FINANCIAL SECTION

Financial Section, consisting of consolidated financial statements, management's report on internal control over financial reporting, and independent auditor's report, is the English translation of the annual securities report filed under the Financial Instruments and Exchange Act of Japan.

CONSOLIDATED BALANCE SHEETS

Canon Inc. and Subsidiaries
December 31, 2024 and 2023

	Millions of yen	
ASSETS	**2024**	2023
Current assets:		
Cash and cash equivalents (Notes 1 and 22)	**501,565**	401,323
Short-term investments (Notes 2 and 22)	**4,775**	3,822
Trade receivables (Note 3)	**705,591**	655,460
Inventories (Note 4)	**841,836**	796,881
Current lease receivables (Note 6)	**167,612**	150,324
Prepaid expenses and other current assets (Notes 15, 18 and 22)	**245,665**	231,605
Allowance for credit losses (Notes 3 and 6)	**(16,961)**	(15,329)
Total current assets	**2,450,083**	2,224,086
Noncurrent receivables (Note 20)	**29,614**	11,734
Investments (Notes 2 and 22)	**113,241**	78,505
Property, plant and equipment, net (Note 5)	**1,147,380**	1,095,879
Operating lease right-of-use assets (Note 19)	**136,717**	126,125
Intangible assets, net (Notes 7 and 8)	**275,391**	274,942
Goodwill (Notes 7 and 8)	**915,258**	1,045,400
Noncurrent lease receivables (Note 6)	**363,749**	321,065
Other assets (Notes 11 and 12)	**339,569**	242,659
Allowance for credit losses (Note 6)	**(4,756)**	(3,818)
Total assets	**5,766,246**	5,416,577

LIABILITIES AND EQUITY		
Current liabilities:		
Short-term loans and current portion of long-term debt (Notes 9 and 21)	**318,330**	386,200
Short-term loans related to financial services	**40,400**	38,900
Other short-term loans and current portion of long-term debt	**277,930**	347,300
Trade payables (Note 10)	**350,128**	309,930
Accrued income taxes (Note 12)	**78,438**	56,983
Accrued expenses (Notes 11 and 20)	**433,329**	373,544
Current operating lease liabilities (Note 19)	**41,876**	35,559
Other current liabilities (Notes 5, 15, 18 and 22)	**324,205**	276,960
Total current liabilities	**1,546,306**	1,439,176
Long-term debt, excluding current portion of long-term debt (Notes 9 and 21)	**205,075**	2,954
Accrued pension and severance cost (Note 11)	**166,153**	171,779
Noncurrent operating lease liabilities (Note 19)	**98,219**	92,604
Other noncurrent liabilities (Notes 12 and 15)	**105,442**	104,357
Total liabilities	**2,121,195**	1,810,870
Equity:		
Canon Inc. shareholders' equity:		
Common stock	**174,762**	174,762
(Number of authorized shares)	**(3,000,000,000)**	(3,000,000,000)
(Number of issued shares)	**(1,333,763,464)**	(1,333,763,464)
Additional paid-in capital (Note 13)	**412,287**	404,935
Legal reserve	**61,893**	61,634
Other retained earnings	**3,818,668**	3,801,212
Total retained earnings (Note 13)	**3,880,561**	3,862,846
Accumulated other comprehensive income (loss) (Note 14)	**470,897**	268,758
Treasury stock, at cost	**(1,558,234)**	(1,358,279)
(Number of shares)	**(389,771,598)**	(345,964,752)
Total Canon Inc. shareholders' equity	**3,380,273**	3,353,022
Noncontrolling interests	**264,778**	252,685
Total equity	**3,645,051**	3,605,707
Total liabilities and equity	**5,766,246**	5,416,577

CONSOLIDATED STATEMENTS OF INCOME

Canon Inc. and Subsidiaries
Years ended December 31, 2024 and 2023

	Millions of yen	
	2024	2023
Net sales (Notes 6, 14, 15 and 18):		
Products and Equipment	**3,593,598**	3,314,627
Services	**916,223**	866,345
	4,509,821	4,180,972
Cost of sales (Notes 5, 8, 11 and 19):		
Products and Equipment	**1,933,783**	1,799,211
Services	**432,943**	412,851
	2,366,726	2,212,062
Gross profit	**2,143,095**	1,968,910
Operating expenses (Notes 1, 5, 8, 11, 14, 16, 19 and 20):		
Selling, general and administrative expenses	**1,360,893**	1,261,630
Research and development expenses	**337,348**	331,914
Impairment losses on goodwill	**165,100**	—
	1,863,341	1,593,544
Operating profit	**279,754**	375,366
Other income (deductions):		
Interest and dividend income	**15,602**	13,425
Interest expense	**(3,745)**	(2,267)
Other, net (Notes 1, 2, 11, 14 and 18)	**9,550**	4,243
	21,407	15,401
Income before income taxes	**301,161**	390,767
Income taxes (Notes 12 and 14)	**118,287**	106,346
Consolidated net income	**182,874**	284,421
Less: Net income attributable to noncontrolling interests	**22,849**	19,908
Net income attributable to Canon Inc.	**160,025**	264,513
	Yen	
Net income attributable to Canon Inc. shareholders per share (Note 17):		
Basic	**165.53**	264.20
Diluted	**165.44**	264.08

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Canon Inc. and Subsidiaries
Years ended December 31, 2024 and 2023

	Millions of yen	
	2024	2023
Consolidated net income	**182,874**	284,421
Other comprehensive income (loss), net of tax (Note 14):		
Foreign currency translation adjustments	**145,724**	184,836
Net unrealized gains and losses on securities	**5**	60
Net gains and losses on derivative instruments	**(2,433)**	1,394
Pension liability adjustments	**66,990**	24,289
	210,286	210,579
Comprehensive income (loss)	**393,160**	495,000
Less: Comprehensive income attributable to noncontrolling interests	**30,996**	24,352
Comprehensive income (loss) attributable to Canon Inc.	**362,164**	470,648

CONSOLIDATED STATEMENTS OF EQUITY

Canon Inc. and Subsidiaries
Years ended December 31, 2024 and 2023

	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, 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:										
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
Equity transactions with noncontrolling interests and other		7,410		(762)	(762)			6,648	(10,839)	(4,191)
Dividends to Canon Inc. shareholders (145.00 yen per share)				(141,530)	(141,530)			(141,530)		(141,530)
Dividends to noncontrolling interests									(8,854)	(8,854)
Acquisition of subsidiaries									790	790
Transfers to legal reserve			259	(259)	—			—		—
Comprehensive income:										
Net income				160,025	160,025			160,025	22,849	182,874
Other comprehensive income (loss), net of tax (Note 14):										
Foreign currency translation adjustments						144,424		144,424	1,300	145,724
Net unrealized gains and losses on securities						5		5		5
Net gains and losses on derivative instruments						(2,443)		(2,443)	10	(2,433)
Pension liability adjustments						60,153		60,153	6,837	66,990
Total comprehensive income (loss)								362,164	30,996	393,160
Repurchases and reissuance of treasury stock		(58)		(18)	(18)		(199,955)	(200,031)		(200,031)
Balance at December 31, 2024	174,762	412,287	61,893	3,818,668	3,880,561	470,897	(1,558,234)	3,380,273	264,778	3,645,051

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Inc. and Subsidiaries
Years ended December 31, 2024 and 2023

	Millions of yen	
	2024	2023
Cash flows from operating activities:		
Consolidated net income	**182,874**	284,421
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	**235,465**	238,676
Impairment losses on goodwill	**165,100**	—
Loss on disposal of fixed assets	**1,271**	4,025
Deferred income taxes	**(14,571)**	(10,353)
(Increase) decrease in trade receivables	**(29,437)**	16,625
(Increase) decrease in inventories	**(6,865)**	65,595
Increase in lease receivables (Note 6)	**(18,216)**	(24,838)
Increase (decrease) in trade payables	**29,348**	(57,631)
Increase in accrued income taxes	**20,464**	6,880
Increase (decrease) in accrued expenses	**27,284**	(16,083)
Decrease in accrued pension and severance cost	**(32,639)**	(32,208)
Contribution of cash to retirement benefit trust	**—**	(18,000)
Other, net	**46,753**	(5,919)
Net cash provided by operating activities	**606,831**	451,190
Cash flows from investing activities:		
Purchases of fixed assets (Note 5)	**(237,001)**	(230,308)
Proceeds from sale of fixed assets (Note 5)	**7,279**	3,670
Purchases of securities	**(13,812)**	(11,755)
Proceeds from sale and maturity of securities	**4,840**	16,582
Acquisitions of businesses, net of cash acquired (Note 7)	**(32,672)**	(54,570)
Other, net	**(25,956)**	1,009
Net cash used in investing activities	**(297,322)**	(275,372)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt (Note 9)	**200,000**	—
Repayments of long-term debt (Note 9)	**(2,297)**	(55,893)
Increase (decrease) in short-term loans related to financial services, net (Note 9)	**1,500**	(2,300)
(Decrease) increase in other short-term loans, net (Note 9)	**(70,960)**	140,213
Dividends paid	**(141,530)**	(130,870)
Repurchases and reissuance of treasury stock, net	**(200,031)**	(100,019)
Other, net (Note 1)	**(12,678)**	(7,860)
Net cash used in financing activities	**(225,996)**	(156,729)
Effect of exchange rate changes on cash and cash equivalents	**16,729**	20,133
Net change in cash and cash equivalents	**100,242**	39,222
Cash and cash equivalents at beginning of period	**401,323**	362,101
Cash and cash equivalents at end of period	**501,565**	401,323
Supplemental disclosure for cash flow information:		
Cash paid during the period for:		
Interest	**3,766**	2,191
Income taxes	**124,197**	107,036

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canon Inc. and Subsidiaries

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Company issued convertible debentures in the United States in May 1969 and established a program in which its American Depositary Receipts (ADRs) are traded in the U.S. over-the-counter market. Since then, under the U.S. Securities Act of 1933 and the U.S. Securities Exchange Act of 1934, as amended, the Company has prepared its annual consolidated financial statements in accordance with U.S. GAAP and filed them with the U.S. Securities and Exchange Commission on Form 20-F. The Company's ADRs were listed on the NYSE in September 2000 after being quoted on NASDAQ from February 1972 to September 2000. In March 2023, the Company was delisted from the NYSE. The Company filed a Form 15F for the termination of registration of its ADRs and underlying common shares with the SEC and termination of ongoing reporting obligations under the U.S. Securities Exchange Act (the "Exchange Act") on March 7, 2024. The company's ongoing reporting obligations under the Exchange Act was immediately suspended upon filing the Form 15F with the SEC and were terminated on June 5, 2024, 90 days after the Form 15F was filed.

Canon's consolidated financial statements are prepared in accordance with U.S. GAAP.

The number of consolidated subsidiaries and affiliated companies that were accounted for by the equity method as of December 31, 2024 and December 31, 2023 are summarized as follows:

	December 31, 2024	December 31, 2023
Consolidated subsidiaries	334	336
Affiliated companies	10	10
Total	344	346

The main accounting principles, procedures, and presentation methods adopted by Canon (Canon Inc. and its subsidiaries) that differ from the Japanese consolidated financial statement principles and regulations are as follows. For items of significant monetary importance, Canon also disclose the impact on net income before tax based on Japanese standards.

(i) The retirement benefits and pension plan are in accordance with ASC 715 "Compensation-Retirement Benefits," and are recorded the pension cost based on actuarial calculation. The effect of this change was ¥3,202 million (decrease in profit) and ¥2,611 million (increase in profit) for the years ended December 31, 2024 and 2023, respectively.
(ii) Share issuance cost is deducted from additional paid-in capital after tax effects adjustment.
(iii) Derivatives is in accordance with ASC 815 "Derivatives and Hedging Activities."
(iv) Goodwill and other intangible assets with indefinite useful lives are in accordance with ASC 350 "Intangibles - Goodwill and Other," they are not amortized but are instead tested for impairment at least annually. For the year ended December 31, 2024, Canon recognized a goodwill impairment loss of ¥165,100 million in the Medical Business Unit.
(v) Equity securities, in accordance with ASC 321 "Investments - Equity securities" are measured at fair value in principle, and the changes are recorded in income before income taxes.
(vi) Leases, in accordance with ASC 842 "Leases," operating lease right-of-use assets and liabilities are recognized in the balance sheet based on the present value of lease payments over the term of the lease. Lease costs are recognized on a straight-line basis over the term of the lease.
(vii) Certain items in the consolidated statements of cash flows for the year ended December 31, 2023, have been reclassified to conform to the presentation of year ended December 31, 2024.

(b) Description of Business

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 multifunction devices (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, digital radiography systems, ophthalmic equipment, in vitro diagnostic systems and reagents and healthcare IT solutions. 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 and broadcast equipment. Products of the Industrial Business Unit consist mainly of semiconductor lithography equipment, FPD (Flat Panel Display) lithography equipment, 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 10.5% and 10.1% of consolidated net sales for the years ended December 31, 2024 and 2023, respectively.

Canon's manufacturing operations are conducted mainly in Asia including Japan, and also in Europe and Americas.

(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 ¥12,196 million and ¥22,835 million for the years ended December 31, 2024 and 2023, 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 ¥1,500 million and ¥2,073 million at December 31, 2024 and 2023, 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 debt 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 using 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 loss 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 loss 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 from 3 years to 9 years, trademarks are 15 years, patents and developed technology are from 5 years to 21 years, license fees are 7 years, and customer relationships are from 11 years to 19 years. 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 ¥44,384 million and ¥52,570 million for the years ended December 31, 2024 and 2023, 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 ¥69,956 million and ¥64,707 million for the years ended December 31, 2024 and 2023, 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 November 2023, ASU No. 2023-07, "Improvements to Reportable Segment Disclosures"-ASC 280 ("Segment Reporting"), was issued by the Financial Accounting Standards Board ("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 disclosures of significant segment expenses and other segment items as noted above. Canon adopted the standard from the end of the year beginning January 1, 2024 and retrospectively to all prior periods presented in the financial statements. The standard's requirement on an interim basis is effective for interim reporting periods beginning after December 15, 2024. The adoption of this standard did not have a material impact on its disclosure.

For further information, please refer to Note 23.

Recently issued accounting guidance not yet adopted

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.

In November 2024, ASU No. 2024-03, "Disaggregation of Income Statement Expenses"-ASC 220-40 ("Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures"), was issued by FASB. This standard requires us to disclose in a tabular format in the footnotes to the financial statements, disaggregated information about specific categories underlying certain income statement expense line items that contains any of the following five costs or expenses: purchases of inventory, employee compensation, depreciation, intangible asset amortization, and depletion. Specified expenses, gains, or losses that may require disclosure under existing U.S. GAAP, and that are recorded in relevant expense captions, would need to be presented in the same tabular disclosure. The standard also requires us to disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. In addition, the standard requires us to disclose the total amount of selling expenses, in annual reporting periods, its definition of selling expenses. The standard is effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. 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

Held-to-maturity debt securities included in short-term investments in the accompanying consolidated balance sheet were ¥142 million at December 31, 2024. There were no held-to-maturity debt securities at December 31, 2023.

	Millions of yen		
	Carrying amount	Estimated fair value	Difference
Due within one year	**142**	**142**	**—**

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, 2024 and 2023 are as follows:

December 31	Millions of yen			
	2024			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	**—**	**—**	**—**	**—**
Noncurrent:				
Corporate bonds	**16,636**	**96**	**53**	**16,679**
	16,636	**96**	**53**	**16,679**

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

Maturities of available-for-sale debt securities included in short-term investments and investments in the accompanying consolidated balance sheets at December 31, 2024 are as follows:

	Millions of yen
	Fair value
Due within one year	**—**
Due after one year through five years	**16,679**
Total	**16,679**

The unrealized and realized gains and losses related to equity securities for the years ended December 31, 2024 and 2023 are as follows:

December 31	Millions of yen	
	2024	2023
Net gains (losses) recognized during the period on equity securities	**(3,081)**	8,323
Less: Net gains (losses) recognized during the period on equity securities sold during the period	**(6)**	126
Unrealized gains (losses) recognized during the period on equity securities still held at December 31	**(3,075)**	8,197

The carrying amount of non-marketable equity securities without readily determinable fair value totaled ¥11,067 million and ¥10,282 million at December 31, 2024 and 2023, respectively. The impairment or other adjustments resulting from observable price changes recorded during the years ended December 31, 2024 and 2023 were not significant.

Time deposits with original maturities of more than three months or less than one year are ¥4,633 million and ¥2,938 million at December 31, 2024 and 2023, respectively, and are included in short-term investments in the accompanying consolidated balance sheets. Time deposits with original maturities of more than one year are ¥26,665 million at December 31, 2024, and are included in investments in the accompanying consolidated balance sheets. There were no time deposits more than one year as of December 31, 2023.

Investments in affiliated companies accounted for by the equity method for the years ended December 31, 2024 and 2023 are as follows:

December 31	Millions of yen, except percentage data		
	2024 Voting rights held by Canon Inc.	**2024**	2023
Canon Korea Inc.	**50%**	**15,485**	15,424
Others	**—**	**13,496**	13,166
	—	**28,981**	28,590

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

Share of profit of investments accounted for equity method included in other income (deductions) of consolidated statement of income, were gains of ¥729 million for the year ended December 31, 2024, and earnings of losses of ¥485 million for the years ended December 31, 2023.

3. TRADE RECEIVABLES

Trade receivables at December 31, 2024 and 2023 are as follows:

December 31	Millions of yen	
	2024	2023
Notes	**33,541**	33,570
Accounts	**672,050**	621,890
Trade receivables	**705,591**	655,460
Allowance for credit losses	**(14,856)**	(13,276)
	690,735	642,184

4. INVENTORIES

Inventories at December 31, 2024 and 2023 are as follows:

December 31	Millions of yen	
	2024	2023
Finished goods	**521,961**	468,394
Work in process	**250,939**	255,849
Raw materials	**68,936**	72,638
	841,836	796,881

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2024 and 2023 are as follows:

December 31	Millions of yen	
	2024	2023
Land	**286,826**	283,530
Buildings	**1,905,387**	1,851,645
Machinery and equipment	**2,043,569**	1,983,907
Construction in progress	**105,917**	56,840
Finance lease right-of-use assets	**9,008**	8,606
Cost	**4,350,707**	4,184,528
Less accumulated depreciation	**(3,203,327)**	(3,088,649)
Property, plant and equipment, net	**1,147,380**	1,095,879

Depreciation expenses for the years ended December 31, 2024 and 2023 were ¥175,636 million, and ¥177,624 million, respectively.

Amounts due for purchases of property, plant and equipment were ¥46,010 million and ¥26,322 million at December 31, 2024 and 2023, 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. Income statement information about lease income is as follows:

Years ended December 31	Millions of yen	
	2024	2023
Lease income – sales-type and direct financing leases		
Revenue at lease commencement	**159,132**	162,464
Interest income on lease receivables	**32,680**	26,789
Sales-type and direct financing leases income total	**191,812**	189,253
Lease income – operating leases	**41,890**	40,248
Variable lease income	**7,438**	5,822
Total lease income	**241,140**	235,323

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	
	2024	2023
Total minimum lease payments receivable	**585,136**	511,737
Unguaranteed residual values	**14,337**	13,613
Executory costs	**—**	—
Unearned income	**(68,112)**	(53,961)
	531,361	471,389
Allowance for credit losses	**(6,861)**	(5,871)
	524,500	465,518
Current portion	**(165,245)**	(148,271)
	359,255	317,247

Allowance for Credit Losses

The activities in the allowance for credit losses at December 31, 2024 and 2023 are as follows:

Years ended December 31	Millions of yen	
	2024	2023
Balance at beginning of year	**5,871**	5,596
Write-offs	**(4,456)**	(2,339)
Provision	**4,096**	2,075
Translation adjustments and other	**1,350**	539
Balance at end of year	**6,861**	5,871

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, 2024 and 2023 are not significant.

Equipment leased to customers
The costs of equipment leased to customers under operating leases included in property, plant and equipment, net at December 31, 2024 and 2023 were ¥183,343 million and ¥181,022 million, respectively. Accumulated depreciation on equipment under operating leases at December 31, 2024 and 2023 were ¥102,887 million and ¥101,515 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, 2024.

Year ending December 31:	Millions of yen	
	Financing leases	Operating leases
2025	199,099	13,888
2026	155,983	7,617
2027	114,747	5,336
2028	70,931	2,378
2029	30,656	1,044
Thereafter	13,720	646
	585,136	30,909

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, 2024 and 2023 were ¥34,007 million and ¥45,775 million. The amount that remained uncollected was ¥72,969 million and ¥50,453 million at December 31, 2024 and 2023, 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, 2024 and 2023. Canon also retains limited recourse obligations which cover credit defaults. The recourse obligations were not significant at December 31, 2024 and 2023.

7. ACQUISITIONS

On March 29, 2024, Canon Marketing Japan Inc., a subsidiary of the Company, acquired 100% of the issued shares of Primagest, Inc. for cash consideration of ¥37,000 million so that Primagest, Inc. and its three subsidiaries (hereinafter referred to collectively as "Primagest") became its owned subsidiaries.

The acquisition will enable Canon to further expand BPO business by enhancing operational efficiency and service quality through the use of Primagest's knowledge and know-how, and to create new services by combining its technology and system development capabilities cultivated through video solutions and digital document services.

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	8,617
Intangible assets	17,259
Goodwill	19,715
Others	3,734
Assets acquired	49,325
Liabilities assumed	12,307
Noncontrolling interests	(18)
Net assets acquired	37,000

The intangible assets acquired, which are subject to amortization, are composed of ¥16,219 million of customer relationships and ¥1,040 million of software. The weighted average useful lives of the customer relationships, patents and developed technology, and software are approximately 19 years and approximately 5 years, respectively. The weighted average useful life of the total intangible assets is approximately 18 years.

Goodwill is composed of future excess profitability expected from business development 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 Printing Business Unit for impairment testing. Net sales and net income of Primagest generated from the acquisition date which is reflected in the consolidated statement of income for the year ended December 31, 2024 was not material. The operating results with the assumption of including the financial statements of Primagest in Canon's consolidated financial statements for the year ended December 31, 2023 and the year beginning on January 1, 2024 were not disclosed because the impact was not material.

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 weighted average 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 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 weighted average 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 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 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 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, 2024, including those recorded from businesses acquired as stated in Note 7, totaled ¥49,961 million, which primarily consist of software of ¥33,501 million. The weighted average amortization periods for intangible assets in total acquired during the year ended December 31, 2024 are approximately 9 years. The weighted average amortization period for software acquired during the year ended December 31, 2024 is approximately 5 years.

Intangible assets subject to amortization acquired during the year ended December 31, 2023, including those recorded from business 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.

The components of intangible assets subject to amortization at December 31, 2024 and 2023 were as follows:

December 31	Millions of yen			
	2024		2023	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Software	**490,350**	**376,658**	463,275	357,657
Customer relationships	**192,672**	**97,407**	174,441	84,223
Patents and developed technology	**129,278**	**88,792**	129,418	79,273
Trademarks	**53,409**	**34,326**	51,540	30,655
License fees	**6,124**	**4,713**	12,474	10,407
Other	**16,635**	**11,194**	16,158	12,341
	888,468	**613,090**	847,306	574,556

Aggregate amortization expenses for the years ended December 31, 2024 and 2023 were ¥61,259 million, ¥61,052 million, respectively. Estimated amortization expense at December 31, 2024, for intangible assets currently held for the next five years are ¥58,030 million in 2025, ¥50,742 million in 2026, ¥36,529 million in 2027, and ¥30,830 million in 2028, and ¥25,206 million in 2029.

Intangible assets not subject to amortization other than goodwill at December 31, 2024 and 2023 were not significant.

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

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2024 and 2023 were as follows:

Year ended December 31	Millions of yen					
	2024					
	Printing	Medical	Imaging	Industrial	Others and Corporate	Total
Goodwill - gross	**176,067**	**565,687**	**331,334**	**11,730**	**701**	**1,085,519**
Accumulated impairment losses	**(40,119)**	**—**	**—**	**—**	**—**	**(40,119)**
Balance at beginning of year	**135,948**	**565,687**	**331,334**	**11,730**	**701**	**1,045,400**
Goodwill acquired during the year	**19,715**	**—**	**—**	**—**	**—**	**19,715**
Impairment loss*	**—**	**(165,100)**	**—**	**—**	**—**	**(165,100)**
Translation adjustments and other	**5,307**	**2,544**	**6,057**	**1,353**	**(18)**	**15,243**
Goodwill - gross	**203,081**	**568,231**	**337,391**	**13,083**	**683**	**1,122,469**
Accumulated impairment losses	**(42,111)**	**(165,100)**	**—**	**—**	**—**	**(207,211)**
Balance at end of year	**160,970**	**403,131**	**337,391**	**13,083**	**683**	**915,258**

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

* Canon considers the medical related market to be stable and growing in the long term. However, it is difficult to achieve the plan set at the time of acquisition in the short term due to stagnation of limited businesses led by rising geopolitical risks, prolonged economic downturn in China, and deterioration of the financial situation of medical institutions in Japan. Additionally, in February 2024, Canon established the Medical Business Advancement Committee, initiating fundamental structural reforms aimed at improving profitability, based on the synergy between CMSC and Canon. These factors resulted in lower operating margin than expected, which led to the decline in the estimated fair value of this business which was determined based on the income approach. As the result of the annual goodwill impairment test as of October 1, 2024, it was determined that the estimated fair value of commercial printing business was less than its carrying value of the reporting unit. Based on the accounting policy described in Note 1, Canon recognized an impairment loss of ¥165,100 million representing the excess of the carrying amount over the reporting unit's fair value.

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 loans at December 31, 2024 and 2023 were ¥40,400 million and ¥38,900 million, and other short-term loans consisting of bank loans were ¥276,106 million and ¥346,005 million respectively. The weighted average interest rate on short-term loans outstanding at December 31, 2024 and 2023 were 0.38% and 0.14%, respectively. Unused overdraft facilities at December 31, 2024 were ¥775,000 million. The overdraft facilities bear interest at a rate equal to a base rate plus a spread.

Long-term debt at December 31, 2024 and 2023 are as follows:

December 31	Millions of yen	
	2024	2023
Loan from banks; bearing interest rates of 0.80% at December 31, 2024 *1	**201,909**	—
Other debt *2	**4,990**	4,249
	206,899	4,249
Less current portion	**(1,824)**	(1,295)
	205,075	2,954

*1 Loans included ¥200,000 million in syndicated loans. Of this amount, ¥100,000 million was procured in the fiscal year ended December 2024 and will be matured in the fiscal year ended December 2026. 100,000 million yen was procured in the fiscal year ended December 2024 and will be matured in the fiscal year ended December 2027.
*2 Other debt consisted of long-term loans and finance lease obligations.

The aggregate annual maturities of long-term debt outstanding at December 31, 2024 were as follows:

Year ending December 31:	Millions of yen
2025	1,824
2026	101,524
2027	101,947
2028	786
2029	715
Thereafter	103
	206,899

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 at December 31, 2024 and 2023 are as follows:

December 31	Millions of yen	
	2024	2023
Notes payables	**78,485**	73,926
Accounts payables	**271,643**	236,004
	350,128	309,930

Canon has supplier finance programs with particular third-party financial institutions where Canon agrees to pay the financial institutions after 20 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, 2024 and 2023 were ¥91,407 million and ¥87,026 million, respectively.

The activities in the liabilities under supplier finance programs are as follows:

December 31	Millions of yen	
	2024	2023
Balance at beginning of period	**87,026**	95,389
Increase	**293,949**	293,179
Decrease	**(289,575)**	(301,546)
Others	**7**	4
Balance at end of period	**91,407**	87,026

11. ACCRUED PENSION AND SEVERANCE COST

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	
	2024	2023	**2024**	2023
Change in benefit obligations:				
Projected benefit obligations at beginning of year	**765,725**	794,749	**410,599**	343,703
Service cost	**22,723**	24,703	**2,318**	2,668
Interest cost	**11,700**	11,080	**15,528**	12,172
Plan participants' contributions	**—**	—	**932**	837
Actuarial (gain) loss	**(30,495)**	(18,765)	**(18,773)**	20,137
Benefits paid	**(46,720)**	(47,644)	**(16,311)**	(14,856)
Acquisition	**330**	2,232	**—**	—
Plan amendments	**(3,695)**	—	**—**	(263)
Foreign currency exchange rate changes	**—**	—	**29,232**	46,201
Projected benefit obligations at end of year	**719,568**	765,725	**423,525**	410,599
Change in plan assets:				
Fair value of plan assets at beginning of year	**749,219**	683,828	**346,125**	288,551
Actual return on plan assets	**79,465**	67,792	**(649)**	12,312
Employer contributions	**13,212**	31,889	**15,638**	19,758
Plan participants' contributions	**—**	—	**932**	837
Benefits paid	**(34,789)**	(36,674)	**(16,265)**	(14,776)
Acquisition	**244**	2,384	**—**	—
Foreign currency exchange rate changes	**—**	—	**26,771**	39,443
Fair value of plan assets at end of year	**807,351**	749,219	**372,552**	346,125
Funded status at end of year	**87,783**	(16,506)	**(50,973)**	(64,474)

Amounts recognized in the consolidated balance sheets at December 31, 2024 and 2023 are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2024	2023	**2024**	2023
Other assets	**176,556**	78,211	**32,568**	17,943
Accrued expenses	**(4,637)**	(3,885)	**(1,524)**	(1,470)
Accrued pension and severance cost	**(84,136)**	(90,832)	**(82,017)**	(80,947)
	87,783	(16,506)	**(50,973)**	(64,474)

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2024 and 2023 before the effect of income taxes are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2024	2023	**2024**	2023
Actuarial loss	**(32,774)**	53,787	**105,437**	111,234
Prior service credit	**(8,253)**	(7,671)	**(6,562)**	(7,921)
	(41,027)	46,116	**98,875**	103,313

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

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2024	2023	**2024**	2023
Accumulated benefit obligation	**705,204**	752,165	**407,160**	394,104

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	
	2024	2023	**2024**	2023
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**135,025**	181,684	**389,669**	406,779
Fair value of plan assets	**48,680**	92,955	**335,785**	340,508
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligations	**122,511**	177,499	**64,495**	364,970
Fair value of plan assets	**42,157**	92,955	**24,840**	313,862

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, 2024 and 2023 consisted of the following components:

Years ended December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2024	2023	**2024**	2023
Service cost	**22,723**	24,073	**2,318**	2,668
Interest cost	**11,700**	11,080	**15,528**	12,172
Expected return on plan assets	**(23,261)**	(21,708)	**(21,138)**	(15,098)
Amortization of prior service credit	**(3,113)**	(5,991)	**(1,352)**	(939)
Amortization of actuarial loss	**7**	4,956	**8,828**	4,309
(Gain) loss on curtailments and settlements	**(145)**	119	**(17)**	—
	7,911	12,529	**4,167**	3,112

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, 2024 and 2023 are summarized as follows:

Years ended December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2024	2023	**2024**	2023
Current year actuarial (gain) loss	**(86,699)**	(64,849)	**3,014**	22,923
Current year prior service credit	**(3,695)**	—	**7**	(263)
Amortization of actuarial loss	**(7)**	(4,956)	**(8,828)**	(4,309)
Amortization of prior service credit	**3,113**	5,991	**1,352**	939
Curtailments and settlements	**145**	(119)	**17**	—
	(87,143)	(63,933)	**(4,438)**	19,290

Assumptions

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

December 31	Japanese plans		Foreign plans	
	2024	2023	**2024**	2023
Discount rate	**1.9%**	1.5%	**3.9%**	3.7%
Assumed rate of increase in future compensation levels	**2.3%**	2.3%	**2.2%**	2.1%
Interest crediting rate for cash balance plans	**1.7%**	1.7%	**1.8%**	1.7%

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

Years ended December 31	Japanese plans		Foreign plans	
	2024	2023	**2024**	2023
Discount rate	**1.5%**	1.2%	**3.7%**	4.1%
Assumed rate of increase in future compensation levels	**2.3%**	2.6%	**2.1%**	2.5%
Expected long-term rate of return on plan assets	**3.1%**	3.2%	**6.0%**	5.7%
Interest crediting rate for cash balance plans	**1.7%**	1.8%	**1.7%**	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 50% is invested in debt securities, and approximately 40% 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, 2024 and 2023.

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, 2024 and 2023, by asset category, are as follows:

December 31	Millions of yen							
	2024							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (a)	134,756	—	—	134,756	—	—	—	—
Foreign companies	21,957	—	—	21,957	8,746	—	—	8,746
Pooled funds (b)	—	203,668	—	203,668	—	33,934	—	33,934
Debt securities:								
Government bonds (c)	107,134	—	—	107,134	—	—	—	—
Municipal bonds	—	1,123	—	1,123	—	5,752	—	5,752
Corporate bonds	—	21,035	—	21,035	—	8,049	—	8,049
Pooled funds (d)	—	180,553	—	180,553	—	170,566	—	170,566
Mortgage backed securities (and other asset backed securities)	—	18,141	—	18,141	—	23,186	—	23,186
Insurance contracts	—	69,425	—	69,425	—	16,036	35,967	52,003
Other assets	—	33,004	466	33,470	—	51,491	—	51,491
Investment measured at net asset value	—	—	—	16,089	—	—	—	18,825
	263,847	526,949	466	807,351	8,746	309,014	35,967	372,552

(a) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥359 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 50% foreign government bonds and 50% corporate bonds for foreign plans.

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 (e)	111,525	—	—	111,525	—	—	—	—
Foreign companies	20,175	—	—	20,175	9,957	—	—	9,957
Pooled funds (f)	—	184,673	—	184,673	—	30,684	—	30,684
Debt securities:								
Government bonds (g)	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 (h)	—	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

(e) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥321 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 75% Japanese government bonds and 25% foreign government bonds for Japanese plans.
(h) 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.

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 assets, consisting of investments in insured pension plans and hedge funds, were ¥36,433 million and ¥34,757 million at December 31, 2024 and 2023, respectively. Actual returns on, purchases and sales of these assets during the years ended December 31, 2024 and 2023 were not significant.

Contributions

Canon expects to contribute ¥11,623 million to its Japanese defined benefit pension plans and ¥7,058 million to its foreign defined benefit pension plans for the year ending December 31, 2025.

Estimated future benefit payments

The estimated future benefit payments as of December 31, 2024, are as follows:

Year ending December 31:	Millions of yen	
	Japanese plans	Foreign plans
2025	48,469	17,769
2026	45,843	18,478
2027	50,823	19,635
2028	49,838	21,065
2029	47,624	22,665
2030 – 2034	216,065	121,534

Multiemployer pension plans

The amounts of cost recognized for the multiemployer pension plans primarily in the Netherlands for the years ended December 31, 2024 and 2023 were ¥6,353 million and ¥5,447 million, respectively. The multiemployer pension plan in which the subsidiaries in the Netherlands participated was 109.4% funded as of December 31, 2023. 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, 2024 and 2023 were ¥29,302 million and ¥27,667 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		
	2024		
	Japanese	Foreign	Total
Income before income taxes	**120,709**	**180,452**	**301,161**
Income taxes:			
Current	**91,361**	**41,497**	**132,858**
Deferred	**(4,597)**	**(9,974)**	**(14,571)**
	86,764	**31,523**	**118,287**

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

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, 2024 and 2023.

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	2024	2023
Japanese statutory income tax rate	**31.0%**	31.0%
Increase (reduction) in income taxes resulting from:		
Expenses not deductible for tax purposes		
Impairment losses on Goodwill	**17.0**	—
Other	**1.1**	0.8
Income of foreign subsidiaries taxed at lower than Japanese statutory tax rate	**(2.9)**	(2.3)
Tax credit for research and development expenses	**(5.8)**	(3.4)
Change in valuation allowance	**(2.2)**	0.4
Deferred tax liabilities on undistributed earnings of foreign subsidiaries	**2.2**	1.4
Tax credit at foreign subsidiaries	**(0.4)**	(0.2)
Effect of enacted changes in tax laws	**0.1**	(0.0)
Other	**(0.8)**	(0.5)
Effective income tax rate	**39.3%**	27.2%

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

December 31	Millions of yen	
	2024	2023
Other assets	**101,705**	119,086
Other noncurrent liabilities	**(37,346)**	(40,853)
	64,359	78,233

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2024 and 2023 are presented below:

December 31	Millions of yen	
	2024	2023
Deferred tax assets:		
Inventories	**14,082**	14,141
Accrued business tax	**4,114**	3,658
Accrued pension and severance cost	**2,635**	32,667
Research and development – costs capitalized for tax purposes	**9,491**	8,474
Property, plant and equipment	**48,392**	42,731
Operating lease liabilities	**25,375**	23,523
Accrued expenses	**28,687**	27,457
Net operating losses carried forward	**38,745**	38,025
Other	**60,158**	53,393
	231,679	244,069
Less valuation allowance	**(18,272)**	(21,230)
Total deferred tax assets	**213,407**	222,839
Deferred tax liabilities:		
Undistributed earnings of foreign subsidiaries	**(19,526)**	(17,903)
Tax deductible reserve	**(3,292)**	(3,396)
Financing lease revenue	**(19,670)**	(18,384)
Operating lease right-of-use assets	**(24,683)**	(22,749)
Intangible assets	**(37,892)**	(43,168)
Other	**(43,985)**	(39,006)
Total deferred tax liabilities	**(149,048)**	(144,606)
Net deferred tax assets (After the deduction of deferred tax liabilities)	**64,359**	78,233

The net changes in the total valuation allowance were a decrease of ¥2,958 million and an increase of ¥3,498 million for the years ended December 31, 2024 and 2023, respectively.

Based on the level of historical taxable income and projections for future taxable income over the periods, 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, 2024.

At December 31, 2024, Canon had net operating losses which can be carried forward for income tax purposes 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
2025	1,484
2026 to 2029	19,148
2030 to 2034	28,225
2035 to 2044	9,920
Indefinite period	126,684
	185,461

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 ¥17,002 million for a portion of undistributed earnings of foreign subsidiaries of ¥706,458 million as of December 31, 2024 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 at December 31, 2024 and 2023 are as follows:

Years ended December 31	Millions of yen	
	2024	2023
Balance at beginning of year	**8,796**	8,354
Additions for tax positions of the current year	**575**	—
Reductions for tax positions of the current year	**(8,911)**	—
Additions for tax positions of prior years	**101**	342
Reductions for tax positions of prior years	**—**	(445)
Settlements with tax authorities	**—**	(171)
Other	**389**	716
Balance at end of year*	**950**	8,796

* The unrecognized tax benefits were offset by deferred tax assets in the amount of ¥524 million and ¥1,960 million as of December 31, 2024 and 2023, 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 ¥950 million and ¥8,796 million at December 31, 2024 and 2023, 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, 2024, 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, 2024 and 2023, and interest and penalties included in income taxes for the years ended December 31, 2024 and 2023 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, 2024 and 2023 represent dividends paid out during those years and the related appropriations to the legal reserve. Retained earnings at December 31, 2024 did not reflect current year-end dividends in the amount of ¥75,519 million which were approved by the shareholders in March 2025.

The amount available for dividends under the Corporation Law of Japan is based on the amount recorded in the Company's non-consolidated financial statements in accordance with financial accounting standards of Japan. Such amount was ¥1,206,256 million at December 31, 2024.

Retained earnings at December 31, 2024 included Canon's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥22,528 million.

14. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2024 and 2023 are as follows:

	Millions of yen				
	Foreign currency translation adjustments	Net unrealized gains and losses on securities	Gains and losses on derivative instruments	Pension liability adjustments	Total
Balance at December 31, 2023	374,937	26	924	(107,129)	268,758
Other comprehensive income (loss) before reclassifications	**144,270**	**63**	**(4,360)**	**56,335**	**196,308**
Amounts reclassified from accumulated other comprehensive income (loss)	**154**	**(58)**	**1,917**	**3,818**	**5,831**
Net change during the period	**144,424**	**5**	**(2,443)**	**60,153**	**202,139**
Balance at December 31, 2024	**519,361**	**31**	**(1,519)**	**(46,976)**	**470,897**

	Millions of yen				
	Foreign currency translation adjustments	Net unrealized gains and losses on securities	Gains and losses on derivative instruments	Pension liability adjustments	Total
Balance at December 31, 2022	191,287	(34)	(428)	(128,202)	62,623
Other comprehensive income (loss) before reclassifications	183,663	102	(756)	19,275	202,284
Amounts reclassified from accumulated other comprehensive income (loss)	(13)	(42)	2,108	1,798	3,851
Net change during the period	183,650	60	1,352	21,073	206,135
Balance at December 31, 2023	374,937	26	924	(107,129)	268,758

Reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2024 and 2023 are as follows:

Years ended December 31	Amount reclassified from accumulated other comprehensive income (loss)* Millions of yen		Affected line items in consolidated statements of income
	2024	2023	
Foreign currency translation adjustments	**223**	(32)	Selling, general and administrative expenses
	(69)	10	Income taxes
	154	(22)	Consolidated net income
	—	9	Net income attributable to noncontrolling interests
	154	(13)	Net income attributable to Canon Inc.
Net unrealized gains and losses on securities	**(73)**	(53)	Other, net
	15	11	Income taxes
	(58)	(42)	Consolidated net income
	—	—	Net income attributable to noncontrolling interests
	(58)	(42)	Net income attributable to Canon Inc.
Gains and losses on derivative instruments	**2,604**	2,790	Net sales
	(797)	(764)	Income taxes
	1,807	2,026	Consolidated net income
	110	82	Net income attributable to noncontrolling interests
	1,917	2,108	Net income attributable to Canon Inc.
Pension liability adjustments	**4,208**	2,454	Other, net
	(700)	(525)	Income taxes
	3,508	1,929	Consolidated net income
	310	(131)	Net income attributable to noncontrolling interests
	3,818	1,798	Net income attributable to Canon Inc.
Total amount reclassified, net of tax and noncontrolling interests	**5,831**	3,851	

* The increase (decrease) in amounts indicates a decrease (increase) in profit as presented in the consolidated statement 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
2024:			
Foreign currency translation adjustments			
Amount arising during the year	**146,399**	**(829)**	**145,570**
Reclassification adjustments for gains and losses realized in net income	**223**	**(69)**	**154**
Net change during the year	**146,622**	**(898)**	**145,724**
Net unrealized gains and losses on securities:			
Amount arising during the year	**79**	**(16)**	**63**
Reclassification adjustments for gains and losses realized in net income	**(73)**	**15**	**(58)**
Net change during the year	**6**	**(1)**	**5**
Net gains and losses on derivative instruments:			
Amount arising during the year	**(5,945)**	**1,705**	**(4,240)**
Reclassification adjustments for gains and losses realized in net income	**2,604**	**(797)**	**1,807**
Net change during the year	**(3,341)**	**908**	**(2,433)**
Pension liability adjustments:			
Amount arising during the year	**87,373**	**(23,891)**	**63,482**
Reclassification adjustments for gains and losses realized in net income	**4,208**	**(700)**	**3,508**
Net change during the year	**91,581**	**(24,591)**	**66,990**
Other comprehensive income (loss)	**234,868**	**(24,582)**	**210,286**
2023:			
Foreign currency translation adjustments			
Amount arising during the year	186,559	(1,701)	184,858
Reclassification adjustments for gains and losses realized in net income	(32)	10	(22)
Net change during the year	186,527	(1,691)	184,836
Net unrealized gains and losses on securities:			
Amount arising during the year	129	(27)	102
Reclassification adjustments for gains and losses realized in net income	(53)	11	(42)
Net change during the year	76	(16)	60
Net gains and losses on derivative instruments:			
Amount arising during the year	(848)	216	(632)
Reclassification adjustments for gains and losses realized in net income	2,790	(764)	2,026
Net change during the year	1,942	(548)	1,394
Pension liability adjustments:			
Amount arising during the year	42,189	(19,829)	22,360
Reclassification adjustments for gains and losses realized in net income	2,454	(525)	1,929
Net change during the year	44,643	(20,354)	24,289
Other comprehensive income (loss)	233,188	(22,609)	210,579

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 controls 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 include 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 printing 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 considerations are estimated based upon historical trends and other known factors at the time of sale, and are subsequently adjusted in each period based on current information. In addition, Canon may provide a right of return on its products for a short time period after a sale. These rights are accounted for as variable consideration when determining the transaction price, and accordingly Canon recognizes revenue based on the estimated amount to which Canon expects to be entitled after considering expected returns.

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

	Millions of yen						
	Printing	Medical	Imaging	Industrial	Others and Corporate	Eliminations	Consolidated
2024:							
Revenue recognized at a point in time	**1,845,411**	**380,598**	**928,462**	**283,101**	**222,415**	**(109,311)**	**3,550,676**
Revenue recognized over time	**677,314**	**188,210**	**8,929**	**73,361**	**11,331**	**—**	**959,145**
Total	**2,522,725**	**568,808**	**937,391**	**356,462**	**233,746**	**(109,311)**	**4,509,821**
2023:							
Revenue recognized at a point in time	1,703,204	377,979	852,580	251,042	197,402	(104,072)	3,278,135
Revenue recognized over time	642,872	175,801	9,045	63,677	11,442	—	902,837
Total	2,346,076	553,780	861,625	314,719	208,844	(104,072)	4,180,972

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

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 services 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, 2024 and 2023 were ¥46,046 million and ¥45,354 million, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheets.

Canon typically bills to 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, 2024 and 2023 were ¥178,436 million and ¥141,578 million, respectively, ¥159,326 million and ¥128,414 million of which is included in other current liabilities, and ¥19,110 million and ¥13,164 million in other non-current liabilities in the accompanying consolidated balance sheets. Revenue recognized for the year ended December 31, 2024, which had been included in the deferred revenue balance at December 31, 2023, was ¥113,978 million.

Remaining performance obligations for products and equipment at December 31, 2024 primarily arise from the sales of certain industrial equipment, amounting to ¥136,373 million, 83% of which is expected to be recognized as revenue within one year and remaining 17% is within two years. Remaining performance obligations from the fixed maintenance service contracts with original expected duration of more than one year at December 31, 2024 amounting to ¥235,210 million, 36% of which is expected to be recognized as revenue within one year and the average remaining period for these fixed contracts is about 3 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 original expected duration of less than one year.

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 30, 2024, based on the approval of the board of directors held on March 28, the Company granted stock options to its directors and executive officers to acquire 65,900 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 ¥3,762.

On March 25, 2024, based on the approval of the board of directors held on February 9, the Company granted stock options to its executive officers to acquire 20,400 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 ¥3,945.

On April 28, 2023, based on the approval of the board of directors held on March 30, the Company granted stock options to its directors and executive officer 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 held on February 10, the Company granted stock options to its executive officers 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.

The compensation cost recognized for these stock options for the years ended December 31, 2024 and 2023 were ¥328 million and ¥258 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-Scholes option pricing model that incorporates the assumptions presented below:

Years ended December 31	**2024**		2023	
	*1	*2	*3	*4
Expected term of option (in years)	**4.0**	**4.0**	4.0	4.0
Expected volatility	**27.43%**	**27.21%**	28.25%	28.26%
Dividend yield	**3.09%**	**3.22%**	4.08%	3.64%
Risk-free interest rate	**0.31%**	**0.40%**	(0.00%)	0.06%

*1 Granted on March 25, 2024
*2 Granted on April 30, 2024
*3 Granted on March 27, 2023
*4 Granted on April 28, 2023

A summary of option activity under the stock option plans as of and for the years ended December 31, 2024 and 2023 is presented below:

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
		Yen	Year	Millions of yen
Outstanding at January 1, 2023	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
Granted	**86,300**	**1**		
Exercised	**(19,400)**	**1**		
Outstanding at December 31, 2024	**485,100**	**1**	**26.4**	**2,503**
Exercisable at December 31, 2024	**485,100**	**1**	**26.4**	**2,503**

The total fair values of shares vested were ¥328 million and ¥258 million for the years ended December 31, 2024 and 2023, respectively. Cash received from the exercise of stock options for the years ended December 31, 2024 and 2023 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 at December 31, 2024 and 2023 are as follows:

Years ended December 31	Millions of yen	
	2024	2023
Basic net income attributable to Canon Inc.	**160,025**	264,513
Diluted net income attributable to Canon Inc.	**160,018**	264,508

	Number of shares	
Weighted average common shares outstanding	**966,762,583**	1,001,199,905
Effect of dilutive securities:		
Stock options	**471,590**	404,097
Diluted common shares outstanding	**967,234,173**	1,001,604,002

	Yen	
Net income attributable to Canon Inc. shareholders per share:		
Basic	**165.53**	264.20
Diluted	**165.44**	264.08

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, 2024 are expected to be recognized in net sales over the next twelve months. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings.

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, 2024 and 2023 are set forth below:

December 31	Millions of yen	
	2024	2023
To sell foreign currencies	**180,366**	194,053
To buy foreign currencies	**18,836**	24,116

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, 2024 and 2023.

Derivatives designated as hedging instruments

December 31	Account	Millions of yen Fair value 2024	2023
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	**184**	2,205
Liabilities:			
Foreign exchange contracts	Other current liabilities	**1,690**	13

Derivatives not designated as hedging instruments

December 31	Account	Millions of yen Fair value 2024	2023
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	**42**	1,695
Liabilities:			
Foreign exchange contracts	Other current liabilities	**1,690**	915

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, 2024 and 2023.

Derivatives in cash flow hedging relationships

December 31	Millions of yen		
	Gain (loss) recognized in OCI	Gain (loss) reclassified from accumulated OCI into income	
	Amount	Account	Amount
2024: Foreign exchange contracts	**(5,945)**	Net sales	**(2,604)**
2023: Foreign exchange contracts	(848)	Net sales	(2,790)

Derivatives not designated as hedging instruments

December 31	Millions of yen			
	Gain (loss) recognized in income on derivative			
	2024		2023	
	Account	Amount	Account	Amount
Foreign exchange contracts	Other, net	**(12,934)**	Other, net	(13,996)

19. LESSEE ACCOUNTING

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

Years ended December 31	Millions of yen	
	2024	2023
Operating lease cost	**55,461**	48,207
Short-term lease cost	**15,156**	16,237
Other lease cost	**296**	280
Total	**70,913**	64,724

Operating lease cash flow
Cash flow information about lease is as follows.

Years ended December 31	Millions of yen	
	2024	2023
Cash paid for amount included in the measurement of lease liabilities		
Operating cash flows from operating leases	**50,232**	44,068
Noncash activity - Rights of use assets obtained in exchange for lease liabilities		
Operating leases	**53,692**	45,510

Maturity Analysis
The following is a schedule by year of the future minimum lease payments under operating leases at December 31, 2024.

Years ending December 31:	Millions of yen
2025	44,701
2026	34,076
2027	22,857
2028	15,368
2029	10,998
Thereafter	22,707
Total future minimum lease payments	150,707
Less Imputed Interest	(10,612)
	140,095

Remaining lease term and discount rate
The following is remaining lease term and discount rate under operating leases.

December 31	**2024**	2023
Weighted-average remaining lease term	**55 months**	53 months
Weighted-average discount rate	**3.0%**	2.7%

20. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

At December 31, 2024, commitments outstanding for the purchase of property, plant and equipment approximated ¥112,760 million, and commitments outstanding for the purchase of parts and raw materials approximated ¥227,455 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 ¥12,328 million and ¥10,516 million at December 31, 2024 and 2023, 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 10 years in case of employees with housing loans, and 1 year to 5 years in case of affiliates and other companies with lease obligations and bank loans. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥2,014 million at December 31, 2024. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2024 were not significant.

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, 2024 and 2023 are summarized as follows:

December 31	Millions of yen	
	2024	2023
Balance at beginning of the year	**23,290**	20,887
Additions	**20,039**	19,859
Utilization	**(16,867)**	(16,001)
Other	**(2,777)**	(1,455)
Balance at end of the year	**23,685**	23,290

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, 2024 and 2023 are set forth below. The following summary excludes cash and cash equivalents, time deposits, 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			
	2024		2023	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Long-term debt, including current portion of long-term debt	**(202,031)**	**(201,944)**	(161)	(161)

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, 2024 or 2023.

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, 2024 and 2023.

December 31	Millions of yen			
	2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	—	1,500	—	1,500
Short-term investment:				
Available-for-sale:				
Corporate bonds	—	—	—	—
Investments:				
Available-for-sale:				
Corporate bonds	—	16,679	—	16,679
Fund trusts and others	3,944	450	—	4,394
Equity securities	25,455	—	—	25,455
Prepaid expenses and other current assets:				
Derivatives	—	226	—	226
Total assets	29,399	18,855	—	48,254
Liabilities:				
Other current liabilities:				
Derivatives	—	3,380	—	3,380
Total liabilities	—	3,380	—	3,380

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

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 cash and cash equivalents, corporate bonds included in investments or short-term investments, and derivatives. Cash and cash equivalents, corporate bonds included in 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.

Assets and liabilities measured at fair value on a nonrecurring basis

Assets and liabilities measured at fair value on a nonrecurring basis during the year ended December 31, 2024 as follows. There were no significant assets or liabilities to be measured at fair value on a nonrecurring basis during the year ended December 31, 2023.

December 31	Millions of yen				
	2024				
	Impairment Loss	Level 1	Level 2	Level 3	Total
Assets:					
goodwill	**(165,100)**	**—**	**—**	**403,131**	**403,131**

Goodwill is classified as Level 3 and is valued based on an income approach using unobservable inputs. Our company conducted an annual goodwill impairment test as of October 1, 2024, which resulted in the fair value of the reporting unit containing the above assets being less than its carrying amount. Our company recognizes the difference between fair value and carrying amount as an impairment loss on goodwill. The fair value of the reporting unit is measured using the discounted cash flow method using a weighted average cost of capital of 6.0% and future cash flows. Future cash flows are calculated based on management's estimates of sales, gross profit, operating expenses and growth in perpetuity, taking into account industry trends and market conditions.

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.

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

Canon has modified the presentation of segment information in accordance with the requirements set forth in ASU 2023-07, Segment Reporting – Improvements to Reportable Segment Disclosures from the fourth quarter of 2024. Operating results for the year ended December 31, 2023 have also been reclassified.

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 MFDs / Document solutions / Laser MFPs / Laser printers / Inkjet printers / Image scanners / Calculators

Medical Business Unit:
CT systems / Diagnostic ultrasound systems / Diagnostic X-ray systems / MRI systems / Digital radiography systems / Ophthalmic equipment / In vitro diagnostic systems and reagents / Healthcare IT Solutions

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

Industrial Business Unit:
Semiconductor lithography equipment /
FPD 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 evaluates results and allocates 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, 2024 and 2023 is as follows:

	Millions of yen						
	Printing	Medical	Imaging	Industrial	Others and Corporate	Eliminations	Consolidated
2024:							
Net sales:							
External customers	**2,515,543**	**568,260**	**937,028**	**345,863**	**143,127**	**—**	**4,509,821**
Intersegment	**7,182**	**548**	**363**	**10,599**	**90,619**	**(109,311)**	**—**
Total	**2,522,725**	**568,808**	**937,391**	**356,462**	**233,746**	**(109,311)**	**4,509,821**
Cost of sales	**1,356,530**	**308,642**	**425,663**	**201,125**	**186,273**	**(111,507)**	**2,366,726**
Gross profit	**1,166,195**	**260,166**	**511,728**	**155,337**	**47,473**	**2,196**	**2,143,095**
Research and development expenses	**100,361**	**52,639**	**101,200**	**30,559**	**52,589**	**—**	**337,348**
Selling, general and administrative expenses	**775,950**	**347,964**	**259,224**	**55,875**	**86,058**	**922**	**1,525,993**
Operating profit	**289,884**	**(140,437)**	**151,304**	**68,903**	**(91,174)**	**1,274**	**279,754**
Other income (deductions)	**14,262**	**929**	**3,004**	**1,500**	**1,712**	**—**	**21,407**
Income before income taxes	**304,146**	**(139,508)**	**154,308**	**70,403**	**(89,462)**	**1,274**	**301,161**
Total assets	**1,354,948**	**421,453**	**425,515**	**238,625**	**3,329,047**	**(3,342)**	**5,766,246**
Depreciation and amortization	**63,356**	**13,132**	**19,984**	**11,590**	**127,403**	**—**	**235,465**
Capital expenditures	**70,075**	**16,663**	**38,922**	**13,109**	**117,498**	**—**	**256,267**
2023:							
Net sales:							
External customers	2,339,718	552,296	861,456	303,807	123,695	—	4,180,972
Intersegment	6,358	1,484	169	10,912	85,149	(104,072)	—
Total	2,346,076	553,780	861,625	314,719	208,844	(104,072)	4,180,972
Cost of sales	1,288,172	307,881	384,453	177,652	153,947	(100,043)	2,212,062
Gross profit	1,057,904	245,899	477,172	137,067	54,897	(4,029)	1,968,910
Research and development expenses	97,925	47,182	93,834	27,872	65,101	—	331,914
Selling, general and administrative expenses	731,670	167,068	237,759	50,597	76,141	(1,605)	1,261,630
Operating profit	228,309	31,649	145,579	58,598	(86,345)	(2,424)	375,366
Other income (deductions)	6,752	490	854	568	6,932	(195)	15,401
Income before income taxes	235,061	32,139	146,433	59,166	(79,413)	(2,619)	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

The CEO as chief operating decision maker (CODM) uses Net sales, Gross profit to net sales ratio, Operating expense to net sales ratio and Operating profit to net sales and Income before income taxes to net sales ratio to assess segment performance and make decisions about resource allocation.

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.

Other operating expense includes personnel expenses.

Information about sales by product and service to external customers for each segment for the years ended December 31, 2024 and 2023 is as follows:

Years ended December 31	Millions of yen	
	2024	2023
Printing		
Production	**440,718**	401,237
Office multifunction devices	**645,617**	620,843
Office others	**406,912**	362,618
Office	**1,052,529**	983,461
Laser printers	**676,582**	606,639
Inkjet printers and Others	**345,714**	348,381
Prosumer	**1,022,296**	955,020
Total	**2,515,543**	2,339,718
Medical		
Diagnostic equipment	**568,260**	552,296
Imaging		
Cameras	**579,593**	544,366
Network cameras and Others	**357,435**	317,090
Total	**937,028**	861,456
Industrial		
Optical equipment	**253,216**	212,505
Industrial equipment	**92,647**	91,302
Total	**345,863**	303,807
Others and Corporate	**143,127**	123,695
Consolidated	**4,509,821**	4,180,972

Information by major geographic area as of and for the years ended December 31, 2024 and 2023 is as follows:

	Millions of yen	
	2024	2023
Net sales:		
Japan	**955,456**	901,589
Americas	**1,429,201**	1,312,438
Europe	**1,184,389**	1,111,211
Asia and Oceania	**940,775**	855,734
Total	**4,509,821**	4,180,972
Long-lived assets:		
Japan	**998,506**	966,960
Americas	**191,000**	174,877
Europe	**223,922**	217,244
Asia and Oceania	**146,059**	137,865
Total	**1,559,487**	1,496,946

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 ¥1,311,397 million and ¥1,232,452 million for the years ended December 31, 2024 and 2023, 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

Canon evaluated the subsequent events up to March 28, 2025, the filing date of Annual Securities Report.

Borrowing Funds

Canon borrowed funds as follows under its existing overdraft facilities with Mizuho Bank, Ltd. and SMBC Bank, Ltd.

(1) Use of funds:	Operating funds	
(2) Borrowing date and amount:	January 6, 2025	¥200,000 million
	February 19, 2025	¥50,000 million
	February 26, 2025	¥20,000 million
	March 12, 2025	¥30,000 million
	March 19, 2025	¥70,000 million
(3) Lender:	Mizuho Bank, Ltd. and SMBC Bank, Ltd.	
(4) Interest rate:	Base rate plus a spread	

Repurchase of own share

1. Content of resolution for the repurchase of own share

On January 30, 2025, 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) Type of shares and Total number of shares to be repurchased:	Up to 26 million shares of common stock
(3) Total cost of repurchase:	Up to ¥100,000 million
(4) Period of repurchase:	From February 3, 2025 to January 30, 2026
(5) Method of acquisition:	Market purchases on the Tokyo Stock Exchange 1) Purchases through the Tokyo Stock Exchange Trading Network Off-Auction Own Share Repurchase Trading System (ToSTNeT-3) 2) Market purchases based on a discretionary trading contract regarding acquisition of own shares

2. Completion of repurchase of own share

The acquisition of own shares has completed the acquisition in accordance with a Board of Directors' resolution passed by Canon Inc. on January 30, 2025.

(1) Type of shares and total number of shares acquired:	Shares of common stock 19,685,200 shares
(2) Total cost of acquisition:	¥99,999,605,100
(3) Period of acquisition:	From February 3, 2025 to March 7, 2025

3. Content of resolution for the repurchase of own share

On March 13, 2025, 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) Type of shares and total number of shares to be repurchased:	Up to 26 million shares of common stock
(3) Total cost of repurchase:	Up to ¥100,000 million
(4) Period of repurchase:	From March 14, 2025 to January 30, 2026
(5) Method of acquisition:	Market purchases on the Tokyo Stock Exchange 1) Purchases through the Tokyo Stock Exchange Trading Network Off-Auction Own Share Repurchase Trading System (ToSTNeT-3) 2) Market purchases based on a discretionary trading contract regarding acquisition of own shares

CONSOLIDATED SUPPLEMENTARY SCHEDULE

SUPPLEMENTARY SCHEDULE

Schedule of Bonds
Not applicable.

Schedule of Borrowings
This information is presented in the note 9 to the consolidated financial statements.

Schedule of Asset Retirement Obligations
As the amount of asset retirement obligations as of the end of the previous consolidated fiscal year and the end of the current consolidated fiscal year are a hundredth or less of the sum of liabilities and net assets each of the said period, it has been omitted.

Schedule of valuation allowance

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
2024:					
Allowance for credit losses					
Trade receivables	**13,276**	**2,051**	**(1,457)**	**986**	**14,856**
Lease receivables	**5,871**	**4,096**	**(4,456)**	**1,350**	**6,861**

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

1. Matters relating to the basic framework for internal control over financial reporting

Fujio Mitarai, Chairman & CEO, and Toshizo Tanaka, Executive Vice President & CFO are responsible for designing and operating effective internal control over financial reporting of Canon (the "Company") and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" released by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

The assessment of internal control over financial reporting was conducted as of the end of the fiscal year, December 31, 2024, in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, the Company's management evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis ("entity-level controls") and based on the results of this assessment, management selected business processes to be tested. Management analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

Management determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries and equity-method affiliated companies, from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined by taking into account the materiality of quantitative and qualitative impacts on financial reporting. In light of the results of assessment of entity-level controls conducted for the Company and its consolidated subsidiaries, management reasonably determined the scope of assessment of internal controls over business processes. Consolidated subsidiaries and equity-method affiliated companies determined to have an insignificant quantitative and qualitative influence on the reliability of financial reporting are not included in the scope of assessment of entity-level controls.

Regarding the scope of assessment of internal control over business processes, management added up the net sales (after the elimination of transactions between consolidated companies) of each subsidiary in the previous year from the highest and selected the companies with net sales that account for approximately two-thirds of the total amount on a consolidated basis as "significant locations and/or business units." At selected significant locations and/or business units targeted for assessment, our scope of assessment included business processes leading to sales, accounts receivable and inventories as significant accounts that may have a material impact on the business objectives of the Company. Further, in addition to selected significant locations and/or business units, management also included in the scope of assessment, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and the management's judgment and/or (iii) a business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting.

3. Matters relating to the results of the assessment

As a result of the assessment described above, as of the end of this fiscal year, management concluded that the Company's internal control over financial reporting was effective.

4. Additional notes

No material items to report

5. Special notes

No material items to report

(TRANSLATION) INDEPENDENT AUDITOR'S REPORT

March 28, 2025

To the Board of Directors of
Canon Inc.

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:
Masayuki Yamada

Designated Engagement Partner,
Certified Public Accountant:
Susumu Nakamura

Designated Engagement Partner,
Certified Public Accountant:
Hideaki Takagi

Designated Engagement Partner,
Certified Public Accountant:
Masayoshi Nakai

<Audit of Consolidated Financial Statements>

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Canon Inc. and its consolidated subsidiaries (the "Group") included in the Financial Section, namely, the consolidated balance sheet as of December 31, 2024, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the fiscal year from January 1, 2024 to December 31, 2024, and the related notes, and consolidated supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2024, and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America pursuant to the provisions of the third paragraph of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Amendment of the Ordinance for Terminology, Forms and Preparation Methods of Consolidated Financial Statements (No.11 of the Cabinet Office Ordinance in 2002).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

<table>
<tr><th colspan="2">Goodwill—Medical Reporting Unit—Refer to Notes 1 and 8 to the Consolidated Financial Statements</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>The Group's total goodwill was ¥915,258 million (15.9% of Total assets) as of December 31, 2024, of which ¥403,131 million (44.0% of Goodwill) was allocated to the Medical Reporting Unit.

The Group 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 the Medical Reporting Unit is determined primarily based on a discounted cash flow analysis, which involves estimates of projected future cash flows and discount rates. The estimates of projected future cash flows 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 Group 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.

As of the measurement date, the fair value of the Medical Reporting Unit fell short of its carrying amount, and therefore the Group recognized ¥165,100 million of goodwill impairment loss in the current fiscal year.

We determined the valuation of goodwill allocated to the Medical Reporting Unit as a key audit matter given it represents 44.0% of the total goodwill and there are significant judgements made by management on estimates and assumptions related to the projected future cash flows and the discount rate to measure the fair value of the Medical Reporting Unit on which performing audit procedures required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.</td><td>Our audit procedures related to the projected future cash flows, the discount rate and the long-term growth rate used by management to measure the fair value of the Medical Reporting Unit included the following, among others:

(1) Evaluation of internal controls
• 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.

(2) Evaluation of the reasonableness of management's projected future cash flows
• 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 rates for each type of medical equipment and each region in which the Group operates its medical business as included in independent third-party industry reports.</td></tr>
</table>

	(3) Evaluation of the reasonableness of the valuation methodology, the discount rate, and the long-term growth rate • 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.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in the United States of America.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor’s judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

(TRANSLATION) INDEPENDENT AUDITOR'S REPORT

<Audit of Internal Control>

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Canon Inc. as of December 31, 2024.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Canon Inc. as of December 31, 2024, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Internal Control Audit section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.
- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.
- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2024, which were charged by us and our network firms to Canon Inc. and its subsidiaries are disclosed in (3) Status of audit in Corporate Governance, included in Information on Reporting Company of the Annual Securities Report.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

<u>Notes to the Readers of Independent Auditor’s Report</u>

This is an English translation of the independent auditor’s report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader. The other information in the Annual Securities Report referred to in the “Other Information” section of this English translation is not translated.