

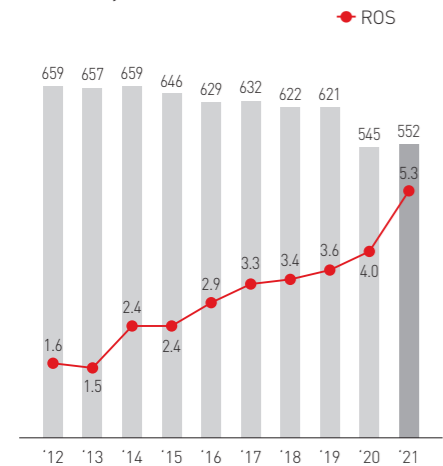
# 10-Year Consolidated Financial Summary

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2021
										Millions of yen	Thousands of U.S. dollars [Note 1]
<b>For the year:</b>											
Net sales <sup>[Note 4]</sup>	¥ 659,218	¥ 657,215	¥ 659,432	¥ 646,002	¥ 629,313	¥ 632,189	¥ 621,591	¥ 621,134	¥ 545,060	¥ 552,085	\$ 4,800,739
Operating income	16,802	17,012	25,087	26,647	27,676	30,406	28,941	32,439	31,317	39,699	345,209
Net income before income taxes	17,528	17,054	25,858	27,497	28,903	30,918	30,708	33,302	33,463	43,094	374,730
Net income attributable to owners of the parent	10,578	10,167	16,030	15,670	18,161	20,679	20,826	22,250	21,997	29,420	255,826
<b>At year-end:</b>											
Equity	254,088	257,075	270,352	277,438	280,919	297,522	303,570	325,092	346,114	374,676	3,258,052
Total assets	462,574	467,076	479,747	486,502	497,727	510,832	498,790	503,698	506,604	526,418	4,577,548
<b>Cash flows:</b>											
Cash flows from operating activities	33,767	28,780	38,190	29,730	33,306	28,885	16,990	22,052	38,490	32,756	284,835
Cash flows from investing activities	(16,066)	(25,757)	(15,221)	(44,536)	(19,460)	7,963	(10,526)	(94,584)	(26,174)	(15,894)	(138,209)
Cash flows from financing activities	(11,813)	(9,105)	(4,544)	(6,224)	(6,086)	(7,145)	(7,838)	(8,557)	(6,587)	(9,160)	(79,652)
Cash and cash equivalents at end of year	108,259	102,182	120,607	99,573	107,285	136,979	135,571	54,493	60,131	68,028	591,548
<b>Per share of common stock:</b>											
Equity	¥ 1,907.50	¥ 1,980.22	¥ 2,082.60	¥ 2,136.22	¥ 2,162.96	¥ 2,290.70	¥ 2,336.97	¥ 2,502.39	¥ 2,664.20	¥ 2,883.74	\$ 25.08
Net income <sup>[Note 2]</sup>	77.45	76.67	123.62	120.84	140.06	159.48	160.61	171.60	169.65	226.88	1.97
Cash dividends <sup>[Note 3]</sup>	24.00	24.00	40.00	45.00	50.00	60.00	60.00	60.00	60.00	75.00	0.65

Notes: 1. The figures have been presented in U.S. dollars by translating all Japanese yen amounts at ¥115 to U.S.\$1, the prevailing exchange rate as of December 31, 2021.  
 2. Net income per share is based on the weighted-average number of shares of common stock outstanding during the respective fiscal years.  
 3. Cash dividends per share are the amounts applicable to the respective fiscal years, including dividends to be paid after the end of the respective fiscal years.  
 4. Effective fiscal 2013, we have changed to an accounting method that deducts a portion of sales incentives (which had previously been accounted for under selling, general and administrative expenses) from net sales; therefore, the amount of net sales for fiscal 2012 and relevant key management indicators have been adjusted retroactively.

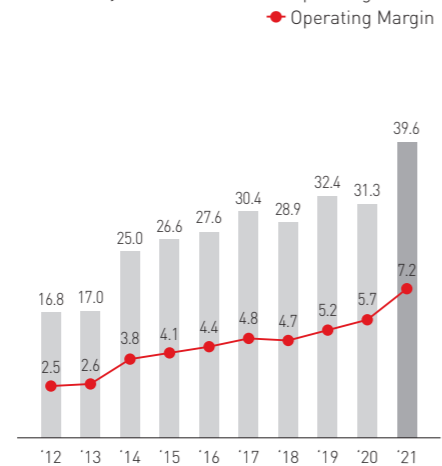
## Net Sales and Return on Sales (ROS)

(Billions of yen / %)



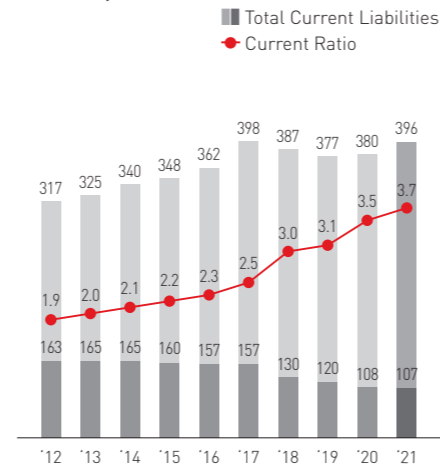
## Operating Income and Operating Margin

(Billions of yen / %)



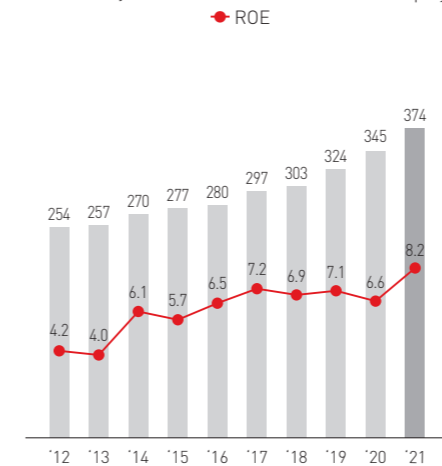
## Working Capital

(Billions of yen / Times)



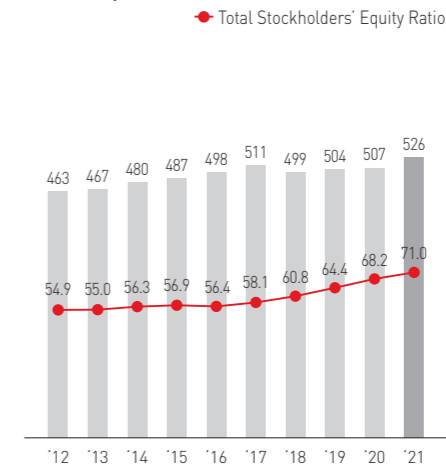
## Total Stockholders' Equity and ROE

(Billions of yen / %)



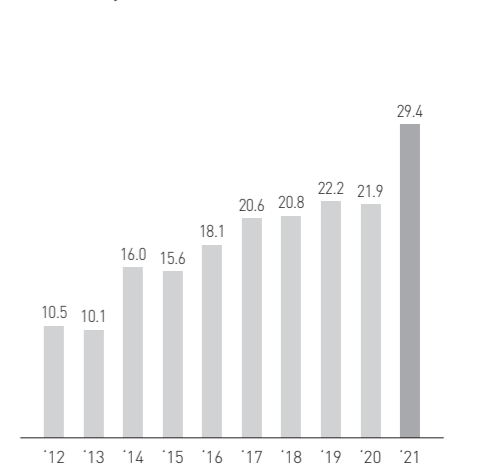
## Total Assets and Total Stockholders' Equity Ratio

(Billions of yen / %)



## Net Income Attributable to Owners of the Parent

(Billions of yen)



## Consolidated Balance Sheet

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
December 31, 2021

[Millions of yen]

	2021	2020
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Notes 6 and 23)	¥ 68,028	¥ 60,131
Notes and accounts receivable-trade (Notes 7 and 23)	107,367	105,328
Inventories (Note 8)	35,236	27,826
Short-term loans receivable (Note 23)	180,004	180,006
Other current assets	5,469	7,122
Allowance for doubtful receivables	(24)	(66)
Total current assets	396,082	380,349
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land	28,359	28,359
Buildings and structures	74,945	69,904
Machinery and vehicles	166	166
Furniture and fixtures	16,092	16,266
Rental assets	36,735	38,177
Lease assets	39	78
Construction in progress	2,392	1,577
Total	158,732	154,532
Accumulated depreciation	(73,578)	(70,802)
Net property, plant and equipment	85,154	83,729
<b>INTANGIBLE ASSETS:</b>		
Software	6,226	5,373
Lease assets	—	1
Utilization rights	303	294
Other intangible assets	0	0
Total intangible assets	6,530	5,669
<b>INVESTMENTS AND OTHER ASSETS:</b>		
Investments in securities (Notes 9 and 23)	17,353	11,302
Long-term loans receivable	35	35
Prepaid pension and severance costs (Note 14)	421	415
Lease deposits (Note 10)	2,961	3,427
Deferred tax assets (Notes 3 and 18)	14,974	19,219
Other investments and other assets	2,999	2,659
Allowance for doubtful receivables	(95)	(205)
Total investments and other assets	38,651	36,855
Total assets (Note 28)	¥ 526,418	¥ 506,604

[Millions of yen]

	2021	2020
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes and accounts payable-trade (Note 23)	¥ 46,323	¥ 44,107
Current portion of long-term lease obligations (Notes 12 and 23)	52	54
Accrued income taxes (Note 18)	6,954	7,004
Consumption taxes payable	6,089	5,547
Accrued expenses	16,127	16,166
Accrued bonuses	4,148	5,664
Accrued directors' bonuses	98	75
Accrued product warranties	291	453
Accrued loss on contracts (Note 8)	308	8
Other current liabilities	26,715	29,356
Total current liabilities	107,109	108,440
<b>LONG-TERM LIABILITIES:</b>		
Long-term lease obligations (Notes 12 and 23)	81	74
Deferred tax liabilities (Note 18)	—	1
Allowance for long-term continuous service rewards	899	951
Accrued pension and severance cost (Note 14)	40,913	47,883
Other long-term liabilities (Note 12)	2,738	3,139
Total long-term liabilities	44,632	52,049
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Notes 15 and 22)</b>		
<b>EQUITY:</b>		
<b>SHAREHOLDERS' EQUITY (Notes 16 and 17):</b>		
Common stock:		
Authorized 299,500,000 shares; issued 131,079,972 and 131,079,972 as of December 31, 2021 and 2020, respectively	73,303	73,303
Capital surplus	82,824	82,814
Retained earnings	208,824	188,481
Treasury stock, at cost; 1,404,790 shares in 2021 and 1,412,822 shares in 2020	(2,092)	(2,103)
Total shareholders' equity	362,859	342,495
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):</b>		
Unrealized gain (loss) on available-for-sale securities	7,873	4,230
Deferred gain (loss) on derivatives under hedge accounting	22	(29)
Foreign currency-translation adjustments	125	5
Defined retirement benefit plans	3,067	(1,243)
Total accumulated other comprehensive income (loss)	11,089	2,962
<b>NON-CONTROLLING INTERESTS</b>	727	655
Total equity	374,676	346,114
Total liabilities and equity	¥ 526,418	¥ 506,604

• See accompanying notes to consolidated financial statements.

## Consolidated Statement of Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Year Ended December 31, 2021

(Millions of yen)

	2021	2020
<b>NET SALES</b> (Note 28)	¥ 552,085	¥ 545,060
<b>COST OF SALES</b> (Notes 8 and 19):	361,809	361,077
Gross profit	190,276	183,982
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Notes 19 and 20):	150,576	152,665
Operating income (Note 28)	39,699	31,317
<b>OTHER INCOME (EXPENSES):</b>		
Interest and dividend income	558	398
Interest expense	(12)	(12)
Insurance income	506	452
Foreign exchange losses	(6)	(5)
Gain on investments in partnership	278	231
Subsidies for employment adjustment under COVID-19	—	2,744
Gain on sales of long-lived assets (Note 21)	6	283
Insurance income due to disaster (Note 21)	202	—
Gain on sales of investments in securities (Note 9)	1,255	278
Gain on sales of shares of subsidiaries and associates	895	—
Loss on sales of shares of subsidiaries and associates	(40)	(737)
Loss on sales and disposal of long-lived assets (Note 21)	(124)	(1,021)
Loss on disaster (Note 21)	(168)	—
Loss on impairment of investments in securities (Note 9)	(18)	(316)
Loss on COVID-19 (Note 21)	—	(274)
Other, net	63	126
Total other income (expenses)	3,395	2,145
Net income before income taxes	43,094	33,463
<b>INCOME TAXES</b> (Note 18):		
Current	12,971	12,525
Deferred	627	(1,133)
Total income taxes	13,598	11,392
Net income	29,495	22,071
<b>NET INCOME ATTRIBUTABLE TO:</b>		
Non-controlling interests	75	73
Owners of the parent	29,420	21,997
Net income	¥ 29,495	¥ 22,071

(Yen)

<b>PER SHARE DATA</b> (Note 27):		
Net income attributable to owners of the parent		
-Basic	¥ 226.88	¥ 169.65
-Diluted	226.83	169.62
Cash dividends applicable to the year	75.00	60.00

• See accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Year Ended December 31, 2021

(Millions of yen)

	2021	2020
<b>NET INCOME</b>	¥ 29,495	¥ 22,071
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b> (Note 26):		
Unrealized gain (loss) on available-for-sale securities	3,643	302
Deferred gain (loss) on derivatives under hedge accounting	51	(40)
Foreign currency-translation adjustments	137	(56)
Defined retirement benefit plans	4,311	5,253
Total other comprehensive income (loss)	8,144	5,459
<b>Comprehensive income</b>	¥ 37,640	¥ 27,530
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>		
Owners of the parent	¥ 37,547	¥ 27,464
Non-controlling interests	93	66

• See accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Year Ended December 31, 2021

[Thousands of shares / Millions of yen]

	Shareholders' equity						
	Common stock		Capital surplus	Retained earnings	Treasury stock		Total shareholders' equity
	Shares	Amount			Shares	Amount	
<b>Balance at January 1, 2020</b>	151,079	¥ 73,303	¥ 82,820	¥ 202,783	(21,413)	¥ (31,926)	¥ 326,979
Cash dividends	—	—	—	(6,483)	—	—	(6,483)
Net income attributable to owners of the parent	—	—	—	21,997	—	—	21,997
Purchase of treasury stock	—	—	—	—	(1)	(2)	(2)
Disposition of treasury stock	—	—	1	—	2	3	4
Cancellation of treasury stock	(20,000)	—	(29,822)	—	20,000	29,822	—
Transfer from retained earnings to capital surplus	—	—	29,815	(29,815)	—	—	—
Net income attributable to non-controlling interests	—	—	—	—	—	—	—
Cash dividends paid to non-controlling interests	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	—	—
<b>Balance at January 1, 2021</b>	<b>131,079</b>	<b>73,303</b>	<b>82,814</b>	<b>188,481</b>	<b>(1,412)</b>	<b>(2,103)</b>	<b>342,495</b>
Cash dividends	—	—	—	(9,076)	—	—	(9,076)
Net income attributable to owners of the parent	—	—	—	29,420	—	—	29,420
Purchase of treasury stock	—	—	—	—	(1)	(2)	(2)
Disposition of treasury stock	—	—	9	—	9	13	23
Net income attributable to non-controlling interests	—	—	—	—	—	—	—
Cash dividends paid to non-controlling interests	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	—	—
<b>Balance at December 31, 2021</b>	<b>131,079</b>	<b>¥ 73,303</b>	<b>¥ 82,824</b>	<b>¥ 208,824</b>	<b>(1,404)</b>	<b>¥ (2,092)</b>	<b>¥ 362,859</b>

[Millions of yen]

	Accumulated other comprehensive income (loss)						Total equity
	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency-translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income (loss)	Non-controlling interests	
<b>Balance at January 1, 2020</b>	¥ 3,929	¥ 11	¥ 51	¥ (6,497)	¥ (2,504)	¥ 616	¥ 325,092
Cash dividends	—	—	—	—	—	—	(6,483)
Net income attributable to owners of the parent	—	—	—	—	—	—	21,997
Purchase of treasury stock	—	—	—	—	—	—	(2)
Disposition of treasury stock	—	—	—	—	—	—	4
Cancellation of treasury stock	—	—	—	—	—	—	—
Transfer from retained earnings to capital surplus	—	—	—	—	—	—	—
Net income attributable to non-controlling interests	—	—	—	—	—	73	73
Cash dividends paid to non-controlling interests	—	—	—	—	—	(26)	(26)
Net change in the year	301	(40)	(46)	5,253	5,467	(7)	5,459
<b>Balance at January 1, 2021</b>	<b>4,230</b>	<b>(29)</b>	<b>5</b>	<b>(1,243)</b>	<b>2,962</b>	<b>655</b>	<b>346,114</b>
Cash dividends	—	—	—	—	—	—	(9,076)
Net income attributable to owners of the parent	—	—	—	—	—	—	29,420
Purchase of treasury stock	—	—	—	—	—	—	(2)
Disposition of treasury stock	—	—	—	—	—	—	23
Net income attributable to non-controlling interests	—	—	—	—	—	75	75
Cash dividends paid to non-controlling interests	—	—	—	—	—	(21)	(21)
Net change in the year	3,642	51	120	4,311	8,126	17	8,144
<b>Balance at December 31, 2021</b>	<b>¥ 7,873</b>	<b>¥ 22</b>	<b>¥ 125</b>	<b>¥ 3,067</b>	<b>¥ 11,089</b>	<b>¥ 727</b>	<b>¥ 374,676</b>

• See accompanying notes to consolidated financial statements.

## Consolidated Statement of Cash Flows

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Year Ended December 31, 2021

[Millions of yen]

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income before income taxes	¥ 43,094	¥ 33,463
Depreciation and amortization	10,246	11,253
Increase (decrease) in allowance for doubtful receivables	(242)	(179)
Increase (decrease) in accrued pension and severance costs	(544)	2,028
Decrease (increase) in prepaid pension and severance costs	(45)	(19)
Increase (decrease) in accrued bonuses	(1,486)	2,323
Loss (gain) on sales and disposal of property, plant and equipment, net	111	(150)
Loss (gain) on sales of investments in securities	(1,255)	(278)
Loss on impairment of investments in securities	18	316
Loss (gain) on sales of shares of subsidiaries and associates	(855)	737
Loss (gain) on investments in partnership	(278)	(231)
Decrease (increase) in notes and accounts receivable-trade	(1,987)	5,276
Decrease (increase) in inventories	(7,467)	5,357
Increase (decrease) in notes and accounts payable-trade	2,222	(6,262)
Income taxes paid	(13,103)	(13,574)
Other, net	4,330	(1,571)
Net cash provided by operating activities	32,756	38,490
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchases of property, plant and equipment	(14,587)	(14,695)
Proceeds from sales of property, plant and equipment	18	1,010
Payments for purchases of intangible assets	(2,242)	(3,729)
Payments for purchases of investments in securities	(1,089)	(310)
Proceeds from sales of investments in securities	1,893	697
Proceeds from sales of shares of a subsidiary resulting in change in scope of consolidation	847	828
Decrease (increase) in short-term loans receivable, net	2	(9,994)
Other, net	(737)	19
Net cash used in investing activities	(15,894)	(26,174)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of finance lease obligations	(61)	(72)
Payments for purchases of treasury stock	(2)	(2)
Dividends paid	(9,073)	(6,485)
Dividends paid to non-controlling interests	(21)	(26)
Other, net	—	0
Net cash used in financing activities	(9,160)	(6,587)
Effect of exchange rate changes on cash and cash equivalents	195	(91)
Net increase (decrease) in cash and cash equivalents	7,897	5,637
Cash and cash equivalents at beginning of year	60,131	54,493
Cash and cash equivalents at end of year (Note 6)	¥ 68,028	¥ 60,131

• See accompanying notes to consolidated financial statements.

• Certain changes in presentation have been made in the consolidated statement of cash flows of the previous year to conform to the presentation of the current year.

# Notes to Consolidated Financial Statements

Canon Marketing Japan Inc. and Consolidated Subsidiaries  
Year Ended December 31, 2021

## 1 Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of Canon Marketing Japan Inc. (the "Company") and its consolidated subsidiaries (the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Japanese Financial Instruments and Exchange Act. Certain accounts and items presented in the original consolidated financial statements in Japanese have been reclassified for the convenience of readers outside of Japan.

Japanese yen figures less than a million yen are rounded down to the nearest million yen, except for per share data, from the beginning of 2021. Accordingly, such change in presentation has also been reflected to the amounts for the year ended December 31, 2020.

## 2 Summary of Significant Accounting Policies

### (a) Principles of Consolidation

The accompanying consolidated financial statements for the year ended December 31, 2021, include the accounts of the Company and all of its 14 (17 in 2020) subsidiaries. The changes include sale of shares in Edifist Learning Inc., sale of equity interests in MAT Vietnam Company Limited and liquidation of ASAHI-M.A.T. Co., LTD. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated. The Company does not have any associated companies accounted for using either equity method or cost method. All consolidated subsidiaries have the same balance sheet date as the consolidated balance sheet date.

### (b) Cash Equivalents

The Company and its consolidated subsidiaries consider all highly liquid investments, including time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition, to be cash equivalents.

### (c) Inventories

Merchandise and service parts are valued at cost determined by the monthly moving-average method. The carrying amount in the consolidated balance sheet represents the amount after write-downs due to decreased profitability.

Work in process is valued at cost determined by the specific identification method. Supplies are valued at cost determined by the last-purchase price method. The carrying amount in the consolidated balance sheet represents the amount after write-downs due to decreased profitability.

### (d) Allowance for Doubtful Receivables

To cover possible losses on collection, an allowance for receivables with higher risk of collectability is estimated on an individual basis. For all other receivables, an allowance is calculated based on the past experiences of uncollected amount.

### (e) Property, Plant and Equipment, Excluding Lease Assets

Property, plant and equipment, excluding lease assets, are stated at cost. Depreciation is computed by the declining-balance method for property and equipment, with the exception of items that are depreciated by the straight-line method at rates based on the estimated useful lives of the respective assets. Such items are rental assets, certain assets of consolidated subsidiaries, buildings purchased on or after April 1, 1998, exclusive of building improvements, and building improvements and structures purchased on or after April 1, 2016.

The useful lives are as follows:

Buildings and structures, from 3 years to 75 years; furniture and fixtures, from 2 years to 20 years; and rental assets, 3 years.

### (f) Leases

#### (1) Finance lease transactions—Lessee's accounting

Leases that meet criteria including transfer of ownership is recorded as assets. Such lease transactions mainly involved servers used in the Company's IT system and software.

#### (2) Accounting method for depreciation of lease assets

Lease assets under finance lease contracts are depreciated by the straight-line method over their respective lease contract term with zero residual value.

### (g) Long-Lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

### (h) Intangible Assets, Excluding Lease Assets

Software for sales is depreciated by the amount larger of the depreciation calculated based on the estimated sales quantity or the estimated sales revenue, or the depreciation calculated based on the straight-line method using the estimated effective duration of sales up to 3 years. Internal-use software is depreciated by the straight-line method based on the length of in-house durability of 5 years.

### (i) Investments in Securities

Investments in securities consist of debt and equity securities. Held-to-maturity debt securities are stated at amortized cost. Available-for-sale marketable securities are stated at fair market value, with unrealized gain or loss, net of the applicable taxes, reported as a separate component of equity, and costs of securities sold are determined by the moving-average method. Available-for-sale securities whose fair value is not readily determinable are stated at cost determined by the moving-average method.

### (j) Accrued Bonuses

The estimated payment for current year's portion of employees' bonus is recorded based on the projected payments.

### (k) Accrued Directors' Bonuses

The estimated payment for current year's portion of director's bonus is recorded based on the projected payments.

### (l) Accrued Product Warranties

Costs arising from a one-year free warranty contract for consumer products are recorded based on the past experiences of free repairs. Also, at certain subsidiaries, the future payment for free program maintenance and repairs are estimated and accrued for based on the historical figures.

### (m) Accrued Loss on Contracts

To cover possible future losses on contracts in progress at the end of the current year, if the occurrence of loss is probable and the loss amount can be reasonably estimated as of the end of the year, the amount of losses expected to be incurred in the following year and thereafter is recorded.

### (n) Allowance for Long-Term Continuous Service Rewards

The estimated payment is recorded in order to cover payment of rewards to employees in accordance with internal regulations on long-term continuous service.

### (o) Accounting Method for Retirement Benefits

#### (1) Method of attributing estimated amounts of retirement benefits to periods

In calculating retirement benefit obligations, the estimated amount of retirement benefits attributed to a period up to the current year is primarily determined using the benefit formula basis.

#### (2) Amortization of unrecognized actuarial gains and losses and prior service cost

Unrecognized prior service cost is amortized by the straight-line method over the average remaining service period of the eligible employees for past service when occurred. Unrecognized actuarial gains and losses are amortized from the year following the year in which they arose by the straight-line method over the average remaining service period of the eligible employees.

#### (3) Application of simplified method at smaller-sized companies

Certain consolidated subsidiaries apply the simplified method for calculating accrued pension and severance costs and net periodic benefit costs. Under this method, the payments for voluntary early retirement of all eligible employees at the end of the year are recognized as retirement benefit obligations.

## Notes to Consolidated Financial Statements

**(p) Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

**(q) Translation of Foreign Currency Accounts**

All short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates in effect at the consolidated balance sheet date except for foreign currency-denominated payables covered by exchange contracts for hedge purpose. The foreign exchange gains and losses on translation are recognized in the accompanying consolidated statement of income.

**(r) Translation of Subsidiaries' Financial Statements Prepared in Foreign Currency**

The consolidated balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rates in effect at the consolidated balance sheet date, except for the components of equity, excluding non-controlling interests, which are translated at their historical exchange rates.

Revenue and expense accounts are translated at the average exchange rates prevailing during the year.

**(s) Per Share Amounts**

Basic earnings (net income attributable to owners of the parent) per share is computed based on the weighted-average number of shares of common stock outstanding during each period. The computation of diluted earnings per share reflects the maximum possible dilution from exercise of option.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the respective years.

**(t) Standards for Recognizing Significant Revenues and Expenses**

The Group adopted Accounting Standards Board of Japan (ASBJ) Statement No. 29, "Accounting Standard for Revenue Recognition", March 30, 2018, and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition", March 30, 2018. The normal timing for recognizing key performance obligations and revenues in core businesses is as follows.

The Group sells and provides services for Canon products. It also provides products and services in the IT solutions and industrial equipment and healthcare fields. For sales of offerings that do not require customer acceptance inspections, customers normally obtain control of products upon delivery. The Group's performance obligations are thereby deemed fulfilled, and revenue is recognized upon product delivery. Services mainly entail maintenance agreements, and revenue is recognized evenly over the lengths of these agreements or, in accordance with the extent of product usage, based on amounts determined in those agreements.

Each reporting segment has unique revenue recognition methods, as outlined below. As the Enterprise and Area segments provide similar products and services, their revenues are stated collectively.

**Consumers segment**

Sales are measured at discounted prices pledged in agreements with customers, net of rebates and other factors in line with sales. Estimates are based on past trends and other known factors at times of sale. Sales are recognized to the extent that significant reversals are unlikely.

**Enterprise and Area segments**

For product repairs and installations and other services, sales are recognized when it is deemed that services have been completed in keeping with performance obligations. Contract development software sales are recognized based on input methods for software for which the progress can be reasonably estimated. If it is not possible to reasonably estimate the progress, sales are recognized based on cost recovery methods for software where costs are incurred in accordance with progress and are assessed as recoverable.

**Professional segment**

Where equipment performance is subject to customer acceptance inspections, sales are recognized upon such acceptance inspections.

**(u) Research and Development Costs**

Research and development costs are charged to income as incurred.

**(v) Key Hedge Accounting Methods****(1) Hedge accounting method**

Accounts payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations is translated at the contracted rate if the forward contracts qualify for hedge accounting.

**(2) Hedging instrument and Hedged item**

Hedging instrument—Forward exchange contracts  
Hedged item—Foreign currency-denominated payables

**(3) Hedging policy**

The Company hedges the risk of changes in foreign currency-denominated payables' Japanese Yen equivalent cash flow attributable to changes in the related foreign currency exchange rates.

**(4) Hedging effectiveness**

The Company does not assess hedge effectiveness at year-end because hedging instrument and hedged item have the same currency, amount, and due date in accordance with the Company's hedging policy.

**(w) Other Significant Matters for Preparing Consolidated Financial Statements****(1) Accounting for consumption taxes**

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes in the consolidated statement of income.

**(2) Application of consolidated taxation system**

The Company and certain consolidated subsidiaries have adopted the consolidated taxation system.

**(3) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system**

The Company plans to shift from current consolidated taxation system to group tax sharing system which is to be established in the near future. With regard to differences under the group tax sharing system established by Act on Partial Revision of the Income Tax Act (Act No. 8, 2020) and differences under the single tax return filing system reexamined together with transition to the group tax sharing system, the Company and certain consolidated subsidiaries calculate the amounts of deferred tax assets and deferred tax liabilities based on the Income Tax Act before the revision, not applying Paragraph 44 of ASBJ Guidance No. 28, "Implementation Guidance on Tax Effect Accounting", February 16, 2018, as permitted by Paragraph 3 of the PITF No. 39, "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System", March 31, 2020.

**(x) New Accounting Pronouncements****(Accounting Standard and Implementation Guidance on Revenue Recognition)**

ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition", March 31, 2020  
ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition", March 26, 2021

**(1) Summary**

ASBJ established the requirements for presentation and disclosure related to revenue recognition.

**(2) Scheduled application date**

The Group plans to apply the relevant accounting standards from the beginning of the year ending December 31, 2022.

**(Accounting Standard for Fair Value Measurement and other)**

ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement", July 4, 2019  
ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", July 4, 2019  
ASBJ Statement No. 10, "Accounting Standard for Financial Instruments", July 4, 2019  
ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement", July 4, 2019  
ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments", March 31, 2020

## Notes to Consolidated Financial Statements

## (1) Summary

In order to improve the comparability with the international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" were developed and guidance on fair value measurement was established. The accounting standard and the implementation guidance apply to the fair value of the following items:

- Financial instruments under "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes under "Accounting Standard for Measurement of Inventories"

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised and established the principles regarding disclosures such as a breakdown of the fair value of financial instruments by level of the fair value hierarchy.

## (2) Scheduled application date

The Group plans to apply the relevant accounting standards from the beginning of the year ending December 31, 2022.

## (3) Impact of applying relevant accounting standards

The effects on the consolidated financial statements of applying the Accounting Standard for Fair Value Measurement are under evaluation.

**(Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System)**

ASBJ PITF No. 42, "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System", August 12, 2021

## (1) Summary

In conjunction with the shift to the group tax sharing system, the accounting treatment and disclosure of the income taxes and local income taxes and deferred tax accounting when applying the group tax sharing system were established.

## (2) Scheduled application date

The Group plans to apply the ASBJ practical solution from the beginning of the year ending December 31, 2023.

## (3) Impact of applying the ASBJ practical solution

The effects on the consolidated financial statements of applying the ASBJ practical solution are under evaluation.

**3 Significant Accounting Estimates****Recoverability of deferred tax assets**

## (1) Amounts recorded on the consolidated financial statements for the year ended December 31, 2021

	(Millions of yen)
	2021
Deferred tax assets	¥ 14,974

## (2) Information of significant accounting estimate relating to identified items

Because taxable profit was arising in a stable manner for the year ended December 31, 2021 and no significant changes were expected to occur in the business environment in the near future or afterwards as of December 31, 2021, the Group estimates that the deferred tax assets corresponding to deductible temporary differences for which scheduling is possible are recoverable. The Company and some of its domestic consolidated subsidiaries have adopted the consolidated taxation system. The Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System is applied.

The Group determines the estimates for future taxable profit and the circumstances of the business environment based on the management's best estimates and judgments and considers this to be appropriate. However, there is the possibility that these assumptions may be affected by changes in future business plans and economic conditions, or by the amendment or promulgation of related laws and regulations, and if a revision of these assumptions is required, that may affect recognized amounts in the consolidated financial statements in the following year.

**4 Changes in Presentation****(Changes due to the adoption of "Accounting Standard for Disclosure of Accounting Estimates")**

The ASBJ Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates", March 31, 2020 has been applied to the consolidated financial statements from the end of the year ended December 31, 2021, and the note on significant accounting estimates has been provided in the consolidated financial statements.

However, in this note, information on the year ended December 31, 2020, has not been provided in accordance with the transitional treatment provided for in the provisions to paragraph 11 of this accounting standard.

**5 Business Combination**

The information is omitted as it is immaterial.

**6 Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2021 and 2020, consisted of the following:

	2021	2020
Cash and deposits	¥ 67,528	¥ 59,631
Certificates of deposit due within three months	500	500
Cash and cash equivalents	¥ 68,028	¥ 60,131

**7 Notes Maturing at the Year-end**

Notes with maturities at year-end were treated as having been settled on the maturity date, although the consolidated balance sheet date fell on a holiday of financial institutions. The amounts of notes matured at the year-end were as follows:

	2021	2020
Notes receivable-trade	¥ 207	¥ 437
Electronically recorded monetary claims-operating	533	500

**8 Inventories**

Inventories as of December 31, 2021 and 2020, were composed of the following:

	2021	2020
Merchandise	¥ 30,656	¥ 23,197
Service parts	3,922	3,893
Work in process	145	103
Supplies	511	631
Total	¥ 35,236	¥ 27,826

Note: For the software development contracts from which contract losses are expected, the inventory related to such contracts and relevant reserves for contract losses do not offset each other and have been recorded in gross amounts in current assets and current liabilities, respectively.

## Notes to Consolidated Financial Statements

Write-downs of inventories for the years ended December 31, 2021 and 2020, net of the amount of the reversal, were included in the following account:

	(Millions of yen)	
	2021	2020
Cost of sales	¥ 1,198	¥ 964

Accrued loss on contracts included in cost of sales was as follows:

	(Millions of yen)	
	2021	2020
Cost of sales	¥ 308	¥ 8

## 9 Investments in Securities

Investments in securities as of December 31, 2021 and 2020, consisted of the following:

	(Millions of yen)	
	2021	2020
Marketable equity securities	¥ 15,687	¥ 9,057
Unlisted equity securities	668	1,380
Investments in investment partnerships	998	864
Total	¥ 17,353	¥ 11,302

Investments in securities as of December 31, 2021 and 2020, were classified and included in the following accounts:

	(Millions of yen)	
	2021	2020
Securities classified as:		
Available-for-sale:		
Investments in securities	¥ 17,353	¥ 11,302
Total	¥ 17,353	¥ 11,302

The carrying amounts and aggregate fair values of marketable equity securities as of December 31, 2021 and 2020, were as follows:

	(Millions of yen)			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 4,358	¥ 11,531	¥ (202)	¥ 15,687
Total	¥ 4,358	¥ 11,531	¥ (202)	¥ 15,687

	(Millions of yen)			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 2,992	¥ 6,162	¥ (97)	¥ 9,057
Total	¥ 2,992	¥ 6,162	¥ (97)	¥ 9,057

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2021 and 2020 were as follows:

	(Millions of yen)	
	2021	2020
Available-for-sale:		
Unlisted equity securities	¥ 668	¥ 1,380
Investments in investment partnerships	998	864
Total	¥ 1,666	¥ 2,245

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended December 31, 2021 and 2020, were as follows:

	(Millions of yen)					
	2021		2020			
	Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
Available-for-sale:						
Equity securities	¥ 1,553	¥ 1,255	—	¥ 249	¥ 228	¥ 0
Others	—	—	—	93	49	—
Total	¥ 1,553	¥ 1,255	—	¥ 343	¥ 278	¥ 0

Impairment loss of ¥ nil and ¥0 million (rounded) was recorded on listed equity securities for the years ended December 31, 2021 and 2020, respectively.

Impairment loss of ¥18 million and ¥316 million was recorded on unlisted equity securities in the years ended December 31, 2021 and 2020, respectively.

## 10 Asset Retirement Obligations

The Group recognizes restoration obligations under real estate rental agreements of buildings and other real estates as asset retirement obligations.

Instead of recognizing liabilities, the Group reasonably estimates the uncollectible amount of lease deposits related to the real estate rental agreements, and accounts for the portion of such estimated amount attributable to the current year as an expense.

The outstanding balances of lease deposits considered uncollectible as of December 31, 2021 and 2020, were ¥3,507 million and ¥3,194 million, respectively.

### Consolidated Detailed Schedule of Asset Retirement Obligations

Pursuant to the provision of Article 92-2 of the Regulations on Consolidated Financial Statements, the information of consolidated detailed schedule of asset retirement obligations is omitted, because the amounts of asset retirement obligations at the beginning and the end of the year ended December 31, 2021 were not more than 1% of the total of liabilities and equity at the beginning and the end of the year ended December 31, 2021.

## 11 Investment Property

The information is omitted as it is immaterial.



## Notes to Consolidated Financial Statements

**12 Short-term Borrowings, Lease Obligations, and Deposits**

Short-term borrowings, Lease obligations, and deposits included in Other long-term liabilities for the year ended December 31, 2021, were as follows:

Category	Balance at beginning of year (Millions of yen)	Balance at end of year (Millions of yen)	Average interest rate (%)	Payment due
Short-term borrowings	—	—	—	—
Current portion of lease obligations	¥ 54	¥ 52	—	—
Long-term borrowings, excluding current portion	—	—	—	—
Lease obligations, excluding current portion	74	81	—	2023 - 2026
Other interest-bearing liabilities				
Guarantee deposits received	2,967	2,596	0.00%	—
<b>Total</b>	<b>¥ 3,095</b>	<b>¥ 2,729</b>	<b>—</b>	<b>—</b>

Notes: 1. "Average interest rate" represents weighted-average interest rate with respect to the ending balance of borrowings, etc.

2. The average interest rate on lease obligations is not provided because the amount of lease obligations stated in the consolidated balance sheets is the amount before deducting interest equivalents included in the total lease payments.

3. The repayment schedule of lease obligations, excluding current portion, for five years after the consolidated balance sheet date is as follows:

	(Millions of yen)			
	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years
Lease obligations	¥ 37	¥ 22	¥ 14	¥ 5

**13 Corporate Bonds**

Not applicable

**14 Employees' Retirement and Severance Benefits****1. Overview of retirement benefit plans adopted**

The Company has a defined contribution pension plan, a pension plan with a market-based variable accumulation rate - quasi-cash balance plan, and a lump-sum severance payment plan -, and some of its consolidated subsidiaries have defined benefit corporate pension plans, and lump-sum severance payment plans.

**2. Defined benefit plans**

(1) Reconciliation of retirement benefit obligations at beginning and end of year, excluding the simplified method in (3)

	(Millions of yen)	
	2021	2020
Retirement benefit obligations at beginning of year	¥ 213,121	¥ 219,653
Service costs	5,820	6,142
Interest costs	1,095	940
Actuarial (gains) losses	(860)	(3,546)
Benefit paid	(8,925)	(8,163)
Decrease resulting from exclusion of subsidiaries in consolidation	—	(1,904)
Other	—	(0)
<b>Retirement benefit obligations at end of year</b>	<b>¥ 210,250</b>	<b>¥ 213,121</b>

(2) Reconciliation of plan assets at beginning and end of year, excluding the simplified method in (3)

	(Millions of yen)	
	2021	2020
Plan assets at beginning of year	¥ 166,497	¥ 166,870
Expected return on plan assets	4,155	4,126
Actuarial (gains) losses	4,443	1,197
Contributions from the employer	2,990	2,927
Benefit paid	(7,586)	(7,087)
Decrease resulting from exclusion of subsidiaries in consolidation	—	(1,536)
<b>Plan assets at end of year</b>	<b>¥ 170,500</b>	<b>¥ 166,497</b>

(3) Reconciliation of retirement benefit obligations at beginning and end of year for which the simplified method was applied

	(Millions of yen)	
	2021	2020
Accrued pension and severance costs at beginning of year	¥ 844	¥ 780
Net periodic benefit costs	98	115
Benefit paid	(23)	(8)
Contributions to plans	(45)	(42)
Decrease resulting from exclusion of subsidiaries in consolidation	(131)	—
<b>Accrued pension and severance costs at end of year</b>	<b>¥ 742</b>	<b>¥ 844</b>

(4) Reconciliation of retirement benefit obligations and plan assets at year-end and accrued and prepaid pension and severance costs in consolidated balance sheets

	(Millions of yen)	
	2021	2020
Funded retirement benefit obligations	¥ 190,934	¥ 193,609
Plan assets	(170,872)	(166,852)
	20,062	26,756
Unfunded retirement benefit obligations	20,429	20,711
<b>Net liabilities and assets in consolidated balance sheets</b>	<b>¥ 40,492</b>	<b>¥ 47,468</b>
Accrued pension and severance costs	¥ 40,913	¥ 47,883
Prepaid pension and severance costs	(421)	(415)
<b>Net liabilities and assets in consolidated balance sheets</b>	<b>¥ 40,492</b>	<b>¥ 47,468</b>

Note: Plans for which the simplified method was applied were included.

## Notes to Consolidated Financial Statements

## (5) Retirement benefit costs

	(Millions of yen)	
	2021	2020
Service costs	¥ 5,820	¥ 6,142
Interest costs	1,095	940
Expected return on plan assets	(4,155)	(4,126)
Amortization of actuarial (gains) losses	1,249	3,281
Amortization of prior service costs	(301)	(293)
Net periodic benefit costs using the simplified method	98	115
Retirement benefit costs of defined benefit plans	¥ 3,806	¥ 6,060

Note: In addition to the above retirement benefit costs, the Group recorded ¥441 million for extra retirement payments for the year ended December 31, 2020.

## (6) Defined retirement benefit plans before income tax effect adjustment

Changes in unrecognized prior service costs and unrecognized actuarial gains and losses for the years ended December 31, 2021 and 2020, were as follows:

	(Millions of yen)					
			2021			2020
	Unrecognized prior service costs	Unrecognized actuarial gains and losses	Total	Unrecognized prior service costs	Unrecognized actuarial gains and losses	Total
At beginning of year	¥ (1,508)	¥ 3,319	¥ 1,810	¥ (1,802)	¥ 11,234	¥ 9,431
Net change	301	(6,553)	(6,251)	293	(7,915)	(7,621)
At end of year	¥ (1,207)	¥ (3,234)	¥ (4,441)	¥ (1,508)	¥ 3,319	¥ 1,810

## (7) Plan assets

## (i) Main components of plan assets

Ratios for main components of plan assets were as follows:

	2021	2020
Bonds	22%	22%
Stocks	4	3
Pooled funds	52	52
Life insurance company general accounts	16	17
Other	6	6
Total	100%	100%

Note: The composition of pooled funds was 44% in bonds and 56% in stocks as of December 31, 2021, and 47% in bonds and 53% in stocks as of December 31, 2020.

## (ii) Methodology for setting long-term expected rates of return

The long-term expected rate of return on plan assets is determined by considering current and projected plan asset allocations and current and anticipated long-term rates of return from diverse plan assets.

## (8) Actuarial assumptions

The principal actuarial assumptions for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Discount rates	0.24 - 0.60%	0.24 - 0.59%
Long-term expected rates of return on plan assets	2.0 - 2.5%	2.0 - 2.5%
Estimated rates of salary increases	1.9 - 2.6%	1.9 - 2.6%

## 3. Defined contribution plan

The required contributions of the Company and consolidated subsidiaries to defined contribution plans, including employees' pension fund plan in the multiemployer plan which is accounted for in the same manner as the defined contribution plan, totaled ¥1,922 million and ¥1,949 million for the years ended December 31, 2021 and 2020, respectively.

## 15 Contingent Liabilities (Guarantee Obligations)

The Company provides the following guarantee obligations.

	(Millions of yen)	
	2021	2020
Guarantees for employees' housing loans	¥ 4	¥ 5

## 16 Shareholders' Equity

The Companies Act of Japan went into effect on May 1, 2006, replacing the Commercial Code. It is applicable to events or transactions of companies in Japan occurring on or after May 1, 2006, and for the years ending on or after May 1, 2006.

The Companies Act stipulates that the amounts actually paid in or provided in consideration for newly issued stock shall be recorded as common stock. However, it also allows 50% or less of such amounts to be recorded as additional paid-in capital.

Under the Companies Act, a company that meets certain criteria can establish its Articles of Incorporation so that dividends can be paid to its existing shareholders by resolution of the Board of Directors, without requiring the approval of a resolution at a General Meeting of Shareholders. The Company has met said criteria and amended its Articles of Incorporation at the annual General Meeting of Shareholders for the year ended December 31, 2006. The Companies Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus other than the capital reserve and retained earnings other than the legal reserve be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. However, such appropriation cannot be made if the aggregate amount of the legal reserve exceeds 25% of common stock (i.e., the aggregate amount of the Company's legal reserve has already reached 25% of its common stock).

## Notes to Consolidated Financial Statements

## 17 Common Stock and Dividends

1. The following table shows the movement of number of common stock for the years ended December 31, 2021 and 2020.

(Thousands of shares)

	As of January 1, 2020	Increase or purchase	Decrease or sale	As of December 31, 2020	Increase or purchase	Decrease or sale	As of December 31, 2021
Issued stock							
Common stock	151,079	—	20,000	131,079	—	—	131,079
Treasury stock							
Common stock	21,413	1	20,002	1,412	1	9	1,404

- Notes: 1. The decrease of issued stock of 20,000 thousand shares for the year ended December 31, 2020, was due to the cancellation of treasury stock.  
 2. The increase of treasury stock of 1 thousand shares and 1 thousand shares for the years ended December 31, 2021 and 2020, respectively, was due to the purchase of fractional stock.  
 3. The decrease of treasury stock of 20,002 thousand shares for the year ended December 31, 2020, was due to the cancellation of treasury stock, the disposal of performance-linked stock incentives, and the sale of fractional stock.  
 4. The decrease of treasury stock of 9 thousand shares for the year ended December 31, 2021, was due to the disposal of performance-linked stock incentives.

## 2. Matters regarding dividends

The Company distributes a semiannual interim dividend by resolution of the Board of Directors and annual dividend by resolution of the General Meeting of Shareholders.

Semiannual interim dividends is paid to the common shareholders of the Company as of semiannual period-end and annual dividend is paid to the common shareholders of the Company as of year-end.

Resolution date, total dividends, and dividend per share for the years ended December 31, 2021 and 2020, were as follows:

	2021			2020		
	Resolution date	Total dividends (Millions of yen)	Dividend per share (yen)	Resolution date	Total dividends (Millions of yen)	Dividend per share (yen)
Annual dividend	March 26, 2021	¥ 5,186	¥ 40	March 26, 2020	¥ 3,889	¥ 30
Interim dividend	July 27, 2021	¥ 3,890	¥ 30	July 27, 2020	¥ 2,593	¥ 20

Annual dividend of ¥5,835 million (¥45 dividend per share) was resolved by the General Meeting of Shareholders held on March 29, 2022.

Total dividend per share was ¥75 and ¥60 for the years ended December 31, 2021 and 2020, respectively.

## 18 Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a statutory income tax rate of approximately 31% for the years ended December 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2021 and 2020, are as follows:

(Millions of yen)

	2021	2020
<b>DEFERRED TAX ASSETS:</b>		
Accrued pension and severance costs	¥ 12,731	¥ 14,882
Accrued bonuses	1,399	1,953
Accrued business tax and business office tax	765	711
Excess depreciation of long-lived assets	758	839
Recording of estimated future variable consideration	732	726
Asset retirement obligations	691	607
Excess amortization of software	687	676
Loss on impairment of investments in securities	568	565
Loss on disposal and devaluation of inventories	506	431
Allowance for long-term continuous service rewards	279	295
Loss on valuation of golf club membership	97	102
Accrued product warranties	90	140
Tax loss carryforwards (Note)	57	91
Lump-sum depreciable assets	53	68
Loss on impairment of long-lived assets	31	32
Other	1,254	1,214
Gross deferred tax assets	20,705	23,339
Less: valuation allowance	(802)	(855)
Total deferred tax assets	¥ 19,903	¥ 22,483
<b>DEFERRED TAX LIABILITIES:</b>		
Unrealized gain (loss) on available-for-sale securities	¥ 3,526	¥ 1,888
Deferred capital gain	1,279	1,279
Other	122	96
Total deferred tax liabilities	¥ 4,928	¥ 3,264
Net deferred tax assets	¥ 14,974	¥ 19,218

Note: Information regarding the amounts of tax loss carryforwards and related deferred tax assets by expiration of carryforwards is omitted as the tax loss carryforwards are immaterial.

Net deferred tax assets as of December 31, 2021 and 2020, are reflected in the following accounts in the consolidated balance sheet:

(Millions of yen)

	2021	2020
Investments and other assets—deferred tax assets	¥ 14,974	¥ 19,219
Long-term liabilities—deferred tax liabilities	—	(1)
Net deferred tax assets	¥ 14,974	¥ 19,218

## Notes to Consolidated Financial Statements

A reconciliation between the statutory income tax rate and the effective income tax rate as of December 31, 2021 and 2020, was as follows:

	2021	2020
Statutory income tax rate	—	31.0%
(Reconciliation)		
Entertainment and other expenses permanently not deductible for tax purposes	—	0.3
Per-capita levy of inhabitants' taxes	—	0.9
Dividend income not taxable	—	(0.1)
Adjustment of book value of stocks of subsidiary for consolidated tax payment system	—	2.4
Other	—	(0.5)
Effective income tax rate	—	34.0%

Note: The reconciliation as of December 31, 2021 was omitted because the difference between the statutory income tax rate and the effective income tax rate was 5% or less of the statutory income tax rate.

## 19 Research and Development Costs

Total research and development costs included in selling, general and administrative expenses and cost of sales for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Research and development costs	¥ 402	¥ 426

## 20 Selling, General and Administrative Expenses

The primary components of "Selling, general and administrative expenses" for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Salaries and allowances	¥ 71,461	¥ 69,827
Accrued bonuses	3,536	4,988
Accrued directors' bonuses	97	74
Provision of allowance for long-term continuous service rewards	356	368
Net periodic retirement benefit costs	5,052	7,118
Accrued product warranties	288	446
Provision of allowance for doubtful receivables	(48)	3

## 21 Other Income (Expenses)

The components of "Gain on sales of long-lived assets" for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Buildings and structures	—	¥ 103
Machinery and vehicles	¥ 4	1
Furniture and fixtures	1	1
Rental assets	—	1
Land	—	175
Software	0	0
Total	¥ 6	¥ 283

The components of "Loss on sales and disposal of long-lived assets" for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Buildings and structures	—	¥ 0
Furniture and fixtures	¥ 1	1
Total	¥ 1	¥ 1

The components of "Loss on disposal of long-lived assets"

	2021	2020
Buildings and structures	¥ 34	¥ 26
Furniture and fixtures	23	34
Rental assets	57	62
Software	6	888
Other	0	8
Total	¥ 122	¥ 1,020

The details of "Insurance income due to disaster" and "Loss on disaster" were as follows:

For the year ended December 31, 2021, loss on disaster of ¥168 million was recorded as cost of restoration of assets associated with damage from typhoons, etc. In addition, insurance claim income received from the associated insurance claim of ¥202 million was recorded as insurance income due to disaster.

The details of "Loss on COVID-19" were as follows:

For the year ended December 31, 2020, loss on COVID-19 mainly related to event cancellation fees, resulted from the government's restrictions on events and outdoor gatherings in response to the outbreak of COVID-19.

## 22 Lease Transactions

### Operating lease transactions

#### 1. Lessees' accounting

The following table shows future minimum lease payments subsequent to December 31, 2021 and 2020, for noncancelable operating leases:

	2021	2020
Due within one year	¥ 2,223	¥ 2,611
Due after one year	6,255	8,478
Total	¥ 8,478	¥ 11,089

#### 2. Lessors' accounting

The following table shows future minimum lease income subsequent to December 31, 2021 and 2020, for noncancelable operating leases:

	2021	2020
Due within one year	¥ 1,891	¥ 1,819
Due after one year	8,998	2,997
Total	¥ 10,890	¥ 4,816

## Notes to Consolidated Financial Statements

## 23 Financial Instruments

## 1. Information on financial instruments

## (1) Policies for financial instruments

The Group limits its asset management to financial instruments characterized as low default risk and believes that financing should mainly be conducted through the use of Group finances whenever necessary. The Company enters into derivative transactions to hedge against foreign exchange fluctuation risks and not for speculative purposes.

## (2) Types and risks of financial instruments and systems to control those risks

Operating receivables, consisting of notes and accounts receivable-trade, are exposed to credit risks of customers. The Group strives to mitigate these risks by strict credit control utilizing credit information provided by external credit agencies, as well as by credit insurance and other risk-hedging means.

Short-term loans receivable are mainly the loans to the parent company by the Company, rendered in compliance with the internal regulations for investment and management of funds.

Investments in securities consist primarily of held-to-maturity debt securities and equity securities issued by business counterparties of the Group, and are exposed to market price fluctuation risk. Regarding this risk, the Group periodically monitors the fair values of the securities and the financial condition of their issuers, i.e., business counterparties. In addition, for securities other than held-to-maturity debt securities, the Group continuously reviews the status of security holdings, taking market conditions and relationships with business counterparties into consideration.

Trade payables, consisting of notes and accounts payable-trade, are mainly those due within six months.

Derivative transactions consist of forward exchange contracts to hedge against the risks of fluctuations in foreign currency-denominated trade payables. Hedge accounting methods are described in "(v) Key Hedge Accounting Methods" of "2 Summary of Significant Accounting Policies."

## (3) Supplementary explanation on fair values of financial instruments

The fair values of financial instruments include not only values based on market quotations, but also values calculated based on assumptions that management believes reasonable in cases where market quotations are not available. Such values may vary depending on different assumptions, as variables are factored into the calculation of such values.

## 2. Fair values of financial instruments

The book values of financial instruments in the consolidated balance sheets as of December 31, 2021 and 2020, their fair values, and the differences between the two are as follows. The table below, however, excludes the financial instruments whose fair values are not readily determinable (see Note 2. below).

## As of December 31, 2021

	(Millions of yen)		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 68,028	¥ 68,028	—
(2) Notes and accounts receivable-trade	107,367		
Allowance for doubtful receivables (*1)	(24)		
Notes and accounts receivable-trade, net	107,343	107,343	—
(3) Investments in securities	15,687	15,687	—
(4) Short-term loans receivable	180,004	180,004	—
Total assets	¥ 371,063	¥ 371,063	—
(5) Notes and accounts payable-trade	¥ 46,323	¥ 46,323	—
Total liabilities	¥ 46,323	¥ 46,323	—

(\*1) Allowance for doubtful receivables corresponding to notes and accounts receivable-trade are deducted from the values.

## As of December 31, 2020

	(Millions of yen)		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 60,131	¥ 60,131	—
(2) Notes and accounts receivable-trade	105,328		
Allowance for doubtful receivables (*1)	(66)		
Notes and accounts receivable-trade, net	105,261	105,261	—
(3) Investments in securities	9,057	9,057	—
(4) Short-term loans receivable	180,006	180,006	—
Total assets	¥ 354,457	¥ 354,457	—
(5) Notes and accounts payable-trade	¥ 44,107	¥ 44,107	—
Total liabilities	¥ 44,107	¥ 44,107	—

(\*1) Allowance for doubtful receivables corresponding to notes and accounts receivable-trade are deducted from the values.

Notes: 1. Calculation methods of fair values of financial instruments and other matters related to securities and derivatives are as below:

**Assets**

(1) Cash and cash equivalents, (2) Notes and accounts receivable-trade, and (4) Short-term loans receivable

The book values of these assets are used as their fair values, since they are to be settled in the short term and, accordingly, their book values approximate their fair values.

(3) Investments in securities

The fair values of equity securities are based on the prices at the security exchanges, and those of debt securities are based on the prices at the security exchanges or quotations obtained from counterparty financial institutions. Details of securities by holding objectives are described in the notes on "Investments in Securities."

**Liabilities**

(5) Notes and accounts payable-trade

The book values of these liabilities are used as their fair values, since they are to be settled in the short term and, accordingly, their book values approximate their fair values.

2. The book values of financial instruments whose fair values are not readily determinable as of December 31, 2021 and 2020, were as follows:

	(Millions of yen)	
Category	2021	2020
Unlisted equity securities	¥ 668	¥ 1,380
Investments in investment partnerships	998	864

These financial instruments are not included in (3) Investments in securities in the preceding table of fair values, since they do not have market prices and, therefore, their fair values are not readily determinable.

Impairment loss of ¥18 million was recorded for unlisted equity securities in the year ended December 31, 2021.

Impairment loss of ¥316 million was recorded for unlisted equity securities in the year ended December 31, 2020.

3. The redemption schedule of monetary claims and securities with maturities as of December 31, 2021 and 2020, were summarized as follows:

	2021				2020	
	Due within 1 year	1 year to 5 years	Due within 1 year	1 year to 5 years		
Cash and cash equivalents	¥ 68,028	—	¥ 60,131	—		
Notes and accounts receivable-trade	107,367	—	105,328	—		
Short-term loans receivable	180,004	—	180,006	—		
Total	¥ 355,400	—	¥ 345,466	—		

4. The repayment schedule of lease obligations as of December 31, 2021 and 2020, was as follows:

	2021					2020				
	Due within 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Due within 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years
Lease obligations	¥ 52	¥ 37	¥ 22	¥ 14	¥ 5	¥ 54	¥ 38	¥ 23	¥ 9	¥ 1

## Notes to Consolidated Financial Statements

## 24 Derivatives

The information is omitted as it is immaterial.

## 25 Related Party Information

## 1. Related party transactions

(1) Transaction conditions and policies for deciding transaction conditions with related party

- (a) Purchases of products are decided based on price negotiations each year, after considering market prices and the Company's proposals regarding desired prices.
- (b) Sales of office equipment, consumables, and other inventories are subject to similar conditions as general transactions.
- (c) With regard to loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

Transaction with major corporate stockholders for the year ended December 31, 2021, and related balance as of December 31, 2021, were as follows:

Category	Name of company	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents	Contents of transactions	Transaction amount (Millions of yen)	Accounts	Balance at end of year (Millions of yen)	
Parent company	Canon Inc.	Ohta-ku, Tokyo	¥ 174,761	Development and manufacturing in the office, imaging system, and industrial equipment areas	(Ownership) Direct 58.5% Indirect 0.0%	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 148,759	Accounts payable-trade	¥ 16,154
							Operating transactions	Sales of office equipment and consumables, and other inventories	¥ 4,073	Accounts receivable-trade and others	¥ 1,203
								Non-operating transactions	Loans of capital	—	Short-term loans receivable

Note: Transaction amounts do not include consumption tax or other taxes, however, the account balances include consumption tax.

Transaction with major corporate stockholders for the year ended December 31, 2020, and related balance as of December 31, 2020, were as follows:

Category	Name of company	Address	Capital or investment capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Related contents	Contents of transactions	Transaction amount (Millions of yen)	Accounts	Balance at end of year (Millions of yen)	
Parent company	Canon Inc.	Ohta-ku, Tokyo	¥ 174,761	Development and manufacturing in the office, imaging system, and industrial equipment areas	(Ownership) Direct 58.5% Indirect 0.0%	Manufacture of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 144,942	Accounts payable-trade	¥ 17,301
							Operating transactions	Sales of office equipment and consumables, and other inventories	¥ 3,479	Accounts receivable-trade and others	¥ 1,848
								Non-operating transactions	Loans of capital	¥ 10,000	Short-term loans receivable

Note: Transaction amounts do not include consumption tax or other taxes, however, the account balances include consumption tax.

(2) Transactions between consolidated subsidiaries of the company submitting the consolidated financial statements and related parties  
The information is omitted as it is immaterial.

## 2. Notes on the parent company and significant associates

Parent company information

Canon Inc. listed on the Tokyo, Nagoya, Fukuoka, Sapporo and New York stock exchanges

## 26 Other Comprehensive Income (Loss)

The following table shows amounts arising during the year, reclassification adjustments, pre-tax amount, tax effect, and net-of-tax amount for each component of other comprehensive income (loss) for the years ended December 31, 2021 and 2020:

	2021	2020
(Millions of yen)		
<b>Unrealized gain (loss) on available-for-sale securities:</b>		
Amount arising during the year	¥ 6,537	¥ 667
Reclassification adjustments	(1,255)	(220)
Pre-tax amount	5,281	446
Tax effect	(1,637)	(143)
Net-of-tax amount	3,643	302
<b>Deferred gain (loss) on derivatives under hedge accounting:</b>		
Amount arising during the year	75	(58)
Pre-tax amount	75	(58)
Tax effect	(23)	18
Net-of-tax amount	51	(40)
<b>Foreign currency-translation adjustments:</b>		
Amount arising during the year	129	(56)
Reclassification adjustments	7	—
Pre-tax amount	137	(56)
Tax effect	—	—
Net-of-tax amount	137	(56)
<b>Defined retirement benefit plans:</b>		
Amount arising during the year	5,304	4,744
Reclassification adjustments	947	2,877
Pre-tax amount	6,251	7,621
Tax effect	(1,940)	(2,367)
Net-of-tax amount	4,311	5,253
<b>Total other comprehensive income (loss)</b>	<b>¥ 8,144</b>	<b>¥ 5,459</b>

## Notes to Consolidated Financial Statements

## 27 Per Share Data

Item	(Yen)	
	2021	2020
Shareholders' equity per share	¥ 2,883.74	¥ 2,664.20
Basic earnings per share	226.88	169.65
Diluted earnings per share	226.83	169.62

Notes: 1. The bases for calculating shareholders' equity per share are as follows:

Item	(Millions of yen)	
	2021	2020
Total equity at end of year	¥ 374,676	¥ 346,114
Amount deducted from total equity at end of year		
Non-controlling interests	727	655
Total equity pertaining to common stock at end of year	¥ 373,949	¥ 345,458
No. of shares at the end of the year (Thousands of shares)	129,675	129,667

2. The bases for calculating basic and diluted earnings per share are as follows:

Item	(Millions of yen)	
	2021	2020
Basic earnings per share		
Net income attributable to owners of the parent	¥ 29,420	¥ 21,997
Net income (loss) not attributable to common shareholders	—	—
Net income attributable to owners of the parent pertaining to common stock	¥ 29,420	¥ 21,997
Weighted-average number of shares of common stock outstanding during the period (Thousands of shares)	129,673	129,667
Diluted earnings per share		
Adjustment to net income attributable to owners of the parent	—	—
Increase in number of shares of common stock (Thousands of shares)	28	22
Overview of potential shares that were not included in calculating diluted earnings per share because they have no dilutive effects	—	—

Note: The increase of common stock of 28 thousand shares and 22 thousand shares for the years ended December 31, 2021 and 2020, respectively, were due to the grants of performance-linked stock incentives.

## 28 Segment Information

## Segment information

## 1. Description of reportable segments

Reportable segments are constituent units of the Group for which separate financial information is available and they are subject to periodic reviews by the Board of Directors to determine the allocation of management resources and assess their respective operating results.

In addition, starting from the current year, part of the organization conducting direct sales to upper medium-sized and quasi-major customers in the Area segment was transferred to the Enterprise segment.

Segment information presented for the previous year has been prepared according to the classification method after the changes.

## (Major business areas and main Group companies in each reportable segment)

Reportable segment	Major business areas and Group companies
Consumers	Sells products such as digital cameras and inkjet printers primarily to individual customers.
Enterprise	Sells Canon input and output devices and provides solutions that contribute to solving business problems in each industry primarily for large corporations, quasi-major and upper medium-sized enterprises. [Major Group company] Canon IT Solutions Inc.
Area	Sells Canon input and output devices and provides solutions that help customers solve business problems primarily for small and medium-sized enterprises in Japan. [Major Group company] Canon System & Support Inc.
Professional	Provides solutions for customers in each area. • Production Printing Provides high-speed continuous feed printers and high-speed cut sheet printers to the printing industry. [Major Group company] Canon Production Printing Systems Inc. • Industrial Equipment Provides products such as semiconductor manufacturing systems and inspection and measurement devices mainly to semiconductor manufacturers and other electronics device manufacturers. • Healthcare Provides IT solutions, system development, network construction, and hardware mainly for the medical and healthcare field. [Major Group company] Canon ITS Medical Inc.

## 2. Methods of measurement for sales, segment income (loss), assets, and other items for reportable segments

Accounting methods for reportable segments are the same as the accounting methods described in the notes on "Summary of Significant Accounting Policies." Segment income (loss) is measured based on the amount of operating income. Intersegment sales and transfers are based on market prices.

## Notes to Consolidated Financial Statements

## 3. Information by reportable segment for the years ended December 31, 2021 and 2020, was as follows:

## Year ended December 31, 2021

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Consumers	Enterprise	Area	Professional				
<b>Net sales:</b>								
External customers	¥ 129,432	¥ 180,042	¥ 209,198	¥ 30,059	¥ 3,351	¥ 552,085	—	¥ 552,085
Intersegment	38	10,552	11,627	1,476	7,886	31,581	¥ (31,581)	—
Total	¥ 129,471	¥ 190,594	¥ 220,826	¥ 31,536	¥ 11,238	¥ 583,667	¥ (31,581)	¥ 552,085
Segment income (loss)	¥ 13,572	¥ 13,856	¥ 12,045	¥ 2,488	¥ (2,266)	¥ 39,696	¥ 3	¥ 39,699
Segment assets	45,913	110,214	67,621	20,157	2,220	246,128	280,289	526,418
<b>Other items:</b>								
Depreciation and amortization	468	7,176	1,923	296	27	9,892	354	10,246
Changes in the amount of property, plant and equipment and intangible assets	858	9,493	2,023	135	55	12,566	68	12,634

Notes: 1. "Other" includes call center business and BPO service business, which are not included in reportable segments.

2. Adjustments are as follows:

(1) Adjustment of segment income (loss) eliminates intersegment transactions.

(2) Adjustment of segment assets is for corporate assets that do not belong to reportable segments. The corporate assets are comprised of surplus funds, such as cash and investment in securities, assets related to head office land, buildings, and head office administrative units.

(3) Adjustment of depreciation and amortization is for head office building expenses that do not belong to reportable segments.

(4) Adjustment of increase of property, plant and equipment and intangible assets consists of capital investments in head office buildings that do not belong to reportable segments.

3. Total segment income (loss) after adjustments for reportable and other business segments equals operating income in the consolidated statement of income.

## Year ended December 31, 2020

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Consumers	Enterprise	Area	Professional				
<b>Net sales:</b>								
External customers	¥ 124,695	¥ 174,447	¥ 213,830	¥ 29,193	¥ 2,893	¥ 545,060	—	¥ 545,060
Intersegment	44	10,136	9,831	1,515	6,297	27,824	¥ (27,824)	—
Total	¥ 124,739	¥ 184,583	¥ 223,662	¥ 30,708	¥ 9,191	¥ 572,884	¥ (27,824)	¥ 545,060
Segment income (loss)	¥ 12,287	¥ 9,429	¥ 8,984	¥ 1,902	¥ (1,252)	¥ 31,350	¥ (33)	¥ 31,317
Segment assets	44,100	98,152	68,943	14,955	2,814	228,965	277,639	506,604
<b>Other items:</b>								
Depreciation and amortization	569	7,190	2,745	338	27	10,871	382	11,253
Changes in the amount of property, plant and equipment and intangible assets	1,355	11,746	2,839	338	39	16,319	32	16,351

Notes: 1. "Other" includes call center business and BPO service business, which are not included in reportable segments.

2. Adjustments are as follows:

(1) Adjustment of segment income (loss) eliminates intersegment transactions.

(2) Adjustment of segment assets is for corporate assets that do not belong to reportable segments. The corporate assets are comprised of surplus funds, such as cash and investment in securities, assets related to head office land, buildings, and head office administrative units.

(3) Adjustment of depreciation and amortization is for head office building expenses that do not belong to reportable segments.

(4) Adjustment of increase of property, plant and equipment and intangible assets consists of capital investments in head office buildings that do not belong to reportable segments.

3. Total segment income (loss) after adjustments for reportable and other business segments equals operating income in the consolidated statement of income.

## Related information

Years ended December 31, 2021 and 2020

## 1. Information by product and service

Disclosure of information by product and service is omitted since the segment information contains the same information.

## 2. Information by geographical area

## (1) Sales

Disclosure of information on sales by geographical area is omitted since sales to domestic external customers account for more than 90% of consolidated net sales.

## (2) Property, plant and equipment

Disclosure of information on property, plant and equipment by geographical area is omitted since the amount of domestic property, plant and equipment accounts for more than 90% of total property, plant and equipment recorded in the consolidated balance sheets.

## 3. Information by major customers

Disclosure of information by major customers is omitted since no customer accounts for 10% or more of consolidated net sales.



# Independent Auditor's Report



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Canon Marketing Japan Inc.:

### Opinion

We have audited the consolidated financial statements of Canon Marketing Japan Inc. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of December 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Member of  
 Deloitte Touche Tohmatsu Limited

Reliability of IT systems in relation to revenue recognition from maintenance services	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>Revenue from sales of business equipment and other products included in the Enterprise and Area segments for the year ended December 31, 2021, was 220,737 million yen in total, which mainly consisted of the sales of office Multifunctional Printers, "office MFPs," laser printers and related maintenance services. As such, the maintenance service is considered as one of the major business areas in the Enterprise and Area segments.</p> <p>The service fees under maintenance service contracts for the office MFPs are calculated primarily based on the unit prices prescribed in the contracts and the number of sheets—either copied or printed—during specified periods of time. The service fees under these contracts include rental fees for drum units, toners and consumable parts as well as technical fees for the Group's service engineers.</p> <p>The number of sheets copied or printed is automatically tabulated by counters installed within each office MFP, and the count data is transmitted via network, and aggregated in the contract management system. The contract management system then automatically calculates the service fees based on the customer data and unit prices registered in the contract management system.</p> <p>As such, revenue recognition processes, such as data count, data transfer and aggregation, fee calculation, and interface of relevant revenue data to the accounting system, are heavily dependent on the effectiveness of internal controls over IT systems.</p> <p>Given that revenue from maintenance services for the office MFPs is quantitatively material and that the design and operating effectiveness of internal controls over the relevant IT systems is essential to the accurate calculation of customer billing and revenue recognition, we identified the effectiveness of controls over the IT systems as a key audit matter.</p>	<p>To address the key audit matter, we performed the following procedures, among others, to test internal controls with the assistance of our IT specialists:</p> <ul style="list-style-type: none"> <li>We tested the accuracy of the automatic sheet counting function of the office MFPs by comparing the actual number of sheets copied or printed against the count data stored within the office MFPs.</li> <li>We tested the interface of the count data between the office MFPs and the contract management system by comparing the count data stored in the office MFPs against the count data recorded in the contract management system. In addition, we tested internal controls that monitor the status over the collection of the count data from the office MFPs.</li> <li>We tested the accuracy of the automated calculation of the maintenance service fees in the contract management system, by independently recalculating the fees using the count data and the contract unit prices, as prescribed in the contract terms, registered in the contract management system, and compared them with the fees recognized in the contract management system.</li> <li>We tested the interface of relevant data between the contract management system and the accounting system by comparing the number and amount of maintenance service transactions between both systems.</li> <li>We tested the design and operating effectiveness of general IT controls, including user access controls, change management controls and system operations controls, over the aforementioned IT systems relevant to automated counts, data interface, data aggregation and automated calculation, by performing inquiries of the Group's system administrators and inspection of relevant supporting documents.</li> </ul>

#### Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

March 28, 2022

## ESG Data

ENVIRONMENT	2017	2018	2019	2020	2021
GHG emissions at domestic business sites [Scope 1 and 2] (t-CO <sub>2</sub> ) <sup>(Note 1)</sup>					
Scope 1 <sup>(Note 2)</sup>	8,339	7,864	7,275	5,765	5,800
Scope 2 <sup>(Note 3)</sup>	33,535	40,922	43,501	45,733	51,952
Total	41,874	48,786	50,776	51,498	57,752
GHG emissions of domestic business sites [Scope 3] (t-CO <sub>2</sub> ) <sup>(Note 4)</sup>					
Category 1. Purchased goods and services <sup>(Note 5)</sup>	298,448	236,406	313,133	284,892	282,278
Category 2. Capital goods <sup>(Note 6)</sup>	40,292	27,726	65,341	41,807	10,403
Category 3. Fuel- and energy-related activities not included in Scope 1 or 2 <sup>(Note 7)</sup>	4,012	4,601	8,993	9,061	11,307
Category 4. Upstream transportation and distribution <sup>(Note 8)</sup>	5,205	4,039	4,175	3,785	3,209
Category 5. Waste generated in operations <sup>(Note 9)</sup>	90	137	153	93	64
Category 6. Business travel <sup>(Note 10)</sup>	9,918	9,048	12,032	6,119	7,164
Category 7. Employee commuting <sup>(Note 11)</sup>	5,154	5,401	6,915	7,445	6,411
Category 8. Upstream leased assets <sup>(Note 12)</sup>	0	0	0	0	0
Category 9. Downstream transportation and distribution <sup>(Note 13)</sup>	2,444	1,122	1,073	967	917
Category 10. Processing of sold products	0	0	0	0	0
Category 11. Use of sold products <sup>(Note 14)</sup>	97,436	88,590	86,309	83,331	84,560
Category 12. End-of-life treatment of sold products <sup>(Note 15)</sup>	33,509	15,749	15,118	16,269	13,951
Category 13. Downstream leased assets <sup>(Note 16)</sup>	222	219	461	518	291
Category 14. Franchises	0	0	0	0	0
Category 15. Investments	0	0	0	0	0
Total	496,730	393,038	513,703	454,287	420,555
Water consumption by source of domestic business sites (m <sup>3</sup> ) <sup>(Note 17)</sup>					
Tap water	148,857	154,283	161,912	160,884	165,359
Groundwater	19,943	21,438	21,895	22,001	19,750
Industrial water	0	0	0	0	0
Total	168,800	175,721	183,807	182,885	185,109
Waste emissions of domestic business sites <sup>(Note 18)</sup>					
Total emissions (metric tons)	21,244	18,635	21,098	15,670	14,075
Sales units (metric tons per million yen) <sup>(Note 19)</sup>	0.034	0.030	0.034	0.029	0.025
Recycled amount of domestic business sites					
Total volume of products recovered and processed from marketplace (metric tons)	13,777	14,109	14,840	12,015	10,892
Amounts recycled (metric tons) <sup>(Note 20)</sup>	13,773	14,108	14,839	12,015	10,892
Recycling rate (%) <sup>(Note 21)</sup>	99.97	99.99	99.99	99.99	99.99

## ESG Data Notes

Note 1. Scope of data aggregation covers ISO14001:2015 certified sites as of August 17, 2021.

Note 2. Scope 1: Direct emissions (town gas, LPG, diesel, kerosene, gasoline, etc.)

Note 3. Scope 2: Intermediate emissions (electricity, steam, etc.)

Note 4. Scope of data aggregation for Category 1, 4, 9, 11, 12, and 13 covers purchased goods from Canon Inc. and each company in the Canon Group, externally manufactured products under contract by Canon MJ original planning, and products purchased from other manufacturers. Scope of data aggregation for Category 2, 3, 5, 6, 7 and 8 covers ISO14001:2015 certified sites as of August 17, 2021.

Note 5. For main Canon products, calculated by adding the direct emissions and intermediate emissions from manufacturing to the number obtained by multiplying weights of product input raw materials by materials and process units, and externally purchased personal computers, servers etc. are calculated by adding the typical model product weight obtained by referencing the CFP value of the other company's server, and other products are calculated by multiplying the sales amount ratio to the main Canon product.

Note 6. Calculated by multiplying totals for each capital goods purchases category by category units

Note 7. Total fuel and power consumed at each site totaled and multiplied by units from fuel extraction through combustion/power generation

Note 8. For distribution arranged by Canon MJ from the warehouse to the business partner/end user, the figure is calculated by multiplying the distance traveled obtained by aggregating each delivery step by the respective environmental load conversion coefficient.

Note 9. Materials-specific waste amounts at each site added, multiplied by materials waste disposal units

Note 10. Total payments per transportation mode multiplied by units per mode. For accommodations, total amounts paid converted into average number of nights, for multiplying by accommodation units.

Note 11. Total payments per transportation mode multiplied by units per mode. In the case of private car commuting, after converting the total mileage associated with commuting to fuel usage, add by multiplying the unit of fuel combustion.

Note 12. Encompassing leased buildings and vehicles and included in Scope 1 and 2

Note 13. Calculated by determining average transportation distances and weights of distributed products multiplied by transportation units

Note 14. Main Canon products are calculated by determining the lifetime power consumption for each product, multiplied by average electric power units, and externally purchased personal computers, servers etc. are calculated by determining the typical model lifetime power consumption, and other products are calculated by multiplying the sales amount ratio to the main Canon product.

Note 15. Main Canon products are calculated by classifying the sold products into material categories, and multiplying each material weight by the waste process units, and externally purchased personal computers, servers etc. are calculated by converting to the typical model product weight obtained by referencing the CFP value of the other company's server, and other products are calculated by multiplying the sales amount ratio to the main Canon product.

Note 16. Calculated by determining annual power consumption of each leased product multiplied by average power consumption units

Note 17. Scope of data aggregation covers ISO14001:2015 certified sites as of August 17, 2021.

Note 18. Scope of data aggregation covers all Canon MJ Group companies (domestic only) as of December 31, 2021.

Note 19. Sales unit = Total emissions ÷ Externally announced figure of consolidated net sales

Note 20. Total weight after excluding simple incineration and landfill disposal from total volumes of products recovered and processed from marketplace

Note 21. Amounts recycled divided by total volume of products recovered and processed from marketplace

Note 22. The figure in parentheses indicates the number of males.

Note 23. The figure in parentheses indicates the percentage of returning to work that were male.

Note 24. Averages for directors and Audit & Supervisory Board members

Note 25. At December 31 each year

SOCIETY	2017	2018	2019	2020	2021
Group employees					
Number of men	14,502	14,202	13,890	13,385	13,007
Number of women	3,150	3,078	3,110	3,159	3,213
Total	17,652	17,280	17,000	16,544	16,220
Group management					
Number of men	3,228	3,131	3,037	2,898	2,785
Number of women	85	92	97	106	108
Total	3,313	3,223	3,134	3,004	2,893
Percentage of Group employees taking paid leave (%)	60.7	68.3	74.5	64.5	63.6
Number of Group employees taking childcare and family care leave <sup>(Note 22)</sup>					
Childcare leave	140	202(15)	144(18)	143(26)	136(43)
Family care leave	7	9(4)	4(0)	9(5)	3(3)
Percentage of Group employees returning to work after taking childcare and family care leave (%) <sup>(Note 23)</sup>					
Childcare leave	98.7	97.1(100.0)	82.4(100.0)	95.6(100.0)	95.8(100.0)
Family care leave	100.0	87.5(100.0)	75.0(-)	100.0(100.0)	100.0(100.0)
Number of Group retirees and reemployed workers					
Number of retirees	288	290	319	304	469
Number of reemployed workers	189	175	163	192	239
Average age of Group employees	44.3	44.6	44.7	44.8	45.5
Average number of years of service of Group employees	18.7	18.9	19.6	19.6	19.5
Number of employees with disabilities (non-consolidated)					
Number of employees	150	150.5	149.5	142.0	147.5
Percentage of employees (%)	2.1	2.15	2.19	2.15	2.32

GOVERNANCE	2017	2018	2019	2020	2021
Number of directors					
In-house (men)	8	5	4	4	4
In-house (women)	0	0	0	0	0
In-house total	8	5	4	4	4
Outside (men)	2	2	2	2	2
Outside (women)	0	0	0	0	0
Outside total	2	2	2	2	2
Total	10	7	6	6	6
Number of Audit & Supervisory Board members					
In-house (men)	2	2	2	2	2
In-house (women)	0	0	0	0	0
In-house total	2	2	2	2	2
Outside (men)	3	3	3	3	3
Outside (women)	0	0	0	0	0
Outside total	3	3	3	3	3
Total	5	5	5	5	5
Average age of corporate officers <sup>(Notes 24 and 25)</sup>	63.9	62.6	63.4	62.3	62.6
Number of Board of Directors' and Audit & Supervisory Board meetings					
Number of Board of Directors' meetings	17	15	16	18	16
Number of Audit & Supervisory Board meetings	18	18	20	17	17
Number of executive officers	23	23	23	23	26