million from 2022. The gross profit to net sales ratio increased by 1.8 points to 47.1%. The increase in the gross profit was mainly due to a reduction in costs of components and logistics, and the favorable effects of the depreciation of the yen.



### Operating expenses

The major components of operating expenses are payroll, R&D, advertising expenses and other marketing expenses. Operating expenses in 2023 increased by 8.1% year on year to ¥1,593,544 million due to an increase in sales related expenses with the normalization of sales activity. In addition, operating expenses denominated in foreign currencies increased thanks to the depreciation of the yen. Operating expenses as a percentage of net sales increased by 1.6 points to 38.1%.

### Operating profit

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

### Other income (deductions)

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

### Income before income taxes

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

### Income taxes

Income taxes in 2023 increased by ¥13,990 million from 2022. The effective tax rate for 2023 was 27.2%, which was lower than the statutory tax rate in Japan. This resulted from a combination of factors such as the increase in tax credits of R&D expenses and the lower effective tax rates at foreign subsidiaries compared to the statutory tax rate in Japan.

### Net income attributable to Canon Inc.

As a result, net income attributable to Canon Inc. in 2023 increased by 8.4% to ¥264,513 million, which represents 6.3% of net sales.

### Segment information

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

- **The Printing Business Unit** mainly includes Digital continuous feed presses / Digital sheet-fed presses / Large format printers / Office MFDs / Document solutions / Laser MFPs / Laser printers / Inkjet printers / Image scanners / Calculators
- **The Medical Business Unit** mainly includes CT systems / Diagnostic ultrasound systems / Diagnostic X-ray systems / MRI systems / Clinical chemistry analyzers / Digital radiography systems / Ophthalmic equipment

- **The Imaging Business Unit** mainly includes Interchangeable-lens digital cameras / Interchangeable lenses / Digital compact cameras / Compact photo printers / MR Systems / Network cameras / Video management software / Video content analytics software / Digital camcorders / Digital cinema cameras / Broadcast equipment / Projectors
- **The Industrial Business Unit** mainly includes Semiconductor lithography equipment / FPD lithography equipment / OLED display manufacturing equipment / Vacuum thin-film deposition equipment / Die bonders

### Operating results by segment

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

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

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

As for the Imaging Business Unit, sales of interchangeable-lens digital cameras, in particular mirrorless cameras like the EOS R6 Mark II, a full-frame mirrorless camera released the year before last, and the new entry-level EOS R50 and EOS R100 mirrorless cameras launched last year, remained solid. Sales of RF-series interchangeable-lenses remained solid as well. Sales of network cameras increased thanks to solid demand and enhanced sales activity against the background

of diversifying applications. These factors resulted in total sales for the business unit of ¥861,625 million, a year-on-year increase of 7.2%, while income before income taxes increased by 14.4% year-on-year to ¥146,433 million due to an increase in the sales ratio of high-value-added mirrorless camera and solid profit of network cameras.

As for the Industrial Business Unit, sales of semiconductor lithography equipment remained strong, particularly for those

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

## SALES BY SEGMENT

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

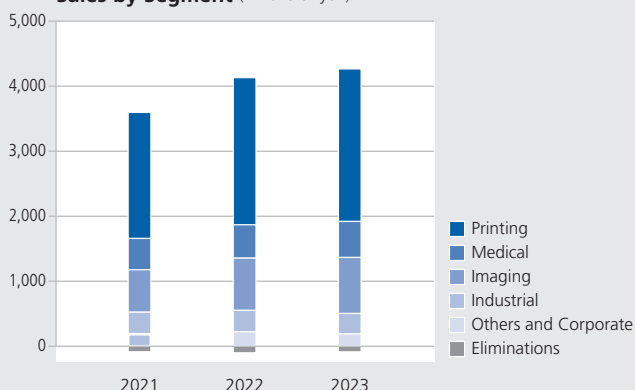
Note: A certain business, which was previously included in Others, has been presented within the Printing Business Unit from 2023. Sales by segment amounts for the years ended December 31, 2022 and 2021 also have been reclassified.

## SALES BY GEOGRAPHIC AREA

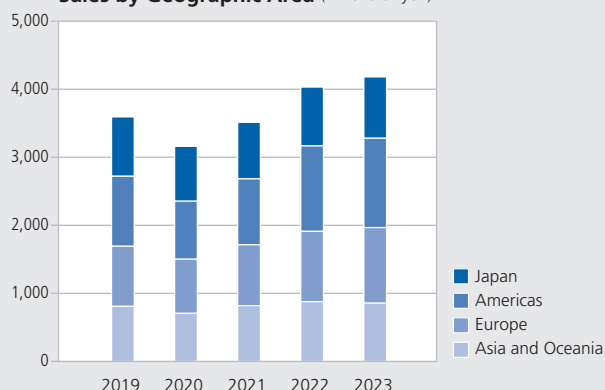
	Millions of yen				
	2023	change	2022	change	2021
Japan	901,589	+4.3%	864,808	+4.1%	830,378
Americas	1,312,438	+4.5%	1,255,405	+29.6%	968,839
Europe	1,111,211	+7.5%	1,034,008	+15.5%	894,898
Asia and Oceania	855,734	-2.4%	877,193	+7.1%	819,242
Total	4,180,972	+3.7%	4,031,414	+14.7%	3,513,357

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

Sales by Segment (Billions of yen)



Sales by Geographic Area (Billions of yen)



### Sales by geographic area

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

In Japan, net sales increased by 4.3% from the previous year mainly owing to an increase in sales of IT solutions for offices.

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

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

In Asia and Oceania, net sales decreased by 2.4% from the previous year mainly owing to decrease in sales of FPD lithography equipment.

### FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSACTIONS

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

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

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

### LIQUIDITY AND CAPITAL RESOURCES

Canon's basic policy for financial strategies is to maintain a sound financial position through consistent cash flow management, and the two basic principles of cash flow management are as follows:

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

### Raising Funds (Cash-In)

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

### Use of Funds (Cash-Out)

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

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

**Cash and cash equivalents** increased by ¥39,222 million to ¥401,323 million in fiscal 2023 compared to the previous year. Canon's cash and cash equivalents are primarily denominated in Japanese yen and in U.S. dollars, with the remainder denominated in other currencies.

Net cash provided by operating activities increased by ¥188,587 million to ¥451,190 million in fiscal 2023 compared to the previous year as a result of mainly due to an improvement in working capital caused by an increase in profit and a reduction in inventory. The major component of Canon's cash inflow is cash received from customers, and the major components of Canon's cash outflow are payments for parts and materials, selling, general and administrative expenses, R&D expenses and income taxes.

For fiscal 2023, cash inflow from cash received from customers increased due to sales improvement. There were no significant changes in Canon's collection rates. Cash outflow increased due to an increase in the payment for parts and materials owing to increase of sales, and an increase in sales related expenses with the normalization of sales activity. Cash outflow for payments for income taxes increased due to an increase in taxable income.

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

million to ¥230,308 million in fiscal 2023.

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

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

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

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

To the extent Canon relies on external funding for its liquidity and capital requirements, it generally has access to various funding sources, including the issuance of additional share capital, issuance of corporate bond or loans. While Canon has been able to obtain funding from its traditional financing

sources and from the capital markets, and believes it will continue to be able to do so in the future, there can be no assurance that adverse economic or other conditions will not affect Canon’s liquidity or long-term funding in the future.

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

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

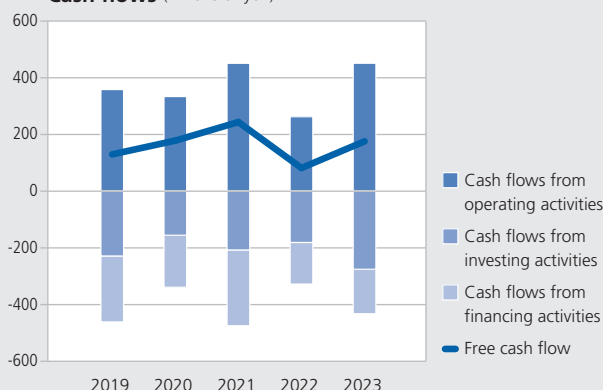
As of February 29, 2024, Canon’s debt ratings are: S&P: A (long-term), A-1 (short-term); and R&I: AA (long-term). Canon does not have any rating downgrade triggers that would accelerate the maturity of a material amount of its debt. A downgrade in Canon’s credit ratings or outlook could, however, increase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

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

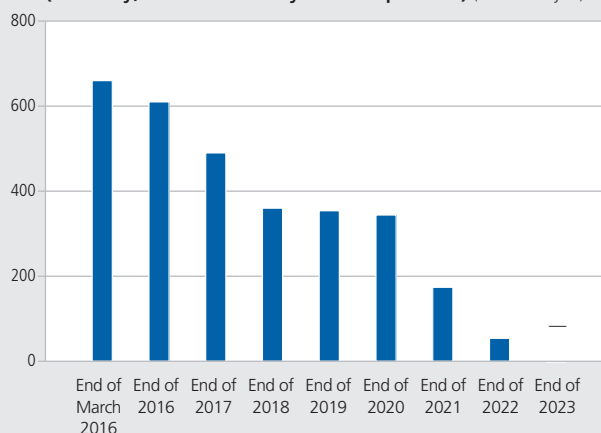
Canon provides guarantees for its employees, affiliates and other companies. The guarantees for the employees are principally made for their housing loans. The guarantees for affiliates and other companies are made for their lease obligations and bank loans to ensure that those companies operate with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

Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are 1 year to 11 years in case of employees with housing loans, and 1 year to 5 years in case of affiliates and other companies with lease obligations and bank loans. The maximum amount of undiscounted payments Canon would have had to make in the event of default is

Cash flows (Billions of yen)



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



¥1,678 million at December 31, 2023. The carrying amounts of the liabilities recognized for Canon's obligations as a

guarantor under those guarantees at December 31, 2023 were not significant.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

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

Millions of yen	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
Long-term debt:					
Loan from the banks	—	—	—	—	—
Other debt	4,249	1,295	1,791	1,012	151
Operating lease obligations	136,422	38,769	54,124	26,657	16,872
Purchase commitments for:					
Property, plant and equipment	113,636	113,636	—	—	—
Parts and raw materials	243,676	243,676	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	30,034	30,034	—	—	—
Total	528,017	427,410	55,915	27,669	17,023

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

Canon provides warranties of generally less than one year against defects in materials and workmanship on most of its consumer products. Estimated product warranty related costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses. Estimates for accrued product warranty costs are primarily based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure. As of December 31, 2023 accrued product warranty costs are included in accrued expenses and amounted to ¥23,290 million.

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

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

Canon's total inventory turnover measured in days were 66, 69, and 66 days at the end of the fiscal years 2023, 2022, and 2021, respectively. The inventory turnover in 2023 decreased mainly due to a decrease in inventories of products at sales companies, from the situation in 2022 that was focused on securing electronic parts, raw materials and important parts amid a shortage of semiconductor components and international logistics disruption.

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

**Increase in property, plant and equipment** on an accrual basis in 2023 amounted to ¥201,140 million compared with ¥156,593 million in 2022 and ¥151,914 million in 2021. For 2024, Canon projects its increase in property, plant and equipment will be approximately ¥210,000 million.

**Employer contributions** to Canon's worldwide defined benefit pension plans were ¥51,647 million in 2023, ¥31,705 million in 2022 and ¥43,782 million in 2021. Employer contributions to Canon's worldwide defined contribution pension plans were ¥27,667 million in 2023, ¥24,346 million in 2022, and ¥22,660 million in 2021. In addition, employer contributions to the multiemployer pension plan of certain subsidiaries were ¥5,447 million in 2023, ¥4,720 million in 2022 and ¥4,822 million in 2021.

**Working capital** in 2023 decreased by ¥5,651 million to ¥784,910 million, compared with ¥790,561 million in 2022 and ¥817,512 million in 2021. The decrease was primarily due to an increase in short-term loans (including the current portion of long-term debt). Canon believes its working capital will be sufficient for its requirements for the foreseeable future. Canon's capital requirements are primarily dependent on management's business plans regarding the levels and timing of

purchases of fixed assets and investments. The working capital ratio (ratio of current assets to current liabilities) for 2023 was 1.55 compared to 1.58 for 2022 and to 1.77 for 2021.

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

**Return on Canon Inc. shareholders' equity** (net income attributable to Canon Inc. divided by the average of total Canon Inc. shareholders' equity) was 8.2% in 2023 compared with 8.1% in 2022 and 7.9% in 2021. It improved from the previous fiscal year due to an increase in net income, although shareholders' equity increased due to an increase in retained earnings resulting from an increase in profit and an increase in foreign currency translation adjustments resulting from the depreciation of the yen.

In Phase VI, one of Canon's management policies is to thoroughly implement cash flow management, and Canon is restrengthening its financial base.

In fiscal 2023, loans decreased by ¥54,000 million due to the repayment of loans which was provided for the acquisition of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation). On the other hand, short-term loans were increased in response to the increase in required working capital. As a result, **the debt to total assets ratios** were 9.6%, 8.2% and 6.8% as of December 31, 2023, 2022

and 2021, respectively. Canon had short-term loans, current operating lease liabilities, long-term debt, and noncurrent operating lease liabilities of ¥517,317 million, ¥417,413 million, ¥320,971 million as of December 31, 2023, 2022, and 2021, respectively.

#### Canon Inc. shareholders' equity to total assets ratios

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

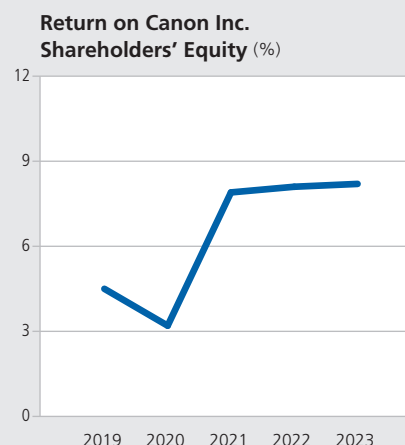
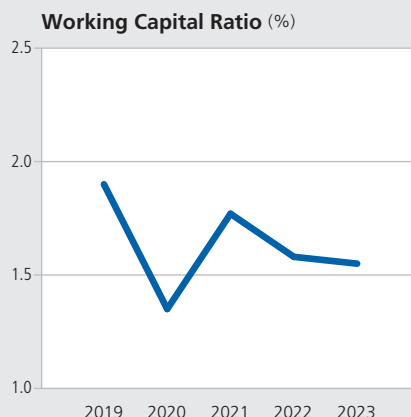
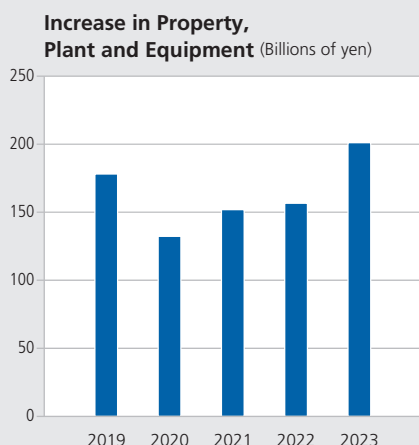
#### Non-GAAP Financial Measures

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

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

#### FREE CASH FLOW

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



## RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

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

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

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

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

products and those that support products in product development, Canon will create competitive products.

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

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

Canon obtained the fifth greatest number of patents in the United States in 2023, according to the annual ranking list, released by IFI CLAIMS® Patent Services.

## MARKET RISK EXPOSURES

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

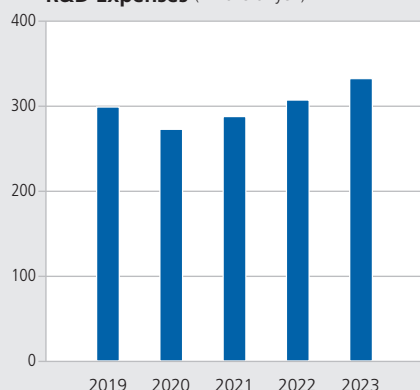
## Equity price risk

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

Maturities and fair values of such marketable securities and investments with original maturities of more than three months were as follows at December 31, 2023.

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

**R&D Expenses** (Billions of yen)



### Foreign currency exchange rate and interest rate risk

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

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

The following table provides information about Canon's major derivative financial instruments related to foreign currency exchange transactions existing as of December 31, 2023. All of the foreign exchange contracts described in the following table have a contractual maturity date in 2024.

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



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

Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings in the same period as the hedged items affect earnings. All amounts recorded in accumulated other comprehensive income (loss) as of December 31, 2023 are expected to be recognized in net sales over the next twelve months. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings.

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

## LOOKING FORWARD

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

Based on this basic management policy, Canon launched the Excellent Global Corporation Plan in 1996 and, from Phase I to Phase V, has worked to strengthen its management base and improve corporate value. To achieve new growth, Canon made "accelerating corporate portfolio transformation through our productivity improvement and new businesses creation" its basic policy under "Phase VI of the Excellent Global Corporation Plan," its five-year management plan from 2021 to 2025. In 2021, Canon reorganized its product-oriented business divisions into four industry-oriented business groups that included commercial printing, medical, network cameras and industrial equipment as new businesses, thereby establishing a structure for enhancing business competitiveness and creating new drivers of growth.

In 2021 and 2022, impact of the spread of COVID-19 remained, and Canon was preoccupied with responding to shortages of semiconductors and other components, and logistical disruptions. After entering 2023, however, as the situation settled down, Canon resumed and accelerated its planned measures. Each industry-oriented business group will work to expand the entire Canon Group, by focusing investments on new business areas with high growth potential to strengthen and expand them.

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

targets for 2025 by ensuring all divisions, including development, procurement, production and sales, work in a concerted effort to implement the following priority measures.

### 1. Strengthen and expand industry-oriented business groups

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

#### (1) Printing Group

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

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

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

#### (2) Medical Group

Canon aims to establish a solid presence in the field of diagnostic imaging systems, which serves as the core of the medical business, particularly in CT where it aims to achieve the No. 1 global market share position. While it already has a lineup that can hold its own against global competitions, it is working to further expand it, strengthening sales power and presence overseas is an urgent issue.

In the United States which is a medically advanced country that has great influence in the global market, in addition to increasing the number of staff and other measures, Canon set up a new marketing company last year. In November, Canon entered a partnership with Cleveland Clinic, an advanced medical institution. Through such measures, Canon will promote joint research with medical institutions and strengthen relationships with medical practitioners who serve as key opinion leaders. In addition, Photon Counting CT, the next generation CT, is receiving increasing attention as many papers based on Canon's

equipment have been presented at academic conferences in the United States. With increasing attention, Canon will work to improve Canon's presence by accelerating the development of Photon Counting CT. In emerging countries, Canon established a local corporation in India and Saudi Arabia last year, and Canon will strive to expand sales in these regions and elsewhere.

### (3) *Imaging Group*

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

Demand for network cameras for surveillance applications continues to increase to ensure safety and security against disasters and crimes. At the same time, the need for in-store marketing and for production control at manufacturing sites are growing. Therefore, it is important to respond to diversified needs. Last year, Canon released a camera equipped with a SPAD sensor offering the world's highest 3.2 million pixels\* developed by Canon, for advanced surveillance of international borders, critical infrastructure etc., and going forward as well, it will continue to enhance its lineup of both hardware and software.

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

### (4) *Industrial Group*

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

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

## 2. **Reorganize global supply chain**

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

## 3. **Strengthen technological research capability**

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

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

## 4. **Address cybersecurity risks**

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

In the unlikely event that an information security incident occurs, Canon has established a dedicated team, CSIRT\*, to deal with it promptly, which also endeavors to collect information in ordinary times. Furthermore, since Canon is working to boost the convenience of our products and services by connecting them to the cloud and smartphones via networks, as a key initiative, Canon is also working on countermeasures against cybersecurity risks, such as the leakage of personal and confidential information, from the development stage.

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

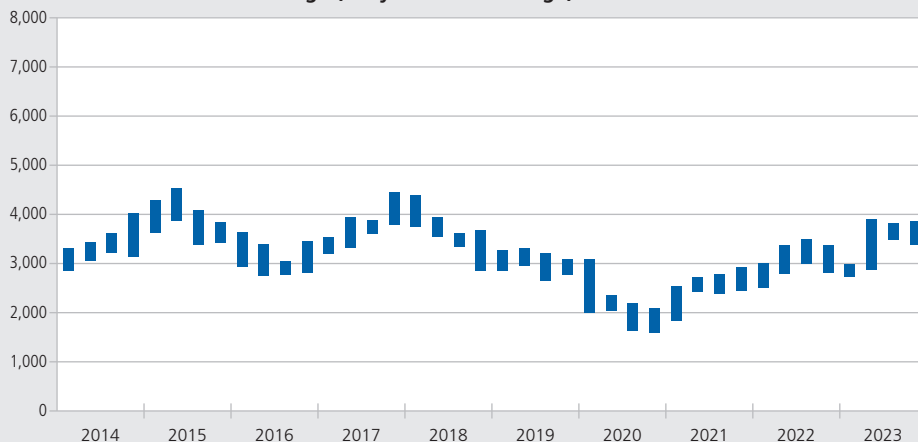
**Forward looking statements**

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

## TEN-YEAR FINANCIAL SUMMARY

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

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



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

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

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

2. Canon adopted Accounting Standards Update ("ASU") No. 2017-07 from the quarter beginning January 1, 2018. The adoption of the new presentation requirement of the service cost component and the other components of net benefit cost resulted in reclassification from cost of sales, and selling, general and administrative expenses, and research and development expenses into other income (deductions) for the years ended December 31 from 2017 to 2014 respectively.

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

# CONSOLIDATED BALANCE SHEETS

Canon Inc. and Subsidiaries  
December 31, 2023 and 2022

	Millions of yen	
	2023	2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Notes 1 and 22)	401,323	362,101
Short-term investments (Notes 2 and 22)	3,822	10,905
Trade receivables (Note 3)	655,460	636,803
Inventories (Note 4)	796,881	808,312
Current lease receivables (Notes 1 and 6)	150,324	137,038
Prepaid expenses and other current assets (Notes 15, 18 and 22)	231,605	215,990
Allowance for credit losses (Notes 3 and 6)	(15,329)	(15,235)
Total current assets	2,224,086	2,155,914
Noncurrent receivables (Note 20)	11,734	12,996
Investments (Notes 2 and 22)	78,505	65,128
Property, plant and equipment, net (Note 5)	1,095,879	1,035,065
Operating lease right-of-use assets (Note 19)	126,125	117,843
Intangible assets, net (Notes 7 and 8)	274,942	280,995
Goodwill (Notes 7 and 8)	1,045,400	972,626
Noncurrent lease receivables (Notes 1 and 6)	321,065	279,332
Other assets (Notes 11 and 12)	242,659	179,297
Allowance for credit losses (Note 6)	(3,818)	(3,666)
Total assets	5,416,577	5,095,530
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term loans and current portion of long-term debt (Notes 9 and 21)	386,200	296,384
Short-term loans related to financial services	38,900	41,200
Other short-term loans and current portion of long-term debt	347,300	255,184
Trade payables (Note 10)	309,930	355,930
Accrued income taxes (Note 12)	56,983	48,414
Accrued expenses (Notes 11 and 20)	373,544	365,847
Current operating lease liabilities (Note 19)	35,559	33,281
Other current liabilities (Notes 5, 15, 18 and 22)	276,960	265,497
Total current liabilities	1,439,176	1,365,353
Long-term debt, excluding current portion of long-term debt (Notes 9 and 21)	2,954	2,417
Accrued pension and severance cost (Note 11)	171,779	189,215
Noncurrent operating lease liabilities (Note 19)	92,604	85,331
Other noncurrent liabilities (Notes 12 and 15)	104,357	104,184
Total liabilities	1,810,870	1,746,500
Equity:		
Canon Inc. shareholders' equity:		
Common stock		
Authorized 3,000,000,000 shares; issued 1,333,763,464 shares in 2023 and 2022	174,762	174,762
Additional paid-in capital (Note 13)	404,935	404,838
Legal reserve (Note 13)	61,634	64,509
Retained earnings (Note 13)	3,801,212	3,664,735
Accumulated other comprehensive income (loss) (Note 14)	268,758	62,623
Treasury stock, at cost; 345,964,752 shares in 2023 and 318,250,096 shares in 2022	(1,358,279)	(1,258,362)
Total Canon Inc. shareholders' equity	3,353,022	3,113,105
Noncontrolling interests	252,685	235,925
Total equity	3,605,707	3,349,030
Total liabilities and equity	5,416,577	5,095,530

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF INCOME

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

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

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF EQUITY

Canon Inc. and Subsidiaries

Years ended December 31, 2023, 2022 and 2021

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

See accompanying Notes to Consolidated Financial Statements.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Inc. and Subsidiaries

Years ended December 31, 2023, 2022 and 2021

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

See accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canon Inc. and Subsidiaries

## 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### (a) Description of Business

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

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

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

### (b) Basis of Presentation

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

Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with U.S. generally accepted accounting principles

("U.S. GAAP"). These adjustments were not recorded in the statutory books of account.

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

### (c) Principles of Consolidation

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

### (d) Use of Estimates

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

### (e) Translation of Foreign Currencies

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

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

### (f) Cash Equivalents

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

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

### **(g) Investments**

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

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

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

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

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

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

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

Investments in affiliated companies over which Canon

has the ability to exercise significant influence, but does not hold a controlling financial interest, are accounted for by the equity method.

### **(h) Allowance for Credit Losses**

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

### **(i) Inventories**

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

### **(j) Impairment of Long-Lived Assets**

Long-lived assets, such as property, plant and equipment, and acquired intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset and the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated sum of undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

### **(k) Property, Plant and Equipment, net**

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

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

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

### **(l) Leases**

As for lessor accounting, Canon provides leasing arrangements to its customers primarily for the sale of office products.

Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and related revenue is recognized ratably over the lease term. When product leases are bundled with maintenance contracts, revenue is allocated based upon the estimated standalone selling prices of the lease and non-lease components. Lease components generally include product and financing while non-lease components generally consist of maintenance contracts and supplies. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into account to determine the lease term when it is reasonably certain that customers will exercise these options. The majority of Canon's lease contracts do not contain bargain purchase options for their customers. Assets leased to others under operating leases are stated at cost and depreciated to the estimated residual value of the assets by the straight-line method over a period of generally 2 years to 50 years.

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

#### **(m) Goodwill and Other Intangible Assets**

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon recognizes an impairment charge in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Intangible assets with finite useful lives consist primarily of software, trademarks, patents and developed technology, license fees and customer relationships, which are amortized

using the straight-line method. The estimated useful lives of software are primarily from 3 years to 8 years, trademarks are 15 years, patents and developed technology are from 9 years to 21 years, license fees are 7 years, and customer relationships are from 14 years to 16 years. Certain costs incurred in connection with developing or obtaining internal-use software are capitalized. These costs consist primarily of payments made to third parties and the salaries of employees working on such software development. Costs incurred in connection with developing internal-use software are capitalized at the application development stage. In addition, Canon capitalizes the cost which was incurred subsequent to the stage of assuring the technological feasibility of the software, either developed or acquired, for marketing purposes.

#### **(n) Environmental Liabilities**

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

#### **(o) Income Taxes**

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

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

#### **(p) Stock-Based Compensation**

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

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

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

### **(r) Revenue Recognition**

Canon generates revenue mainly through the sale of products of the Printing Business Unit, the Medical Business Unit, the Imaging Business Unit and the Industrial Business Unit, supplies and related services under separate contractual arrangements. Revenue is recognized when, or as, control of promised goods or services transfers to customers in an amount that reflects the consideration to which Canon expects to be entitled in exchange for transferring these goods or services. For further information, please refer to Note 15.

### **(s) Research and Development Costs**

Research and development costs are expensed as incurred.

### **(t) Advertising Costs**

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

### **(u) Shipping and Handling Costs**

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

### **(v) Derivative Financial Instruments**

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

Canon uses and designates certain derivatives as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge). Canon formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. Canon also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Canon discontinues hedge accounting prospectively. Changes

in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the hedged item, and reclassified in the same income statement line item in which the earnings effect of the hedged item is reported.

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

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

### **(w) Guarantees**

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

### **(x) Recent Accounting Guidance**

#### *Recently adopted accounting guidance*

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

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

In September 2022, ASU No. 2022-04, "Disclosure of Supplier Finance Program Obligations"-ASC 405-50 ("Liabilities - Supplier Finance Programs"), was issued by FASB. The standard requires entities that use supplier finance programs in connection with the purchase of goods and services to disclose the key terms of the programs and information about obligations outstanding at the end of the reporting period, including a rollforward of those obligations. Canon adopted the standard, which requires disclosure of the key terms of the programs and information about obligations outstanding, from interim and annual reporting periods beginning January 1, 2023. The standard's requirement to disclose a rollforward of obligations outstanding is effective for annual

reporting periods beginning after December 15, 2023. The adoption of this standard did not have an effect on its consolidated results of operations and financial condition. For further information, please refer to Note 10.

**Recently issued accounting guidance not yet adopted**

In November 2023, ASU No. 2023-07, "Improvements to Reportable Segment Disclosures"-ASC 280 ("Segment Reporting"), was issued by FASB. The standard requires us to disclose significant segment expenses by reportable segment if they are regularly provided to the chief operating decision maker (CODM) and to provide a qualitative disclosure describing the composition of the other segment items. Also, all existing annual disclosures about segment profit or loss must be provided on an interim basis in addition to disclosure of significant segment expenses and other segment items as noted above. The standard is effective for annual reporting periods beginning after December 15, 2023 and for interim reporting periods beginning after December 15, 2024. The

amendments in the standard apply retrospectively to all prior periods presented in the financial statements. Canon is currently evaluating the effect that the adoption of the standard will have on its disclosure information. Canon does not expect the adoption of the standard will have an effect on its consolidated results of operation and financial condition.

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

## 2. INVESTMENTS

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

December 31	Millions of yen			
	2023			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	883	1	—	884
Noncurrent:				
Corporate bonds	8,242	56	19	8,279
	9,125	57	19	9,163
December 31	Millions of yen			
	2022			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	9,277	35	11	9,301
Noncurrent:				
Corporate bonds	4,850	—	65	4,785
	14,127	35	76	14,086

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

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

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

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

The carrying amount of non-marketable equity securities without readily determinable fair value totaled ¥10,282 million and ¥6,808 million at December 31, 2023 and 2022, respectively. The impairment or other adjustments resulting from observable price changes recorded during the years ended

December 31, 2023 and 2022 were not significant.

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

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

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

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

Canon's share of the net earnings in affiliated companies accounted for by the equity method, included in other income

(deductions), were losses of ¥485 million for the year ended December 31, 2023, and earnings of ¥2,174 million and ¥1,396 million for the years ended December 31, 2022 and 2021, respectively.

### 3. TRADE RECEIVABLES

Trade receivables are summarized as follows:

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

#### 4. INVENTORIES

Inventories are summarized as follows:

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

#### 5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Amounts due for purchases of property, plant and equipment were ¥26,322 million and ¥24,745 million at December

31, 2023 and 2022, respectively, and are included in other current liabilities in the accompanying consolidated balance sheets. Fixed assets presented in the consolidated statements of cash flows include property, plant and equipment and intangible assets.

#### 6. LESSOR ACCOUNTING

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

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



### Lease Receivables

Lease receivables represent financing leases, which consist of sales-type leases and direct financing leases. These receivables typically have terms ranging from 1 year to 20 years. Lease

receivables within one year and more than one year are presented in current lease receivables and noncurrent lease receivables in the accompanying consolidated balance sheets, respectively. The components of the lease receivables are as follows:

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

### Allowance for Credit Losses

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

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

Canon has policies in place to ensure that its products are sold to customers with an appropriate credit history and continuously monitors its customers' credit quality based on information including length of period in arrears, macroeconomic conditions, initiation of legal proceedings against customers and bankruptcy filings. The allowance for credit losses of lease receivables is evaluated collectively based on historical

experiences of credit losses and reasonable and supportable forecasts. An additional reserve for individual accounts is recorded when Canon becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings. Lease receivables which are past due or individually evaluated for impairment at December 31, 2023 and 2022 are not significant.

### Equipment leased to customers

The cost of equipment leased to customers under operating leases included in property, plant and equipment, net at December 31, 2023 and 2022 was ¥181,022 million

and ¥151,858 million, respectively. Accumulated depreciation on equipment under operating leases at December 31, 2023 and 2022 was ¥101,515 million and ¥93,215 million, respectively.

## Maturity Analysis

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

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

## Information about transferring lease receivables

Canon has syndication arrangements to sell its entire interests in lease receivables to the third-party financial institutions. The transactions under the arrangements are accounted for as sales in accordance with ASC 860 "Transfers and Servicing." The transfers of lease receivables for the year ended December 31, 2023 were ¥45,775 million while there were no significant transfers of lease receivables for the year ended December 31, 2022 and 2021. The amount that remained uncollected was ¥50,453 million and ¥13,077 million at December 31, 2023 and

2022, respectively. Cash proceeds from the transactions are included in increase in lease receivables under the cash flow from operating activities in the consolidated statements of cash flows. Canon continues to provide collection and administrative services for the financial institutions. The amount associated with the servicing liability measured at fair value was not significant at December 31, 2023 and 2022. Canon also retains limited recourse obligations which cover credit defaults. The recourse obligations were not significant at December 31, 2023 and 2022.

## 7. ACQUISITIONS

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

In the medical business, Canon is working to strengthen its core business of diagnostic imaging systems, while also working to expand into areas such as healthcare IT and in-vitro diagnostics. This acquisition will allow synergy between

Minaris Medical's diverse solutions in the in-vitro diagnostics business, and Canon's technologies in the fields of automated biochemical analyzers, diagnostic imaging, and healthcare IT. By leveraging this synergy, Canon will be able to provide added value to meet the demands of the market.

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

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

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

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

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

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

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

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

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

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

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

Goodwill is composed of future excess profitability expected from business development. For management reporting purposes, goodwill is not allocated to the business unit. The

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

## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

## 9. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans related to financial services are external loans held by Canon's lease subsidiaries for the purpose of financing its customers through loans. Short-term loans related to financial services consisting of bank borrowings at December 31, 2023 and 2022 were ¥38,900 million and ¥41,200 million, and other short-term loans consisting of bank borrowings

were ¥346,005 million and ¥200,012 million respectively. The weighted average interest rate on short-term borrowings outstanding at December 31, 2023 and 2022 were 0.14% and 0.14%, respectively. Unused overdraft facilities at December 31, 2023 was ¥404,000 million. The overdraft facilities bear interest at a rate equal to a base rate plus a spread.

Long-term debt consisted of the following:

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

<sup>\*1</sup> During the year ended December 31, 2023, Canon prepaid ¥54,000 million of the outstanding loan under the unsecured revolving credit facility contracts which had an expiration date in December 2023.

<sup>\*2</sup> Other debt consisted of Bank loans and finance lease obligations as of December 31, 2023 and 2022.

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

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

Both short-term and long-term bank loans are primarily made under general agreements which provide that security and guarantees for present and future indebtedness shall be given upon request of the bank, and that the bank shall have

the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank.

## 10. TRADE PAYABLES

Trade payables are summarized as follows:

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

Canon has supplier finance programs with particular third-party financial institutions where Canon agrees to pay the

financial institutions after 90 to 180 days based on the contracts agreed to with the suppliers. The financial institutions

offer earlier payment of the invoices at the sole discretion of the supplier for a discounted amount. Canon does not provide assets pledged as security or any other forms of guarantees under the arrangements. Canon is not a party to any arrangement between its suppliers and the financial

institutions. The amount of liabilities under these programs, which is included in the above trade payables, as of December 31, 2023 and 2022 were ¥87,026 million and ¥95,389 million, respectively.

## 11. EMPLOYEE RETIREMENT AND SEVERANCE BENEFITS

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

The Company and certain of its subsidiaries also have defined contribution pension plans covering substantially all of their employees.

### Obligations and funded status

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

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

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

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

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

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

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

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

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

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

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

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

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

Service cost component of net periodic benefit cost for Canon's employee retirement and severance defined benefit plans is included in cost of sales and operating expenses in the

consolidated statements of income. The components other than the service cost component are included in other, net of other income (deductions) in the consolidated statements of income.

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

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

### Assumptions

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

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

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

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

Canon determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. Canon considers the current

expectations for future returns and the actual historical returns of each plan asset category.

### Plan assets

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

Canon's model portfolio for Japanese plans consists of three major components: approximately 30% is invested in equity

securities, approximately 50% is invested in debt securities, and approximately 20% is invested in other products, such as investments in insurance contracts including life insurance company general accounts.

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

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

The equity securities are selected primarily from stocks that are listed on securities exchanges. Prior to investing, Canon investigates the business condition of the investee companies, and appropriately diversifies investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds, public debt instruments,



and corporate bonds. Prior to investing, Canon investigates the quality of the issue, including rating, interest rate, and repayment dates, and appropriately diversifies the investments. Pooled funds are selected using strategies consistent with the equity and debt securities described above. As for insurance contracts, there are several types of insurance contracts between Canon and the life insurance companies including life insurance company general accounts which guarantee

the payments of interest based on expected interest rates and return of capital, and insured pension plans which cover future designated contractual benefit payments to covered participants. With respect to investments in foreign financial products, Canon investigates the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Canon selects the appropriate investment country and currency.

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

December 31	Millions of yen							
	2023							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (a)	111,525	—	—	111,525	—	—	—	—
Foreign companies	20,175	—	—	20,175	9,957	—	—	9,957
Pooled funds (b)	—	184,673	—	184,673	—	30,684	—	30,684
Debt securities:								
Government bonds (c)	115,204	—	—	115,204	—	—	—	—
Municipal bonds	—	1,319	—	1,319	—	4,069	—	4,069
Corporate bonds	—	15,740	—	15,740	—	7,183	—	7,183
Pooled funds (d)	—	161,386	—	161,386	—	162,456	—	162,456
Mortgage backed securities (and other asset backed securities)	—	14,309	—	14,309	—	10,855	—	10,855
Insurance contracts	—	74,214	—	74,214	—	14,732	31,303	46,035
Other assets	—	35,840	3,454	39,294	—	51,606	—	51,606
Investment measured at net asset value	—	—	—	11,380	—	—	—	23,280
	246,904	487,481	3,454	749,219	9,957	281,585	31,303	346,125
December 31	Millions of yen							
	2022							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (e)	92,382	—	—	92,382	—	—	—	—
Foreign companies	10,373	—	—	10,373	9,382	—	—	9,382
Pooled funds (f)	—	167,605	—	167,605	—	31,481	—	31,481
Debt securities:								
Government bonds (g)	69,331	—	—	69,331	—	—	—	—
Municipal bonds	—	1,071	—	1,071	—	3,244	—	3,244
Corporate bonds	—	13,986	—	13,986	—	16,970	—	16,970
Pooled funds (h)	—	134,266	—	134,266	—	113,005	—	113,005
Mortgage backed securities (and other asset backed securities)	—	11,309	—	11,309	—	9,804	—	9,804
Insurance contracts	—	95,029	—	95,029	—	13,153	27,824	40,977
Other assets	—	75,736	1,189	76,925	—	33,927	—	33,927
Investment measured at net asset value	—	—	—	11,551	—	—	—	29,761
	172,086	499,002	1,189	683,828	9,382	221,584	27,824	288,551

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

Japanese municipal bonds, and 15% corporate bonds for Japanese plans. These funds invest in approximately 55% foreign government bonds and 45% corporate bonds for foreign plans.

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

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

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

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

### Contributions

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

### Estimated future benefit payments

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

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

### Multiemployer pension plans

The amounts of cost recognized for the multiemployer pension plans primarily in the Netherlands for the years ended December 31, 2023, 2022 and 2021 were ¥5,447 million, ¥4,720 million and ¥4,822 million, respectively. The multiemployer pension plan in which the subsidiaries in the

Netherlands participated was 110.3% funded as of December 31, 2022. The terms of the collective bargaining agreements are negotiated on a regular basis between the local labor unions and participating employers. Canon is not liable for other participating employers' obligations under the terms and conditions of the agreements.

**Defined contribution plans**

The amounts of cost recognized for the defined contribution pension plans of the Company and certain of its subsidiaries

for the years ended December 31, 2023, 2022 and 2021 were ¥27,667 million, ¥24,346 million and ¥22,660 million, respectively.

**12. INCOME TAXES**

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

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

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

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

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

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

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

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

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

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

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

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

Based on the level of historical taxable income and

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

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

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

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

Canon has not recognized deferred tax liabilities of ¥19,211 million for a portion of undistributed earnings of foreign

subsidiaries of ¥758,139 million as of December 31, 2023 because Canon intends to permanently reinvest such undistributed earnings of foreign subsidiaries. Deferred tax liabilities will be recognized when such undistributed earnings are no longer permanently reinvested.

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

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

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

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

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

Canon recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes. Both interest

and penalties accrued at December 31, 2023 and 2022, and interest and penalties included in income taxes for the years ended December 31, 2023, 2022 and 2021 were not significant.

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

### 13. LEGAL RESERVE AND RETAINED EARNINGS

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

Cash dividends and appropriations to the legal reserve charged to retained earnings for the years ended December 31, 2023, 2022 and 2021 represent dividends paid out

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

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

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

### 14. OTHER COMPREHENSIVE INCOME (LOSS)

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

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

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

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

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

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

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



## 15. REVENUE

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

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

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

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

standalone selling prices. Canon recognizes the incremental costs of obtaining a contract as an expense when related products of the Printing Business Unit are sold.

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

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

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

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

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

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

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

Canon typically bills the customer when the performance obligation is satisfied and collects the payment in relatively short term except for certain maintenance service of the products of the Printing Business Unit and the Medical Business Unit and certain industrial equipment for which Canon occasionally receives the payment in advance from customers. The amount received in excess of revenue recognized is recorded as deferred revenue until the performance obligation for distinct goods or services are satisfied. Deferred revenue

at December 31, 2023 and 2022 were ¥141,578 million and ¥141,840 million, respectively, and are included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets. Revenue recognized for the year ended December 31, 2023, which had been included in the deferred revenue balance at December 31, 2022, was ¥115,182 million.

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

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

## 16. STOCK-BASED COMPENSATION

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

On March 27, 2023, based on the approval of the board of directors, the Company granted stock options to its executive officer to acquire 9,300 shares of common stock. Those to whom stock acquisition rights are granted (the "Holder(s)") shall be entitled to exercise all the stock acquisition rights together within 10 days (in case the last day is not a business day, the following business day) from after the date when they cease to hold any position as a director or an executive

officer of the Company. These option awards have a 30 year exercisable period. The grant-date fair value per share of the stock options was ¥2,445.

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

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

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

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

\*1 Granted on March 27, 2023

\*2 Granted on April 28, 2023

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

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

The total fair values of shares vested were ¥258 million, ¥175 million, and ¥97 million for the years ended December 31, 2023, 2022, and 2021, respectively. Cash received from

the exercise of stock options for the years ended December 31, 2023, 2022 and 2021 were not significant.

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

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

Years ended December 31	Millions of yen		
	2023	2022	2021
Basic net income attributable to Canon Inc.	264,513	243,961	214,718
Diluted net income attributable to Canon Inc.	264,508	243,957	214,714
		Number of shares	
Weighted average common shares outstanding	1,001,199,905	1,030,644,385	1,045,632,588
Effect of dilutive securities:			
Stock options	404,097	334,875	277,066
Diluted common shares outstanding	1,001,604,002	1,030,979,260	1,045,909,654
		Yen	
Net income attributable to Canon Inc. shareholders per share:			
Basic	264.20	236.71	205.35
Diluted	264.08	236.63	205.29

## 18. DERIVATIVES AND HEDGING ACTIVITIES

### Risk management policy

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

### Foreign currency exchange rate risk management

Canon's international operations expose Canon to the risk of changes in foreign currency exchange rates. Canon uses foreign exchange contracts to manage certain foreign currency exchange exposures principally from the exchange of

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

### Cash flow hedge

Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings in the same period as the hedged items affect earnings. All amounts recorded in accumulated other comprehensive income (loss) as of December 31, 2023 are expected to be recognized in net sales over the next twelve months. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings.

**Derivatives not designated as hedges**

Canon has entered into certain foreign exchange contracts to primarily offset the earnings impact related to fluctuations in foreign currency exchange rates associated with certain assets denominated in foreign currencies. Although these

foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting, the contracts are effective from an economic perspective. The changes in the fair value of these contracts are recorded in earnings immediately.

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

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

**Fair value of derivative instruments in the consolidated balance sheets**

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

**Derivatives designated as hedging instruments**

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

**Derivatives not designated as hedging instruments**

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

**Effect of derivative instruments in the consolidated statements of income**

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

**Derivatives in cash flow hedging relationships**

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

**Derivatives not designated as hedging instruments**

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

**19. LESSEE ACCOUNTING**

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

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

**Operating lease cash flow**

Supplemental cash flow information is as follows:

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

### Maturity Analysis

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

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

### Remaining lease term and discount rate

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

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

## 20. COMMITMENTS AND CONTINGENT LIABILITIES

### Commitments

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

### Guarantees

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

Canon provides guarantees for its employees, affiliates

and other companies. The guarantees for the employees are principally made for their housing loans. The guarantees for affiliates and other companies are made for their lease obligations and bank loans to facilitate financing.

Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are 1 year to 11 years in case of employees with housing loans, and 1 year to 5 years in case of affiliates and other companies with lease obligations and bank loans. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥1,678 million at December 31, 2023. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2023 were not significant.

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

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

### Legal proceedings

Canon is involved in various claims and legal actions arising in the ordinary course of business. Canon has recorded provisions for liabilities when it is probable that liabilities have been incurred and the amount of loss can be reasonably estimated. Canon reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of the negotiations, settlements, rulings, advice of legal counsel and other

information and events pertaining to a particular case. Based on its experience, although litigation is inherently unpredictable, Canon believes that any damage amounts claimed in outstanding matters are not a meaningful indicator of Canon's potential liability. In the opinion of management, any reasonably possible range of losses from outstanding matters would not have a material adverse effect on Canon's consolidated financial position, results of operations, and cash flows.

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

### Fair value of financial instruments

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

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

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

### Long-term debt

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

### Limitations of fair value estimates

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

### Concentrations of credit risk

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



## 22. FAIR VALUE MEASUREMENTS

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

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

Level 2 – Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally

from or corroborated by observable market data by correlation or other means.

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

### Assets and liabilities measured at fair value on a recurring basis

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

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

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

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

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

#### **Assets and liabilities measured at fair value on a nonrecurring basis**

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

## 23. SEGMENT INFORMATION

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

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

The primary products included in each segment are as follows:

### Printing Business Unit:

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

### Medical Business Unit:

Computed tomography (CT) systems / Diagnostic ultrasound

systems / Diagnostic X-ray systems / Magnetic resonance imaging (MRI) systems / Clinical chemistry analyzers / Digital radiography systems / Ophthalmic equipment

### Imaging Business Unit:

Interchangeable-lens digital cameras / Interchangeable lenses / Digital compact cameras / Compact photo printers / MR Systems / Network cameras / Video management software / Video content analytics software / Digital camcorders / Digital cinema cameras / Broadcast equipment / Projectors

### Industrial Business Unit:

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

### Others:

Handy terminals / Document scanners

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

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

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

Intersegment sales are recorded at the same prices used in transactions with third parties. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable. Corporate expenses include certain corporate research and development expenses. Amortization costs of identified intangible assets resulting from the purchase price allocation of Toshiba Medical Systems Corporation (currently, Canon Medical Systems

Corporation) are also included in corporate expenses. Segment assets are based on those directly associated with each segment. Corporate assets primarily consist of cash and cash equivalents, investments, deferred tax assets, goodwill, identified intangible assets from acquisitions and corporate properties. Capital expenditures represent the additions to property, plant and equipment and intangible assets measured on an accrual basis.

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

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

Certain businesses, which were previously included in Office multifunction devices and Others and Corporate, have been presented as Inkjet printers and Others from 2023. Operating

results for the fiscal year ended December 31, 2022 and 2021 have also been reclassified.

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

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

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

million and ¥907,909 million for the years ended December 31, 2023, 2022 and 2021, respectively.

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

## 24. SUBSEQUENT EVENT

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

On January 29, 2024, the Board of Directors of Canon Marketing Japan Inc., a subsidiary of the Company, approved a plan to establish a corporate venture capital fund, Canon

Marketing Japan MIRAI Fund, for the purpose of accelerating open innovation with startups that possess cutting-edge technologies and business ideas. The Canon Marketing Japan MIRAI Fund will be invested by Canon Marketing Japan Inc. and Global Brain Corporation for ¥10 billion over the planned 10 year investment period. The investment ratio is 99.5% and 0.5%, respectively.

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

### 1. Reason for repurchase:

Canon decided to acquire its own shares with the aim of further improving its corporate value through active growth investment and enhancing shareholder returns by improving capital efficiency. As a part of this approach for shareholder returns, Canon passed a resolution to acquire its own shares.

### 2. Total number of shares to be repurchased:

Up to 33 million shares

### 3. Total cost of repurchase:

Up to ¥100 billion

### 4. Period of repurchase:

From February 1, 2024 to January 31, 2025

On March 26, 2024, Canon entered into a syndicated loan financing arrangement for ¥100 billion from March 29, 2024 to March 31, 2026 with MUFG Bank, Ltd. as a arranger for

required operating funds. Applicable interest rate is equal to a base rate plus a spread.

On March 5, 2024, the Board of Directors of Canon Marketing Japan Inc., a subsidiary of the Company, approved a plan to acquire Primagest, Inc. and its three subsidiaries, making them owned subsidiaries. A share transfer agreement was finalized on the same date. The acquisition will enable

Canon to further expand BPO business and create new services by combining its technology and development capabilities. On March 29, 2024, Canon Marketing Japan Inc. intends to acquire 100% of the issued shares of Primagest, Inc. for cash consideration of ¥37 billion.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

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

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

  
\_\_\_\_\_  
Fujio Mitarai  
Chairman & CEO

  
\_\_\_\_\_  
Toshizo Tanaka  
Executive Vice President & CFO

March 28, 2024



# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on the Financial Statements

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

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

### Basis for Opinion

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

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

### Critical Audit Matter

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

**Goodwill—Medical Reporting Unit—Refer to Notes 1 and 8 to the Financial Statements***Critical Audit Matter Description*

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

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

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

*How the Critical Audit Matter Was Addressed in the Audit*

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

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

which together comprise management's projected future cash flows.

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

*Deloitte Touche Tohmatsu LLC*

March 28, 2024

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



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on Internal Control over Financial Reporting

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

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

### Basis for Opinion

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

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

### Definition and Limitations of Internal Control over Financial Reporting

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

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

*Deloitte Touche Tohmatsu LLC*

March 28, 2024