

TO OUR SHAREHOLDERS

MATTERS OMITTED
FROM THE NOTICE OF CONVOCATION OF
THE ORDINARY GENERAL MEETING OF SHAREHOLDERS
FOR THE 122ND 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

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.

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.

1. Name

Stock Acquisition Rights issued in April of 2022

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

254,100 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

April 29, 2022 to April 28, 2052

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

Chairman & CEO	1 person	122	Common stock	12,200 shares
Executive Vice President	2 persons	113	Common stock	11,300 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.

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 2022

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

254,100 yen

3. Exercise Price (per Share)

1 yen

4. Exercise Period

April 29, 2022 to April 28, 2052

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

Senior Managing Executive Officer	7 persons	172	Common stock	17,200 shares
Managing Executive Officer	9 persons	146	Common stock	14,600 shares
Executive Officer	17 persons	137	Common stock	13,700 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)
(For the year ended December 31, 2022)

	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, 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
Equity transactions with noncontrolling interests and other		298	(4,538)	4,536	(2)			296	(1,151)	(855)
Dividends to Canon Inc. shareholders				(119,326)	(119,326)			(119,326)		(119,326)
Dividends to noncontrolling interests									(6,161)	(6,161)
Transfers to legal reserve		1,432	1,032	(2,464)	(1,432)			-		-
Comprehensive income:										
Net income				243,961	243,961			243,961	16,123	260,084
Other comprehensive income (loss), net of tax:										
Foreign currency translation adjustments						185,768		185,768	795	186,563
Net unrealized gains and losses on securities						(34)		(34)		(34)
Net gains and losses on derivative instruments						466		466	(17)	449
Pension liability adjustments						28,217		28,217	1,680	29,897
Total comprehensive income (loss)								458,378	18,581	476,959
Repurchases and reissuance of treasury stock		(11)		(9)	(9)		(99,996)	(100,016)		(100,016)
Balance at December 31, 2022	174,762	404,838	64,509	3,664,735	3,729,244	62,623	(1,258,362)	3,113,105	235,925	3,349,030

<Notes to Consolidated Statement of Equity>

1. Number of issued shares as of December 31, 2022 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, 2022 Ordinary general meeting of shareholders	Common stock	57,517	55.00	December 31, 2021	March 31, 2022
July 26, 2022 Board of directors' meeting	Common stock	61,809	60.00	June 30, 2022	August 26, 2022

(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, 2023 Ordinary general meeting of shareholders	Common stock	60,931	Retained earnings	60.00	December 31, 2022	March 31, 2023

3. Number of treasury shares for exercisable stock options as of December 31, 2022

Common stock 350,600 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 330, and the number of affiliated companies accounted for by the equity method was 10 as of December 31, 2022.

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") 320 "Investments-Debt Securities" and 321 "Investments-Equity Securities", equity investments that are not consolidated or accounted for under the equity method and available-for-sale debt securities are measured at fair value. Changes in fair value are recognized in net income for equity investments, and recognized in other comprehensive income for available-for-sale debt securities. Realized gains and losses are determined based on the average cost method.

7. Depreciation Methods of Property, Plant and Equipment

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 10 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 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.

14. Standards of Accounting for Revenues and Expenses

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

<Notes to Changes in Accounting Policies>

There was no recently adopted accounting guidance.

<Notes to Change in Disclosure Method>

1. Disclosure of Standards of Accounting for Revenues and Expenses

Standards of accounting for revenues and expenses is disclosed in the consolidated financial statements from the current fiscal year in accordance with the second paragraph of Article 101 of the Regulation on Corporate Accounting due to the amendment of the Regulation on Corporate Accounting.

2. Expansion of Note to Revenue Recognition

Note to Revenue Recognition is expanded in the consolidated financial statements from the current fiscal year in accordance with the second paragraph of Article 115 of the Regulation on Corporate Accounting due to the amendment of the Regulation on Corporate Accounting.

3. Expansion of Notes to Financial Instruments

Notes to Financial Instruments is expanded in the consolidated financial statements from the current fiscal year in accordance with the third item in the first paragraph of Article 109 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 ¥972,626 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 and determined that there were no reporting units that failed the impairment test as the fair value of each reporting unit 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 ¥542,695 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. No single customer accounted for more than 10 percent of consolidated trade receivables as of December 31, 2022. 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, 2022 are set forth below. The following summary excludes cash and cash equivalents except for certain highly liquid investments acquired with original maturities of three months or less, 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 ¥6,808 million).

	Carrying amount	Estimated fair value	Difference
Cash and cash equivalents	627	627	-
Short-term investments:			
Available-for-sale:			
Corporate bonds	9,301	9,301	-
Investments:			
Available-for-sale:			
Corporate bonds	4,785	4,785	-
Fund trusts and others	638	638	-
Equity securities	21,770	21,770	-
Long-term debt, including current portion	(54,205)	(54,205)	-
Prepaid expenses and other current assets:			
Derivatives	2,715	2,715	-
Other current liabilities:			
Derivatives	(1,262)	(1,262)	-

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 3. Breakdown of Fair Value of Financial Instruments by Levels.

3. Breakdown of Fair Value of Financial Instruments by Levels

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy that prioritizes the inputs used to measure fair value is as follows:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity's own assumptions about the assumptions that market participants would use in establishing a price.

Assets and liabilities measured at fair value on a recurring basis

The following tables present Canon's assets and liabilities that are measured at fair value on a recurring basis consistent with the fair value hierarchy at December 31, 2022.

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	-	627	-	627
Short-term investments:				
Available-for-sale:				
Corporate bonds	-	9,301	-	9,301
Investments:				
Available-for-sale:				
Corporate bonds	-	4,785	-	4,785
Fund trusts and others	255	383	-	638
Equity securities	21,770	-	-	21,770
Prepaid expenses and other current assets:				
Derivatives	-	2,715	-	2,715
Total assets	22,025	17,811	-	39,836
Liabilities:				
Other current liabilities:				
Derivatives	-	(1,262)	-	(1,262)
Total liabilities	-	(1,262)	-	(1,262)

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. Assets and liabilities classified as level 2 instruments are cash and cash equivalents, debt securities included in both investments and short-term investments, long-term debt, and derivatives. Level 2 cash and cash equivalents and debt securities included in investments and short-term investments are valued based on market approach, using quoted prices for identical assets in markets that are not active or quotes obtained from counterparties or third parties.

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

There were no significant assets or liabilities to be measured at fair value on a nonrecurring basis during the year ended December 31, 2022.

<Note to Real Estate for Rent and Others>

There was no significant item.

<Notes to Revenue Recognition>

1. Disaggregated revenue

Information about operating results for each segment as of and for the years ended December 31, 2022 is as follows:

	(Millions of yen)						
	Printing	Imaging	Medical	Industrial	Others and Corporate	Eliminations	Consolidated
Revenue recognized at a point in time	1,673,767	795,442	348,138	259,317	211,956	(99,588)	3,189,032
Revenue recognized over time	588,171	8,038	165,193	69,915	11,065	-	842,382
Total	2,261,938	803,480	513,331	329,232	223,021	(99,588)	4,031,414

Revenue recognized over time includes primarily revenue from maintenance service in the products of the Printing Business Unit and the Medical Business Unit and sales of certain equipment of the Industrial Business Unit which do not have alternative use and for which Canon has enforceable right to payment to the customers for the performance completed to date.

2. Fundamental information for understanding revenue

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

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

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

The majority of service arrangements for the products are executed in combination with related products. Transaction prices for products and services need to be allocated to each performance obligation on a relative

standalone selling price basis where judgements are required. Canon estimates the standalone selling price using a range of prices that would meet the allocation objective based on all the information that is reasonably available including market conditions and other observable inputs. If transaction prices of the product or service contracts are not within the acceptable range then the revenue is subject to allocation based on the estimated standalone selling prices. Canon recognizes the incremental costs of obtaining a contract as an expense when related products of the Printing Business Unit are sold.

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

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

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

3. Information to understand the amount of revenue in 2022 and 2023 and onward

Canon recognizes contract assets primarily for unbilled receivables mainly arising from services contracts for the products of the Printing Business Unit. Contract assets are reclassified to trade receivables when they are billed under the terms of the contract. The difference between the opening and closing balances of contract assets primarily results from the timing difference of Canon's performance and billing to customers. Contract assets at December 31, 2022 were ¥39,251 million, and are included in prepaid expenses and other current assets in the consolidated balance sheets.

Canon typically bills to the customer when the performance obligation is satisfied and collects the payment in relatively short term except for certain maintenance service of the products of the Printing Business Unit and the Medical Business Unit and certain industrial equipment for which Canon occasionally receives the payment in advance from customers. The amount received in excess of revenue recognized is recorded as deferred revenue until the performance obligation for distinct goods or services are satisfied. Deferred revenue at December 31, 2022 were ¥141,840 million, and are included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets. Revenue recognized for the year ended December 31, 2022, which had been included in the deferred revenue balance at December 31, 2021, was ¥112,720 million. Remaining performance obligations for products and equipment at December 31, 2022 primarily arise from the sales of certain industrial equipment, amounting to ¥163,039 million, 64% of which is expected to be recognized as revenue within one year, 31% is within two years and remaining 5% is within three years. Disclosure of remaining performance obligations is not required for the majority of services since the related revenue is recognized on an as billed basis applying the right to invoice practical expedient or is generated from the contracts with original expected duration of less than one year. The portion of fixed maintenance service contract for the products of the Printing Business Unit and the Medical Business Unit with original expected duration of more than one year is ¥110,782 million and the average remaining period for these fixed contracts as of December 31, 2022 is about 2 years.

<Note to Subsequent Event>

On January 5, 2023, Canon borrowed ¥140 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, 2022)

	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			Retained earnings brought forward						
				Reserve for special depreciation	Reserve for deferral of capital gain on property	Special reserves							
Balance at the beginning 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
Changes of items during the period													
Transfer to reserve for special depreciation									-				-
Reversal of reserve for special depreciation				(1)			1		-				-
Transfer to reserve for deferral of capital gain on property									-				-
Reversal of reserve for deferral of capital gain on property					(135)		135		-				-
Dividends paid							(119,326)		(119,326)				(119,326)
Net income							193,624		193,624				193,624
Purchase of treasury stock								(100,017)	(100,017)				(100,017)
Disposal of treasury stock							(9)	21	12				12
Net changes of items other than shareholders' equity									-	(1,218)	315	164	(739)
Total changes of items during the period	-	-	-	(1)	(135)	-	74,425	(99,996)	(25,707)	(1,218)	315	164	(26,446)
Balance at the end of current period	174,762	306,288	22,114	-	3,339	1,249,928	837,828	(1,258,347)	1,335,912	4,325	79	787	1,341,103

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

1. Number of issued shares as of December 31, 2022 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	287,991,705	30,263,725	5,334	318,250,096

(Reason for change)

The increase of shares reflects the acquisition of 30,258,100 shares as approved by the resolution of the board of director's meeting, and 5,625 shares of the purchase of shares less-than-one-unit, requested by shareholders.

The decrease of shares reflects the transfer of exercise of 4,900 shares of stock options, and 434 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, 2022 Ordinary general meeting of shareholders	Common stock	57,517	55.00	December 31, 2021	March 31, 2022
July 26, 2022 Board of directors' meeting	Common stock	61,809	60.00	June 30, 2022	August 26, 2022

(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, 2023 Ordinary general meeting of shareholders	Common stock	60,931	Retained earnings	60.00	December 31, 2022	March 31, 2023

4. Number of treasury shares for exercisable stock options as of December 31, 2022

Common stock 350,600 shares

Notes to Non-Consolidated Financial Statements

<Notes to Significant Accounting Policies>

1. Valuation of Securities

- (1) Shares in subsidiaries and affiliates----stated at cost based on the moving average method.
- (2) Other securities:
Other than non-marketable equity securities----stated at fair value (unrealized gains and losses are reported in valuation and translation adjustments, realized gains and losses are measured based on the moving average cost method).
Non-marketable equity securities----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) Allowances for bad debts----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, 2022. In calculating retirement benefit obligations, the method of attributing estimated retirement benefits to the period up to the current fiscal year is based on the benefit formula basis. Prior service cost is

expensed using the straight-line method over the average remaining service period of employees at the time the cost is incurred. Actuarial gains and losses are expensed using the straight-line method over the average remaining service periods of employees from the following year when costs are incurred.

- (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. Standards of Accounting for Revenues and Expenses

Canon provides products, consumables and product-related services primarily in each segment: Printing Business Unit, Imaging Business Unit, Medical Business Unit and Industrial Business Unit.

For sales of products and consumables and rendering of services, the performance obligations are identified based on contracts with customers.

Revenue is recognized primarily at a point in time upon shipment or delivery for products that do not require installation at the time of delivery to customers, and at a point in time upon installation and acceptance for products that require installation, as Canon determines that the customer has gained control over the products and that the performance obligations have been satisfied.

For the services, if the performance obligation is satisfied at a point in time upon, revenue is recognized at the point when the services are completed. If the performance obligation is satisfied over time, revenue is recognized over the period during which services are rendered.

The transaction price of products and services is allocated to each performance obligation based on a ratio of the reasonably calculated independent selling price. If independent selling prices are not directly observable, we estimate them. The variable consideration included in the transaction price is included in the transaction price when the uncertainty is resolved and is periodically reviewed.

6. 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.

7. 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 for Changes in Accounting Policies>

Adoption of "Accounting Standard for Fair Value Measurement"
Canon has adopted the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the "Fair Value Measurement Standard") and other standards from the beginning of the current fiscal year, and in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policies prescribed by the Fair Value Measurement Standard and other standards are applied prospectively, or have been applied prospectively at the beginning of the current period. The application of this standard has no impact on our financial statements.

<Notes to Changes in Method of Presentation>

Changes in presentation of revenue recognition

Canon has changed the notes to revenue recognition as it has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as the "Revenue Recognition Standard") and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021).

Changes in presentation of shares in affiliates and investments in affiliates
Canon has changed the presentation of "Shares of affiliates companies and investments in affiliates companies," which was presented in aggregate in prior year, and separately presented "Shares in subsidiaries and associates" and "Capital contribution in subsidiaries and associates" in the current year non-consolidated balance sheet due to increased significances. The prior year amounts are also reclassified to conform with the current year change.

<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 subsidiaries for which fair value is not determinable.

1. Amount recorded on the balance sheet as of December 31, 2022.

Investments in affiliated companies 1,560,635 million yen
(Of the reported amount, 1,470,371 million yen pertains to investments in subsidiaries for which fair value is not determinable.)

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	17,847
Shares in subsidiaries	7,309
Loss on valuation of inventories	1,997
Enterprise tax payable	1,179
Depreciation of fixed assets in excess of limit	14,246
Excess in amortization of software	5,592
Amortization of deferred charges in excess of limit	15,257
Other	11,188
Subtotal deferred tax assets	74,615
Valuation reserve	(9,527)
Total deferred tax assets	65,088
(Deferred tax liabilities)	
Reserve for deferral of capital gain on property	(1,465)
Other	(3,554)
Total deferred tax liabilities	(5,019)
Net deferred tax assets	60,069

(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, 2022
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	169,965	Accounts payable	45,760
Subsidiary	Canon Finetech Nisca Inc.	(Possession) Direct: 100%	Borrowings of funds	Repayment of funds	2,444	Short-term loans payable	40,048
Subsidiary	Canon Tokki Corporation	(Possession) Direct: 100%	Borrowings of funds Interlocking directorate	Borrowings of funds	6,121	Short-term loans payable	41,413
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	484,605	Accounts receivable	93,695
				Borrowings of funds	5,810	Short-term loans payable	63,764
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	420,624	Accounts receivable	79,982
				Repayment of funds	9,573	Short-term loans payable	169,861
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	223,075	Accounts receivable	13,480
				Borrowings of funds	13,790	Short-term loans payable	103,506
Subsidiary	Canon (China) Co., Ltd.	(Possession) Direct: 100%	Borrowings of funds Interlocking directorate	Repayment of funds	8,330	Short-term loans payable	61,478
Subsidiary	Canon Vietnam Co., Ltd.	(Possession) Direct: 100%	Production of the Company's products Interlocking directorate	Purchase of products, components and others	223,509	Accounts payable	53,130

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

(Note 1) The transactions above are determined on arm's length transaction price basis.

(Note 2) Consumption taxes are excluded from the transaction amount, however, included in the balance at December 31, 2022.

(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>

Please refer to "Notes to Revenue Recognition, 2. Fundamental information for understanding revenue" in Notes to Consolidated Financial Statements.

<Note to Subsequent Event>

On January 5, 2023, Canon borrowed 140 billion yen 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.