[English summary with full translation of consolidated financial information]

Semi-annual Securities Report
filed with the Japanese government pursuant to
the Financial Instruments and Exchange Law of Japan

For the six months ended
June 30, 2024

CANON INC.
Tokyo, Japan

CONTENTS

Disclaimer Regarding Forward-Looking Statements

This document contains forward-looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. All statements other than statements of historical fact are statements that could be considered forward-looking statements. When used in this document, words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project" or "should" and similar expressions, as they relate to Canon, are intended to identify forward-looking statements. Many factors could cause the actual results, performance or achievements of Canon to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by Canon's targeted customers, inability to meet efficiency and cost reduction objectives, changes in business strategy and various other factors, both referenced and not referenced in this document. Please refer to Canon's most recent disclosure documents such as the Annual Report, which are available on its website, for more information on the risks and uncertainties that may affect Canon's business, financial condition and results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Canon does not intend or assume any obligation to update these forward-looking statements.

I . Corporate Information

(1) Consolidated Financial Summary

	Six months ended June 30, 2024	Six months ended June 30, 2023	Year ended December 31, 2023
	Millions of yen (except per share amounts)		
Net sales	2,156,305	1,992,007	4,180,972
Income before income taxes	221,447	188,662	390,767
Net income attributable to Canon Inc.	149,806	121,813	264,513
Comprehensive income (loss)	374,886	318,742	495,000
Canon Inc. shareholders' equity	3,546,706	3,301,352	3,353,022
Total equity	3,806,859	3,545,059	3,605,707
Total assets	6,043,449	5,571,311	5,416,577
Net income attributable to Canon Inc. shareholders per share:			
Basic (yen)	152.53	120.36	264.20
Diluted (yen)	152.45	120.31	264.08
Canon Inc. shareholders' equity to total assets (%)	58.7	59.3	61.9
Net cash provided by operating activities	241,981	154,057	451,190
Net cash used in investing activities	(148,942)	(94,369)	(275,372)
Net cash provided by (used in) financing activities	67,805	98,675	(156,729)
Cash and cash equivalents at end of period	593,541	542,209	401,323

Notes:

1. Canon’s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. Consumption tax is excluded from the stated amount of net sales.

(2) Description of Business

Canon prepares interim consolidated financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). Financial information presented in sections “II. The Business” is also in conformity with U.S. GAAP.

The Canon Group (consisting of the Company, 340 consolidated subsidiaries, and 10 affiliates accounted for using the equity method, as of June 30, 2024, collectively, the “Group”) is engaged in development, manufacturing, sales, and servicing activities in areas such as printing, medical, imaging, industrial and others and corporate. No material change in Canon’s business has occurred during the six months ended June 30, 2024.

No additions or removals of significant group entities have occurred during the six months ended June 30, 2024.

II . The Business

(1) Risk Factors

No new material risks have been identified during the six months ended June 30, 2024. No material changes have been identified pursuant to the risk factors of Canon’s business indicated in the Annual Securities Report (Yukashoken Houkokusho) of the previous fiscal year.

(2) Operating Results and Financial Conditions

Looking back at the first half of 2024, although the economic situation varied from one region to another, the global economy continued to recover moderately, as consumer spending remained firm, despite the prolonged tight monetary policies. By region, in the U.S., the economic growth was led by solid consumer spending supported by a strong employment situation. In Europe, although easing inflationary pressures contributed to an improvement in consumer spending and there were visible signs of economic recovery, the pace remained slow. In China, the real estate market continued to remain sluggish, as did consumer spending, due to the severe employment situation. In other emerging countries, exports and domestic demand supported the economic recovery. In Japan, the economy recovered moderately due to steady inbound as well as domestic demand.

In the markets in which Canon operates, despite the continued impact of tight monetary policies due to inflation and economic stagnation in some regions, businesses overall remained firm. On a product basis, overall demand for office multifunction devices (MFDs) and commercial printing remained solid, despite the continued sluggish market conditions in Europe and China. For inkjet printers, demand for home printing continued to decline. For laser printers, curbs to corporate investments continued, however Canon’s business remained firm due in part to the completion of inventory adjustments at its OEM partner. For medical equipment, despite weak demand in China, overall demand remained firm particularly in the U.S.. For cameras, demand remained solid, mainly for mirrorless cameras. For semiconductor lithography equipment, although the market is shrinking, demand for semiconductors related to generative artificial intelligence (AI) remained at high levels. For FPD (Flat Panel Display) lithography equipment, investment by panel manufacturers has shown gradual signs of uplift due to the optimization of the balance between supply and demand.

The average value of the yen against the U.S. dollar during the first half of the year was ¥152.60, a year-on-year depreciation of approximately ¥18. Correspondingly, against the euro, ¥164.97 a year-on-year depreciation of approximately ¥19.

(2) Operating Results and Financial Conditions (continued)

Summarized results of the consolidated statements of income for the six months ended June 30, 2024 and June 30, 2023 are as follows:

Millions of yen (except per share amounts and percentage data)

	Six months ended June 30, 2024	Change		Six months ended June 30, 2023
Net sales	2,156,305	+8.2	%	1,992,007
Gross profit	1,030,030	+9.7		938,781
Operating expenses	831,556	+9.1		762,032
Operating profit	198,474	+12.3		176,749
Other income (deductions)	22,973	-		11,913
Income before income taxes	221,447	+17.4		188,662
Net income attributable to Canon Inc.	149,806	+23.0		121,813
Net income attributable to Canon Inc. shareholders per share:				
Basic	152.53	+26.7		120.36
Diluted	152.45	+26.7		120.31

As for the first half of the year, thanks to the strong sales of each business unit, as well as favorable impact from depreciation of the yen, net sales increased by 8.2% year-on-year to ¥2,156.3 billion, despite the tough market conditions in regions including Europe and China. Net sales for the first half of the year exceeded ¥2,000 billion and which is second highest since the record built in 2007. Gross profit as a percentage of net sales increased by 0.7 points year-on-year to 47.8% mainly due to a reduction in logistics costs and favorable effects of the depreciation of the yen, and gross profit increased by 9.7% year-on-year to ¥1,030.0 billion. Operating expenses increased by 9.1% year-on-year to ¥831.5 billion due to an increase in operating expenses denominated in foreign currencies despite an efficiency-focused control of expenses. As a result, operating profit increased by 12.3% year-on-year to ¥198.5 billion. Other income (deductions) increased by ¥11.1 billion year-on-year to ¥22.9 billion, mainly due to favorable impact in currency exchange of payables of foreign currency.
As a result, income before income taxes increased by 17.4% year-on-year to ¥221.4 billion and net income attributable to Canon Inc. increased by 23.0% year-on-year to ¥149.8 billion.

Basic net income attributable to Canon Inc. shareholders per share was ¥152.53 for the first half, a year-on-year increase of ¥32.17.

(2) **Operating Results and Financial Conditions (continued)**

Operating results by business unit for the six months ended June 30, 2024 and June 30, 2023 are as follows. Please refer to the segment information in Note 20 of the Notes to Consolidated Financial Statements.

Printing Business Unit	Millions of yen (except percentage data)			
	Six months ended June 30, 2024	Change		Six months ended June 30, 2023
Net sales:				
Production	210,012	+14.4	%	183,582
Office	527,065	+10.4		477,354
Prosumer	493,746	+5.2		469,182
External customers total	1,230,823	+8.9		1,130,118
Intersegment	3,955	+33.3		2,966
Total	1,234,778	+9.0		1,133,084
Operating cost and expenses	1,090,064	+6.5		1,023,172
Operating Profit	144,714	+31.7		109,912
Income before income taxes	152,518	+32.9		114,726

Looking at Canon's first half of the year performance by business unit, in the Printing Business Unit, sales of equipment for the production printing market increased compared with the previous year thanks to strong sales of the imagePRESS V series and Colorado M, particularly in the United States. Despite sluggish market conditions in China, MFDs for offices continued to sell well, exceeding sales in the previous year, due to solid sales performance of products including low and mid-speed color MFD series such as the imageRUNNER ADVANCE DX C3900 and increased service revenue driven by an increase in the machines in the field. As for inkjet printers, though the market in China was sluggish and price competition intensified, especially among low-end models, Canon promoted sales expansion mainly for refillable ink tank models with strong demand. As for laser printers, demand recovered compared with the same period of the previous year due in part to the completion of inventory adjustments at its OEM partner, despite corporate investment constraints. As a result, sales of the Printing Business Unit totaled ¥1,234.8 billion, a year-on-year increase of 9.0%, while income before income taxes totaled ¥152.5 billion, a year-on-year increase of 32.9%.

Medical Business Unit	Millions of yen (except percentage data)			
	Six months ended June 30, 2024	Change		Six months ended June 30, 2023
Net sales:				
External customers total	274,959	+7.1	%	256,628
Intersegment	248	-54.2		542
Total	275,207	+7.0		257,170
Operating cost and expenses	264,136	+7.4		245,874
Operating Profit	11,071	-2.0		11,296
Income before income taxes	11,434	+1.1		11,308

In the Medical Business Unit, the sales of computed tomography (CT) systems increased in the U.S. due to the recovering investment appetite by medical institutions brought on by the anticipation of interest rate cuts. In addition, the acquisition of Minaris Medical Co., Ltd. in the previous year had impact on sales uplift. As a result, sales of the Medical Business Unit totaled ¥275.2 billion, a year-on-year increase of 7.0%, while income before income taxes totaled ¥11.4 billion, a year-on-year increase of 1.1%.

Imaging Business Unit	Millions of yen (except percentage data)		
	Six months ended June 30, 2024	Change	Six months ended June 30, 2023
Net sales:			
Cameras	257,286	+2.2 %	251,799
Network cameras and Others	162,840	+1.9	159,760
External customers total	420,126	+2.1	411,559
Intersegment	139	+36.3	102
Total	420,265	+2.1	411,661
Operating cost and expenses	364,999	+7.4	339,953
Operating Profit	55,266	-22.9	71,708
Income before income taxes	56,615	-21.9	72,473

In the Imaging Business Unit, interchangeable-lens digital cameras, sales of mirrorless cameras remained solid due to steady sales of the EOS R6 Mark II full-frame mirrorless camera and the new entry-level EOS R50. Although sales for network cameras decreased temporarily at the biggening of this year due to the adjustments of inventory levels in the market, sales of network cameras also increased due to need for diversified applications. As a result, sales of the Imaging Business Unit totaled ¥420.3 billion, a year-on-year increase of 2.1%, while income before income taxes totaled ¥56.6 billion, a year-on-year decrease of 21.9% due in part to a high proportion of sales in entry-level mirrorless cameras.

Industrial Business Unit	Millions of yen (except percentage data)		
	Six months ended June 30, 2024	Change	Six months ended June 30, 2023
Net sales:			
Optical equipment	108,333	+19.6 %	90,602
Industrial equipment	49,329	+22.6	40,251
External customers total	157,662	+20.5	130,853
Intersegment	5,280	-12.9	6,063
Total	162,942	+19.0	136,916
Operating cost and expenses	132,978	+13.3	117,414
Operating Profit	29,964	+53.6	19,502
Income before income taxes	30,650	+55.0	19,779

In the Industrial Business Unit, sales of semiconductor lithography equipment remained strong, particularly for those used for generative AI, surpassing the previous year’s unit sales. For FPD lithography equipment, although the market is steadily recovering, unit sales decreased compared with the previous year. As a result, sales of the Industrial Business Unit totaled ¥162.9 billion, a year-on-year increase of 19.0%, while income before income taxes totaled ¥30.7 billion, a year-on-year increase of 55.0%.

(2) **Operating Results and Financial Conditions (continued)**

Financial Conditions

	Millions of yen (except percentage data)		
	June 30, 2024	Change	December 31, 2023
Total assets	6,043,449	+626,872	5,416,577
Total liabilities	2,236,590	+425,720	1,810,870
Canon Inc. shareholders' equity	3,546,706	+193,684	3,353,022
Noncontrolling interests	260,153	+7,468	252,685
Total equity	3,806,859	+201,152	3,605,707
Total liabilities and equity	6,043,449	+626,872	5,416,577
Canon Inc. shareholders' equity as a percentage of total assets	58.7%	-3.2	61.9%

Total assets increased by ¥626.9 billion to ¥6,043.4 billion at June 30, 2024 compared to the end of the previous year, mainly due to the increase of cash and cash equivalents and inventories, combined with the impact of the depreciation of the yen. Inventories increased due to goods in transit and the preparation of sales expected for the second half. Total liabilities increased by ¥425.7 billion to ¥2,236.6 billion at June 30, 2024 compared to the end of previous year, mainly due to the increase of short-term and long-term debt in response to an increase in necessary working capital. The balance of total equity increased by ¥201.2 billion to ¥3,806.9 billion at June 30, 2024 compared to the end of previous year, mainly due to the accumulation of net income attributable to Canon Inc. and the increase of accumulated other comprehensive income resulting from the depreciation of the yen although the payment of dividends to Canon Inc. shareholders and the repurchases of treasury stock decreased total equity. As a result, Canon Inc. shareholders' equity as a percentage of total assets declined by 3.2 points to 58.7% compared to the end of the previous year.

(2) Operating Results and Financial Conditions (continued)

Cash Flows

	Millions of yen		
	Six months ended June 30, 2024	Change	Six months ended June 30, 2023
Net cash provided by operating activities	241,981	+87,924	154,057
Net cash used in investing activities	(148,942)	-54,573	(94,369)
Free cash flow	93,039	+33,351	59,688
Net cash provided by financial activities	67,805	-30,870	98,675
Effect of exchange rate changes on cash and cash equivalents	31,374	+9,629	21,745
Net change in cash and cash equivalents	192,218	+12,110	180,108
Cash and cash equivalents at beginning of period	401,323	+39,222	362,101
Cash and cash equivalents at end of period	593,541	+51,332	542,209

In the first half of the year, cash flow from operating activities increased by ¥87.9 billion year-on-year to ¥242.0 billion mainly due to an increase in net income. Cash flow used in investing activities increased by ¥54.6 billion to ¥148.9 billion from the same period of the previous year due to the acquisition of Primagest,Inc., which has strength in BPO services, and an increase in investment in production equipment. Canon defines "free cash flows" as cash flows from operating activities less cash flows from investing activities. Free cash flow increased by ¥33.4 billion compared with the previous year to ¥93.0 billion.

Cash flow from financing activities decreased by ¥30.9 billion year-on-year to ¥67.8 billion due to the increase in proceeds from issuance of short-term and long-term debt in response to an increase in necessary working capital, despite an increase in the previous year's year-end dividend, as well as repurchases of treasury stock.

Owing to these factors, as well as the impact from foreign currency exchange adjustments, cash and cash equivalents increased by ¥192.2 billion to ¥593.5 billion from the end of the previous year.

(2) Operating Results and Financial Conditions (continued)

Non-GAAP Financial Measures

Canon has reported its financial results in accordance with U.S. GAAP. In addition, Canon has discussed its results using "free cash flow," which is a non-GAAP measure.

Canon believes this measure, which takes into consideration its operating and investing activities, is beneficial to an investor's understanding of its current liquidity and the alternatives of uses in financing activities.

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

	Billions of yen
	Six months ended June 30, 2024
Net cash provided by operating activities	242.0
Net cash used in investing activities	(148.9)
Free cash flow	93.0

(2) Operating Results and Financial Conditions (continued)

Accounting Estimates and Assumptions

No material changes with respect to accounting estimates and assumptions have occurred during the six months ended June 30, 2024.

Prioritized Management Issues to be Addressed

No material changes or issues with respect to prioritized business operations and finances have occurred during the six months ended June 30, 2024.

Research and Development Expenses

Canon’s research and development expenses for the six months ended June 30, 2024 totalled ¥164.5 billion.

Property, Plant and Equipment

(1) Major Property, Plant and Equipment

There were no significant changes to the status of existing major property, plant and equipment during the first half of 2024.

(2) Prospect of Capital Investment in the first half of 2024

There were no completions of new construction or disposal of asset plans, which had been in progress as of December 31, 2023, during the first half of 2024.

(3) Significant Business Contracts Entered into in the First half of 2024

No material contracts were entered into during the six months ended June 30, 2024.

III . Company Information

(1) Shares

Total number of authorized shares is 3,000,000,000 shares. The common stock of Canon is listed on the Tokyo, Nagoya, Fukuoka, and Sapporo Stock Exchanges. Total issued shares are as follows:

	As of June 30, 2024
Total number of issued shares	1,333,763,464

Stock Acquisition Rights

(1) Stock options

The descriptions of the stock option plans as of June 30, 2024 are below.

The Stock Option Plan Approved on February 9, 2024

1. Grantees of share options

The Company's 2 executive officers.

2. Number of share options

The number of share options that the Board of Directors are authorized to issue is 204.

3. Number of shares acquired upon exercise of a share option

The number of shares acquired upon exercise of one share option (the "Allotted Number of Shares") is 100 common shares, and the total number of shares to be delivered due to the exercise of share options is 20,400 common shares. However, in the case that the Company conducts a share split (including an allotment without consideration (*musho-wariate*) of shares of common stock of the Company; the same shall apply to all references to the share split herein) or share consolidation on and after the date of shareholders' resolution adopting the proposal at the above-mentioned General Meeting of Shareholders (the "Allotment Date"), the number of shares acquired shall be adjusted in accordance with the following formula, rounding down any fraction of less than one share resulting from such adjustment.

Number of shares acquired after adjustment	=	Number of shares acquired before adjustment	×	Ratio of share split or share consolidation

In addition to the above, in any event that makes it necessary to adjust the number of shares acquired, including a merger and company split, on and after the Allotment Date, the Company may make appropriate adjustment to the number of shares acquired within a reasonable range.

4. Cash payment for share options (yen)

The cash payment required for each stock acquisition right shall be ¥1 per share to be acquired upon exercise of each stock acquisition right, multiplied by the number of shares acquired.

5. Period during which share options are exercisable

From March 26, 2024 to March 25, 2054

6. Issue price and amount of increased stated capital (yen)

The issue price and amount of increased stated capital per share is ¥3,946 and ¥1,973, respectively. The issue price is total amount of the exercise price of each stock acquisition (¥1 per share) and the fair value of the stock acquisition rights at the allotment date. In addition, the amount of capital to be increased due to the issuance of shares upon exercise of the stock acquisition rights shall be a half of the maximum amount of capital increase, etc. which is calculated in accordance with the Article 17, Paragraph 1 of the Company Accounting Regulations (*Kaisha Keisan Kisoku*), and any fraction less than ¥1 arising therefrom shall be rounded up to the nearest ¥1.

7. Other conditions for exercise of share options

(i) Those to whom stock acquisition rights are allotted (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 the day immediately following the day when they cease to hold any position as a director or an executive officer of the Company.

(ii) In the event that the Company recognizes any violation of laws and regulations, misconduct of the duties, act conflicting with the duty of due care or duty of loyalty, or any other act equivalent thereto of the Holder, the Company may limit, subject to a resolution by the Board of Directors of the Company, the number of offered stock acquisition rights that may be exercised by such Holder.

8. Restriction on acquisition of share options by transfer

An acquisition of share options by way of transfer requires the approval of the Board of Directors.

9. Treatment of the stock acquisition rights upon restructuring transaction

If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split (both, limited to the case where the Company becomes a corporate spin off), or a share exchange or transfer (both, limited to the case where the Company becomes a wholly-owned subsidiary) (collectively, the "Structural Reorganization"), the Company shall, in each of the above cases, allot stock acquisition rights of any of the relevant companies listed in "a" through "e" of Article 236, Paragraph 1, Item 8 of the Companies Act of Japan (the "Reorganized Company") to the Holders holding the stock acquisition rights remaining at the time immediately preceding the effective date of the relevant Structural Reorganization (the "Remaining Stock Acquisition Rights") (the effective date of the relevant Structural Reorganization shall mean, in the case of a merger, the date on which the merger becomes effective; in the case of a consolidation; the date of establishment of a newly-incorporated company through consolidation; in the case of an absorption-type company split, the date on which the absorption-type company split becomes effective; in the case of an incorporation-type company split, the date of establishment of a newly-incorporated company through the incorporation-type company split; in the case of a share exchange, the date on which the share exchange becomes effective; and in the case of a share transfer, the date of establishment of a wholly-owning parent company through the share transfer; hereinafter the same shall apply). Provided, however, that the foregoing shall be on the condition that transfer of such stock acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in a merger agreement, a consolidation agreement, a company split agreement, a company split plan, a share exchange agreement or a share transfer plan.

(i) Number of stock acquisition rights of the Reorganized Company to be allotted:

A number equal to the number of the Remaining Stock Acquisition Rights held by the Holder shall be transferred to such Holder.

(ii) Class of shares of the Reorganized Company to be acquired upon exercise of stock acquisition rights:

Common stock of the Reorganized Company.

(iii) Number of shares of the Reorganized Company to be acquired upon exercise of stock acquisition rights:

To be determined in accordance with 3 above, taking into consideration, among others, the conditions of Structural Reorganization.

(iv) Value of assets to be contributed upon exercise of each stock acquisition right:

The value of assets to be contributed upon exercise of each stock acquisition right to be allotted shall be the amount obtained by multiplying (x) the exercise price after reorganization set forth below by (y) the number of shares of the Reorganized Company to be acquired upon exercise of the relevant stock acquisition rights as determined in accordance with (iii) above. The "exercise price after reorganization" shall be one 1 yen per share of the Reorganized Company to be acquired upon exercise of each of its stock acquisition rights.

(v) Exercise period of stock acquisition rights:

From and including whichever is the later of (x) the commencement date of the period during which the stock acquisition rights may be exercised or (y) the effective date of the Structural Reorganization, to and including the expiration date of the period during which the stock acquisition rights may be exercised as provided.

(vi) Matters regarding stated capital and capital reserves increased due to the issuance of shares upon exercise of stock acquisition rights:

(a)The increased amount of stated capital to be increased due to the issuance of shares upon exercise of the stock acquisition rights will be one half (1/2) of the maximum amount of increase of stated capital, etc. to be calculated in accordance with Article 17, Paragraph 1 of the Company Accounting Regulations (*Kaisha Keisan Kisoku*). Any fractional amount of less than one 1 yen resulting from such calculation will be rounded up to one 1 yen.

(b)The increased amount of capital reserves to be increased due to the issuance of shares upon exercise of the stock acquisition rights shall be the maximum amount of increases of stated capital, etc., mentioned in (a) above, after the subtraction of increased amount of stated capital mentioned in (a) above.

(vii) Restrictions on acquisition of stock acquisition rights by transfer:

The stock acquisition rights cannot be acquired through transfer, unless such acquisition is expressly approved by a resolution of the Board of Directors of the Reorganized Company.

(viii) Conditions for exercise of stock acquisition rights:

(a)Those to whom stock acquisition rights are allotted (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 the day immediately following the day when they cease to hold any position as a Director or an Executive Officer of the Company.

(b)In the event that the Company recognizes any violation of laws and regulations, misconduct of the duties, act conflicting with the duty of due care or duty of loyalty, or any other act equivalent thereto of the Holder, the Company may limit, subject to a resolution by the Board of Directors of the Company, the number of offered stock acquisition rights that may be exercised by such Holder.

(ix) Events regarding the Company's acquisition of stock acquisition rights:

If a proposal for the approval of a merger agreement under which the Company will become a dissolved company, a proposal for the approval of a company split agreement or a company split plan under which the Company will become a split company or a proposal for the approval of a share exchange agreement or a share transfer plan under which the Company will become a wholly owned subsidiary is approved by the Company's shareholders at a Meeting of Shareholders (or by the Board of Directors if no resolution of a Meeting of Shareholders is required for such approval), the Company will be entitled to acquire the stock acquisition rights, without compensation, on a date separately designated by the Board of Directors.

The Stock Option Plan Approved on March 28, 2024

1. Grantees of share options

The Company's 6 directors (excluding outside directors) and 31 executive officers.

2. Number of share options

The number of share options that the Board of Directors are authorized to issue is 659.

3. Number of shares acquired upon exercise of a share option

The number of shares acquired upon exercise of one share option (the “Allotted Number of Shares”) is 100 common shares, and the total number of shares to be delivered due to the exercise of share options is 65,900 common shares. However, in the case that the Company conducts a share split (including an allotment without consideration (*musho-wariate*) of shares of common stock of the Company; the same shall apply to all references to the share split herein) or share consolidation on and after the date of shareholders' resolution adopting the proposal at the above-mentioned General Meeting of Shareholders (the “Allotment Date"), the number of shares acquired shall be adjusted in accordance with the following formula, rounding down any fraction of less than one share resulting from such adjustment.

Number of shares acquired after adjustment	=	Number of shares acquired before adjustment	×	Ratio of share split or share consolidation

In addition to the above, in any event that makes it necessary to adjust the number of shares acquired, including a merger and company split, on and after the Allotment Date, the Company may make appropriate adjustment to the number of shares acquired within a reasonable range.

4. Cash payment for share options (yen)

The cash payment required for each stock acquisition right shall be ¥1 per share to be acquired upon exercise of each stock acquisition right, multiplied by the number of shares acquired.

5. Period during which share options are exercisable

From May 1, 2024 to April 30, 2054

6. Issue price and amount of increased stated capital (yen)

The issue price and amount of increased stated capital per share is ¥3,763 and ¥1,882, respectively. The issue price is total amount of the exercise price of each stock acquisition (¥1 per share) and the fair value of the stock acquisition rights at the allotment date. In addition, the amount of capital to be increased due to the issuance of shares upon exercise of the stock acquisition rights shall be a half of the maximum amount of capital increase, etc. which is calculated in accordance with the Article 17, Paragraph 1 of the Company Accounting Regulations (*Kaisha Keisan Kisoku*), and any fraction less than ¥1 arising therefrom shall be rounded up to the nearest ¥1.

7. Other conditions for exercise of share options

(i) Those to whom stock acquisition rights are allotted (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 the day immediately following the day when they cease to hold any position as a director or an executive officer of the Company.

(ii) In the event that the Company recognizes any violation of laws and regulations, misconduct of the duties, act conflicting with the duty of due care or duty of loyalty, or any other act equivalent thereto of the Holder, the Company may limit, subject to a resolution by the Board of Directors of the Company, the number of offered stock acquisition rights that may be exercised by such Holder.

8. Restriction on acquisition of share options by transfer

An acquisition of share options by way of transfer requires the approval of the Board of Directors.

9. Treatment of the stock acquisition rights upon restructuring transaction

If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split (both, limited to the case where the Company becomes a corporate spin off), or a share exchange or transfer (both, limited to the case where the Company becomes a wholly-owned subsidiary) (collectively, the "Structural Reorganization"), the Company shall, in each of the above cases, allot stock acquisition rights of any of the relevant companies listed in "a" through "e" of Article 236, Paragraph 1, Item 8 of the Companies Act of Japan (the "Reorganized Company") to the Holders holding the stock acquisition rights remaining at the time immediately preceding the effective date of the relevant Structural Reorganization (the "Remaining Stock Acquisition Rights") (the effective date of the relevant Structural Reorganization shall mean, in the case of a merger, the date on which the merger becomes effective; in the case of a consolidation; the date of establishment of a newly-incorporated company through consolidation; in the case of an absorption-type company split, the date on which the absorption-type company split becomes effective; in the case of an incorporation-type company split, the date of establishment of a newly-incorporated company through the incorporation-type company split; in the case of a share exchange, the date on which the share exchange becomes effective; and in the case of a share transfer, the date of establishment of a wholly-owning parent company through the share transfer; hereinafter the same shall apply). Provided, however, that the foregoing shall be on the condition that transfer of such stock acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in a merger agreement, a consolidation agreement, a company split agreement, a company split plan, a share exchange agreement or a share transfer plan.

(i) Number of stock acquisition rights of the Reorganized Company to be allotted:

A number equal to the number of the Remaining Stock Acquisition Rights held by the Holder shall be transferred to such Holder.

(ii) Class of shares of the Reorganized Company to be acquired upon exercise of stock acquisition rights:

Common stock of the Reorganized Company.

(iii) Number of shares of the Reorganized Company to be acquired upon exercise of stock acquisition rights:

To be determined in accordance with 3 above, taking into consideration, among others, the conditions of Structural Reorganization.

(iv) Value of assets to be contributed upon exercise of each stock acquisition right:

The value of assets to be contributed upon exercise of each stock acquisition right to be allotted shall be the amount obtained by multiplying (x) the exercise price after reorganization set forth below by (y) the number of shares of the Reorganized Company to be acquired upon exercise of the relevant stock acquisition rights as determined in accordance with (iii) above. The "exercise price after reorganization" shall be one 1 yen per share of the Reorganized Company to be acquired upon exercise of each of its stock acquisition rights.

(v) Exercise period of stock acquisition rights:

From and including whichever is the later of (x) the commencement date of the period during which the stock acquisition rights may be exercised or (y) the effective date of the Structural Reorganization, to and including the expiration date of the period during which the stock acquisition rights may be exercised as provided.

(vi) Matters regarding stated capital and capital reserves increased due to the issuance of shares upon exercise of stock acquisition rights:

(a)The increased amount of stated capital to be increased due to the issuance of shares upon exercise of the stock acquisition rights will be one half (1/2) of the maximum amount of increase of stated capital, etc. to be calculated in accordance with Article 17, Paragraph 1 of the Company Accounting Regulations (*Kaisha Keisan Kisoku*). Any fractional amount of less than one 1 yen resulting from such calculation will be rounded up to one 1 yen.

(b)The increased amount of capital reserves to be increased due to the issuance of shares upon exercise of the stock acquisition rights shall be the maximum amount of increases of stated capital, etc., mentioned in (a) above, after the subtraction of increased amount of stated capital mentioned in (a) above.

(vii) Restrictions on acquisition of stock acquisition rights by transfer:

The stock acquisition rights cannot be acquired through transfer, unless such acquisition is expressly approved by a resolution of the Board of Directors of the Reorganized Company.

(viii) Conditions for exercise of stock acquisition rights:

(a)Those to whom stock acquisition rights are allotted (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 the day immediately following the day when they cease to hold any position as a Director or an Executive Officer of the Company.

(b)In the event that the Company recognizes any violation of laws and regulations, misconduct of the duties, act conflicting with the duty of due care or duty of loyalty, or any other act equivalent thereto of the Holder, the Company may limit, subject to a resolution by the Board of Directors of the Company, the number of offered stock acquisition rights that may be exercised by such Holder.

(ix) Events regarding the Company's acquisition of stock acquisition rights:

If a proposal for the approval of a merger agreement under which the Company will become a dissolved company, a proposal for the approval of a company split agreement or a company split plan under which the Company will become a split company or a proposal for the approval of a share exchange agreement or a share transfer plan under which the Company will become a wholly owned subsidiary is approved by the Company's shareholders at a Meeting of Shareholders (or by the Board of Directors if no resolution of a Meeting of Shareholders is required for such approval), the Company will be entitled to acquire the stock acquisition rights, without compensation, on a date separately designated by the Board of Directors.

(2) Other stock acquisition rights

Not applicable.

Exercise status of bonds with share subscription rights containing an adjustable exercise price clause

Not applicable.

Change in Issued Shares, Common Stock and Additional Paid in Capital

	Change during this quarter	As of June 30, 2024
Issued Shares (Number of shares)	-	1,333,763,464
Common Stock (Millions of yen)	-	174,762
Additional Paid-in Capital (Millions of yen)	-	306,288

(1) Shares (continued)

Major Shareholders

	As of June 30, 2024	
	Number of shares owned (Number of shares)	Number of shares owned / Number of shares issued
The Master Trust Bank of Japan, Ltd. (Trust Account)	169,504,500	17.56%
Custody Bank of Japan, Ltd. (Trust Account)	58,796,250	6.09%
State Street Bank West Client – Treaty 505234	23,007,078	2.38%
Mizuho Bank, Ltd.	22,558,173	2.34%
SMBC Nikko Securities Inc.	21,430,079	2.22%
JPMorgan Securities Japan Co., Ltd.	17,597,670	1.82%
OBAYASHI CORPORATION	16,527,607	1.71%
Barclays Securities Japan Limited	14,796,800	1.53%
Moxley and Co. LLC	13,552,108	1.40%
Sompo Japan Insurance Inc.	13,080,087	1.36%
Total	370,850,352	38.43%

Notes:

1: Moxley and Co. LLC is a stockholder of a title deed of JPMorgan Chase Bank which is the Company's trustee bank of the American Depository Receipt.

2: Apart from the above shares, the Company owns 368,645,441 shares (27.64% of total issued shares) of treasury stock.

(1) **Shares (continued)**

Voting Rights

As of June 30, 2024

Classification	Number of shares (shares)	Number of voting rights (units)
Shares without voting rights	-	-
Shares with restricted voting rights (Treasury stock, etc.)	-	-
Shares with restricted voting rights (Others)	-	-
Shares with full voting rights (Treasury stock, etc.)	368,645,400	-
Shares with full voting rights (Others)	963,759,500	9,637,595
Fractional unit shares (Note)	1,358,564	-
Total number of issued shares	1,333,763,464	-
Total voting rights held by all shareholders	-	9,637,595

Note:

In "Fractional unit shares" under "Number of shares," 41 shares of treasury stock are included.

Treasury Stock, etc.

	Number of shares owned (Number of shares)	Number of shares owned / Number of shares issued
Canon Inc.	368,645,400	27.64%
Total	368,645,400	27.64%

(2) Directors and Executive Officers

There were no changes in Directors and Audit & Supervisory Board Members, and their functions between the filing date of the Annual Securities Report (Yukashoken Houkokusho) for the fiscal year ended December 31, 2023 and the end of the first half of 2024.

There were no changes in members of executive officers between the filing date of the Annual Securities Report (Yukashoken Houkokusho) for the fiscal year ended December 31, 2023 and the end of the first half of 2024.

Changes in functions of executive officers are below:

Go Tokura	(Executive Vice President: Head of Imaging Group)
Soichi Hiramatsu	(Senior Managing Executive Officer: Senior General Manager, Global Logistics Management Center and Senior General Manager, Economic Security Office)
Takashi Takeya	(Senior Managing Executive Officer: Group Executive, Procurement Headquarters)
Akiko Tanaka	(Managing Executive Officer: Deputy Chief Executive, Medical Systems and Components Operations)
Hideto Kotani	(Executive Officer: Unit Executive, IMG Business Unit 3)

The Number of Directors and Executive Officers by Gender

Males: 49, Females: 3 (Females account for 5.8% of the total.)

The total number consisted of 15 Directors or Corporate Auditors and 37 Executive Officers as of June 30, 2024.

IV . Financial Statements (Unaudited)

(1) Consolidated Financial Statements

Index of Consolidated Financial Statements of Canon Inc. and Subsidiaries:

CANON INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)

	Millions of yen	
	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents (Notes 1, 18 and 19)	593,541	401,323
Short-term investments (Notes 2 and 18)	4,141	3,822
Trade receivables (Note 3)	683,920	655,460
Inventories (Note 4)	912,477	796,881
Current lease receivables (Notes 1 and 6)	173,326	150,324
Prepaid expenses and other current assets (Notes 12, 14 and 18)	260,706	231,605
Allowance for credit losses (Notes 3 and 6)	(16,812)	(15,329)
Total current assets	2,611,299	2,224,086
Noncurrent receivables (Note 16)	23,315	11,734
Investments (Notes 2 and 18)	82,086	78,505
Property, plant and equipment, net (Note 5)	1,147,414	1,095,879
Operating lease right-of-use assets (Note 15)	142,531	126,125
Intangible assets, net	291,400	274,942
Goodwill (Note 7)	1,106,952	1,045,400
Noncurrent lease receivables (Notes 1 and 6)	375,262	321,065
Other assets	267,624	242,659
Allowance for credit losses (Note 6)	(4,434)	(3,818)
Total assets	6,043,449	5,416,577

CANON INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited) (continued)

	Millions of yen	
	June 30, 2024	December 31, 2023
Liabilities and equity		
Current liabilities:		
Short-term loans and current portion of long-term debt (Notes 9 and 17)	530,954	386,200
Short-term loans related to financial services	42,000	38,900
Other short-term loans and current portion of long-term debt	488,954	347,300
Trade payables (Note 8)	375,024	309,930
Accrued income taxes	69,798	56,983
Accrued expenses (Note 16)	400,932	373,544
Current operating lease liabilities (Note 15)	39,429	35,559
Other current liabilities (Notes 12, 14 and 18)	324,159	276,960
Total current liabilities	1,740,296	1,439,176
Long-term debt, excluding current portion of long-term debt (Note 17)	105,536	2,954
Accrued pension and severance cost	174,560	171,779
Noncurrent operating lease liabilities (Note 15)	107,573	92,604
Other noncurrent liabilities (Note 12)	108,625	104,357
Total liabilities	2,236,590	1,810,870
Equity:		
Canon Inc. shareholders' equity (Note 10):		
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	405,212	404,935
Legal reserve	61,823	61,634
Retained earnings	3,880,903	3,801,212
Accumulated other comprehensive income (loss) (Note 11)	482,225	268,758
Treasury stock, at cost	(1,458,219)	(1,358,279)
(Number of shares)	(368,645,441)	(345,964,752)
Total Canon Inc. shareholders' equity	3,546,706	3,353,022
Noncontrolling interests (Note 10)	260,153	252,685
Total equity (Note 10)	3,806,859	3,605,707
Total liabilities and equity	6,043,449	5,416,577

CANON INC. AND SUBSIDIARIES
Consolidated Statements of Income and Consolidated Statements of
Comprehensive Income (Unaudited)

Consolidated Statements of Income

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Net sales (Notes 6, 11, 12 and 14):		
Products and Equipment	1,701,944	1,574,577
Services	454,361	417,430
	2,156,305	1,992,007
Cost of sales (Notes 15 and 19):		
Products and Equipment	915,331	855,490
Services	210,944	197,736
	1,126,275	1,053,226
Gross profit	1,030,030	938,781
Operating expenses:		
Selling, general and administrative expenses (Notes 11, 15 and 19)	667,046	599,529
Research and development expenses	164,510	162,503
	831,556	762,032
Operating profit	198,474	176,749
Other income (deductions):		
Interest and dividend income	7,729	5,553
Interest expense	(1,475)	(815)
Other, net (Notes 2, 11, 14 and 19)	16,719	7,175
	22,973	11,913
Income before income taxes	221,447	188,662
Income taxes	61,770	56,572
Consolidated net income	159,677	132,090
Less: Net income attributable to noncontrolling interests	9,871	10,277
Net income attributable to Canon Inc.	149,806	121,813
	Yen	Yen
Net income attributable to Canon Inc. shareholders per share (Note 13):		
Basic	152.53	120.36
Diluted	152.45	120.31

CANON INC. AND SUBSIDIARIES
Consolidated Statements of Income and Consolidated Statements of
Comprehensive Income (Unaudited) (continued)

Consolidated Statements of Comprehensive Income

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Consolidated net income	159,677	132,090
Other comprehensive income (loss), net of tax (Note 11):		
Foreign currency translation adjustments	215,648	183,924
Net unrealized gains and losses on securities	21	39
Net gains and losses on derivative instruments	(4,021)	(462)
Pension liability adjustments	3,561	3,151
	215,209	186,652
Comprehensive income (loss) (Note 10)	374,886	318,742
Less: Comprehensive income attributable to noncontrolling interests	11,613	11,723
Comprehensive income (loss) attributable to Canon Inc.	363,273	307,019

CANON INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Cash flows from operating activities:		
Consolidated net income	159,677	132,090
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	113,345	111,196
Loss on disposal of fixed assets	520	2,488
Deferred income taxes	(9,193)	(4,931)
Decrease in trade receivables	15,246	62,621
Increase in inventories	(57,966)	(38,614)
Increase in lease receivables (Note 6)	(22,685)	(30,563)
Increase (decrease) in trade payables	49,900	(6,116)
Increase (decrease) in accrued income taxes	11,297	(2,341)
Decrease in accrued expenses	(13,359)	(40,608)
Decrease in accrued pension and severance cost	(18,575)	(15,175)
Other, net (Note 15)	13,774	(15,990)
Net cash provided by operating activities	241,981	154,057
Cash flows from investing activities:		
Purchases of fixed assets (Note 5)	(114,768)	(90,685)
Proceeds from sale of fixed assets (Note 5)	1,985	2,208
Purchases of securities	(2,785)	(294)
Proceeds from sale and maturity of securities	3,595	8,735
Acquisitions of businesses, net of cash acquired (Note 7)	(32,672)	(14,525)
Other, net	(4,297)	192
Net cash used in investing activities	(148,942)	(94,369)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	100,000	-
Repayments of long-term debt	(1,159)	(1,022)
Increase in short-term loans related to financial services, net (Note 9)	3,100	400
Increase in other short-term loans, net (Note 9)	140,000	234,219
Dividends paid	(69,146)	(60,931)
Repurchases and reissuance of treasury stock, net	(100,016)	(58,100)
Other, net	(4,974)	(15,891)
Net cash provided by financing activities	67,805	98,675
Effect of exchange rate changes on cash and cash equivalents	31,374	21,745
Net change in cash and cash equivalents	192,218	180,108
Cash and cash equivalents at beginning of period	401,323	362,101
Cash and cash equivalents at end of period	593,541	542,209

(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. On February 24, 2023, the Company filed Form 25 with the SEC in connection with the delisting from the NYSE. The delisting became effective on March 6, 2023. 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 interim consolidated financial statements are prepared in accordance with the recognition and measurement criteria of U.S. GAAP. Certain footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

Canon has reclassified certain items in the consolidated statements of cash flows for the six months ended June 30, 2023 to conform to the current year's presentation.

The number of consolidated subsidiaries and affiliated companies that were accounted for by the equity method as of June 30, 2024 and December 31, 2023 are summarized as follows:

	June 30, 2024	December 31, 2023
Consolidated subsidiaries	340	336
Affiliated companies	10	10
Total	350	346

(b) Principles of Consolidation

The interim 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.

(c) Recent Accounting Guidance

Recently issued accounting guidance not yet adopted

In November 2023, ASU No. 2023-07, “Improvements to Reportable Segment Disclosures”-ASC 280 (“Segment Reporting”), was issued by 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. The standard is effective for annual reporting periods beginning after December 15, 2023 and for interim reporting periods beginning after December 15, 2024. The amendments in the standard apply retrospectively to all prior periods presented in the financial statements. Canon is currently evaluating the effect that the adoption of the standard will have on its disclosure information. Canon does not expect the adoption of the standard will have an effect on its consolidated results of operation and financial condition.

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

(2) Investments

Held-to-maturity debt securities included in short-term investments in the accompanying consolidated balance sheet were ¥248 million as for June 30, 2024. There were no held-to-maturity debt securities at December 31, 2023.
Held-to-maturity debt securities included in short-term investments at June 30, 2024 are as follows:

	Millions of yen		
	Carrying amount	Estimated fair value	Difference
Due within one year	248	248	-

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 June 30, 2024 and December 31, 2023 are as follows:

	Millions of yen			
	June 30, 2024			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	684	3	1	686
Noncurrent:				
Corporate bonds	7,462	82	14	7,530
	8,146	85	15	8,216

	Millions of yen			
	December 31, 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 June 30, 2024 are as follows:

	Millions of yen
	Fair value
Due within one year	686
Due after one year through five years	7,530
Total	8,216

The unrealized and realized gains and losses related to equity securities for the six months ended June 30, 2024 and 2023 are as follows:

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Net gains (losses) recognized during the period on equity securities	1,216	8,355
Less: Net gains (losses) recognized during the period on equity securities sold during the period	(20)	24
Unrealized gains (losses) recognized during the period on equity securities still held at June 30	1,236	8,331

The carrying amount of non-marketable equity securities without readily determinable fair value totaled ¥10,908 million and ¥10,282 million at June 30, 2024 and December 31, 2023, respectively. The impairment or other adjustments resulting from observable price changes recorded during the six months ended June 30, 2024 and 2023 were not material.

Time deposits with original maturities of more than three months are ¥3,208 million and ¥2,938 million at June 30, 2024 and December 31, 2023, respectively, and are included in short-term investments in the accompanying consolidated balance sheets.

(3) Trade Receivables

Trade receivables are summarized as follows:

	Millions of yen	
	June 30, 2024	December 31, 2023
Notes	36,816	33,570
Accounts	647,104	621,890
Trade receivables	683,920	655,460
Allowance for credit losses	(14,678)	(13,276)
	669,242	642,184

(4) Inventories

Inventories are summarized as follows:

	Millions of yen	
	June 30, 2024	December 31, 2023
Finished goods	533,018	468,394
Work in process	306,311	255,849
Raw materials	73,148	72,638
	912,477	796,881

(5) Property, Plant and Equipment, net

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

	Millions of yen	
	June 30, 2024	December 31, 2023
Land	288,567	283,530
Buildings	1,909,667	1,851,645
Machinery and equipment	2,073,959	1,983,907
Construction in progress	83,904	56,840
Finance lease right-of-use assets	9,053	8,606
Cost	4,365,150	4,184,528
Less: accumulated depreciation	(3,217,736)	(3,088,649)
Property, plant and equipment, net	1,147,414	1,095,879

Fixed assets presented in the consolidated statements of cash flows includes property, plant and equipment and intangible assets.

(6) Lessor Accounting

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

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Lease income - sales-type and direct financing leases		
Revenue at lease commencement	76,319	75,573
Interest income on lease receivables	15,662	12,014
Sales-type and direct financing leases income total	91,981	87,587
Lease income – operating leases	21,075	19,471
Variable lease income	3,317	2,622
Total lease income	116,373	109,680

Allowance for Credit Losses

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 are ¥548,588 million and ¥471,389 million at June 30, 2024 and December 31, 2023, respectively.

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

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Balance at beginning of period	5,871	5,596
Write-offs	(1,688)	(822)
Provision	1,344	553
Translation adjustments and other	1,042	720
Balance at end of period	6,569	6,047

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 June 30, 2024 and December 31, 2023 are not significant.

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.” There were no significant transfers of lease receivables for the six months ended June 30, 2024 and 2023. The amount that remained uncollected was ¥45,858 million and ¥50,453 million at June 30, 2024 and December 31, 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 June 30, 2024 and December 31, 2023. Canon also retains limited recourse obligations which cover credit defaults. The recourse obligations were not significant at June 30, 2024 and December 31, 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 was accounted for using the acquisition method of accounting. Acquisition-related costs were expensed as incurred and were not material.

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.

Canon has not completed the process of allocating the amount paid for the acquisition to the assets acquired and liabilities assumed, and the provisional allocation is based on the information available as of the issuance date of the consolidated financial statements. The provisional amount of goodwill was ¥21,065 million which may be revised during the measurement period. The estimated fair values of the assets acquired and liabilities assumed at the acquisition date in the consolidated balance sheets were not material excluding those pertaining to goodwill.

The operating results with the assumption the financial statements of Primagest had been included 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.

(8) Trade Payables

Trade payables are summarized as follows:

	Millions of yen	
	June 30, 2024	December 31, 2023
Notes	88,947	73,926
Accounts	286,077	236,004
	375,024	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 June 30, 2024 and December 31, 2023 were ¥103,063 million and ¥87,026 million, respectively.

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

	Millions of yen	
	June 30, 2024	June 30, 2023
Balance at beginning of period	87,026	95,389
Increase	155,424	156,016
Decrease	(139,396)	(149,870)
Others	9	1
Balance at end of period	103,063	101,536

(9) Short-Term Loans and Long-Term Debt

Short-term loans related to financial services are external loans held by Canon's lease subsidiaries for the purpose of financing its customers through loans. Short-term loans related to financial services consisting of bank borrowings at June 30, 2024 and December 31, 2023 were ¥42,000 million and ¥38,900 million, and other short-term loans consisting of bank borrowings were ¥487,113 million and ¥346,005 million, respectively.

Canon has unsecured long-term loans consisting of bank borrowings, which were ¥102,030 million at a floating average interest of 0.33% as of June 30, 2024. The repayment period are from 2024 to 2029.

(10) Equity

The changes in the carrying amounts of total equity, equity attributable to Canon Inc. shareholders and equity attributable to noncontrolling interests in the consolidated balance sheets for the six months ended June 30, 2024 and 2023 are as follows:

	Millions of yen								
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total Canon Inc. shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2023	174,762	404,935	61,634	3,801,212	268,758	(1,358,279)	3,353,022	252,685	3,605,707
Equity transactions with noncontrolling interests and other		335		(762)			(427)	43	(384)
Dividends to Canon Inc. shareholders (70.00 yen per share)				(69,146)			(69,146)		(69,146)
Dividends to noncontrolling interests								(4,973)	(4,973)
Acquisition of subsidiaries								785	785
Transfer to legal reserve			189	(189)			—		—
Comprehensive income:									
Net income				149,806			149,806	9,871	159,677
Other comprehensive income (loss), net of tax									
Foreign currency translation adjustments					214,038		214,308	1,610	215,648
Net unrealized gains and losses on securities					21		21		21
Net gains and losses on derivative instruments					(4,029)		(4,029)	8	(4,021)
Pension liability adjustments					3,437		3,437	124	3,561
Total comprehensive income (loss)							363,273	11,613	374,886
Repurchases and reissuance of treasury stock		(58)		(18)		(99,940)	(100,016)		(100,016)
Balance at June 30, 2024	174,762	405,212	61,823	3,880,903	482,225	(1,458,219)	3,546,706	260,153	3,806,859

	Millions of yen								
	Common stock	Additional paid-in capital	Legal reserve	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	62,623	(1,258,362)	3,113,105	235,925	3,349,030
Equity transactions with noncontrolling interests and other		259					259	42	301
Dividends to Canon Inc. shareholders (60.00 yen per share)				(60,931)			(60,931)		(60,931)
Dividends to noncontrolling interests								(3,983)	(3,983)
Transfer to legal reserve			579	(579)			—		—
Comprehensive income:									
Net income				121,813			121,813	10,277	132,090
Other comprehensive income (loss), net of tax									
Foreign currency translation adjustments					182,307		182,307	1,617	183,924
Net unrealized gains and losses on securities					39		39		39
Net gains and losses on derivative instruments					(512)		(512)	50	(462)
Pension liability adjustments					3,372		3,372	(221)	3,151
Total comprehensive income (loss)							307,019	11,723	318,742
Repurchases and reissuance of treasury stock		(61)		(41)		(57,998)	(58,100)		(58,100)
Balance at June 30, 2023	174,762	405,036	65,088	3,724,997	247,829	(1,316,360)	3,301,352	243,707	3,545,059

(11) Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 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	214,038	55	(4,609)	1,278	210,762
Amounts reclassified from accumulated other comprehensive income (loss)	-	(34)	580	2,159	2,705
Net change during the period	214,038	21	(4,029)	3,437	213,467
Balance at June 30, 2024	588,975	47	(3,105)	(103,692)	482,225

	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	182,320	69	(1,305)	2,669	183,753
Amounts reclassified from accumulated other comprehensive income (loss)	(13)	(30)	793	703	1,453
Net change during the period	182,307	39	(512)	3,372	185,206
Balance at June 30, 2023	373,594	5	(940)	(124,830)	247,829

(11) Other Comprehensive Income (Loss) (continued)

Reclassifications out of accumulated other comprehensive income (loss) for the six months ended June 30, 2024 and 2023 are as follows:

	Millions of yen		
	Amount reclassified from accumulated other comprehensive income (loss) *		
	Six months ended June 30, 2024	Six months ended June 30, 2023	Affected line items in consolidated statements of income
Foreign currency translation adjustments			
	-	(32)	Selling, general and administrative expenses
	-	10	Income taxes
	-	(22)	Consolidated net income
	-	9	Net income attributable to noncontrolling interests
	-	(13)	Net income attributable to Canon Inc.
Net unrealized gains and losses on securities	(43)	(38)	Other, net
	9	8	Income taxes
	(34)	(30)	Consolidated net income
	-	-	Net income attributable to noncontrolling interests
	(34)	(30)	Net income attributable to Canon Inc.
Gains and losses on derivative instruments	758	1,127	Net sales
	(246)	(316)	Income taxes
	512	811	Consolidated net income
	68	(18)	Net income attributable to noncontrolling interests
	580	793	Net income attributable to Canon Inc.
Pension liability adjustments	2,315	571	Other, net
	(358)	(14)	Income taxes
	1,957	557	Consolidated net income
	202	146	Net income attributable to noncontrolling interests
	2,159	703	Net income attributable to Canon Inc.
Total amount reclassified, net of tax and noncontrolling interests	2,705	1,453	

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

(12) Revenue

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 June 30, 2024 and December 31, 2023 were ¥48,655 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 June 30, 2024 and December 31, 2023 were ¥183,765 million and ¥141,578 million, respectively, and are included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets. Revenue recognized for the six months ended June 30, 2024, which had been included in the deferred revenue balance at December 31, 2023, was ¥84,417 million.

Remaining performance obligations for products and equipment at June 30, 2024 primarily arise from the sales of certain industrial equipment, amounting to ¥162,948 million, 81% of which is expected to be recognized as revenue within one year, 18% is within two years and remaining 1% is within three years. Disclosure of remaining performance obligations is not required for the majority of service 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. Service revenue recognized from the fixed maintenance service contracts for the products of the Printing Business Unit and the Medical Business Unit with original expected duration of more than one year is ¥42,921 million for the six months ended June 30, 2024 and the average remaining period for these fixed contracts at June 30, 2024 is about two years.

Disaggregated revenues by business unit, product and geographic area are described in Note 20.

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

Reconciliations of the numerators and denominators of basic and diluted net income attributable to Canon Inc. shareholders per share computations for the six months ended June 30, 2024 and 2023 are as follows:

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Net income attributable to Canon Inc.	149,806	121,813
Diluted net income attributable to Canon Inc.	149,803	121,810

	Number of shares	
	Six months ended June 30, 2024	Six months ended June 30, 2023
The weighted-average number of common shares outstanding	982,145,453	1,012,060,811
Effect of dilutive securities:		
Stock options	458,179	390,110
Diluted common shares outstanding	982,603,632	1,012,450,921

	Yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Net income attributable to Canon Inc. shareholders per share:		
Basic	152.53	120.36
Diluted	152.45	120.31

During the six months ended June 30, 2024 and 2023, there were dilutive effects from the stock options granted by the Company.

(14) 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 June 30, 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.

(14) Derivatives and Hedging Activities (continued)

Contract amounts of foreign exchange contracts at June 30, 2024 and December 31, 2023 are set forth below:

	Millions of yen	
	June 30, 2024	December 31, 2023
To sell foreign currencies	263,311	194,053
To buy foreign currencies	30,936	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 June 30, 2024 and December 31, 2023.

Derivatives designated as hedging instruments

	Millions of yen		
	Balance sheet location	Fair value	
		June 30, 2024	December 31, 2023
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	158	2,205
Liabilities:			
Foreign exchange contracts	Other current liabilities	2,481	13

Derivatives not designated as hedging instruments

	Millions of yen		
	Balance sheet location	Fair value	
		June 30, 2024	December 31, 2023
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	219	1,695
Liabilities:			
Foreign exchange contracts	Other current liabilities	4,280	915

(14) Derivatives and Hedging Activities (continued)

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 six months ended June 30, 2024 and 2023.

Derivatives in cash flow hedging relationships

Six months ended June 30, 2024	Millions of yen		
	Gain (loss) recognized in OCI	Gain (loss) reclassified from accumulated OCI into income	
	Amount	Location	Amount
Foreign exchange contracts	(6,499)	Net sales	(758)

Six months ended June 30, 2023	Millions of yen		
	Gain (loss) recognized in OCI	Gain (loss) reclassified from accumulated OCI into income	
	Amount	Location	Amount
Foreign exchange contracts	(1,825)	Net sales	(1,127)

Effect of derivative instruments in the consolidated statements of income (continued)

Derivatives not designated as hedging instruments

Six months ended June 30, 2024	Millions of yen	
	Gain (loss) recognized in income on derivative	
	Location	Amount
Foreign exchange contracts	Other, net	(15,818)

Six months ended June 30, 2023	Millions of yen	
	Gain (loss) recognized in income on derivative	
	Location	Amount
Foreign exchange contracts	Other, net	(13,009)

(15) Lessee Accounting

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

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Operating lease cost	27,533	23,389
Short-term lease cost	7,743	8,108
Other lease cost	185	158
Total	35,461	31,655

Operating lease cash flow

Supplemental cash flow information is as follows.

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Cash paid for amount included in the measurement of lease liabilities		
Operating cash flows from operating leases	23,371	22,582
Noncash activity - Rights of use assets obtained in exchange for lease liabilities		
Operating leases	29,693	18,724

Maturity Analysis

The following is a schedule by year of the future minimum lease payments under operating leases at June 30, 2024.

	Millions of yen
Within one year	42,590
Two years	34,234
Three years	25,820
Four years	16,974
Five years	12,081
Thereafter	28,221
Total future minimum lease payments	159,920
Less Imputed Interest	(12,918)
Total	147,002

(16) Commitments and Contingent Liabilities

Commitments

As of June 30, 2024, commitments outstanding for the purchase of property, plant and equipment approximated ¥92,219 million, and commitments outstanding for the purchase of parts and raw materials approximated ¥206,900 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 to ¥12,097 million and ¥10,516 million at June 30, 2024 and December 31, 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 ¥1,932 million at June 30, 2024. The carrying amounts of the liabilities recognized for Canon’s obligations as a guarantor under those guarantees at June 30, 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 changes in accrued product warranty cost for the six months ended June 30, 2024 and 2023 are summarized as follows:

Six months ended June 30, 2024

	Millions of yen
Balance at December 31, 2023	23,290
Addition	11,659
Utilization	(11,362)
Other	(353)
Balance at June 30, 2024	23,234

Six months ended June 30, 2023

	Millions of yen
Balance at December 31, 2022	20,887
Addition	11,179
Utilization	(11,050)
Other	(517)
Balance at June 30, 2023	20,499

(16) Commitments and Contingent Liabilities (continued)

Legal proceedings

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

(17) 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 June 30, 2024 and December 31, 2023 are set forth below. The following summary excludes cash and cash equivalents, trade receivables, noncurrent receivables, short-term loans, trade payables and accrued expenses, and the fair values of these instruments approximate their carrying amounts. The summary also excludes investments and derivative instruments which are disclosed in Note 2 and Note 18, and Note 14, respectively.

	Millions of yen			
	June 30, 2024		December 31, 2023	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Long-term debt, including current portion of long-term debt	(102,187)	(102,087)	(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 18.

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 June 30, 2024 and December 31, 2023.

(18) 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 June 30, 2024 and December 31, 2023.

	Millions of yen			
	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	–	1,500	–	1,500
Short-term investments:				
Available-for-sale:				
Corporate bonds	–	686	–	686
Investments:				
Available-for-sale:				
Corporate bonds	–	7,530	–	7,530
Fund trusts and others	3,924	467	–	4,391
Equity securities	28,854	–	–	28,854
Prepaid expenses and other current assets:				
Derivatives	–	377	–	377
Total assets	32,778	10,560	–	43,338
Liabilities:				
Other current liabilities:				
Derivatives	–	6,761	–	6,761
Total liabilities	–	6,761	–	6,761

(18) Fair Value Measurements (continued)

	Millions of yen			
	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	–	2,073	–	2,073
Short-term investments:				
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 corporate bonds included in cash and cash equivalents, investments or short-term investments, and derivatives. Corporate bonds included in cash and cash equivalents, and investments or short-term investments are valued using quoted prices for identical assets in markets that are not active or quotes obtained from counterparties or third parties.

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

Assets and liabilities measured at fair value on a nonrecurring basis

During the six months ended June 30, 2024 and 2023, there were no circumstances that required any significant assets or liabilities to be measured at fair value on a nonrecurring basis.

(19) Supplemental Information

Foreign Currency Exchange Gains and Losses

Gains and losses resulting from foreign currency transactions, including foreign exchange contracts, and translation of assets and liabilities denominated in foreign currencies are included in other, net of other income (deductions) in the consolidated statements of income. Foreign currency exchange gains and losses were a net gain of ¥2,126 million and a net loss of ¥13,831 million for the six months ended June 30, 2024 and 2023, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were ¥20,673 million and ¥20,797 million for the six months ended June 30, 2024 and 2023, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

Shipping and Handling Costs

Shipping and handling costs totalled ¥34,260 million and ¥31,372 million for the six months ended June 30, 2024 and 2023, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

Components of Net Periodic Benefit Cost

Net periodic benefit cost for Canon’s employee retirement and severance defined benefit plans for the six months ended June 30, 2024 and 2023 consisted of the following components:

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Service cost	12,674	13,251
Interest cost	13,576	11,399
Expected return on plan assets	(22,039)	(17,838)
Amortization of prior service credit	(2,434)	(3,887)
Amortization of actuarial loss	4,749	4,458
	6,526	7,383

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.

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 June 30, 2024 and December 31, 2023, respectively, are included in cash and cash equivalents in the consolidated balance sheets. Fair value for these securities approximates their cost.

(20) 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 six months ended June 30, 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 multifunction devices (MFDs) / Document solutions/ Laser multifunction printers (MFPs) / Laser printers / Inkjet printers / Image scanners / Calculators
Medical Business Unit:	Computed tomography (CT) systems / Diagnostic ultrasound systems / Diagnostic X-ray systems / Magnetic resonance imaging (MRI) systems / 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 (Flat panel display) lithography equipment / OLED Display Manufacturing Equipment / Vacuum thin-film deposition equipment / Die bonders
Others:	Handy terminals / Document scanners

The accounting policies of the segments are substantially the same as the accounting policies used in Canon's interim consolidated financial statements. Canon evaluates performance of, and allocates resources to, each segment based on income before income taxes.

(20) Segment Information (continued)

Information about operating results for each segment for the six months ended June 30, 2024 and 2023 is as follows:

	Millions of yen						
	Printing	Medical	Imaging	Industrial	Others and Corporate	Eliminations	Consolidated
2024:							
Net sales:							
External customers	1,230,823	274,959	420,126	157,662	72,735	–	2,156,305
Intersegment	3,955	248	139	5,280	42,282	(51,904)	–
Total	1,234,778	275,207	420,265	162,942	115,017	(51,904)	2,156,305
Operating cost and expenses	1,090,064	264,136	364,999	132,978	158,644	(52,990)	1,957,831
Operating profit	144,714	11,071	55,266	29,964	(43,627)	1,086	198,474
Other income (deductions)	7,804	363	1,349	686	12,771	–	22,973
Income before income taxes	152,518	11,434	56,615	30,650	(30,856)	1,086	221,447

	Millions of yen						
	Printing	Medical	Imaging	Industrial	Others and Corporate	Eliminations	Consolidated
2023:							
Net sales:							
External customers	1,130,118	256,628	411,559	130,853	62,849	–	1,992,007
Intersegment	2,966	542	102	6,063	43,665	(53,338)	–
Total	1,133,084	257,170	411,661	136,916	106,514	(53,338)	1,992,007
Operating cost and expenses	1,023,172	245,874	339,953	117,414	141,019	(52,174)	1,815,258
Operating profit	109,912	11,296	71,708	19,502	(34,505)	(1,164)	176,749
Other income (deductions)	4,814	12	765	277	6,075	(30)	11,913
Income before income taxes	114,726	11,308	72,473	19,779	(28,430)	(1,194)	188,662

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.

(20) Segment Information (continued)

Information about sales by product and service to external customers by business unit for the six months ended June 30, 2024 and 2023 is as follows:

	Millions of yen	
	Six months ended June 30, 2024	Six months ended June 30, 2023
Printing		
Production	210,012	183,582
Office multifunction devices	325,861	299,587
Office others	201,204	177,767
Office	527,065	477,354
Laser printers	323,546	299,477
Inkjet printers and Others	170,200	169,705
Prosumer	493,746	469,182
Total	1,230,823	1,130,118
Medical		
Diagnostic equipment	274,959	256,628
Imaging		
Cameras	257,286	251,799
Network cameras and Others	162,840	159,760
Total	420,126	411,559
Industrial		
Optical equipment	108,333	90,602
Industrial equipment	49,329	40,251
Total	157,662	130,853
Others and Corporate	72,735	62,849
Consolidated	2,156,305	1,992,007

(20) Segment Information (continued)

Information by major geographic area for the six months ended June 30, 2024 and 2023 is as follows:

	Millions of yen				
	Japan	Americas	Europe	Asia and Oceania	Total
2024:					
Net sales:	480,338	677,552	555,906	442,509	2,156,305
2023:					
Net sales:	439,170	616,575	519,762	416,500	1,992,007

Net sales are attributed to areas based on the location where the product is shipped to the customers.

(21) Subsequent Events

Canon Marketing Japan Inc., a subsidiary of Canon Inc. (the "Company"), decided at its Board of Directors meeting held on July 24, 2024, to repurchase its own shares and on the specific repurchase method to be tender offer for its own shares.
Additionally, the Company has entered into a tender offer agreement with Canon Marketing Japan Inc. to apply for the tender offer as described below.
Canon Marketing Japan Inc. will remain qualified as a subsidiary of the Company even after the completion of the tender offer, and the impact on the consolidated financial results will be immaterial.

1. Offering number of shares: 20,000,000 shares
2. Offering price: 4,091 yen per share

Canon Marketing Japan Inc., a subsidiary of the Company, based on its Board of Directors meeting held on July 17, 2024, borrowed funds as follows.

1. Use of funds: Acquisition of treasury shares
2. Borrowing date: July 23, 2024
3. Planned repayment date: September 13, 2024
4. Lender: Mizuho Bank, Ltd.
5. Borrowing amount: ¥80 billion
6. Interest rate: Base rate plus a spread

On August 8, 2024, the Company borrowed funds as follows, under its existing overdraft facilities.

1. Use of funds: Operating funds
2. Borrowing date: August 8, 2024
3. Lender: Mizuho Bank, Ltd.
4. Borrowing amount: ¥100 billion
5. Interest rate: Base rate plus a spread

(21) Subsequent Events (continued)

On August 6, 2024, the Board of Directors of the Company 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, and the repurchase of its own shares is in progress.

1. Reason for the repurchase: The Company aims to further raise corporate value through active growth investment and works to enhance shareholder return by improving capital efficiency. As a part of this shareholder return policy, the Company decided to repurchase its own shares.
2. Method of repurchase: Market trade
3. Total number of shares to be repurchased: Up to 32 million shares
4. Total cost of repurchase: Up to ¥100 billion
5. Period of repurchase: From August 7, 2024 to October 31, 2024

(2) Other Information

The Board of Directors approved an interim cash dividend at the meeting held on July 25, 2024 as below:

1. Total amount of interim cash dividends:
   72,384 million yen
2. Amount of an interim cash dividend per share:
   75 yen
3. Payment date:
   August 26, 2024

Note:
The interim dividend is paid to registered shareholders as of June 30, 2024.