

TO OUR SHAREHOLDERS

**INTERNET DISCLOSURE
FOR NOTICE OF CONVOCAION OF
THE ORDINARY GENERAL MEETING OF SHAREHOLDERS
FOR THE 120TH BUSINESS TERM**

BUSINESS REPORT

Stock Acquisition Rights etc. of the Company

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Equity

Notes to Consolidated Financial Statements

NON-CONSOLIDATED FINANCIAL STATEMENTS

Non-Consolidated Statement of Changes in Net Assets

Notes to Non-Consolidated Financial Statements

Of the documents to be provided upon Notice of Convocation, the following documents have been posted on our website on the Internet (<https://global.canon/en/ir/>) to be provided to shareholders in accordance with laws and regulations and provisions of the Company's Articles of Incorporation: "Stock Acquisition Rights etc. of the Company" of the Business Report; "Consolidated Statement of Equity" and "Notes to Consolidated Financial Statements" of the Consolidated Financial Statements, and; "Non-Consolidated Statement of Changes in Net Assets" and "Notes to Non-Consolidated Financial Statements" of the Non-Consolidated Financial Statements.

CANON INC.

BUSINESS REPORT

Stock Acquisition Rights etc. of the Company

Stock Acquisition Rights etc. Delivered as Compensation for Execution of Duties That Are Held by the Directors of the Company as of the End of This Term

1. Name

Stock Acquisition Rights issued in May of 2018

2. Price to Be Paid In (per Stock Acquisition Right)

294,800 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

May 2, 2018 to May 1, 2048

5. Holder, Number of Holders, Number of Stock Acquisition Rights, and Class and Number of Shares to Be Acquired

Chairman & CEO	1 person	113	Common stock	11,300 shares
----------------	----------	-----	--------------	---------------

Executive Vice President	2 persons	90	Common stock	9,000 shares
--------------------------	-----------	----	--------------	--------------

6. Main Conditions for the Exercise of Stock Acquisition Rights

In principle,

(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, and

(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.

1. Name

Stock Acquisition Rights issued in April of 2019

2. Price to Be Paid In (per Stock Acquisition Right)

228,100 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

April 27, 2019 to April 26, 2049

5. Holder, Number of Holders, Number of Stock Acquisition Rights, and Class and Number of Shares to Be Acquired

Chairman & CEO	1 person	292	Common stock	29,200 shares
----------------	----------	-----	--------------	---------------

Executive Vice President	2 persons	151	Common stock	15,100 shares
--------------------------	-----------	-----	--------------	---------------

6. Main Conditions for the Exercise of Stock Acquisition Rights

In principle,

(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, and

(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.

1. Name

Stock Acquisition Rights issued in May of 2020

2. Price to Be Paid In (per Stock Acquisition Right)

145,900 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

May 2, 2020 to May 1, 2050

5. Holder, Number of Holders, Number of Stock Acquisition Rights, and Class and Number of Shares to Be Acquired

Chairman & CEO	1 person	226	Common stock	22,600 shares
----------------	----------	-----	--------------	---------------

Executive Vice President	2 persons	135	Common stock	13,500 shares
--------------------------	-----------	-----	--------------	---------------

6. Main Conditions for the Exercise of Stock Acquisition Rights

In principle,

- (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, and
- (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.

Note: Each of the above Stock Acquisition Rights are not allotted to Outside Directors and Audit & Supervisory Board Members.

Stock Acquisition Rights etc. Delivered During This Term to the Executive Officers of the Company as Compensation for Execution of Duties

1. Name

Stock Acquisition Rights issued in March of 2020

2. Price to Be Paid In (per Stock Acquisition Right)

170,300 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

March 26, 2020 to March 25, 2050

5. Grantee, Number of Grantees, Number of Stock Acquisition Rights, and Class and Number of Shares to Be Acquired

Executive Vice President	1 person	103	Common stock	10,300 shares
--------------------------	----------	-----	--------------	---------------

6. Main Conditions for the Exercise of Stock Acquisition Rights

In principle,

- (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, and
 - (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.
-

1. Name

Stock Acquisition Rights issued in May of 2020

2. Price to Be Paid In (per Stock Acquisition Right)

145,900 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

May 2, 2020 to May 1, 2050

5. Grantee, Number of Grantees, Number of Stock Acquisition Rights, and Class and Number of Shares to Be Acquired

Senior Managing Executive Officer	1 person	29	Common stock	2,900 shares
Managing Executive Officer	13 persons	247	Common stock	24,700 shares
Executive Officer	16 persons	201	Common stock	20,100 shares

6. Main Conditions for the Exercise of Stock Acquisition Rights

In principle,

- (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, and
 - (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.
-

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Equity

(Millions of yen)

	Common stock	Additional paid-in capital	Retained earnings			Accumulated other comprehensive income (loss)	Treasury stock	Total Canon Inc. shareholders' equity	Noncontrolling interests	Total equity
			Legal reserve	Other retained earnings	Total retained earnings					
Balance at December 31, 2019	174,762	405,017	67,572	3,455,083	3,522,655	(308,442)	(1,108,496)	2,685,496	198,484	2,883,980
Cumulative effects of accounting standard update—adoption of ASU No.2016-13				(159)	(159)			(159)	-	(159)
Equity transactions with noncontrolling interests and other		(316)				(9)	(15)	(340)	1,091	751
Dividends to Canon Inc. shareholders				(126,938)	(126,938)			(126,938)		(126,938)
Dividends to noncontrolling interests									(4,526)	(4,526)
Transfers to legal reserve			1,864	(1,864)	-			-		-
Comprehensive income:										
Net income				83,318	83,318			83,318	12,625	95,943
Other comprehensive income (loss), net of tax:										
Foreign currency translation adjustments						(17,355)		(17,355)	1	(17,354)
Net gains and losses on derivative instruments						987		987	(17)	970
Pension liability adjustments						30		30	1,352	1,382
Total comprehensive income (loss)								66,980	13,961	80,941
Repurchases of treasury stock							(50,008)	(50,008)		(50,008)
Reissuance of treasury stock		(81)		(69)	(69)		150	0		0
Balance at December 31, 2020	174,762	404,620	69,436	3,409,371	3,478,807	(324,789)	(1,158,369)	2,575,031	209,010	2,784,041

<Notes to Consolidated Statement of Equity>

1. Number of issued shares as of December 31, 2020 1,333,763,464 shares

2. Payment for dividends

(1) Amount of dividends paid

Decision	Classes of stock	Cash dividend (Millions of yen)	Dividend per share (yen)	Record date	Effective date
March 27, 2020 Ordinary general meeting of shareholders	Common stock	85,107	80.00	December 31, 2019	March 30, 2020
July 28, 2020 Board of directors' meeting	Common stock	41,831	40.00	June 30, 2020	August 27, 2020

(2) Dividends whose record date is included in the current fiscal year and effective date is after the current fiscal year-end.

Scheduled	Classes of stock	Cash dividend (Millions of yen)	A source of dividend	Dividend per share (yen)	Record date	Effective date
March 30, 2021 Ordinary general meeting of shareholders	Common stock	41,831	Retained earnings	40.00	December 31, 2020	March 31, 2021

3. Number of treasury shares for exercisable stock options as of December 31, 2020

Common stock 247,600 shares

Notes to Consolidated Financial Statements

<Notes to Basic Significant Matters Regarding Preparation of Consolidated Financial Statements>

Significant Accounting Policies

1. Group Position

The number of consolidated subsidiaries was 343, and the number of affiliated companies accounted for by the equity method was 9 as of December 31, 2020.

2. Basis of Presenting Consolidated Financial Statements

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("US GAAP") pursuant to the provision of paragraph 1, Article 120-3 of the Company Accounting Regulations. However, certain disclosures required under US GAAP are omitted pursuant to the provision of the latter part of paragraph 1, Article 120, as applied mutatis mutandis pursuant to paragraph 3, Article 120-3.

3. Cash Equivalents

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

4. Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Exchange differences are charged or credited to income. Assets and liabilities of subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date and income and expense items are translated at the average exchange rates prevailing during the year. The resulting translation adjustments are reported in other comprehensive income (loss).

5. Inventories

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

6. Investments

For equity investments that are not consolidated nor accounted for under the equity method, Canon measures them at fair value and recognizes the changes to fair value through net income. Realized gains and losses are determined based on the average cost method.

7. Property, Plant and Equipment of Depreciation Methods

Property, plant and equipment are depreciated principally by the declining-balance method.

8. Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment at least annually, or more frequently if indicators of potential impairment exist. Intangible assets with finite useful lives are amortized over the respective estimated useful lives. Software, patents and developed technology, and customer relationships are amortized using the straight-line method over the estimated useful lives, which range primarily from 3 years to 8 years for software, 5 years to 18 years for patents and developed technology and 6 years to 15 years for customer relationships.

9. Impairment of Long-Lived Assets

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

10. Basis of Recording Allowances

(Allowance for doubtful receivables)

An allowance for doubtful receivables is provided based on a current expected credit loss model.

(Accrued pension and severance cost)

Pension and severance cost is accrued based on the projected benefit obligations and the fair value of plan assets at the balance sheet date. Unrecognized actuarial loss is recognized by amortizing a portion in excess of a corridor (i.e., 10% of the greater of the projected benefit obligations or the fair value of plan assets) using the straight-line method over the average remaining service period of employees. Unrecognized prior service cost or credit is amortized using the straight-line method over the average remaining service period of employees.

11. Accounting of Taxes Collected from Customers

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

12. Stock-Based Compensation

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

13. Net Income Attributable to Canon Inc. Shareholders Per Share

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

<Notes to Changes in Accounting Policies>

In June 2016, the Financial Accounting Standards Board issued ASU No. 2016-13, Financial Instruments – Credit Losses – (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires entities to use a current expected credit loss model to measure impairments of certain financial assets. Using this model results in earlier recognition of losses than under the incurred loss approach, which requires waiting to recognize a loss until it is probable of being incurred. Canon adopted the guidance from the quarter beginning January 1, 2020 with the modified retrospective basis through a cumulative effect adjustment directly to retained earnings as of the beginning of the period. The adoption of this guidance did not have a material impact on its consolidated results of operation and financial condition.

Correction of Historical Consolidated Financial Statements

On December 31, 2020, Canon revised its historical consolidated financial statements to accurately reflect vacation accrual adjustments in the appropriate periods. Canon also determined that correcting the aggregate error would be material to the current period although immaterial in the past period. As a result, Canon revised its consolidated financial statements for 2019 as follows.

Consolidated balance sheets	(Millions of yen)	
	As of December 31, 2019	
	As revised	As previously reported
Other assets	409,786	406,219
Accrued expenses	336,396	324,891
Retained earnings	3,455,083	3,462,182
Noncontrolling interests	198,484	199,323

Consolidated statements of income	(Millions of yen)	
	Year ended December 31, 2019	
	As revised	As previously reported
Selling, general and administrative expenses	1,137,110	1,136,863
Operating profit	174,420	174,667
Income before income taxes	195,493	195,740
Income taxes	56,146	56,223
Consolidated net income	139,347	139,517
Less: Net income attributable to noncontrolling interests	14,383	14,412
Net income attributable to Canon Inc.	124,964	125,105

Accordingly, the consolidated statement of equity has been revised.

<Notes to Financial Instruments>

1. Status of Financial Instruments

Canon invests in low risk and short-term financial instruments.

Canon has certain financial instruments such as trade receivables and securities. Canon reduces the customer credit risk related to trade receivables in accordance with its credit management policy. At December 31, 2020, a major customer accounted for approximately 8% of consolidated trade receivables. Securities consist primarily of equity securities of the companies with which Canon has a business relationship.

Derivative financial instruments are comprised principally of foreign exchange contracts to reduce the variable risk of foreign exchange rate. Canon does not hold or issue derivative financial instruments for trading and speculative purposes.

2. Fair Value of Financial Instruments

The estimated fair values of Canon's financial instruments as of December 31, 2020 are set forth below. The following summary excludes cash and cash equivalents, trade receivables, finance receivables, noncurrent receivables, short-term loans, trade payables and accrued expenses. The fair values of these instruments approximate their carrying amounts. The following summary excludes non-marketable equity securities without readily determinable fair value at cost (balance sheet amount ¥8,559 million).

(Millions of yen)

	Carrying amount	Estimated fair value	Difference
Securities	19,215	19,215	-
Long-term debt, including current portion	(346,317)	(346,275)	42
Foreign exchange contracts:			
Assets	533	533	-
Liabilities	(1,225)	(1,225)	-

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

Securities

The fair values of securities are mainly measured at the quoted market price.

Long-term debt

The fair values of Canon's long-term debt instruments are 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.

Foreign exchange contracts

The fair values of foreign exchange contracts are measured 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.

<Note to Real Estate for Rent and Others>

There was no significant item.

<Note to Revenue Recognition>

Canon generates revenue principally through the sale of office, imaging system and medical system products, industrial equipment, supplies and related services under separate contractual arrangements. Revenue is recognized when, or as, control of promised goods or services transfers to customers in an amount that reflects the consideration to which Canon expects to be entitled in exchange for transferring these goods or services.

Revenue from sales of office products and imaging system products is recognized upon shipment or delivery, depending upon when the customer obtains controls of these products. Revenue from sales of equipment that are sold with customer acceptance provisions related to their functionality including optical equipment and certain medical equipment is recognized when the equipment is installed at the customer site and the agreed-upon specifications are objectively satisfied. In addition, service revenue primarily generated from maintenance service contract is recognized over time as it satisfies the underlying performance obligation.

<Note to Subsequent Event>

On January 19, 2021, Canon borrowed ¥20 billion under its existing overdraft facilities with Mizuho Bank, Ltd. and MUFG Bank, Ltd. for required operating funds. The overdraft facilities bear interest at a rate equal to a base rate plus a spread.

NON-CONSOLIDATED FINANCIAL STATEMENTS

Non-Consolidated Statement of Changes in Net Assets

(Millions of yen)

	Shareholders' equity							Valuation and translation adjustments		Subscription rights to shares	Total net assets		
	Common stock	Capital surplus	Retained earnings				Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities			Net deferred gains (losses) on hedges	
		Additional paid-in capital	Legal reserve	Reserve for special depreciation	Reserve for deferral of capital gain on property	Special reserves							Retained earnings brought forward
Balance at the beginning of current period	174,762	306,288	22,114	7	3,748	1,249,928	708,187	(1,108,496)	1,356,538	1,918	(225)	470	1,358,701
Changes of items during the period													
Transfer to reserve for special depreciation									-				-
Reversal of reserve for special depreciation				(3)			3		-				-
Transfer to reserve for deferral of capital gain on property									-				-
Reversal of reserve for deferral of capital gain on property					(139)		139		-				-
Dividends paid							(126,938)		(126,938)				(126,938)
Net income							42,845		42,845				42,845
Purchase of treasury stock								(50,013)	(50,013)				(50,013)
Disposal of treasury stock							(70)	155	85				85
Net changes of items other than shareholders' equity									-	1,012	0	66	1,078
Total changes of items during the period	-	-	-	(3)	(139)	-	(84,021)	(49,858)	(134,021)	1,012	0	66	(132,943)
Balance at the end of current period	174,762	306,288	22,114	4	3,609	1,249,928	624,166	(1,158,354)	1,222,517	2,930	(225)	536	1,225,758

<Notes to Non-Consolidated Statement of Changes in Net Assets>

- Number of issued shares as of December 31, 2020 1,333,763,464 shares
- Classes and shares of treasury stock (Shares)

Classes of stock	Balance at the beginning of current period	Increase	Decrease	Balance at the end of current period
Common stock	269,928,993	18,099,342	38,516	287,989,819

(Reason for change)

The increase of shares reflects the acquisition of 18,093,400 shares as approved by the resolution of the board of director's meeting, and 5,942 shares of the purchase of shares less-than-one-unit, requested by shareholders.

The decrease of shares reflects the transfer of exercise of 37,100 shares of stock options, and 1,416 shares of the sale of shares less-than-one-unit, requested by shareholders.

- Payment for dividends

(1) Amount of dividends paid

Decision	Classes of stock	Cash dividend (Millions of yen)	Dividend per share (yen)	Record date	Effective date
March 27, 2020 Ordinary general meeting of shareholders	Common stock	85,107	80.00	December 31, 2019	March 30, 2020
July 28, 2020 Board of directors' meeting	Common stock	41,831	40.00	June 30, 2020	August 27, 2020

(2) Dividends whose record date is included in the current fiscal year and effective date is after the current fiscal year-end.

Scheduled	Classes of stock	Cash dividend (Millions of yen)	A source of dividend	Dividend per share (yen)	Record date	Effective date
March 30, 2021 Ordinary general meeting of shareholders	Common stock	41,831	Retained earnings	40.00	December 31, 2020	March 31, 2021

- Number of treasury shares for exercisable stock options as of December 31, 2020

Common stock 247,600 shares

Notes to Non-Consolidated Financial Statements

<Notes to Significant Accounting Policies>

1. Valuation of Securities

- (1) Securities of subsidiaries and affiliates----stated at cost based on the moving average method.
- (2) Other securities:
Securities with quotation----stated at fair value (unrealized holdings gains and losses are reported in net assets, when sold, the cost is based on the moving average method).
Securities without quotation----stated at cost based on the moving average method.

2. Valuation of Inventories

- (1) Finished goods and work in process----valued at cost based on the periodic average method (amount shown in the balance sheet is devaluated due to decline in profitability).
- (2) Raw materials and supplies----valued at cost based on the moving average method (amount shown in the balance sheet is devaluated due to decline in profitability).

3. Depreciation Method of Fixed Assets

- (1) Property, plant and equipment (excluding lease assets)----calculated by the declining-balance method. For buildings (excluding fixtures) acquired on or after April 1, 1998, depreciation is calculated by the straight-line method.
- (2) Intangible fixed assets----calculated by the straight-line method. With regard to software for sale, calculated based on the estimated marketable period in consideration of marketing plan etc. of the relevant products (3 years), and with regard to internal-use software, calculated based on the estimated useful period in Canon (5 years). Goodwill is amortized on the straight-line method over 20 years based on the estimated period for each acquired business during which the excess earning power is maintained.
- (3) Lease assets----calculated by the straight-line method. The engaged lease period is determined as the useful life of each lease asset.

4. Basis of Recording Allowances

- (1) Allowance for doubtful receivables----provided as general provision for uncollectible receivables.
----General accounts
Allowances are provided using a rate determined by credit loss history.
----Allowance for accounts considered to be uncollectible and accounts in bankruptcy filing are provided for individual estimated uncollectible amount, primarily determined based on the respective customer's financial conditions.
- (2) Accrued warranty expenses----provided as general provision for after-sales services and no charge repair cost on an estimated amount based on the historical performance.
- (3) Accrued bonuses for employees----provided as general provision for bonuses to employees based on an amount expected to pay.
- (4) Accrued directors' bonuses----provided as general provision for bonuses to directors based on an amount expected to pay.
- (5) Accrued pension and severance cost----provided as general provision for employee retirement and severance benefits based on projected benefits obligation and expected plan asset. Prior service cost and

actuarial variance are amortized on the straight-line method over the average remaining service periods of employees.

- (6) Reserve for environmental provision----provided as general provision for the future environmental-related cost, such as construction costs to prevent the proliferation of soil pollution, and also clean-up costs of hazardous substances based on the related regulations.
- (7) Accrued long-service rewards for employees----provided as general provision for reward to employees in accordance with management policy for long-service employees for this term based on an amount expected to pay.

5. Hedge Accounting

- (1) Hedge accounting----Deferral hedge accounting has been applied.
- (2) Hedging instrument and hedged items
Hedging instrument----derivative transaction (foreign exchange contract)
Hedged items----accounts receivable denominated in foreign currency for forecasted transaction.
- (3) Hedge policy----Derivative financial instruments are comprised principally of foreign exchange contracts to manage currency risk. Canon does not hold derivative financial instruments for trading purpose.
- (4) Assessment of hedge effectiveness----As the substantial terms of hedging instruments and of hedged items are the same, the fluctuations of foreign currency exchange rates are offset by each other at the hedge's inception and on an ongoing basis. Hedge effectiveness is assessed by verifying those relationships.

6. Notes to Others

- (1) Consumption Taxes----excluded from the statements of income and are accumulated in other receivables or other payables.
- (2) Consolidated Taxation System----applied

<Notes to Deferred Income Tax>

Major Items of Deferred Tax Assets and Liabilities

(Deferred tax assets) *1	
Accrued pension and severance cost	17,347 million yen
Investments in subsidiaries	6,907 million yen
Loss on valuation of inventories	2,042 million yen
Outstanding enterprise tax	155 million yen
Depreciation of fixed assets in excess of limit	13,379 million yen
Excess in amortization of software	5,980 million yen
Amortization of deferred charges in excess of limit	11,490 million yen
Other	10,469 million yen
Subtotal deferred tax assets	67,769 million yen
Valuation reserve	(9,450) million yen
Total deferred tax assets	58,319 million yen
(Deferred tax liabilities) *1	
Reserve for special depreciation	(2) million yen
Reserve for deferral of capital gain on property	(1,584) million yen
Prepaid pension cost	(1,799) million yen
Other	(3,086) million yen
Total deferred tax liabilities	(6,471) million yen
Net deferred tax assets	51,848 million yen

(Note)*1 Application of Tax Effect Accounting for the transition from the consolidated taxation system to the group tax sharing system.

In regard to the transition to the group tax sharing system created in the "Act for Partial Amendment of the Income Tax Act, etc." (Act No.8 of 2020) and accounting items for which the single-entity taxation system was revised in line with the transition to the group tax sharing system, the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the laws on taxation prior to amendment, and the provisions of Paragraph 44 of the "Guidance on Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan Guidance No.28 of February 16, 2018) have not been applied, in accordance with the treatment provided for in Paragraph 3 of "Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No.39 of March 31, 2020).

<Notes to Transaction with Related Parties>

(Millions of yen)

Nature	Company name	Ratio of voting rights held by the Company	Relationship with the Company	Transaction details	Transaction amount	Item	Balance as of December 31, 2020
Subsidiary	Canon Marketing Japan Inc.	(Possession) Direct: 58.5% Indirect: 0.0%	Sales of the Company's products Borrowings of funds	Sales of the Company's products	142,077	Accounts receivable	17,326
				Borrowings of funds	10,000	Short-term loans payable	180,000
Subsidiary	Oita Canon Inc.	(Possession) Direct: 100%	Production of the Company's products Interlocking directorate	Purchase of products, components and others	121,071	Accounts payable	42,154
Subsidiary	Canon Finetech Nisca Inc.	(Possession) Direct: 100%	Borrowings of funds	Repayment of funds	1,222	Short-term loans payable	59,032
Subsidiary	Canon Tokki Corporation	(Possession) Direct: 100%	Borrowings of funds	Repayment of funds	2,135	Short-term loans payable	53,235
Subsidiary	Canon Chemicals Inc.	(Possession) Direct: 100%	Borrowings of funds	Repayment of funds	226	Short-term loans payable	33,817
Subsidiary	Canon U.S.A., Inc.	(Possession) Direct: 100%	Sales of the Company's products Borrowings of funds Interlocking directorate	Sales of the Company's products	314,866	Accounts receivable	68,480
				Borrowings of funds	14,476	Short-term loans payable	52,149
Subsidiary	Canon Europa N.V.	(Possession) Indirect: 100%	Sales of the Company's products Borrowings of funds Interlocking directorate	Sales of the Company's products	323,020	Accounts receivable	56,402
				Borrowings of funds	30,867	Short-term loans payable	186,302
Subsidiary	Canon Singapore Pte. Ltd.	(Possession) Direct: 100%	Sales of the Company's products Borrowings of funds Interlocking directorate	Sales of the Company's products	156,697	Accounts receivable	22,438
				Repayment of funds	160	Short-term loans payable	86,940
Subsidiary	Canon (China) Co., Ltd.	(Possession) Direct: 100%	Borrowings of funds Interlocking directorate	Borrowings of funds	1,575	Short-term loans payable	43,196
Subsidiary	Canon Vietnam Co., Ltd.	(Possession) Direct: 100%	Production of the Company's products Interlocking directorate	Purchase of products, components and others	170,367	Accounts payable	37,642
Subsidiary	Canon Production Printing Holding B.V.	(Possession) Indirect: 100%	Lending of funds Interlocking directorate	Lending of funds	1,643	Short-term loans receivable	29,668

Conditions of transactions and policy regarding determination of conditions of transaction.

(Note 1) The transactions above are determined on a fair value.

(Note 2) Consumption taxes are excluded from the transaction amount, however, included in the balance at December 31, 2020.

(Note 3) The loans payable from Canon Marketing Japan Inc., Canon Finetech Nisca Inc., Canon Tokki Corporation, Canon Chemicals Inc., Canon U.S.A., Inc., Canon Europa N.V., Canon Singapore Pte. Ltd. and Canon (China) Co., Ltd. is intended to make best use of the funding in the Canon Group.

Transaction amount shows net borrowings and repayment. The interests are determined reasonably based on market interest rates.

(Note 4) The loans receivable to Canon Production Printing Holding B.V. is intended to make best use of the funding in the Canon Group. Transaction amount shows net loans and collection. The interests are reasonably determined based on market interest rates.

(Note 5) Ratio of voting rights held by Canon for "Indirect" of Canon Marketing Japan Inc. shows as 0.0% as the ratio is less than the first decimal point.

<Note to Revenue Recognition>

Canon generates revenue principally through production and sales of office and imaging system products and industrial equipment under the separate contractual arrangements. Revenue is recognized when, or as, control of promised goods transfers to customers in an amount that reflects the consideration to which Canon expects to be entitled in the exchange for transferring these goods.

Revenue from sales of office products and imaging system products is recognized upon shipment or delivery, depending upon when the customer obtains control of those products.

Revenue from sales of equipment such as semiconductor lithography equipment and FPD lithography equipment, that requires customer acceptance related to their functionality, is recognized when the equipment is installed at the customer site and agreed-upon specifications are objectively satisfied.

<Note to Subsequent Event>

On January 19, 2021, Canon borrowed ¥20 billion under its existing overdraft facilities with Mizuho Bank, Ltd. and MUFG Bank, Ltd. for required operating funds. The overdraft facilities bear interest at a rate equal to a base rate plus a spread.