CANON ANNUAL REPORT 2024

Fiscal Year Ended December 31, 2024

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Cover Photo:

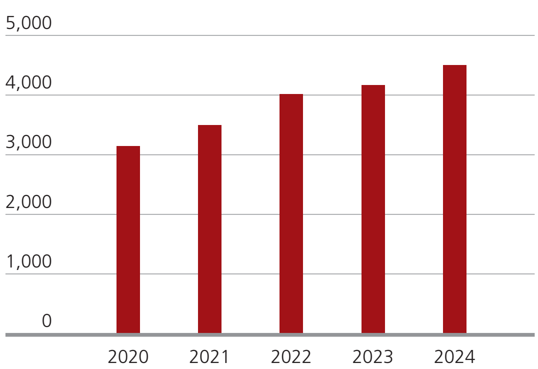
Products representing Canon's four new businesses;
Continuous feed presses: Printing
Computed tomography (CT) systems: Medical
Network cameras: Imaging
Nanoimprint semiconductor manufacturing equipment: Industrial

FINANCIAL HIGHLIGHTS

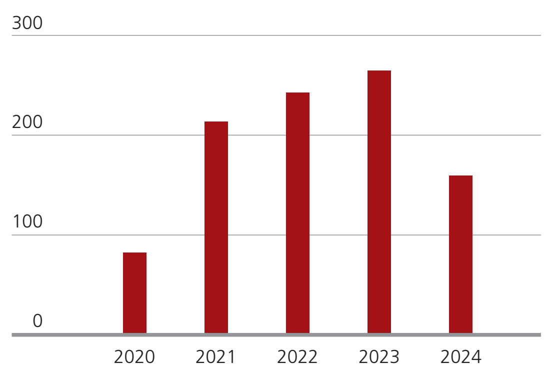
	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)
	2024	2023	**Change (%)**	**2024**
Net sales	**¥ 4,509,821**	¥ 4,180,972	**+ 7.9**	**$ 28,543,171**
Operating profit	**279,754**	375,366	**-25.5**	**1,770,595**
Income before income taxes	**301,161**	390,767	**-22.9**	**1,906,082**
Net income attributable to Canon Inc.	**160,025**	264,513	**-39.5**	**1,012,816**
Net income attributable to Canon Inc. shareholders per share:				
—Basic	**¥ 165.53**	¥ 264.20	**-37.3**	**$ 1.05**
—Diluted	**165.44**	264.08	**-37.4**	**1.05**
Total assets	**¥ 5,766,246**	¥ 5,416,577	**+6.5**	**$ 36,495,228**
Canon Inc. shareholders' equity	**¥ 3,380,273**	¥ 3,353,022	**+0.8**	**$ 21,394,133**

Notes:
1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. U.S. dollar amounts are translated from yen at the rate of JPY158 = U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2024, solely for the convenience of the reader.

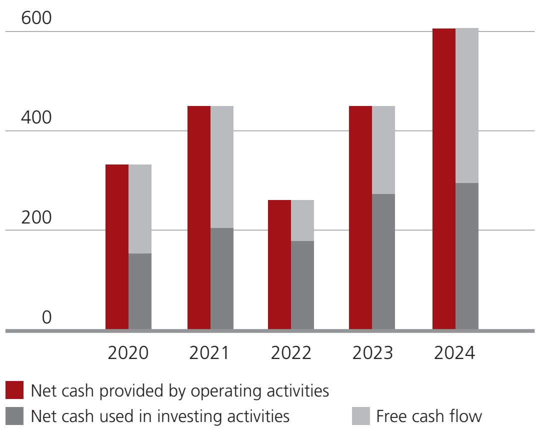
Net Sales (Billions of yen)



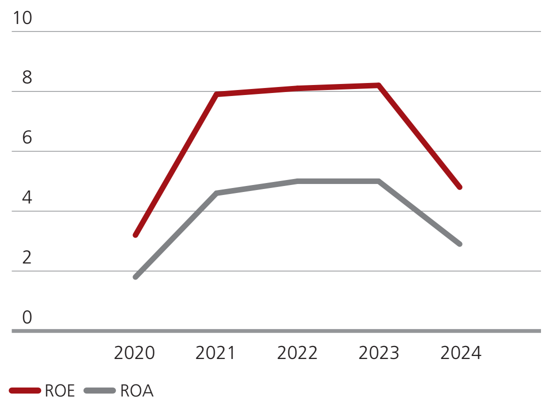
Net Income Attributable to Canon Inc. (Billions of yen)



Cash Flows (Billions of yen)



ROE/ROA (%)



Canon is committed to pursuing innovation

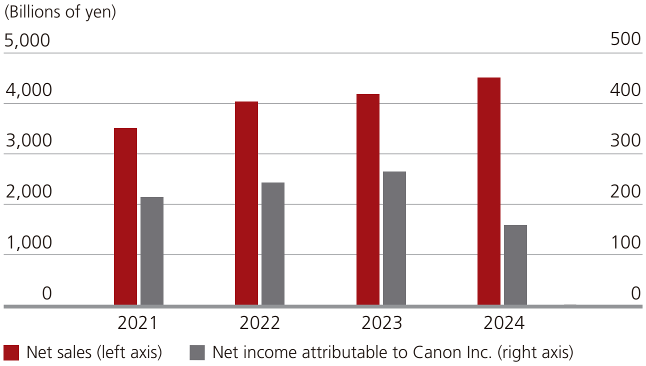
to bring about a prosperous, safe, and fulfilling society

FUJIO MITARAI
Chairman & CEO
Canon Inc.

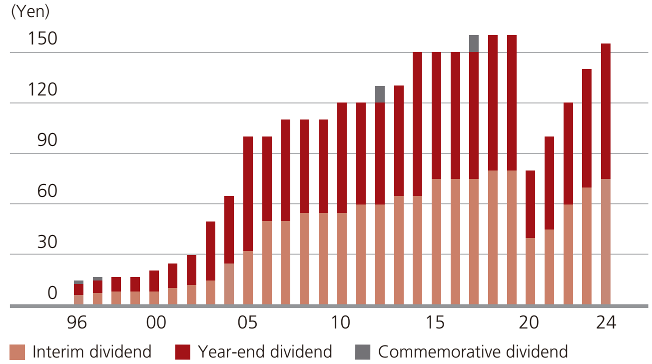
Achieved net sales target of the current five-year plan one year ahead of schedule

The global economy continued to be besieged by challenging conditions in 2024, including rising energy costs against a backdrop of heightened geopolitical risks, an economic slowdown in Europe owing to high interest rates, and a deceleration in the Chinese economy stemming from a sluggish real estate market. Despite this environment, consolidated net sales for the fiscal year ended December 31, 2024, rose approximately 8%, driven by semiconductor lithography equipment and new businesses such as network cameras. This means we achieved our net sales target of 4.5 trillion yen that we set in Phase VI of the Excellent Global Corporation Plan, the five-year management plan that ends in 2025, one year ahead of schedule.

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



Canon Inc. dividend per share
(Yen)



With improved profitability and increased operating cash flow, we raised dividends by 15 yen

In addition to an increase in sales, we made every effort to rein in distribution costs, manufacturing costs, and selling expenses. This drove an increase in the range of 20% at all profit levels, including operating profit, thus improving our profitability. With regards to the medical business, business opportunities have shrunk mainly due to the present deterioration in the business operating conditions of medical institutions in Japan and the impact of geopolitical issues and other factors. Impacted by changes in the external environment, we recorded an impairment loss of 165.1 billion yen in this business, and subsequently, a decrease in profit. The impairment had no impact on operating cash flow, which increased by approximately 150 billion yen from the previous year. As for dividends, to enhance shareholder returns, in 2024, the dividend per share was 155 yen, an increase of 15 yen from the previous year.

2025, a year in which efficiency will be thoroughly pursued

2025 is the final year of our 6th five-year management plan, in which we will thoroughly pursue efficiency to further raise the profitability of our businesses. It is also a year in which we will make great strides toward achieving greater growth over the next five years starting from 2026. To further develop global markets, we need to review our business portfolio which rapidly advanced over the past 10 years, identifying areas within our operations that require improvement due to the impact of the COVID-19 pandemic, and promote efficiency. Therefore, to further enhance operational efficiency, we will primarily focus on reforming our production and sales structures and furthering innovative development.

Reorganization of production sites for further efficiency

Reforming our production structure is an urgent issue. In response to the rapid appreciation of the yen in the 1980s, we shifted production to the Asian region. However, with the drastic changes in the global economic situation and the transformation of Canon's business portfolio itself, it is now time to reconsider the optimization of our production sites. We need to consolidate the plants of businesses where demand has contracted due to changes in the market environment, boost capacity utilization rates of our production sites, and strengthen cost competitiveness. We will start consolidating our production sites, which currently total about 60 around the world, into countries and regions with political and social stability.

Transformation into a stronger, and more competitive organization

On the sales front, after reviewing the channels of each sales company last year, we restructured organizations to better align with the nature of each business, thus transforming sales groups into stronger and more competitive organizations. These reforms are mostly complete, but we will stay ahead of the curve by implementing further reviews, particularly in Europe, where a prolonged market downturn is expected.

In terms of product development, we will expand concurrent development on a company-wide basis in which product development teams, product engineering divisions, and manufacturing sites collaborate and work as one. In addition, by utilizing digital transformation (DX) and simulation technology, we will aim to reduce the development time and cost of prototyping and further improve development productivity.

As the times change significantly, we will also focus on strengthening our headquarter functions. To raise the productivity of every individual, we will strengthen the system for achieving the high efficiency and high wages that we have been striving for, and will rapidly improve the performance evaluation system to better reflect the abilities of employees—in other words, to create a meritocracy.

“A company needed by society is one that can continuously solve issues through its business”

Continuing reforms that prioritize a thorough focus on profitability

I became President in 1995 and, as a manager over the past 30 years, I have been thoroughly committed to profitability and have continued to reform our business operations. When I joined the Company, most Japanese companies had a sales-first approach, and as a sales rep, I was also a part of that. What completely changed my mindset was a remark from a tax officer when I was transferred to our U.S. subsidiary. The officer said that “company profits should actually exceed interest rates on deposits.” Those words were both spot-on and shocking.

Profit-oriented management was the norm at blue-chip companies in the U.S., and I was painfully aware of the difference in thinking compared to Canon at the time. With that bitter experience in mind, when I became President, I adopted a “focus on profitability” policy. Since then, as a manager, I have consistently focused on profit-oriented management while also being conscious of asset efficiency.

Profits are for all stakeholders

Why do we need profits? The answer is encapsulated in the word *kyosei*. On the occasion of Canon’s 51st anniversary in 1988, we established the corporate philosophy of *kyosei*. It conveys our dedication to seeing all people, regardless of culture, customs, language or race, harmoniously living and working together in happiness into the future. Through our corporate activities, we are working to address issues that hinder this harmony, such as economic, resource-related, and environmental problems.

A company that cannot generate profits cannot maintain or improve the lives of its employees and their families, nor can it adequately return value to its investors, let alone contribute to society. A company needed by society is one that can continuously solve social issues through its business. And without stable management, it is impossible to generate the innovation that society demands.

People around the world simply wish to be happy and prosperous. Canon is aligned with this desire and plays a role in solving issues by implementing cutting-edge technology in society. Accordingly, we must become a stronger company. Around the world, there are many top-tier blue-chip firms that are miles ahead of Canon. To grow into a truly global corporation, we will look to further strengthen our earnings structure.

Over 30 years of sustainability measures

Nowadays, non-financial information, in addition to financial information such as sales and profit, has also come to be valued as part of a company's worth. Sustainability measures have certainly become a major challenge for global corporations. For Canon, sustainability is a concept that overlaps with our corporate philosophy of *kyosei*. That is why, for over 30 years, the entire Group has been working towards enabling affluent lifestyles while protecting the environment.

We became the first in the industry to start collecting used toner cartridges in 1990 in order to realize resource-efficiency, and now operate five recycling centers worldwide: Japan, the U.S., Germany, France, and China. We are also working on phasing out the use of single-use plastics, a movement that is gaining traction on a global scale. We are also working to stop using polystyrene foam and switching to molded pulp instead for use in product packaging materials, and also working to reduce, reuse, and recycle plastic waste at our business sites.

Environmental measures are a key part of manufacturing

To prevent global warming as well, we aim to achieve net-zero CO_2 emissions by 2050. We are focusing on reducing CO_2 emissions across the entire lifecycle of our products, including the supply chain. As a target for 2030, we aim to lower our own CO_2 emissions by 42% and reduce emissions from purchased goods and services as well as the use of sold products by 25% compared to 2022 levels. This target has been certified by the Science Based Targets initiative (SBTi), which promotes setting greenhouse gas emission reduction targets based on scientific evidence. We also consider environmental measures to be an integral part of the manufacturing process. Just as we improve the processes in product development, manufacturing, and sales to cut costs, recycling water to reduce environmental impact, for example, also contributes to cost reduction. While actively utilizing our own technologies in implementing our environmental measures one by one, at the same time, we have leveraged such activities to strengthen our earnings structure.

Nurturing internationally minded individuals who contribute to the global community

In addition to solving social issues through our business activities, Canon is engaged in social contribution activities worldwide. We provide educational and sociocultural support programs by leveraging our imaging and printing technologies, and also contribute to the provision of medical care in developing countries through the use of our medical technology.

As for human resources, which is crucial for sustainability, in order to nurture "strong individuals," Canon has thoroughly exercised fair and equitable placement, evaluation, and treatment based on "meritocracy," and fostered a corporate culture that encourages the "enterprising spirit" of employees, based on a mindset of "respect for humanity" that values a sense of mission, responsibility, and ambition. We respect diversity and actively promote the appointment and utilization of human resources from an impartial point of view. Through these initiatives, we hope that Canon employees will become internationally minded individuals that can interact with, and understand, people from around the world with different cultures and values.

Change is progress, transformation is advancement

Companies are destined to evolve together with society. Just as lifestyles were transformed by the industrial revolution, society continues to change through innovation. If we view society as an ecosystem, a company is merely one living entity within it. If a company cannot adapt to change, it cannot survive. For this reason, I have always urged employees to embrace change positively with the words “change is progress, transformation is advancement.”

Canon is a company that has been constantly changing. Founded as a camera manufacturer in 1937, we saw the camera market suddenly become saturated during the period of rapid economic growth in the 1960s. In response, the president at the time, Takeshi Mitarai, spearheaded Canon’s entry into the calculator market in 1964 and further promoted business diversification with the slogan “Cameras in the Right Hand, Business Machines in the Left,” which he coined in 1967. Subsequently, Canon introduced Japan’s first domestically produced plain-paper copier and the world’s first inkjet printer, both of which helped its steady growth as a company.

Entire company coming together to overcome the biggest crisis since founding

However, the IT revolution of the 2000s was an enormous test for Canon. The rapid uptake of smartphones and cloud services led to a significant decline in net sales in our core businesses, such as cameras and laser printers, and heavily impacted sales of consumables like paper and toner. Furthermore, the 2008 financial crisis led to a prolonged downturn in the global economy. The combined shock of rapid technological advancement and this crisis led to the biggest challenge Canon had ever faced since its founding.

With a radical shift in our portfolio urgently needed, I once again returned to the Company’s founding spirit. Canon is a corporation that has always valued “people” the most. I believed in the capabilities of our employees and bet on a strategy to leverage the strengths of our existing businesses by integrating them with IT. We harnessed our camera technology to develop network cameras that serve as the eyes for safety and security in the community, and utilized our multifunction device and printer technologies to enter the fields of commercial and industrial printing, thereby planting seeds in these growth areas.

As technology was evolving at an accelerated pace, we determined that there was not enough time to develop new technologies from scratch and turn them into businesses. Therefore, we did not hesitate to pursue a strategy of conducting large-scale M&As. In addition to network cameras and commercial/industrial printing, we acquired Toshiba Medical Systems (now Canon Medical Systems Corporation) in order to strengthen our medical business, where technological innovation is inevitable. We also acquired the U.S. company Molecular Imprints, Inc. and gained nanoimprint lithography technology, an alternative to traditional lithography methods for chip fabrication. By integrating the technologies acquired through M&As with the technologies Canon has accumulated over many years, we were able to generate new value and establish the four pillars of Printing, Medical, Imaging, and Industrial.

It is my policy to leave the management of acquired companies to their respective management teams. This is because during the acquisition exploration phase, in addition to conducting thorough due diligence, we also assess whether the management team consists of individuals capable of continuing to lead the company. This is an important factor for our decision on the acquisition. Moreover, each company has its own history, culture, and values, and therefore, I believe that by respecting one another in this way, we can generate maximum synergies.

Becoming a company that can contribute to the world through AI

Changing something from the status quo is always coupled with some risk. Since I became President, we have been formulating five-year management plans with the title of Excellent Global Corporation Plan to reassess the trends of the times every five years and to help guide Canon in the right direction. Considering the advancements in technology and changes in the business environment, it is difficult to foresee 10 years ahead, but I believe we can anticipate the future over a five-year span.

The world is in the midst of an AI revolution. Canon's four business pillars—Printing, Medical, Imaging, and Industrial—are all fields that have the potential to grow with the incorporation of AI. The medical business in particular has a mission to meet the well-being needs of extending the healthy lifespans of people worldwide. In the fields of examinations, diagnostics, and regenerative medicine, there is still room for innovation to create new markets. Canon will take the lead in technological development and contribute to the health and happiness of people worldwide.

Maintaining profit-oriented management by being deliberate in council and decisive in action

Reflecting on my 30-year career as a manager, I am reminded that the pace of change in the times is growing even faster. In a complex social landscape where various factors intertwine, we are constantly faced with difficult choices. While we can never handle everything perfectly, there is no time to look back either.

I have long relied on the idiomatic phrase "be deliberate in council, and decisive in action." It means giving careful thought before taking action, and then once a decision is made, moving forward without hesitation. This phrase, which my father, a physician, conveyed to me when I started working, reflects the resolve of doctors to face people's lives in an era when, unlike today, they were unable to identify lesions in advance with X-rays and other imaging technology.

The same applies to what can be done as a manager. Gather as much information as possible, think through it by repeatedly using deductive and inductive reasoning, and once a decision is made, move forward resolutely without looking back.

The environment surrounding business management will most likely continue to change rapidly. Nevertheless, Canon will dauntlessly engage with cutting-edge technology, consistently focus on profits, and take on challenges in the business lines that can contribute to the international community. All Canon employees are committed to supporting society. Together, we will work towards achieving *kyosei*.

Fujio Mitarai
Chairman & CEO
Canon Inc.

Excellent Global Corporation Plan

Phase I to Phase V (1996–2020)

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

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

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

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

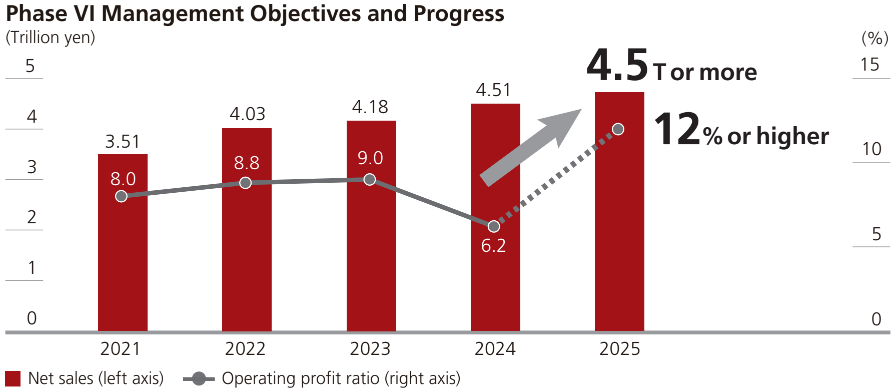
Phase I 1996–2000	Canon transformed its mindset to focus more on total (not partial) optimization and profitability (not sales) and also engaged in thorough cash flow management. We introduced various business innovations, including the selection and consolidation of business areas, and reform activities in such areas as production and development.
Phase II 2001–2005	Aiming to become No.1 in all major business areas, Canon focused on strengthening its competitiveness by stepping up efforts to digitalize its products in line with the changing times. We embarked on a fundamental reform of procurement activity under the newly organized Procurement Headquarters, and we took steps to reform inhouse systems, such as our personnel system, with the aim of balancing lifetime employment with merit-based principles.
Phase III 2006–2010	Canon moved ahead with new growth strategies, including the enhancement of existing businesses and expansion of new business areas, and also implemented reforms for supply chain management and IT systems in order to achieve real-time management that can readily adapt to changes.
Phase IV 2011–2015	Canon shifted away from a management policy targeting expansion of scale and reinforced its financial structure. While actively pursuing M&As, we pushed ahead with the rebuilding of our business foundation for future growth with a view to entering industries that will serve as new growth engines in step with the changing times.
Phase V 2016–2020	Canon endeavored to reconsolidate its longstanding core businesses (namely, cameras and office equipment) and completed the first stage of the grand strategic transformation of its business portfolio by working to expand and strengthen the following four new businesses that would underpin Canon's future: commercial printing, network cameras, medical, and industrial equipment.

Phase VI Basic Policy and Targets

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

In 2025, the final year of Phase VI, we are focusing on the following four key challenges: (1) strengthening and expanding our industry-oriented business groups; (2) promoting production structure reform; (3) promoting development innovations; and (4) addressing cybersecurity risks.

Phase VI Management Objectives and Progress



2025 Targets

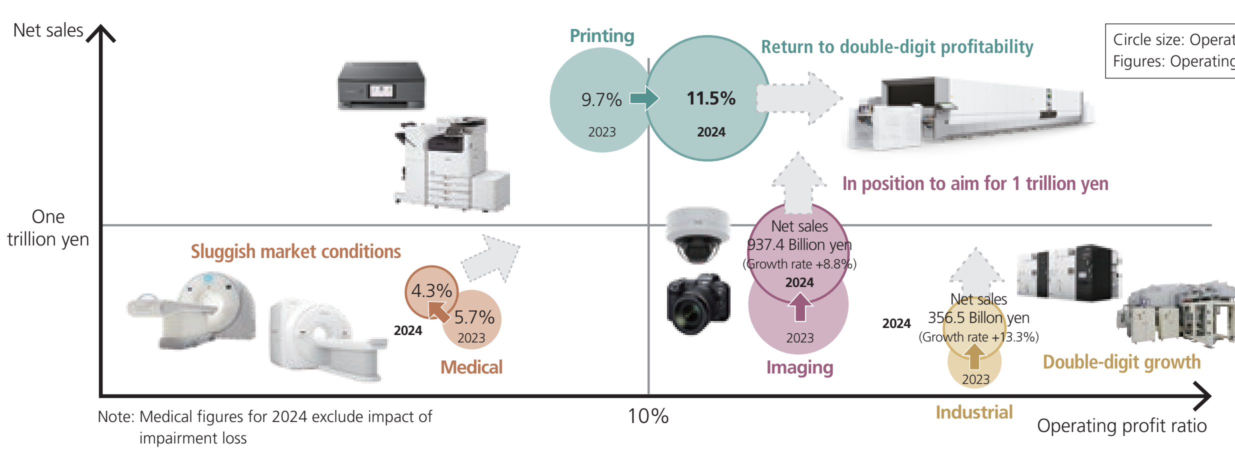
- Net Sales: **4.5** trillion yen or more
- Op. Profit Ratio: **12**% or higher
- Net Income Ratio: **8**% or higher
- ROE: **10**% or higher

Phase VI Basic Policy and Key Strategies

Key Challenge 1

Strengthen and expand our industry-oriented business groups

In April 2021, we bundled together the existing and new businesses that are technologically compatible with each other and placed them into the following four groups: Printing, Medical, Imaging, and Industrial. We intend to further streamline operations by eliminating redundant functions and combine technologies within the Group to trigger "chemical reactions" as we go about developing new products and solutions.



Note: Medical figures for 2024 exclude impact of impairment loss

Key Challenge 2
Promote production structure reform

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

Key Challenge 3
Promote development innovations

Under such circumstances where the world is rapidly changing and competition is becoming more severe, it is important to swiftly launch products that are superior in terms of quality and cost. At the development stage, which is the starting point of such a plan, we will employ concurrent development, which requires cooperation with production technology and production sites for joint work, at a company-wide level. We will also utilize digital transformation (DX) and simulation technologies to reduce development time and costs for prototypes, etc., with the aim of further increasing development productivity. To cultivate innovation personnel who support development, we will develop and strengthen a system to certify talented engineers as "top scientists" and "top engineers," while supporting skill improvements through CIST, an in-house institution intended to develop software engineers.

Key Challenge 4
Address cybersecurity risks

As for information security risks that are an increasing global threat, while working on countermeasures against information leakage from within the Group and cyberattacks from outside, we are also taking other steps such as raising the awareness of employees at a Group-wide level. In the unlikely event that an information security incident occurs, we have established a dedicated team, CSIRT*, to deal with it promptly.

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

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

BUSINESS STRATEGY

AT A GLANCE

Guided by a core policy of "accelerate our corporate portfolio transformation by improving productivity and creating new business," Canon reorganized its business divisions into four industry-oriented business groups to make the best possible use of Canon's broad range of businesses and technologies.

We will revisit all of our technological capabilities and business areas from the perspective of each group to build a more robust organization while actively pursuing M&A and other avenues to bolster Canon's development and production and create new businesses.

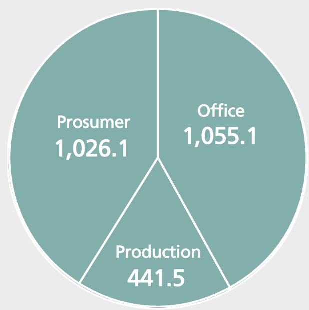
PRINTING

From Home Printing to Commercial and Industrial Printing

Net Sales **¥2,522.7** billion / **56**% Share of Net Sales

Number of Employees **111,733**

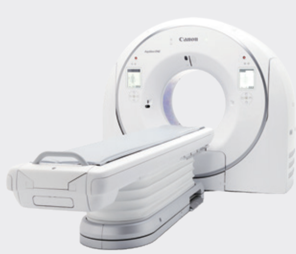
Laser printers



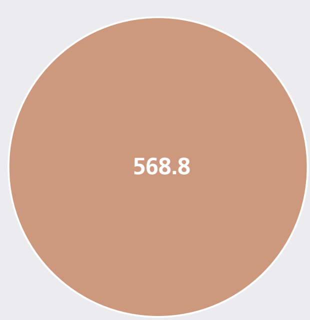
Office multifunction devices (MFDs)

Digital sheet-fed presses

Magnetic resonance imaging (MRI) systems



Computed tomography (CT) systems



Diagnostic X-ray systems

MEDICAL

Co-creation with Healthcare Professionals

Net Sales **¥568.8** billion / **13**% Share of Net Sales

Number of Employees **13,289**

Note: The totals do not amount to 100% because the sales of each business unit include the sales relating to intersegment transactions.

Others & Corporate

Net Sales ¥233.7 billion / 5% Share of Net Sales

Number of Employees 11,966

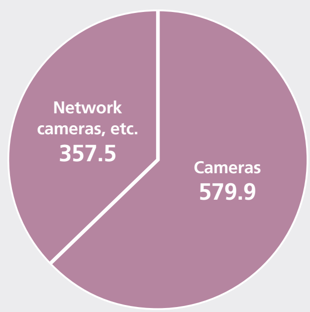
IMAGING

From People's Daily Lives to Professional Settings

Net Sales ¥937.4 billion / 21% Share of Net Sales

Number of Employees 25,612

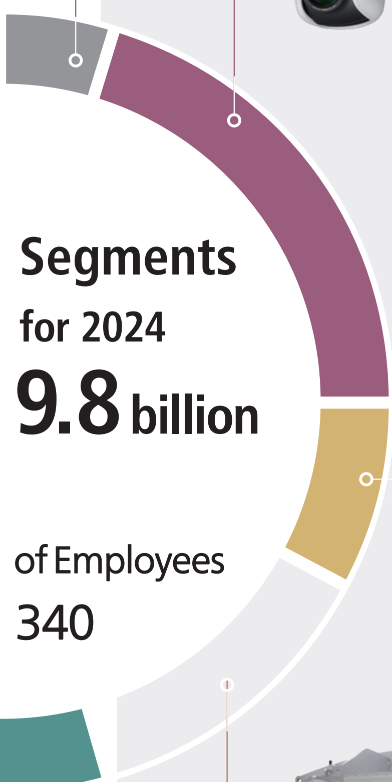
Network cameras



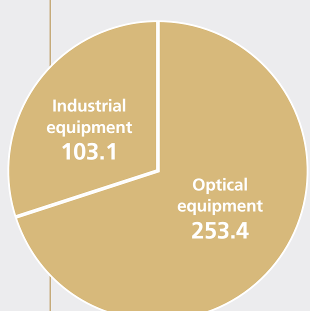
Mirrorless cameras

Digital cinema cameras

RF lenses



Semiconductor lithography equipment



OLED Display Manufacturing Equipment

FPD (Flat panel display) lithography equipment

INDUSTRIAL

Contributing to Leading-edge Electronics Industry

Net Sales ¥356.5 billion / 8% Share of Net Sales

Number of Employees 7,740

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

Satisfying diverse printing needs with a broad product lineup, while at the same time expanding commercial and industrial printing

In commercial and industrial printing fields, as we ride the wave of transition from analog to digital, we will further expand our business. We will also accelerate full-scale digital transformation in both office and prosumer fields to increase market share.

Performance in 2024

Orders for commercial and industrial printing equipment expanded, and sales of office MFDs increased due to steady service revenues

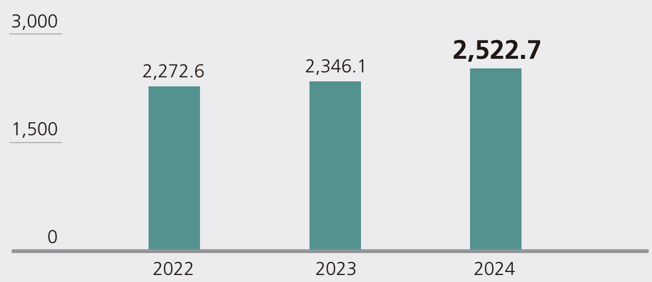
As for commercial and industrial printing, amid a continued shift to digital, which addresses quick turnaround and wide-variety short-run printing and also offers advantages in terms of operability, we have made several improvements to our products, based on customer feedback. At a quadrennial international printing equipment trade fair held in Germany at the end of May 2024, our industry-leading product lineup, including new products, was well received, leading to increased orders.

As for office MFDs, with solid demand for highly productive core printing equipment, and our products which have been highly evaluated by customers for their energy saving performance and maintainability, our install base of color models at customer sites has increased, leading to stable service revenue.

Although sales of inkjet printers were affected by weak market conditions in Europe and China, we recorded double-digit growth in the unit sales of refillable ink tank models that benefited from the launch of new products. As for laser printers, after the completion of shipment adjustments, sales have steadily recovered from the second quarter, leading to increased sales for the full year.

As a result, on a consolidated basis, sales for this business unit increased by 7.5% to 2,522.7 billion yen in comparison to the previous term.

Net Sales
(Billions of yen)



Toward Further Growth

Pursuing the value of print in a digital society and expanding business domains

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

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

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

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

Enhancing our presence through the development of next-generation products centered on diagnostic imaging equipment and strengthening our global sales capabilities

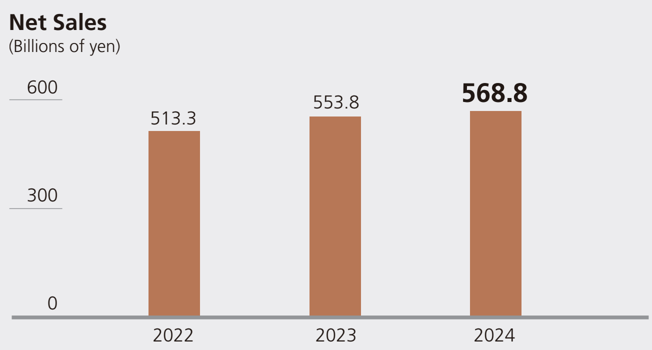
We are bolstering our sales structure, particularly in the United States, which is designated as a key region, while accelerating development of Photon Counting CT, with the aim of achieving the No.1 global market share in CT. We are also working to increase our market share by boosting the product competitiveness of our MRI and diagnostic ultrasound systems.

Performance in 2024

In diagnostic imaging equipment, sales of flagship models increased. Sales increased due to strong results, mainly in the Unites States, Asia, and the Middle East

As for diagnostic imaging equipment, the market shrank, due to China's prolonged anticorruption campaign, economic slowdown in Europe, and work style reforms at medical institutions in Japan. However, we increased sales, particularly in the United States, with our new flagship computed tomography (CT) system, the "Aquilion ONE / INSIGHT Edition," which we globally released, the "Vantage Galan 3T / Supreme Edition," a magnetic resonance imaging (MRI) system in which key parts were replaced with ones made by Canon, and the "Alphenix," an angiography system. In the United States, a key market for our growth, positive effects are emerging from the strengthening of our sales structure and the forging of partnerships with medical institutions. We also saw sales growth in emerging countries, including in Asia and the Middle East.

As a result, on a consolidated basis, sales for this business unit increased by 2.7% to 568.8 billion yen in comparison to the previous term.



Toward Further Growth

Bolstering global sales capabilities and presence by expanding our lineup of mainstay diagnostic imaging equipment

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

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

Canon's mirrorless cameras support photographers with high-precision AF, superior image quality, and high reliability

Sales of cameras increased thanks to sustained growth of core products, while network cameras also performed well

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

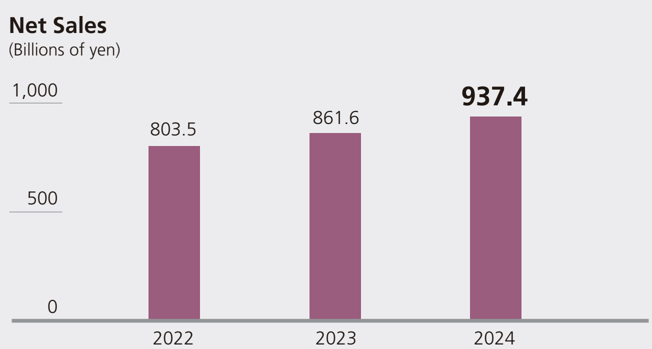
Performance in 2024

Sustained growth in both interchangeable-lens cameras and network cameras

As for interchangeable-lens cameras, in August and November of last year, we launched new mirrorless cameras, namely the "EOS R5 Mark II," a new mainstream model for professionals and enthusiasts, and the "EOS R1," our flagship model, respectively. As a result, we maintained mirrorless camera sales growth as unit sales exceeded those of the previous term. The sales of interchangeable lenses also increased due to sales growth in high-value-added cameras, which led to net sales growth in the camera category overall.

The network camera market keeps on growing with a continued focus on the security field. Sales of network cameras were sluggish in the first quarter due to inventory adjustments. However, after inventory adjustments were completed, we firmly secured growing demand by leveraging our powerful sales channels in Europe and the United States. As a result, we posted growth in both network camera hardware and software sales, which led to double-digit net sales growth also in this term.

As a result, on a consolidated basis, sales for this business unit increased by 8.8% to 937.4 billion yen in comparison to the previous term.



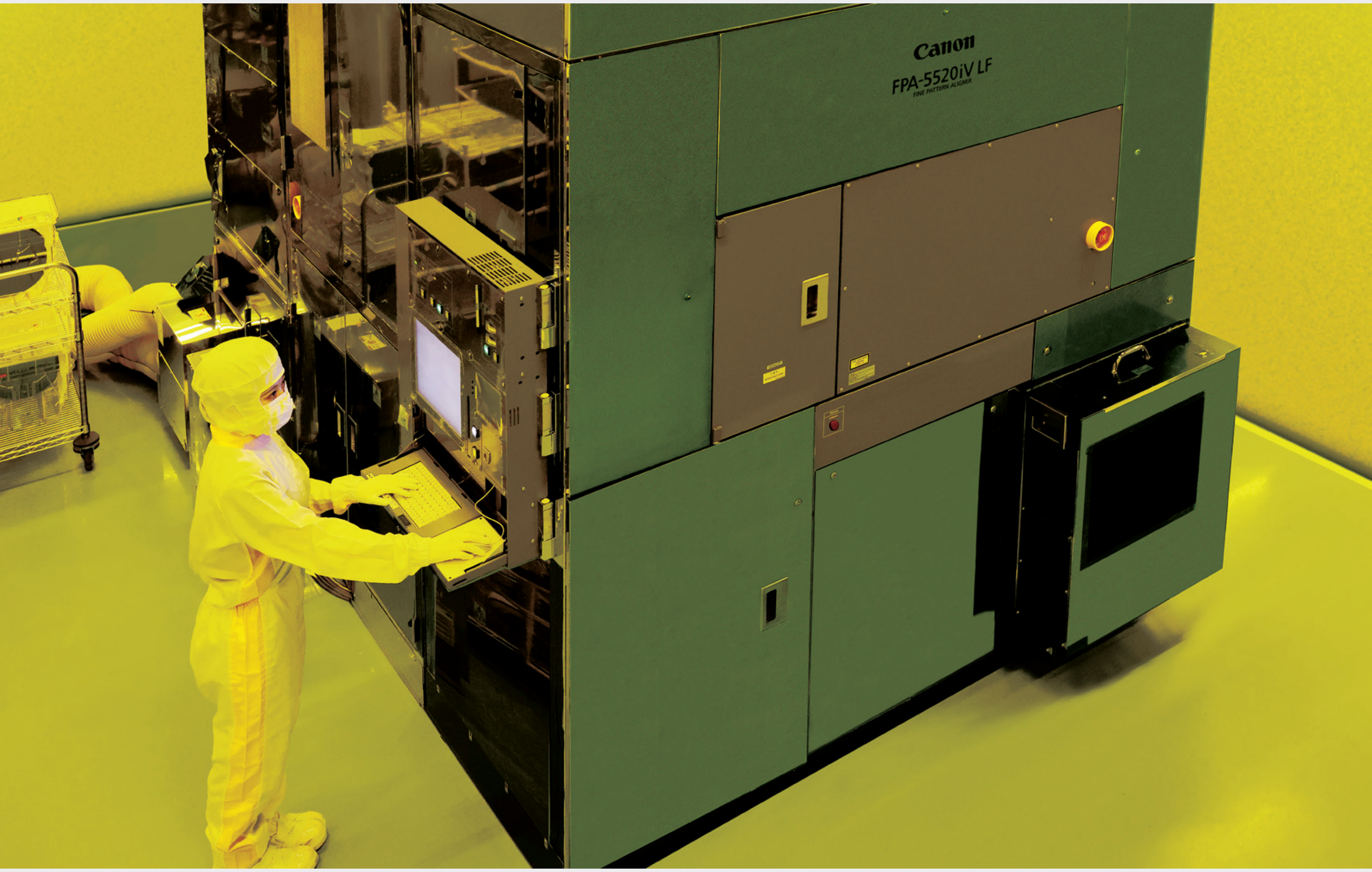
Toward Further Growth

Accelerating growth by creating attractive products and responding to increasingly diverse needs

As for digital cameras, it is important for us, as a leading company of cameras, to continue to provide attractive products to users, including younger generations, and to stimulate the market going forward. Canon will offer a lineup that satisfies both demand for still image photography from professional photographers and camera enthusiasts, and for diverse video recording from social media users.

Demand for network cameras for surveillance applications continues to increase to ensure safety and security against disasters and crimes.

At the same time, the need for in-store marketing and for production control at manufacturing sites are growing. Canon will accelerate its growth by responding to diversifying demand.



i-line semiconductor lithography systems for advanced packaging which contribute to high integration of semiconductor devices

Strong sales of mainstay, semiconductor lithography equipment driven by growing demand for semiconductors, mainly for generative AI

As we take steps to ramp up production capacity to fully capture the strong demand for semiconductor lithography equipment, we also aim to expand sales of nanoimprint semiconductor manufacturing equipment that can reduce production costs and power consumption.

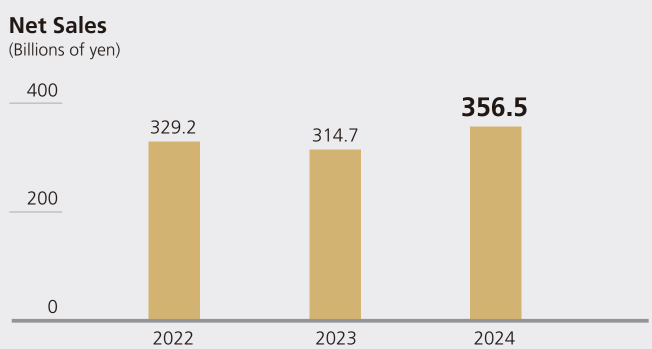
Performance in 2024

Sales of semiconductor lithography equipment increased due to robust demand, while demand for FPD lithography equipment started to recover in the second half

As for semiconductors, demand for logic and DRAM for generative AI has grown significantly, and with the trend toward domestic production from an economic security perspective, demand for semiconductor lithography equipment has remained strong. We have experienced a significant increase in the sales of equipment for power semiconductors used in electric vehicles (EVs), etc. As for our back-end processing equipment for the advanced packaging of semiconductors used in generative AI, which is recognized as the industry standard, our unit sales more than doubled compared to the previous term.

For FPD (Flat Panel Display) lithography equipment, new investment for IT panels installed in notebook PCs and tablets and additional investment for smartphones due to advanced functions gradually recovered as the earnings of panel manufacturers improved. This led to a slight increase in unit sales compared with the previous term.

As a result, on a consolidated basis, sales for this business unit increased by 13.3% to 356.5 billion yen in comparison to the previous term.



Toward Further Growth

Augmenting production capacity in preparation for increased demand for semiconductor lithography equipment in line with medium-to-long-term market growth

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

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

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

Canon seeks to solve issues in society through innovation.

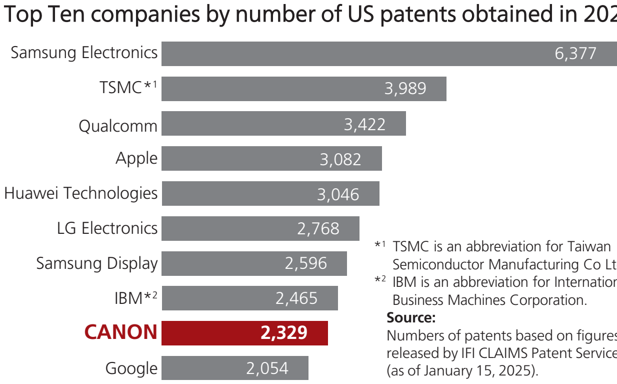
Development of OLED materials

Canon's R&D

Canon, founded in 1937 as a camera manufacturer, started to expand its business domains from the 1960s to office equipment, optical devices, and medical equipment. Today, we operate in four industry-oriented groups: Printing, Medical, Imaging, and Industrial.

We have continued to diversify our business operations by practicing a style of core competency management that intertwines our technologies in various ways. Namely, the core competency technologies to create core products, the fundamental technologies as the basis for technology accumulation, and value creation technologies that underpin our product commercialization technologies. In addition, the most distinctive feature of Canon's R&D is that a holistic environment (one where technologies can be joined in complex ways) has been developed where it is possible to use and deploy together throughout the company the "technologies that go into products" like core technologies/fundamental technologies, and the "technologies that support products" such as value creation technologies. Moreover, in order to respond quickly to social issues, we have sought out the most optimal R&D structure best suited to the times. Currently, instead of having a single R&D department take on all research and development areas, we have multiple R&D departments, each responsible for specific fields. We have evolved this aggregation of R&D functions in line with our business domains

Top Ten companies by number of US patents obtained in 2024



*1 TSMC is an abbreviation for Taiwan Semiconductor Manufacturing Co Ltd.
*2 IBM is an abbreviation for International Business Machines Corporation.
Source:
Numbers of patents based on figures released by IFI CLAIMS Patent Services (as of January 15, 2025).

to engage in new manufacturing processes. Going forward, we will continue to create new value through technology and innovation and advance R&D in order to contribute to solving increasingly complex and diverse social issues.

In 2024, R&D expenses amounted to 337.3 billion yen, which equates to 7.5% as a percentage of net sales. Our focus on R&D has also helped us cement our leading position in the intellectual property field. Canon was granted 2,329 patent applications in the U.S. in 2024, ranking it ninth in the world. We also maintained our number one ranking among Japanese companies for the 20th consecutive year.

Efforts to Develop and Expand Latest Technologies

Development of high-performance material for perovskite solar cells

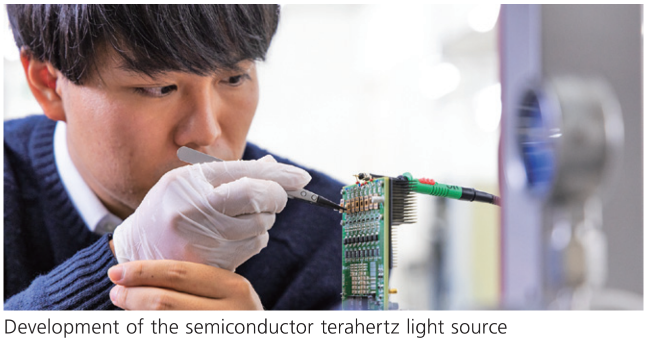
Canon has developed a high-performance material for perovskite solar cells, which are gaining attention as next-generation solar cells. Perovskite solar cells are lightweight, bendable, and can generate electricity even from indoor lighting, thereby offering a greater degree of freedom in installation than silicon solar cells. In addition, they are expected to reduce capital investment costs because they do not require large-scale manufacturing equipment. On the other hand, the crystal structure of the perovskite layer (photoelectric conversion layer) is susceptible to the effects of mainly moisture, heat, and oxygen in the atmosphere, resulting in low durability. Furthermore, stable volume production of perovskite solar cells with large surface areas has shown to be problematic. By applying the materials technology cultivated through the development of photosensitive members, a key component of multifunction office devices and laser printers, Canon has developed a high-performance material to protect the photoelectric conversion layer and improve durability.

Research of high-performance material for perovskite solar cells

Development of compact terahertz device with world's highest output*

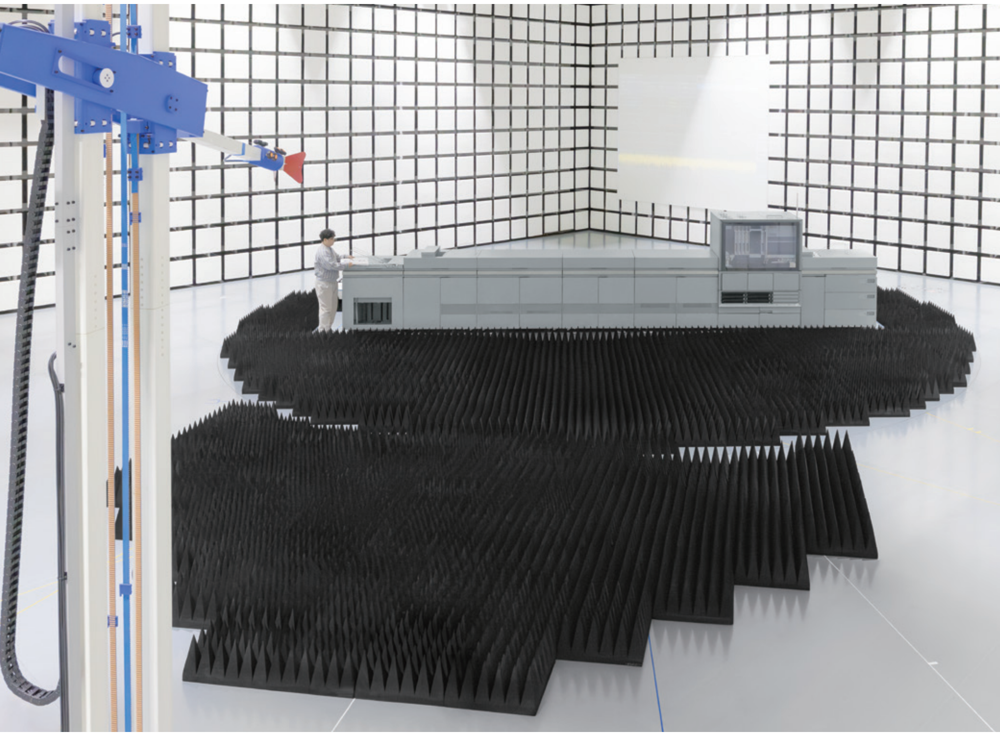
Canon has developed a compact, high-performance device capable of transmitting terahertz waves more strongly and over longer distances. The device delivers the world's highest output and a high level of directivity (the concentration of energy in a single direction). Terahertz waves consist of electromagnetic waves that enable high-speed, high-capacity communication and are expected to be deployed in such fields as 6G telecommunications. They also have the potential to be used in security applications because they can penetrate certain objects without causing exposure to radiation. Canon became the first Japanese company to receive the Best Paper Award from a leading international journal published by IEEE MTT-S, a world-renowned academic institute in the field of microwaves.

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



Development of the semiconductor terahertz light source

PRODUCTION & QUALITY



Quality testing of a digital commercial printing machine conducted in a radio frequency shielded room that is not affected by radio waves

Canon has established its own quality management system to provide high-quality and excellent products and services. We strive to further improve production-engineering technology and to develop human resources with outstanding technical skills.

Quality Control

Canon's basic quality concept is "no claims, no trouble." We have developed our own quality management system that we exhaustively follow to deliver products and services that are guaranteed to be safe, reliable, and satisfactory. The system has three defining characteristics, shown in the chart below. With the quality management system as a base, each business division at Canon Inc. implements rigorous quality control by building quality assurance systems optimized for the characteristics of each business and in compliance with the laws and regulations of each country and region.

1. Fulfills all the requirements of ISO 9001, the international quality management standard.*1
2. Incorporates the concept of substantial safety*2 to place greater emphasis on safety.
3. Introduces a framework for quality verification in the product commercialization process to ensure reliable product safety standards.*3

In terms of quality governance, the Quality Assurance Department within each business division checks the quality of the Development Division independently from the

Three defining characteristics

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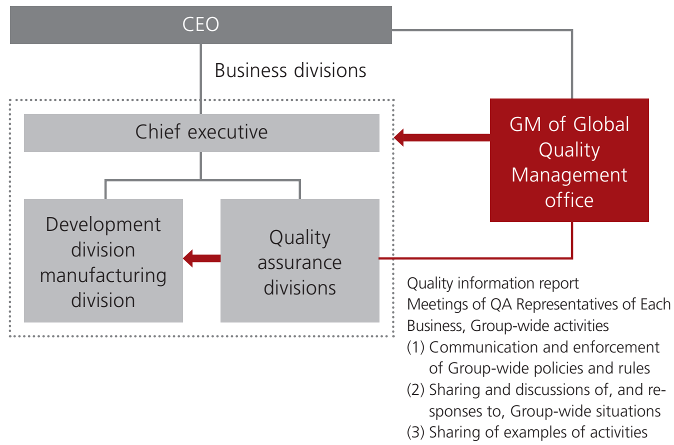
Introduces a framework for quality verification in the product commercialization process to ensure reliable product safety standards.*3

Manufacturing Division, while the Quality Control Headquarters, which is under the direct control of the CEO, controls the quality assurance activities of each business division.

In addition, we believe that employees must always have opportunities to become more aware of quality control and acquire knowledge in order to maintain and enhance superior product quality. To this end, we repeatedly communicate our basic quality concept, as well as messages about quality control. And every year we have all Group employees complete a quality awareness survey so that we can assess their degree of understanding.

*1 The in-house regulations governing Canon's quality management system are recognized by the International Register of Certificated Auditors (IRCA) as an alternative standard to ISO 9001.
*2 This means safety not only in terms of what is required by laws and statutes, but also any safety issue that can reasonably be expected to arise during customer use even if not regulated or mandated by law.

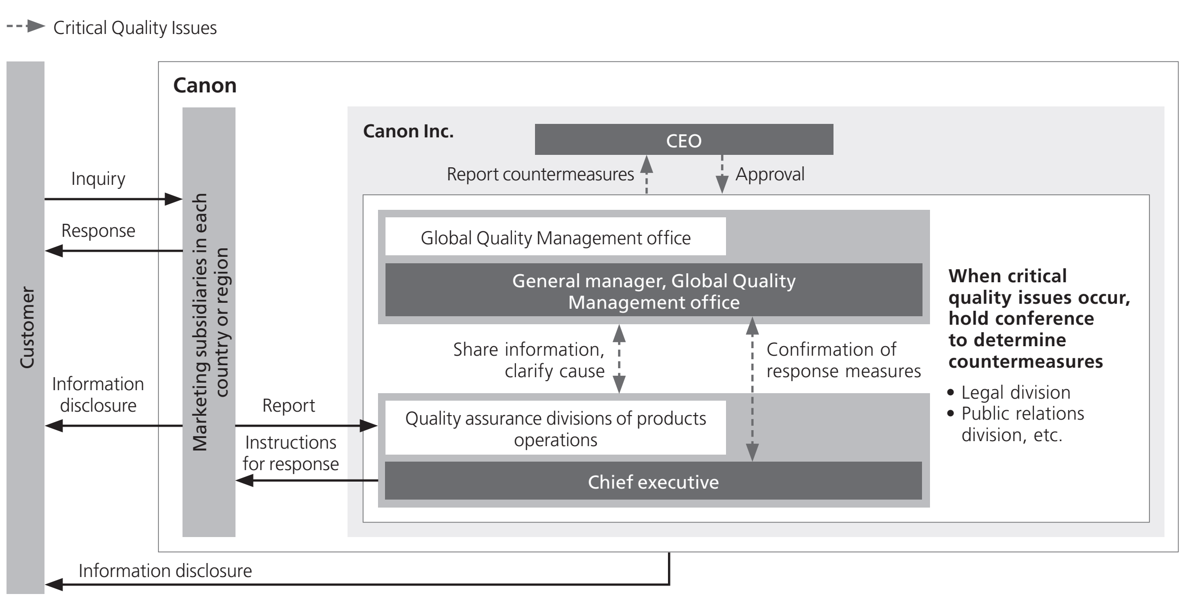


*3 This involves setting QA standards that must be satisfied for each of the stages in the development of Canon products from development and design to production and shipping. At each checkpoint along the development process, the QA framework requires a decision on whether the QA standard is satisfied to ensure rigorous control of product quality.

Systems for Responding to Quality Issues

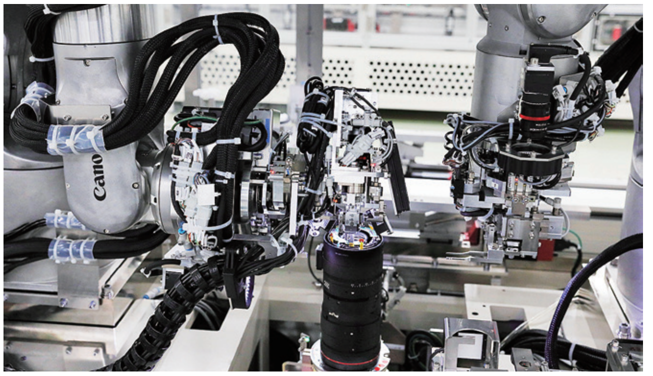
Should a quality issue arise, Canon has systems in place to promptly and appropriately investigate the cause, conduct free repairs, and disclose quality information.

In the event of a quality problem, the marketing companies in each country or region, which serve as the contact point for customers, file a report with the quality assurance division of the respective business division. The quality assurance division then investigates the cause and considers the countermeasures. Moreover, in the event of a major issue, related business divisions, the Global Quality Management office, the Legal Division, and Public Relations Division are consulted concerning response measures, and after the matter is reported to the CEO, action is promptly taken.



Productivity Improvements Through Automation and In-House Production

Canon aims to achieve further production efficiency by leveraging technologies cultivated in different businesses regardless of divisions and by collaboration among design, production engineering, and manufacturing sites, to refine its automation and in-house production technologies. In addition to key devices and components, we are also actively pursuing in-house production of production equipment and molding dies. Following toner cartridges, we have rolled out automated production lines for cameras and interchangeable lenses to further enhance productivity.



Automated production process for interchangeable lenses

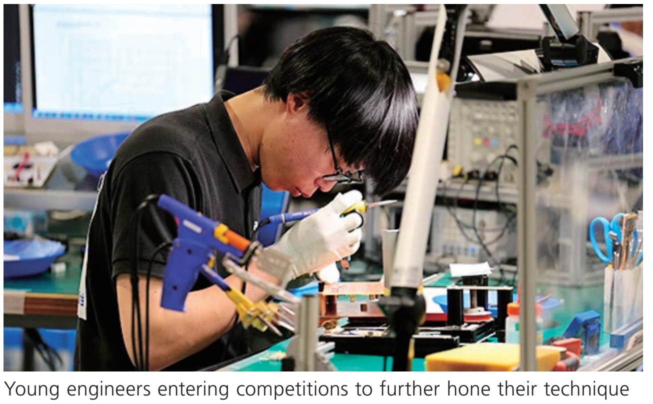
Development of Human Resources: Master Craftsmen and Meisters

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

Canon's master craftsman with exceptional skills who also nurtures young talent

Participation in the National Skills Competition

At Canon, we believe that the development of human resources is fundamental to manufacturing, which is why we have long been committed to training the skilled workers and engineers. In addition, as part of our efforts to train young skilled workers, we have participated in the National Skills Competition, a competition for young skilled workers in Japan (generally under 23 years of age) since the 43rd competition in 2005. In 2024, eight participants from the Canon Group competed in four categories, winning a total of four awards including one gold medal.



Young engineers entering competitions to further hone their technique

E S G

ENVIRONMENT

Providing products and services that further enrich people's lives while also reducing environmental impact.

Remanufacturing of office MFDs

Basic Approach

In 2008, Canon formulated an environmental vision called "Action for Green." In keeping with this vision, we aim to realize a society that achieves a beneficial balance between lifestyle enrichment and the environment. To that end, we will look to supply products and services that further enrich people's lives while also reducing environmental impact by employing measures across the entire product lifecycle. Our focus is on four key areas: (1) climate change; (2) resource efficiency; (3) chemical substances; and (4) biodiversity. In particular, we endeavor to take heed of, and reduce, CO_2 emissions and other environmental impacts not only in our own business activities such as development, production, and sales, but also at each stage of a product's lifecycle, including those of suppliers and customers. To further accelerate these activities, we are seeking to generate a heightened level of awareness among all employees by establishing a slogan for all employees.

Climate Change

By working closely with society and implementing initiatives across the entire product lifecycle, Canon aims to achieve net-zero CO_2 emissions by 2050. We have set targets to reduce our Scope 1 and 2 emissions by 42% and Scope 3 emissions (categories 1 and 11) by 25% compared to 2022 levels by the year 2030. These targets have been certified by the Science Based Targets initiative (SBTi).

Also, we have a longstanding goal of achieving an average annual improvement of 3% in the index of lifecycle CO_2 emissions per product unit as a yardstick for reducing our environmental footprint across the entire product lifecycle. As part of our efforts to achieve this goal, we switched the electricity used at seven factories across five overseas production sites to 100% renewable energy in 2024. In addition, we are endeavoring to reduce energy consumption by exhaustively analyzing the requirements of production equipment used for production processes at each site and optimizing factors such as equipment running time, compressed air, production cooling water, and air conditioning.

As a result of these initiatives, in 2024 we reduced our Scope 1 and 2 emissions by 12.8% and Scope 3 (categories 1 and 11) emissions by 17.7% compared to 2022 levels. We also achieved a 44.6% improvement (average annual improvement of 3.76%) in the index of lifecycle CO_2 emissions per product unit compared to 2008. Our CO_2 emissions data are disclosed every year and verified by an independent third party.

Moreover, in line with the framework recommended by the

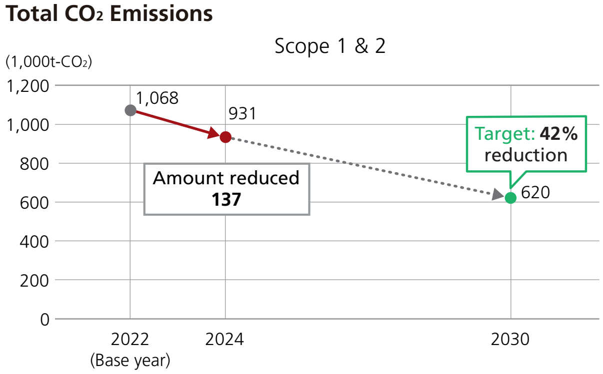
Task Force on Climate-related Financial Disclosures (TCFD), we disclose the risks and opportunities of climate change in the value chain, scenario analyses and countermeasures, and short-term and long-term financial impacts in our sustainability report, on our website, and via other channels.

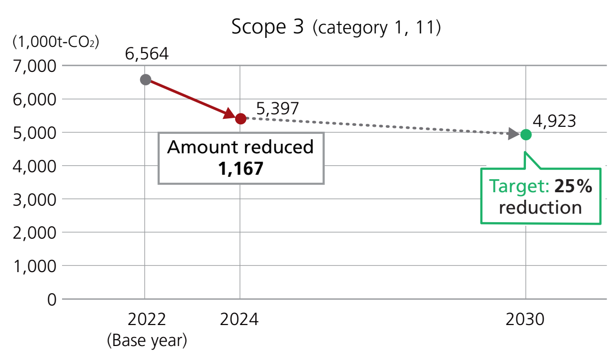
Targets and Achievements

	2030 Targets	2024 Achievements
Total CO_2 emissions (compared to 2022)	42% reduction for Scope 1 & 2, 25% reduction for Scope 3 (category 1 and 11)	Scope 1 & 2: 12.8% reduction; Scope 3: 17.7% reduction
Improvement in per-unit lifecycle CO_2 emissions index (compared to 2008)	50% improvement	44.6% improvement
	2024-2026 Targets	**2024 Achievements**
Overall (Lifecycle)	3%-per-year average improvement in lifecycle CO_2 emissions improvement index per product	Average annual 3.76% improvement (2008–2024)
Products	3%-per-year average improvement in raw materials and use CO_2 emissions improvement index per product	Average annual 2.22% improvement (2008–2024)
	2024 Targets*1	**2024 Achievements*2**
Operational Sites	Energy consumption per basic unit : 2.4% improvement	4.6% improvement
	Total waste generation per basic unit: 1% improvement	2.2% improvement
	Water usage per basic unit: 1% improvement	0.6% improvement
	Emissions of controlled chemical substances per basic unit: 1% improvement	0.9% deterioration

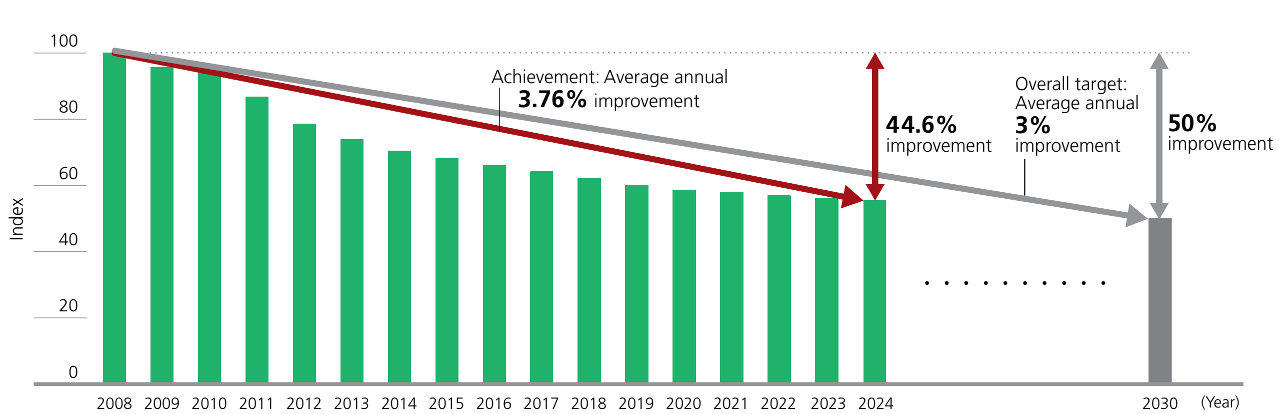
*1 Calculation based on average annual improvement rate of the three most recent years. For energy consumption at Japanese operational sites, however, calculation as stipulated in Act on Rationalizing Energy Use. The basic unit denominator is decided according to the characteristics of each operational site (production volume, effective floor area, workforce, etc.)
*2 For scope of data collection: https://global.canon/en/sustainability/report/pdf/data-2024-e.pdf

Total CO_2 Emissions





Index of Lifecycle CO_2 Emissions Per Product Unit



* Assuming 2008 baseline of 100

Contributing to a Circular Economy

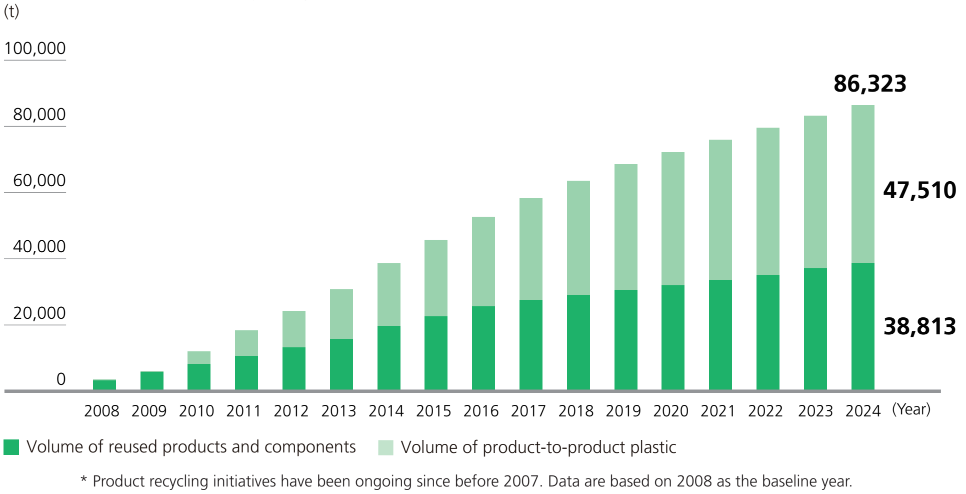
Canon has five sites in Japan, Germany, France, the U.S., and China to conduct recycling operations. And having established systems under which we can recycle resources in the regions where they are consumed, we continue to promote more efficient use of limited resources and reduce waste. In particular, we are pursuing a form of recycling that reuses resources, including the remanufacturing of office MFDs and the closed-loop recycling of toner cartridges. Also, at the Canon Eco Technology Park in Japan that opened in 2018, we aim to realize state-of-the-art resource recycling. In the digital printing business, we are targeting a resource recycling rate of 20% by 2025 and 50% by 2030. This rate represents the weighting of recycled materials and products as a percentage of total sales volume.

We are also working to reduce, reuse, and recycle plastic waste at our business sites worldwide, for instance, by switching from polystyrene foam to molded pulp for use in product packaging materials in order to reduce single-use plastics.

The recycling of plastic requires the precise sorting of many different types of plastic according to color, size, and other characteristics. Canon has developed a technology for the simultaneous sorting of plastics, including black-colored plastics, which was previously quite difficult. We have achieved this by combining our proprietary measurement and control technologies with a measurement technique called Raman spectroscopy that uses a laser beam. Furthermore, in June 2024 we started taking orders for the TR Series of plastic sorting equipment that utilizes this technology. This method is expected to further accelerate plastic recycling and encourage the establishment of a circular economy. In 2024, we launched the "Refreshed" series of environmentally specialized multifunction devices, which involve the remanufacturing (collection and refurbishment) of used multifunction devices. The imageRUNNER ADVANCE C3530F III-RG and the imageRUNNER ADVANCE C5550F III-RG models offer high performance and quality equivalent to any new multifunction device while also achieving the industry's highest reused parts ratio.

High-precision sorting equipment capable of measuring black plastic pieces, which are difficult to identify

Product-to-Product Recycling Volume (Cumulative)



* Product recycling initiatives have been ongoing since before 2007. Data are based on 2008 as the baseline year.

Eliminating Hazardous Substances and Preventing Pollution

Canon thoroughly manages chemical substances in products and those used in manufacturing processes to prevent pollution of the global environment and adverse effects on people's health. Our basic approach to management involves prevention measures to ensure that products do not contain regulated chemical substances that exceed the prescribed standards and that production sites do not discharge regulated chemical substances that exceed such standards. We also take steps to confirm that we are in compliance with these standards. Particularly with regard to chemical substances in products, we have built a Group-wide environmental assurance system, and we develop products in conformity with the in-house standards that have been established in line with the most stringent regulations in the world. We are working to achieve the improvement target for reduction of the emissions of controlled chemical substances per basic unit, and in fiscal 2024 we reviewed the conditions for chemical substance use, among other measures.

Contributing to a Society in Harmony with Nature

Canon is cognizant of the fact that biodiversity is critical to a sustainable society, which is why Canon is committed to undertaking various initiatives aimed at protecting biodiversity in keeping with its Group-wide Biodiversity Policy and "Nature Positive" slogan. In doing so, we aim to contribute to a society in harmony with nature.

As part of these activities, we globally run the Canon Bird Branch Project. The site of Canon's global headquarters in Tokyo is home to the thickly wooded Shimomaruko Forest of approximately 1,000 trees. An environment conducive to wild bird life is maintained thanks mainly to the installation and cleaning of nesting boxes for birds. Surveys on the migration of wild birds to the site are also carried out. In recognition of this initiative, the Shimomaruko Forest has been certified by the Ministry of the Environment of Japan as a site of natural symbiosis. As part of the project to certify such sites, the Japanese government recognizes areas where biodiversity is being protected with the aim of achieving the 30by30 target, a worldwide initiative to effectively conserve at least 30% of the earth's land and oceans as healthy ecosystems by 2030. These certified areas are then registered in a global database.

As Canon relies on water resources in the manufacturing of its products, we established a policy on water resources in 2024 to promote the efficient use of water and prevent pollution. Canon collects water data by intake source (public water supply/industrial water/groundwater) and manages its water resources carefully so as not to exceed intake limits in each region. We also set and manage targets for the volume of water used in production, and constantly endeavor to further reduce water usage by improving production processes, increasing efficiency in water use, and raising the quality of our water management. We are also promoting the recycling of water resources. The Kitsuki Plant of Oita Canon, which faces out to Beppu Bay in an area blessed with precious natural resources, has installed a fully closed wastewater system that discharges only rainwater in consideration of the impact on the local ecosystem. At other production sites, we treat wastewater from infrastructure such as air conditioning and reuse it in the production process as recycled material for toner and ink cartridges. We also collect wastewater from cleaning equipment and reuse it in the polishing process.

Bird Branch Project activity in the Shimomaruko Forest on the grounds of Canon's global headquarters

SOCIAL

Guided by our corporate philosophy of *kyosei*, we aim to achieve a society where all people harmoniously living and working together in happiness into the future.

Visitors admiring the works of the Tsuzuri Project, which provides many people the opportunity to get to know Japanese cultural assets

Basic Approach

Canon adopted *kyosei* as its corporate philosophy in 1988 with the aim of achieving a society where all people, regardless of culture, customs, language, or race, harmoniously living and working together in happiness into the future. Under this corporate philosophy, we are implementing various initiatives for the benefit of people and society, such as respecting human rights, promoting diversity, upholding occupational health and safety standards, developing human resources, and lending our support to sociocultural activities. Through these efforts, Canon contributes to the attainment of the SDGs and the achievement of Canon's own sustainable growth and development.

Respecting Human Rights

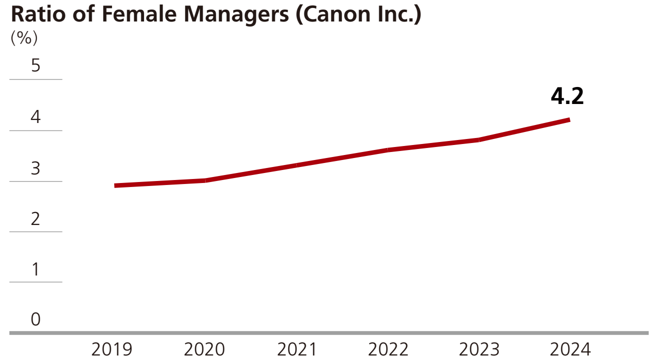
In accordance with the United Nations' Guiding Principles on Business and Human Rights, we have formulated the Canon Group Human Rights Policy. Guided by this policy, we set in motion a human rights due diligence process to identify significant human rights risks in the Canon Group. We also put in place a grievance mechanism, engage in dialogue with stakeholders, and promote awareness-raising activities for our employees. In 2024, we delivered a presentation about our human rights initiatives for a webinar hosted by the International Labour Organization (ILO), the Japan External Trade Organization (JETRO), and the Global Compact Network Japan (GCNJ).

Promoting Diversity

Canon respects global diversity and actively encourages the fair hiring and promotion of employees, regardless of gender, age, or presence of disability. We have established VIVID (Vital workforce and Value Innovation through Diversity), a company-wide horizontally integrated organization spearheaded by an Executive Vice President, so that we can empower female employees, support the intentions of male employees to participate in childcare, help employees balance work and nursing care duties, and encourage the active participation of employees with disabilities. In particular, to promote the active participation of women and encourage men to participate in childcare, we have established the ratio of female managers and the ratio of male employees taking childcare leave as KPIs, and we implement various initiatives in these areas. We are working to build an environment where women can thrive by organizing a leadership training course for women that aims to nurture female candidates for managerial positions, holding return-to-work seminars for employees returning to work from childcare leave and their supervisors, and providing manager-led mentoring. The ratio of female managers reached 4.2% in 2024 compared to 1.4% in 2011, which includes the appointment of one female director and two female executive officers. We are also making steady progress in our efforts to encourage male employees to participate in childcare, as well as nursing care and other initiatives.

Leadership training course for women that aims to nurture female candidates for managerial positions

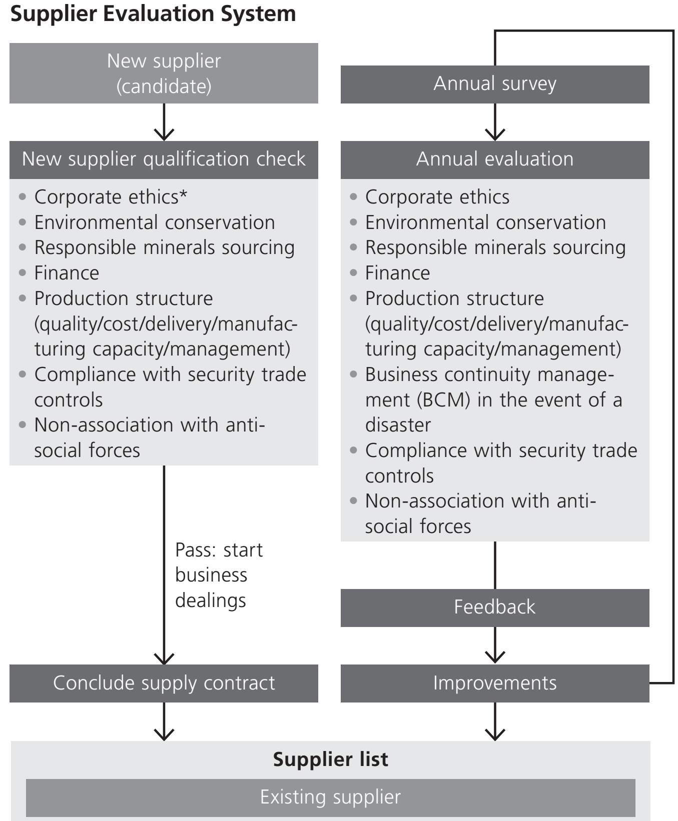
Ratio of Female Managers (Canon Inc.)



Supplier Evaluation

Before starting business dealings with a new supplier, Canon conducts an assessment based on the Canon Sustainability Supplier Guidelines and other reference standards of whether the company fulfills all requisite standards in terms of corporate ethics, environmental conservation (chemical substance management, prevention of air pollution and water pollution, proper disposal of waste, initiatives aimed at conserving energy and resources, reduction of GHG, and biodiversity conservation), finance, and production structure. Only those suppliers who meet these criteria are accepted as suppliers. We aim to preferentially deal with suppliers evaluated highly in our comprehensive assessment that includes our annual supplier survey, as well as each supplier's trade performance. In addition, we conduct on-site audits of suppliers with low evaluations, providing guidance and instruction for improvement. In particular, Canon may choose to terminate business with suppliers if they are not complying with laws and social norms covering areas such as human rights, labor, and the environment.

Supplier Evaluation System



* Corporate ethics covers areas including legal compliance, product safety, management of confidential information, human rights, labor, health and safety, and intellectual property rights protection.

Sociocultural Support Activities

To commemorate Canon's 70th anniversary, in 2008, we established the Canon Institute for Global Studies and the Canon Foundation. The Canon Institute for Global Studies is a think tank that researches and analyzes issues from a global perspective and makes policy proposals with an eye on the future of Japan and the world, mainly in the fields of macroeconomics, energy, environment, foreign policy, and national security. In addition, the Canon Foundation provides grants to assist a broad range of science and technological research with the goal of contributing to the advancement of science and technology.

Furthermore, since 2007, Canon and Kyoto Culture Association (NPO) have operated the Tsuzuri Project (officially named the Cultural Heritage Inheritance Project). By combining Canon's advanced imaging technologies—from input to image processing and output—with traditional Kyoto craftsmanship, we have produced high-resolution facsimiles of time-honored Japanese cultural assets for which viewing opportunities are rather limited, such as folding screens and sliding doors known as *fusuma*. By widely exhibiting these high-resolution facsimiles, we can provide opportunities for people to become more familiar with cultural assets.

Canon Young People Programme

As one measure to help bring about a sustainable society, Canon Europe is running the Canon Young People Programme in 32 countries in Europe, the Middle East, and Africa. The workshops of the program aim to provide young people with opportunities to express themselves through photographs and videos with the incorporation of creative visual storytelling and critical thinking based on the concepts of the SDGs. The program was attended by 1,725 students in 2024.

Canon Young People Programme in a refugee camp in Jordan

Miraisha Programme

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

A participant in the *Miraisha* Programme in Nigeria

Initiatives Utilizing Elevated Printing Technology

Using its unique elevated printing technology involving the layering of UV-curable ink, Canon Production Printing is supporting the creation of works that allow people both with and without visual impairments to appreciate photographs. As one example, using this technology, we reproduced Vermeer's masterpiece *Girl with a Pearl Earring*, including the uneven texture and gloss of the oil painting. The reproduction is now available as a tactile painting at the Mauritshuis museum in the Netherlands. In addition, in 2024, Canon Europe held a major photo exhibition titled World Unseen in the Europe, Middle East, and Africa (EMEA) region, utilizing elevated printing.

Touching and feeling a photograph using elevated printing technology at the photo exhibition World Unseen

GOVERNANCE

Canon is working to enhance corporate governance, risk management, intellectual property management, and other governance areas, with the aim of continuously raising corporate value.

President & CEO Mitarai making a speech at an executive meeting

Fundamental Approach

In order to establish a sound corporate governance structure and continuously raise corporate value, improving management transparency and strengthening management supervising functions is essential.

Governance Structure

Basic Policy

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

Board of Directors

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

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

The Board of Directors consists of ten members, six Directors from inside Canon Inc., including three Representative Directors, and four Outside Directors that qualify as Independent Directors (including one female), and is chaired by the CEO. Additionally, there will be 39 Executive Officers, including two females and one non-Japanese, as of April 1, 2025.

Audit & Supervisory Board

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

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

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

Procedures in the Nomination of Directors

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

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

Director and Audit & Supervisory Board Member candidates and Executive Officers are people that have the ability to fairly and effectively execute duties and, in principle, are selected from

Representative Directors and Executive Directors	Have a true understanding of the corporate philosophy and code of conduct of Canon Inc. At the same time, have broad familiarity with Canon Inc.'s businesses and operations, gained through, for example, Executive Officer experience, and have the ability to make effective decisions from a high-level perspective of multiple businesses and functions. In addition to this, the CEO shall be a person with the ability to lead the Canon Group, having, in particular, a wealth of knowledge and skill related to management and a clear vision and a strong sense of responsibility.
Independent Outside Directors	In addition to meeting the independence standard that is separately determined by the Board of Directors, have an abundance of experience and superior insight in areas that cannot be adequately covered by internally promoted directors into fields such as, risk management, law, and economics.
Audit & Supervisory Board Members	Be familiar with Canon Inc.'s businesses or its management structure, or have an abundance of experience and superior insight into professional fields such as law, finance & accounting, and internal control. Outside Audit & Supervisory Board Members shall also meet the independence standards that are separately determined by the Board of Directors.
Executive Officers	Have been highly evaluated in terms of character and ability in managerial assessment and managerial talent training programs, and also have sufficient knowledge, experience and judgment ability, to shoulder the responsibility of execution in specific fields, and truly understand the corporate philosophy and code of conduct of Canon Inc.

among people that have met the following requirements, regardless of personal attributes such as gender, nationality, age.

Skills of Board of Directors

Canon Inc. operates businesses globally with very different market environments. As a whole, the Board of Directors, which oversees important decision-making and execution, needs to possess skills in the following seven areas.

* The table below indicates up to five areas in which we expect each person to particularly demonstrate their skills. It does not represent the entirety of each person's experience, knowledge, or skills.

Corporate Strategy Committee, Sustainability Committee, Risk Management Committee, and Disclosure Committee

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

On April 1, 2024, Canon established the Sustainability Committee to share information and conduct preliminary deliberations with the aim of ensuring appropriate and effective judgment by the CEO or Board of Directors regarding the sustainability-related matters that the Canon Group should respond to or address.

Based on a resolution passed by the Board of Directors, Canon Inc. set up the Risk Management Committee, which formulates policy and action proposals regarding improvement of the Canon Group risk management system. The Risk Management Committee consists of three entities: the Financial Risk Management Subcommittee, which is tasked with improving systems to ensure reliability of financial reporting; the Compliance Subcommittee, which is tasked with promoting corporate ethics and improving legal compliance systems; and the Business Risk Management Subcommittee, which is charged with improving systems to manage overall

Candidates for Directors	Skills to be Possessed by the Board of Directors Overall						
	Corporate Management	Global Understanding	Business Experience	Technology and Development	Finance and Accounting	Risk Management	ESG
Asterisks indicate candidates for Outside Directors	Skills as a senior level executive of a listed company that does business globally, and the like	Global awareness /experience obtained through working overseas, global marketing, etc	Business management skills in the Company's business domain	Knowledge and R&D experience in the Company's core competence technologies	Skills as a financial accounting expert, derived from being a financial accounting officer of a listed company, a certified public accountant, etc.	Skills as an expert in risk management, including compliance, and internal control systems	Knowledge and experience in ESG
Fujio Mitarai	●	●			●	●	●
Toshizo Tanaka		●			●	●	●
Toshio Homma	●	●	●	●			
Kazuto Ogawa	●	●	●			●	
Hiroaki Takeishi	●	●	●	●			
Minoru Asada	●	●			●	●	
Yusuke Kawamura *					●	●	●
Masayuki Ikegami *						●	●
Masaki Suzuki *					●	●	●
Akiko Ito *						●	●

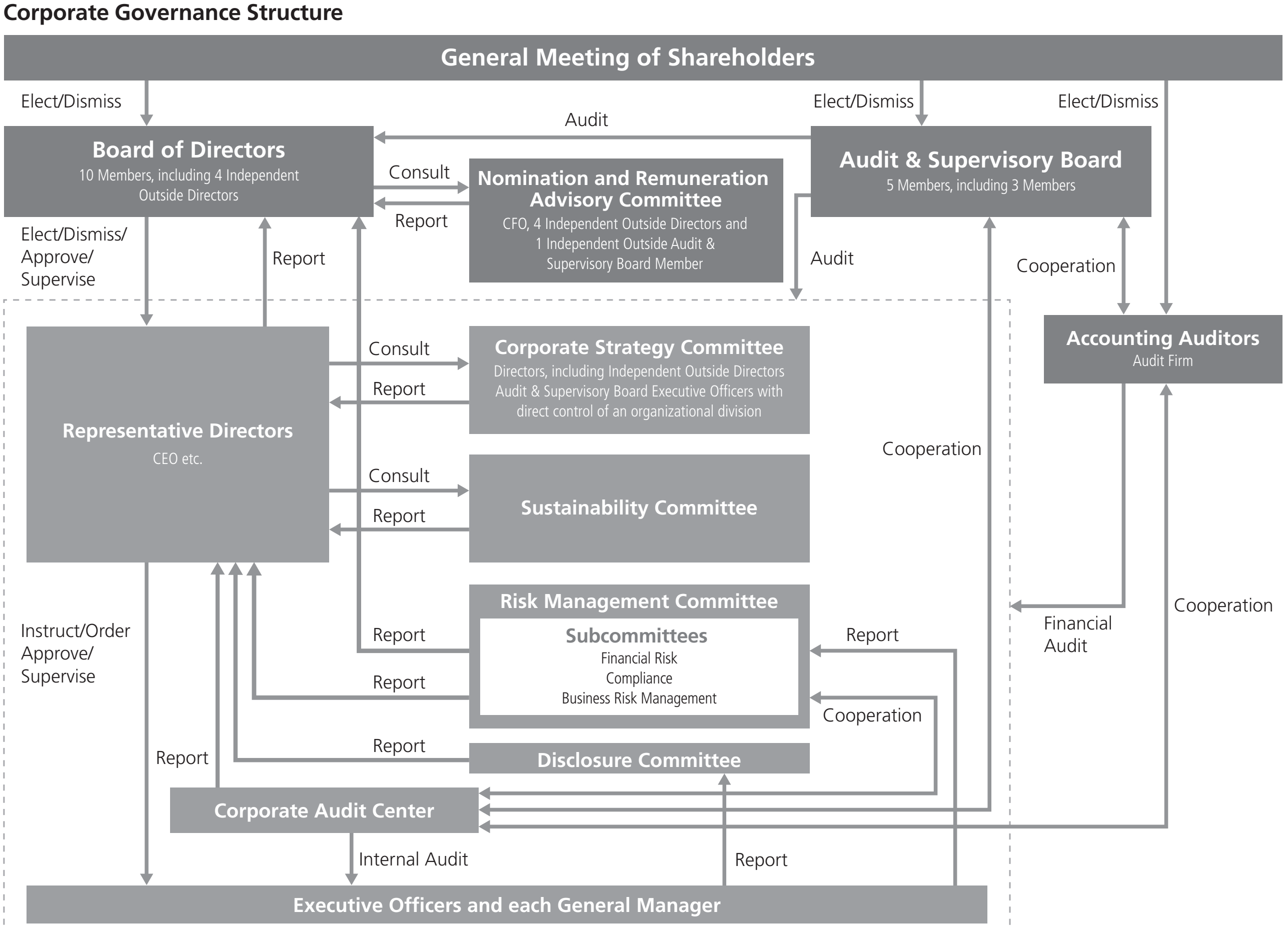
business risks. The Risk Management Committee verifies the risk management system's improvement and implementation and reports the status to the CEO and the Board of Directors.

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

Corporate Audit Center

Canon Inc. has established the Corporate Audit Center as its internal auditing division, which conducts audits on various topics such as finance, procurement, asset management, contracts, health and safety, quality, etc. for each division and subsidiary of the Company, in addition to audits on general operations and management, and makes recommendations for improvements as necessary. The Corporate Audit Center also conducts audits on topics such as quality, and health and safety. Audit results are reported not only to the CEO and CFO, but also to the Audit & Supervisory Board and its members. In addition, Canon Inc. has established a system in which reports are also regularly given to outside directors and those outside directors can request submission of proposals to the Board of Directors, as necessary.

Corporate Governance Structure



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

FINANCIAL OVERVIEW

FINANCIAL OVERVIEW

GENERAL

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

OVERVIEW

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

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

Economic environment

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

Market environment

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

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

Summary of operations

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

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

As a result, Canon Inc.'s shareholders' equity as a percentage of total assets declined by 3.3 points to 58.6% compared to the end of the previous year.

Key performance indicators

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

Net sales and profit ratio

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

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

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

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

Cash flow management

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

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

The debt to total assets ratio is also one of the KPIs. For a manufacturing company like Canon, it generally takes considerable amount of time to bear fruit from the business due to lead times required for R&D, manufacturing and sales. Therefore, management believes that it is important to bulid sufficient financial strength. Canon will continue to maintain liquidity and manage capital investments within the cash flow generated from operation, however it is possible that Canon utilizes debt following a decision to invest on a large scale for future growth.

The equity ratio, which indicates the proportion of shareholders' equity to total assets, is another KPIs. Having ample shareholders' equity allows to continue making high-level investments from a long-term perspective, and enables stable business operations that are not shaken by short-term performance declines. Ensuring financial stability is particularly important for Canon which places a strong emphasis on R&D activities. On the other hand, we will also pay attention to optimizing our capital structure, such as effectively utilizing debt for growth investments.

Return on equity

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

KEY PERFORMANCE INDICATORS

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue recognition

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

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

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

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

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

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

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

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

Allowance for credit losses

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

Valuation of inventories

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

Impairment of long-lived assets

Based on ASC 360 "Property, Plant, and Equipment," long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds its estimated sum of undiscounted future cash flows, an impairment loss is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Determining the fair value of the asset involves the use of estimates and assumptions.

Property, plant and equipment

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

Lease

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

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

Business combinations

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

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon recognizes an impairment loss in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Fair value of a reporting unit is determined primarily based on the discounted cash flow analysis which involves estimates of projected future cash flows and discount rates. Estimates of projected future cash flows are primarily based on Canon's forecast of future growth rates. Estimates of discount rates are determined based on the weighted average cost of capital, which considers primarily market and industry data as well as specific risk factors. Canon has completed its impairment test in the fourth quarter of 2024 and recognized an impairment loss for the Medical Reporting Unit for the amount by which the carrying amount exceeded the reporting unit's fair value. For further information, please refer to Note 8 and 22 of the Notes to Consolidated Financial Statements. The fair values of remaining reporting units exceeded its respective carrying amount, and thus no other impairment loss was recognized as a result of 2024 impairment test. A significant amount of goodwill was allocated to the Medical Reporting Unit, which was ¥403,131 million in the consolidated balance sheet for the current fiscal year. Future cash flows for the Medical Reporting Unit were based on a mid-term management plan that considered the future market growth of medical equipment and growth in geographies where Canon operates its medical business. Intangible assets with finite useful lives consist primarily of software, trademarks, patents and developed technology, license fees and customer relationships, which are amortized using the straight-line method. The estimated useful lives of software are primarily from 3 years to 9 years, trademarks are 15 years, patents and developed technology are from 5 years to 21 years, license fees are 7 years, and customer relationships are from 11 years to 19 years, respectively.

Income tax uncertainties

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

Valuation of deferred tax assets

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

Employee retirement and severance benefit plans

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

In preparing its financial statements for 2024, Canon estimated a weighted-average discount rate used to determine benefit obligations of 1.9% for Japanese plans and 3.9% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.1% for Japanese plans and 6.0% for foreign plans. In estimating the discount rate, Canon uses available information about rates of return on high-quality fixed-income government and corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. Canon establishes the expected long-term rate of return on plan assets based on management's expectations of the long-term return of the various plan asset categories in which it invests. Management develops expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

Decreases in discount rates lead to increases in actuarial pension benefit obligations which, in turn, could lead to an increase in service cost and amortization cost through amortization of actuarial gain or loss, a decrease in interest cost, and vice versa. For 2024, a decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately ¥70,757 million. The net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, is deferred until subsequent periods.

Decreases in expected returns on plan assets may increase net periodic benefit cost by decreasing the expected return amounts, while differences between expected value and actual fair value of those assets could affect pension expense in the following years, and vice versa. For 2024, a decrease of 50 basis points in the expected long-term rate of return on plan assets would increase approximately ¥5,900 million in net periodic benefit cost. Canon multiplies management's expected long-term rate of return on plan assets by the value of its plan assets to arrive at the expected return on plan assets that is included in pension expense. Canon defers recognition of the difference between this expected return on plan assets and the actual return on plan assets. The net deferred amount affects future pension expense.

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

Environmental Liabilities

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

Recently Issued Accounting Guidance

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

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS

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

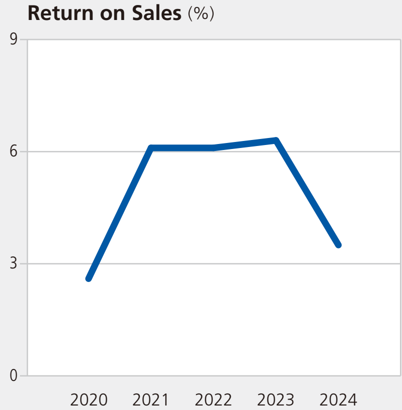
Note: See note to KEY PERFORMANCE INDICATORS

Sales

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

Overseas operations are significant to Canon's operating results and generated 78.8% of total net sales in 2024. Such sales are denominated in the applicable local currencies and are subject to fluctuations in the value of the yen relative to those currencies. Despite efforts to reduce the impact of currency fluctuations on operating results, including localization of manufacturing in some regions along with procuring parts and materials from overseas suppliers, Canon believes such fluctuations have had and will continue to have a significant effect on its results of operations.

Return on Sales (%)



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

Cost of sales

Cost of sales principally reflects the cost of raw materials, parts and labor used by Canon in the manufacture of its products. A portion of the raw materials used by Canon is imported or includes imported materials. Many of these raw materials are subject to fluctuations in world market prices accompanied by fluctuations in foreign exchange rates that may affect Canon's cost of sales. Other components of cost of sales include depreciation expenses, maintenance expenses, light and fuel expenses, and rent expenses. In 2024, cost of sales increased due to the depreciation of the yen, despite the progress made in the improvement of costs centering on distribution costs during the consolidated fiscal year. On the other hand, the ratio of cost of sales to net sales for 2024 and 2023 were 52.5% and 52.9%, respectively. Cost of sales as a percentage of net sales decreased by 0.4 points.

Gross profit

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

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

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

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

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

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

Net income attributable to Canon Inc.
As a result, net income attributable to Canon Inc. in 2024 decreased by 39.5% to ¥160,025 million, which represents 3.5% of net sales.

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

- **The Printing Business Unit** mainly includes Digital continuous feed presses / Digital sheet-fed presses / Large format printers / Office MFDs / Document solutions / Laser MFPs / Laser printers / Inkjet printers / Image scanners / Calculators

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

- **The Imaging Business Unit** mainly includes Interchangeable-lens digital cameras / Interchangeable lenses / Digital compact cameras / Compact photo printers / MR Systems / Network cameras / Video management software / Video content analytics software / Digital camcorders / Digital cinema cameras / Broadcast equipment

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

- **Others** mainly includes Handy terminals / Document scanners

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

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

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

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

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

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

SALES BY SEGMENT

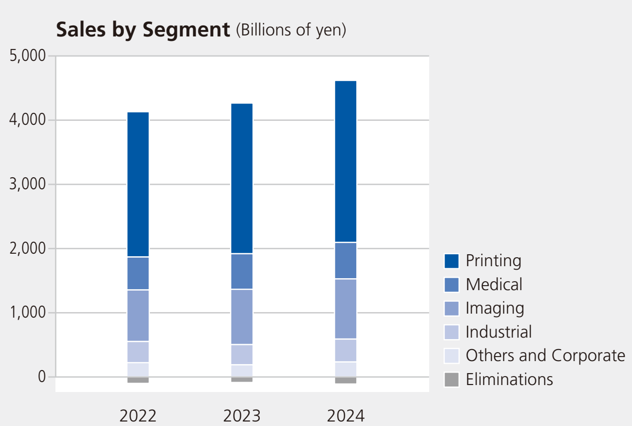
	Millions of yen		
	2024	change	2023
Printing	**2,522,725**	**+7.5%**	2,346,076
Medical	**568,808**	**+2.7%**	553,780
Imaging	**937,391**	**+8.8%**	861,625
Industrial	**356,462**	**+13.3%**	314,719
Others and Corporate	**233,746**	**+11.9%**	208,844
Eliminations	**(109,311)**	**—**	(104,072)
Total	**4,509,821**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

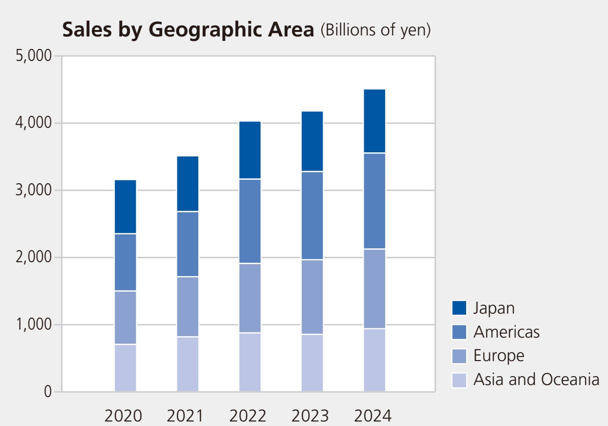
Note: In order to manage the performance of each reportable segment more appropriately, Canon has changed its performance management method regarding intercompany transactions for Others and Corporate from the beginning of the first quarter of 2024. Operating results for the year ended December 31, 2023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

SALES BY GEOGRAPHIC AREA

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

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





Sales by geographic area

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

In Japan, net sales increased by 6.0% from the previous year mainly owing to an increase in sales of IT solutions for offices.

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

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

In Asia and Oceania, net sales increased by 9.9% from the previous year mainly owing to increase in sales of semiconductor lithography equipment.

FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSACTIONS

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

Raising Funds (Cash-In)

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

Use of Funds (Cash-Out)

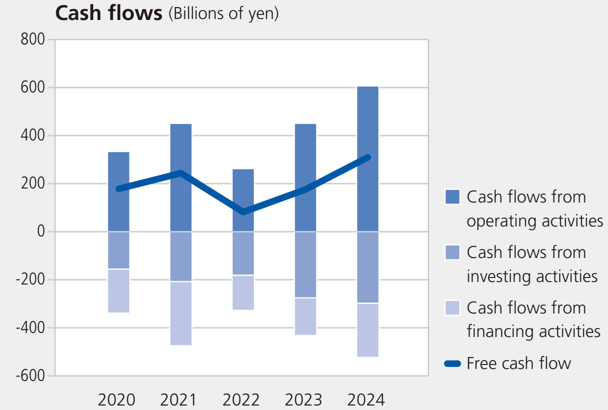
The principal use of cash is determined in accordance with the following priorities.

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

Cash and cash equivalents increased by ¥100,242 million to ¥501,565 million in fiscal 2024 compared to the previous year. Canon's cash and cash equivalents are primarily denominated in Japanese yen and in U.S. dollars, with the remainder denominated in other currencies.

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

Cash flows (Billions of yen)



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

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

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

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

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

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

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

To the extent Canon relies on external funding for its liquidity and capital requirements, it generally has access to various funding sources, including the issuance of additional share capital, issuance of corporate bond or loans. While Canon has been able to obtain funding from its traditional financing sources and from the capital markets, and believes it will continue to be able to do so in the future, there can be no assurance that adverse economic or other conditions will not affect Canon's liquidity or long-term funding in the future.

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

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

As of February 28, 2025, Canon's debt ratings are: S&P: A (long-term), A-1 (short-term); and R&I: AA (long-term). Canon does not have any rating downgrade triggers that would accelerate the maturity of a material amount of its debt. A downgrade in Canon's credit ratings or outlook could, however, increase the cost of its borrowings.

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

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

Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are 1 year to 10 years in case of employees with housing loans, and 1 year to 5 years in case of affiliates and other companies with lease obligations and bank loans. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥2,014 million at December 31, 2024. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2024 were not significant.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

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

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

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

Canon provides warranties of generally less than one year against defects in materials and workmanship on most of its consumer products. Estimated product warranty related costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses. Estimates for accrued product warranty costs are primarily based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure. As of December 31, 2024 accrued product warranty costs are included in accrued expenses and amounted to ¥23,685 million.

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

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

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

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

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

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

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

Return on Canon Inc. shareholders' equity (net income attributable to Canon Inc. divided by the average of total Canon Inc. shareholders' equity) was 4.8% in 2024 compared with 8.2% in 2023. It improved from the previous fiscal year due to an increase in net income, although shareholders' equity increased due to an increase in retained earnings resulting from an increase in profit and an increase in foreign currency translation adjustments resulting from the depreciation of the yen.

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

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

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

Non-GAAP Financial Measures

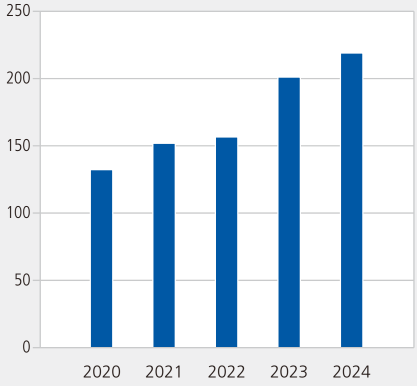
Canon has reported its financial results in accordance with U.S. GAAP. In addition, Canon has discussed its results using the combination of two GAAP cash flow measures, Net cash provided by operating activities and Net cash used for investing activities, which Canon refers to as "Free Cash Flow" which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

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

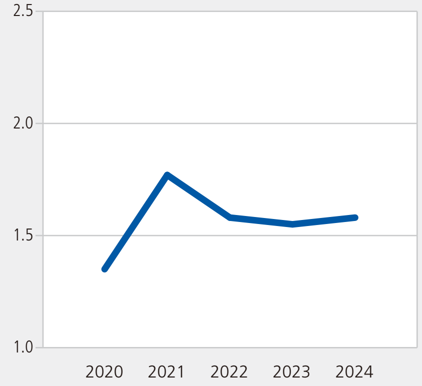
FREE CASH FLOW

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

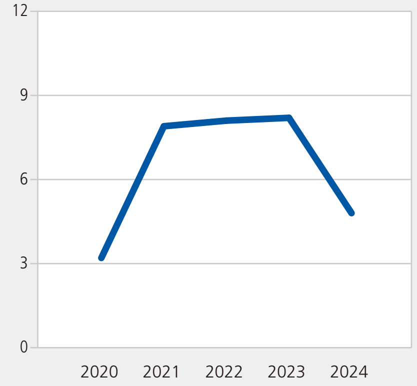
Increase in Property, Plant and Equipment (Billions of yen)



Working Capital Ratio (%)



Return on Canon Inc. Shareholders' Equity (%)



RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

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

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

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

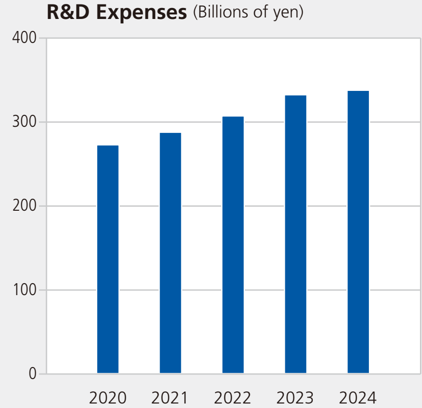
Furthermore, the most distinctive feature of Canon's R&D is that a holistic environment (one where technologies can be joined in complex ways) has been developed where it is possible to use and deploy together throughout the Company the "technologies that go into products" like core technologies/fundamental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

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

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

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

R&D Expenses (Billions of yen)



MARKET RISK EXPOSURES

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

Equity price risk

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

Maturities and fair values of such marketable securities and investments with original maturities of more than three months were as follows at December 31, 2024.

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

Foreign currency exchange rate and interest rate risk

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

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

The following table provides information about Canon's major derivative financial instruments related to foreign currency exchange transactions existing as of December 31, 2024. All of the foreign exchange contracts described in the following table have a contractual maturity date in 2025.

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

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

Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings in the same period as the hedged items affect earnings. All amounts recorded in accumulated other comprehensive income (loss) as of December 31, 2024 are expected to be recognized in net sales over the next twelve months. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings.

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

LOOKING FORWARD

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

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

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

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

1. Strengthen and expand industry-oriented business groups

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

(1) Printing Group

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

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

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

(2) Medical Group

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

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

(3) Imaging Group

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

(4) Industrial Group

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

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

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

2. Promote production structure reform

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

3. Promote development innovations

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

4. Address cybersecurity risks

As for information security risks that are an increasing global threat, while working on countermeasures against information leakage from within the Group and cyberattacks from outside, Canon is also taking other steps such as raising the awareness of employees at a group wide level. In the unlikely event that an information security incident occurs, Canon has established a dedicated team, CSIRT*, to deal with it promptly.

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

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

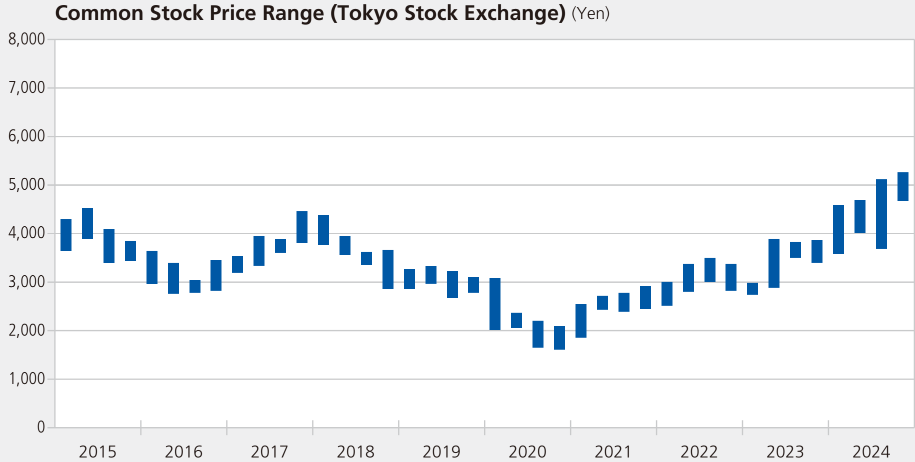
Forward looking statements

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

TEN-YEAR FINANCIAL SUMMARY

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

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



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

Notes: 1. U.S. dollar amounts are translated from yen at the rate of U.S.$1 = JPY158, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2024.
2. Canon adopted Accounting Standards Update ("ASU") No. 2017-07 from the quarter beginning January 1, 2018. The adoption of the new presentation requirement of the service cost component and the other components of net benefit cost resulted in reclassification from cost of sales, and selling, general and administrative expenses, and research and development expenses into other income (deductions) for the years ended December 31 from 2017 to 2015 respectively.
3. Depreciation and amortization and Capital expenditure are the total of tangible and intangible assets.

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		Millions of yen	
		Fair value	
	Account	**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		Millions of yen	
		Fair value	
	Account	**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.

<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.

Notes to the Readers of Independent Auditor's Report

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.

TRANSFER AND REGISTRAR'S OFFICE

Canon Inc.

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

Manager of the Register of Shareholders

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

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

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

SHAREHOLDER INFORMATION

Stock Exchange Listings:

Tokyo, Nagoya, Fukuoka and Sapporo Stock exchanges

Ordinary General Meeting of Shareholders:

March of each year

Further Information:

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

MAJOR CONSOLIDATED SUBSIDIARIES

(As of December 31, 2024)

Manufacturing

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

Research & Development

Canon Research Centre France S.A.S.

Marketing & Other

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

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