

TO OUR SHAREHOLDERS

**INTERNET DISCLOSURE
FOR NOTICE OF CONVOCAION OF
THE ORDINARY GENERAL MEETING OF SHAREHOLDERS
FOR THE 121ST 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.
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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.
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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.

1. Name

Stock Acquisition Rights issued in April of 2021

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

222,700 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

April 29, 2021 to April 28, 2051

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

Chairman & CEO	1 person	101	Common stock	10,100 shares
Executive Vice President	2 persons	60	Common stock	6,000 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.

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 April of 2021

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

222,700 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

April 29, 2021 to April 28, 2051

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

Senior Managing Executive Officer	5 persons	65	Common stock	6,500 shares
Managing Executive Officer	11 persons	88	Common stock	8,800 shares
Executive Officer	16 persons	123	Common stock	12,300 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.
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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Equity

(Millions of yen)
(For the year ended December 31, 2021)

	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, 2020	174,762	404,620	69,436	3,409,371	3,478,807	(324,789)	(1,158,369)	2,575,031	209,010	2,784,041
Equity transactions with noncontrolling interests and other		(62)						(62)	1,725	1,663
Dividends to Canon Inc. shareholders				(88,891)	(88,891)			(88,891)		(88,891)
Dividends to noncontrolling interests									(5,181)	(5,181)
Transfers to legal reserve		(1,429)	(1,421)	2,850	1,429			-		-
Comprehensive income:										
Net income				214,718	214,718			214,718	16,122	230,840
Other comprehensive income (loss), net of tax:										
Foreign currency translation adjustments						119,165		119,165	1,274	120,439
Net gains and losses on derivative instruments						(994)		(994)	22	(972)
Pension liability adjustments						54,824		54,824	1,684	56,508
Total comprehensive income (loss)								387,713	19,102	406,815
Repurchases and reissuance of treasury stock		(10)		(11)	(11)		3	(18)		(18)
Balance at December 31, 2021	174,762	403,119	68,015	3,538,037	3,606,052	(151,794)	(1,158,366)	2,873,773	224,656	3,098,429

<Notes to Consolidated Statement of Equity>

1. Number of issued shares as of December 31, 2021 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 30, 2021 Ordinary general meeting of shareholders	Common stock	41,831	40.00	December 31, 2020	March 31, 2021
July 28, 2021 Board of directors' meeting	Common stock	47,060	45.00	June 30, 2021	August 27, 2021

(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, 2022 Ordinary general meeting of shareholders	Common stock	57,517	Retained earnings	55.00	December 31, 2021	March 31, 2022

3. Number of treasury shares for exercisable stock options as of December 31, 2021

Common stock 286,500 shares

Notes to Consolidated Financial Statements

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

Significant Accounting Policies

1. Principles of Consolidation and Investments Accounted for by the Equity Method

The number of consolidated subsidiaries was 329, and the number of affiliated companies accounted for by the equity method was 10 as of December 31, 2021.

2. Basis of Presenting Consolidated Financial Statements

The consolidated financial statements of Canon Inc. (“Canon”) 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 original maturities of three months or less from the date of purchase are considered to be cash equivalents.

4. Foreign Currency Translation

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

In accordance with the Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 321 “Investments”, equity investments that are not consolidated or accounted for under the equity method are measured at fair value and changes are recognized in net income. Realized gains and losses are determined based on the average cost method. Held-to-maturity debt securities are recorded at amortized cost.

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

In accordance with ASC 350 “Intangibles – Goodwill and Other”, 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 21 years for patents and developed technology and 7 years to 15 years for customer relationships.

9. Impairment of Long-Lived Assets

In accordance with ASC 360 “Property, Plant, and Equipment”, long-lived assets, such as property, plant and equipment, and acquired intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds its estimated sum of undiscounted future cash flows, an impairment 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 credit losses)

In accordance with ASC 326 “Financial Instruments – Credit Losses”, an allowance for credit losses is provided based on a current expected credit loss model.

(Accrued pension and severance cost)

In accordance with ASC 715 “Compensation – Retirement Benefits”, pension and severance cost are 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>

There was no recently adopted accounting guidance.

<Notes to Change in Presentation Method>

1. Presentation of short-term loans

Canon has changed the presentation of “Short-term loans related to financial services” separated from “Short-term loans and current portion of long-term debt” from the current fiscal year in the consolidated balance sheets. This change was made to enhance the presentation of the Company’s short-term borrowings for the users of the consolidated financial statements.

2. Presentation of allowance for credit losses

Canon has changed the presentation of allowance for credit losses as defined in Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses – (Topic 326): Measurement of Credit Losses on Financial Instruments, from the current fiscal year.

3. Note to Accounting estimates

Notes to Accounting estimates is disclosed in the consolidated financial statements from the current fiscal year in accordance with the first paragraph of Article 102-3-2 of the Regulation on Corporate Accounting due to the amendment of the Regulation on Corporate Accounting.

<Notes to Accounting Estimates>

The following item is recorded based on the amount using accounting estimates, which may have significant impacts on the consolidated financial statements for the following fiscal year.

Impairment of Goodwill

1. Amounts included in the current year consolidated balance sheet

Goodwill in the current year Consolidated Financial Statements was ¥953,850 million.

2. Other information that contributes to the Consolidated Financial Statements user’s understanding

Goodwill is not amortized, but is instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. All goodwill is allocated to the reporting units. If the carrying amount allocated to the reporting unit exceeds the fair value of the reporting unit, Canon recognizes an impairment charge in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Fair value of a reporting unit is determined primarily based on the discounted cash flow analysis which involves estimates of projected future cash flows and discount rates. Estimates of projected future cash flows

are primarily based on Canon’s forecast of future growth rates. Estimates of discount rates are determined based on the weighted average cost of capital, which considers primarily market and industry data as well as specific risk factors. Canon has completed its impairment test in the fourth quarter of 2021 and determined that there were no reporting units that were at risk of failing the impairment test as the fair value of each reporting unit substantially exceeded its respective carrying amount. As a result, a future reduction in cash flows of the related business, could trigger an impairment and may have a significant impact on the Consolidated Financial Statements for the following fiscal year.

A significant amount of goodwill was allocated to the Medical Reporting Unit, which was ¥537,183 million in the consolidated balance sheet for the current fiscal year. Future cash flows for the Medical Reporting Unit were based on a mid-term management plan that took into account the future market growth of medical equipment and economic growth in areas where Canon operates its medical business.

<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, 2021, 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 speculative purposes.

2. Fair Value of Financial Instruments

The estimated fair values of Canon’s financial instruments as of December 31, 2021 are set forth below. The following summary excludes cash and cash equivalents, trade 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 ¥6,661 million).

	Carrying amount	Estimated fair value	Difference
(Millions of yen)			
Securities:			
Held-to-maturity debt securities	2,164	2,167	3
Equity securities	29,249	29,249	-
Long-term debt, including current portion	(177,410)	(177,343)	67
Foreign exchange contracts:			
Assets	65	65	-
Liabilities	(2,119)	(2,119)	-

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

Held-to-maturity debt securities

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

Equity securities

The fair values of equity 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 Business Combination>

On September 28, 2021, Canon acquired 87.0% of the issued shares of Redlen Technologies Inc. ("Redlen"), a Canada-based company, for the cash consideration of ¥31,640 million, making it a wholly owned subsidiary of Canon.

By acquiring Redlen, Canon will strengthen the medical systems business including CT systems and Canon will continue to contribute to the advancement of global diagnostic imaging through the medical component business.

The acquisition was accounted for using the acquisition method of accounting. Acquisition-related costs were expensed as incurred and were not material. Prior to the acquisition date, Canon held an investment in Redlen at a value of ¥1,252 million. Using step acquisition accounting, Canon remeasured the acquisition-date carrying value of its previously held equity investment at its fair value of ¥5,223 million using the fair value of Redlen's issued shares on the acquisition date, which resulted in a gain of approximately ¥3,971 million, recorded in other, net of other income (deductions) in the consolidated statements of income.

The estimated fair values of the purchase price of the assets acquired and liabilities assumed at the acquisition date were ¥8,955 million for intangible assets, ¥4,432 million for current assets and noncurrent assets (excluding the intangible assets) and ¥5,350 million for liabilities. The residual amount of ¥28,826 million was recorded as goodwill.

<Note to Subsequent Event>

On January 5, 2022, Canon borrowed ¥70 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)
(For the year ended December 31, 2021)

	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	Other retained earnings									
				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	4	3,609	1,249,928	624,166	(1,158,354)	1,222,517	2,930	(225)	536	1,225,758
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					(135)		135		-				-
Dividends paid							(88,891)		(88,891)				(88,891)
Net income							227,999		227,999				227,999
Purchase of treasury stock								(17)	(17)				(17)
Disposal of treasury stock							(9)	20	11				11
Net changes of items other than shareholders' equity									-	2,613	(11)	87	2,689
Total changes of items during the period	-	-	-	(3)	(135)	-	139,237	3	139,102	2,613	(11)	87	141,791
Balance at the end of current period	174,762	306,288	22,114	1	3,474	1,249,928	763,403	(1,158,351)	1,361,619	5,543	(236)	623	1,367,549

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

1. Number of issued shares as of December 31, 2021 1,333,763,464 shares

2. 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	287,989,819	6,965	5,079	287,991,705

(Reason for change)

The increase of shares reflects the acquisition of 6,965 shares of the purchase of shares less-than-one-unit, requested by shareholders.

The decrease of shares reflects the transfer of exercise of 4,800 shares of stock options, and 279 shares of the sale of shares less-than-one-unit, requested by shareholders.

3. 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 30, 2021 Ordinary general meeting of shareholders	Common stock	41,831	40.00	December 31, 2020	March 31, 2021
July 28, 2021 Board of directors' meeting	Common stock	47,060	45.00	June 30, 2021	August 27, 2021

(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, 2022 Ordinary general meeting of shareholders	Common stock	57,517	Retained earnings	55.00	December 31, 2021	March 31, 2022

4. Number of treasury shares for exercisable stock options as of December 31, 2021

Common stock 286,500 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 quoted share price publicly available ----stated at fair value (unrealized holdings gains and losses are reported in accumulated other comprehensive income, when sold, the cost is based on the moving average method).
Securities without quotation----stated at cost using the moving average method.

2. Valuation of Inventories

Inventories valued at cost using the periodic average method (amount shown in the balance sheet is reported at lower of cost or market).

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 projected future revenue of the relevant products of the relevant products (3 years), and with regard to internal-use software, calculated based on the estimated useful period in Canon Inc. ("Canon") (5 years). Goodwill is amortized using 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 contractual lease period is determined as the useful life of each lease asset.

4. Basis of Recording Allowances

- (1) Allowance for doubtful receivables----provided as provision for estimated 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 the individual estimated uncollectible amounts, primarily determined based on the respective customer's financial conditions.
- (2) Accrued warranty expenses----provided as general provision for after-sales services and free-of-charge repair service costs on an estimated amount based on the historical costs.
- (3) Accrued bonuses for employees----provided as general provision for bonuses to employees based on an amount expected to be paid.
- (4) Accrued directors' bonuses----provided as general provision for bonuses to directors based on an amount expected to be paid.
- (5) Accrued pension and severance cost----provided as general provision for employee retirement and severance benefits based on projected benefit obligation and plan assets as of December 31, 2021. Prior service cost and actuarial gains and losses are amortized using 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 rewards to long-service employees in accordance with management policy based on an amount expected to be paid.

5. Hedge Accounting

- (1) Hedge accounting----Deferral hedge accounting has been applied.
- (2) Hedging instruments and hedged items
Hedging instruments----derivative transactions (foreign exchange contract)
Hedged items----accounts receivable denominated in foreign currency for forecasted transactions.
- (3) Hedge policy----Derivative financial instruments are comprised principally of foreign exchange contracts to hedge the currency risk in accordance with the Canon's policy. 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 corporate-tax system---- applied

<Notes to Changes in Method of Presentation>

Notes to Significant Accounting Estimates are presented in the financial statements due to the adoption of "Accounting Standard for Disclosure of Accounting Estimates" (Accounting Standards Board of Japan ("ASBJ") Statement No.31, March 31, 2020) from the financial statements at December 31, 2021.

<Notes to Accounting Estimates>

The following item is recorded based on the amount using accounting estimates which may have material impacts on the financial statements for the future periods.

Valuation of Investments in affiliated companies for which the fair value is difficult to determine.

1. Amount recorded on the balance sheet as of December 31, 2021.

Investments in affiliated companies 1,599,642 million yen
(Of the reported amount, 1,465,244 million yen pertains to investments in affiliated companies for which fair value is difficult to determine.)

2. Other information that contributes to the understanding of the users of the Financial Statements with regard to the estimate.

The net asset value of subsidiaries for which it is difficult to determine its fair values is calculated by taking into account excess earning power, which is based on the financial statements and business plans of the subsidiaries. Excess earning power is measured mainly based on estimated future cash flows of the subsidiaries and estimated discount rates. Estimates of future cash flows are based primarily on projections of future growth rates. Discount rate estimates are primarily based on relevant market and industry data and the weighted average cost of capital, taking into account specific risk factors.

The net asset value of the subsidiary's shares is not significantly lower than the acquisition cost, and the Company has determined that an impairment loss on the subsidiary's shares is not necessary.

However, if future cash flows of the subsidiary decrease more than expected due to changes in the uncertain economic environment in the future, an impairment loss may be recognized, which may have a material impact on the financial statements for the following fiscal year.

Investment in a subsidiary, Canon Medical Systems Corporation ("CMSC"), represents a significant investment of the Company, and is recorded at 658,304 million yen in the current fiscal year financial statements. We estimated the future cash flows for CMSC based on a mid-term management plan developed by considering the expected market growth of medical equipment products and macro-economic growth of relevant regions.

<Notes to Deferred Income Tax>

Major Items of Deferred Tax Assets and Liabilities

(Deferred tax assets)	(millions of yen)
Accrued pension and severance cost	17,514
Investments in subsidiaries	7,365
Loss on valuation of inventories	2,031
Outstanding enterprise tax	1,695
Depreciation of fixed assets in excess of limit	13,549
Excess in amortization of software	5,600
Amortization of deferred charges in excess of limit	13,171
Other	10,753
<u>Subtotal deferred tax assets</u>	<u>71,678</u>
Valuation reserve	(9,382)
<u>Total deferred tax assets</u>	<u>62,296</u>
(Deferred tax liabilities)	
Reserve for deferral of capital gain on property	(1,525)
Other	(4,144)
<u>Total deferred tax liabilities</u>	<u>(5,669)</u>
<u>Net deferred tax assets</u>	<u>56,627</u>

(Note) Application of Tax Effect Accounting for the transition from the consolidated corporate-tax 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" (ASBJ Practical Issues Task Force ("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, 2021
Subsidiary	Canon Marketing Japan Inc.	(Possession) Direct: 58.5% Indirect: 0.0%	Borrowings of funds	Borrowings of funds	-	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	146,954	Accounts payable	40,226
Subsidiary	Canon Finetech Nisca Inc.	(Possession) Direct: 100%	Borrowings of funds	Repayment of funds	16,540	Short-term loans payable	42,492
Subsidiary	Canon Tokki Corporation	(Possession) Direct: 100%	Borrowings of funds Interlocking directorate	Repayment of funds	17,943	Short-term loans payable	35,292
Subsidiary	Canon U.S.A., Inc.	(Possession) Direct: 100%	Sales of the Company's products	Sales of the Company's products	390,485	Accounts receivable	71,155
			Borrowings of funds Interlocking directorate	Borrowings of funds	5,804	Short-term loans payable	57,954
Subsidiary	Canon Europa N.V.	(Possession) Indirect: 100%	Sales of the Company's products	Sales of the Company's products	377,003	Accounts receivable	57,433
			Borrowings of funds Interlocking directorate	Repayment of funds	6,869	Short-term loans payable	179,433
Subsidiary	Canon Singapore Pte. Ltd.	(Possession) Direct: 100%	Sales of the Company's products	Sales of the Company's products	182,600	Accounts receivable	8,717
			Borrowings of funds Interlocking directorate	Borrowings of funds	2,776	Short-term loans payable	89,716
Subsidiary	Canon (China) Co., Ltd.	(Possession) Direct: 100%	Borrowings of funds Interlocking directorate	Borrowings of funds	26,613	Short-term loans payable	69,809
Subsidiary	Canon Vietnam Co., Ltd.	(Possession) Direct: 100%	Production of the Company's products Interlocking directorate	Purchase of products, components and others	148,719	Accounts payable	42,118

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

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

(Note 2) Consumption taxes are excluded from the transaction amount, however, included in the balance at December 31, 2021.

(Note 3) The loans payable from Canon Marketing Japan Inc., Canon Finetech Nisca Inc., Canon Tokki Corporation, 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 interest payments are determined reasonably based on market interest rates.

(Note 4) 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 5, 2022, Canon borrowed ¥70 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.