Canon Marketing Japan Inc.

Resolving
Social Issues
with IT Solutions

Consolidated Financial Statements FY2022

Year Ended December 31, 2022
With Independent Auditor's Report

Canon Marketing Japan Inc.

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Canon Marketing Japan Group Website
■ Investor Relations
https://cweb.canon.jp/eng/ir/

Consolidated Balance Sheet

Canon Marketing Japan Inc. and Consolidated Subsidiaries
December 31, 2022

(Millions of yen)

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 6 and 23)	**¥ 84,632**	¥ 68,029
Notes accounts receivable-trade and contract assets (Notes 4, 7, 17, and 23)	**110,432**	—
Notes and accounts receivable-trade (Notes 4, 7, and 23)	**—**	107,368
Inventories (Note 8)	**38,521**	35,236
Short-term loans receivable (Note 23)	**180,013**	180,004
Other current assets	**6,154**	5,469
Allowance for doubtful receivables	**(44)**	(24)
Total current assets	**419,708**	396,082
PROPERTY, PLANT AND EQUIPMENT:		
Land	**28,360**	28,360
Buildings and structures	**80,189**	74,946
Machinery and vehicles	**167**	167
Furniture and fixtures	**15,225**	16,092
Rental assets	**35,913**	36,735
Lease assets	**40**	40
Construction in progress	**897**	2,393
Total	**160,791**	158,733
Accumulated depreciation	**(75,514)**	(73,579)
Net property, plant and equipment	**85,277**	85,154
INTANGIBLE ASSETS:		
Software	**5,365**	6,227
Goodwill (Note 27)	**327**	—
Facility utilization rights	**303**	303
Other intangible assets	**0**	1
Total intangible assets	**5,995**	6,531
INVESTMENTS AND OTHER ASSETS:		
Investments in securities (Notes 9 and 23)	**13,312**	17,353
Long-term loans receivable	**16**	36
Prepaid pension and severance costs (Note 12)	**393**	421
Lease deposits (Note 11)	**2,768**	2,962
Deferred tax assets (Notes 5 and 16)	**12,904**	14,975
Other investments and other assets	**3,555**	2,999
Allowance for doubtful receivables	**(188)**	(95)
Total investments and other assets	**32,760**	38,651
Total assets (Note 27)	**¥ 543,740**	¥ 526,418

(Millions of yen)

	2022	2021
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Notes and accounts payable-trade	**¥ 47,376**	¥ 46,323
Current portion of long-term lease obligations (Notes 11 and 23)	**46**	53
Accrued income taxes (Note 16)	**7,453**	6,955
Consumption taxes payable	**5,426**	6,089
Accrued expenses	**16,628**	16,127
Accrued bonuses	**3,440**	4,148
Accrued directors’ bonuses	**119**	98
Accrued product warranties	**243**	292
Accrued loss on contracts (Note 8)	**115**	309
Other current liabilities (Note 17)	**27,216**	26,715
Total current liabilities	**108,062**	107,109
LONG-TERM LIABILITIES:		
Long-term lease obligations (Notes 11 and 23)	**74**	81
Allowance for long-term continuous service rewards	**749**	899
Accrued pension and severance cost (Note 12)	**32,142**	40,914
Other long-term liabilities (Note 11)	**2,341**	2,738
Total long-term liabilities	**35,306**	44,632
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 22)		
EQUITY:		
SHAREHOLDERS’ EQUITY (Notes 14 and 15):		
Common stock:		
Authorized, 299,500,000 shares; issued, 131,079,972 shares as of December 31, 2022 and 2021.	**73,303**	73,303
Capital surplus	**82,827**	82,824
Stock acquisition rights (Note 19)	**29**	—
Retained earnings	**233,355**	208,825
Treasury stock, at cost; 1,404,790 shares in 2022 and 1,403,572 shares in 2021	**(2,093)**	(2,092)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gain (loss) on available-for-sale securities	**5,203**	7,873
Deferred gain (loss) on derivatives under hedge accounting	**(15)**	23
Foreign currency-translation adjustments	**294**	126
Defined retirement benefit plans	**6,668**	3,068
Total	**399,571**	373,950
NON-CONTROLLING INTERESTS	**801**	727
Total equity	**400,372**	374,677
Total liabilities and equity	**¥ 543,740**	¥ 526,418

• See accompanying notes to consolidated financial statements.

Data

Consolidated Statement of Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Year Ended December 31, 2022

(Millions of yen)

	2022	2021
NET SALES (Notes 17 and 27)	**¥ 588,132**	¥ 552,086
COST OF SALES (Notes 8 and 18):	**388,843**	361,810
Gross profit	**199,289**	190,276
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 18 ,19 and 20):	**149,342**	150,577
Operating income (Note 27)	**49,947**	39,699
OTHER INCOME (EXPENSES):		
Interest income	**300**	275
Dividend income	**210**	283
Interest expense	**(12)**	(12)
Insurance income	**459**	506
Foreign exchange gains	**29**	—
Foreign exchange losses	**—**	(6)
Gain on investments in partnership	**—**	278
Loss on investments in partnership	**(29)**	—
Gain on sales of long-lived assets (Note 21)	**3**	6
Insurance income due to disaster (Note 21)	**—**	203
Gain on sales of investments in securities (Note 9)	**730**	1,255
Loss on sales of investments in securities (Note 9)	**(18)**	—
Gain on sales of shares of subsidiaries and associates	**—**	896
Loss on sales of shares of subsidiaries and associates	**—**	(40)
Loss on sales and disposal of long-lived assets (Note 21)	**(124)**	(124)
Loss on disaster (Note 21)	**—**	(169)
Loss on impairment of investments in securities (Note 9)	**(58)**	(18)
Other, net	**86**	63
Total other income (expenses)	**1,576**	3,396
Net income before income taxes	**51,523**	43,095
INCOME TAXES (Note 16):		
Current	**14,244**	12,971
Deferred	**1,652**	628
Total income taxes	**15,896**	13,599
Net income	**35,627**	29,496
NET INCOME ATTRIBUTABLE TO:		
Non-controlling interests	**75**	76
Owners of the parent	**35,552**	29,420
Net income	**¥ 35,627**	¥ 29,496

(Yen)

	2022	2021
PER SHARE DATA (Note 25):		
Net income attributable to owners of the parent		
-Basic	**¥ 274.16**	¥ 226.88
-Diluted	**274.10**	226.83
Cash dividends applicable to the year	**90.00**	75.00

• See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Year Ended December 31, 2022

(Millions of yen)

	2022	2021
NET INCOME	**¥ 35,627**	¥ 29,496
OTHER COMPREHENSIVE INCOME (LOSS) (Note 26):		
Unrealized gain (loss) on available-for-sale securities	**(2,673)**	3,644
Deferred gain (loss) on derivatives under hedge accounting	**(38)**	52
Foreign currency-translation adjustments	**194**	136
Defined retirement benefit plans	**3,600**	4,312
Total other comprehensive income	**1,083**	8,144
COMPREHENSIVE INCOME	**¥ 36,710**	¥ 37,640
COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	**¥ 36,612**	¥ 37,547
Non-controlling interests	**98**	93

• See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Year Ended December 31, 2022

(Thousands of shares / Millions of yen)

	Shareholders' equity						
	Common stock		Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	
	Shares	Amount				Shares	Amount
Balance at January 1, 2021	131,080	¥ 73,303	¥ 82,815	—	¥ 188,482	(1,413)	¥ (2,104)
Net income attributable to owners of the parent	—	—	—	—	29,420	—	—
Cash dividends	—	—	—	—	(9,077)	—	—
Purchase of treasury stock	—	—	—	—	—	(1)	(2)
Disposition of treasury stock	—	—	9	—	—	9	14
Net income attributable to non-controlling interests	—	—	—	—	—	—	—
Cash dividends paid to non-controlling interests	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	—	—
Balance at January 1, 2022	**131,080**	**73,303**	**82,824**	**—**	**208,825**	**(1,405)**	**(2,092)**
Net income attributable to owners of the parent	**—**	**—**	**—**	**—**	**35,552**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**—**	**(11,022)**	**—**	**—**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**(1)**	**(4)**
Disposition of treasury stock	**—**	**—**	**3**	**—**	**—**	**2**	**3**
Net income attributable to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cash dividends paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net change in the year	**—**	**—**	**—**	**¥ 29**	**—**	**—**	**—**
Balance at December 31, 2022	**131,080**	**¥ 73,303**	**¥ 82,827**	**¥ 29**	**¥ 233,355**	**(1,404)**	**¥ (2,093)**

(Millions of yen)

	Accumulated other comprehensive income (loss)						
	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	Non-controlling interests	Total equity
Balance at January 1, 2021	¥ 4,231	¥ (29)	¥ 5	¥ (1,244)	¥ 345,459	¥ 656	¥ 346,115
Net income attributable to owners of the parent	—	—	—	—	29,420	—	29,420
Cash dividends	—	—	—	—	(9,077)	—	(9,077)
Purchase of treasury stock	—	—	—	—	(2)	—	(2)
Disposition of treasury stock	—	—	—	—	23	—	23
Net income attributable to non-controlling interests	—	—	—	—	—	76	76
Cash dividends paid to non-controlling interests	—	—	—	—	—	(22)	(22)
Net change in the year	3,642	52	121	4,312	8,127	17	8,144
Balance at January 1, 2022	**7,873**	**23**	**126**	**3,068**	**373,950**	**727**	**374,677**
Net income attributable to owners of the parent	**—**	**—**	**—**	**—**	**35,552**	**—**	**35,552**
Cash dividends	**—**	**—**	**—**	**—**	**(11,022)**	**—**	**(11,022)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(4)**	**—**	**(4)**
Disposition of treasury stock	**—**	**—**	**—**	**—**	**6**	**—**	**6**
Net income attributable to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**75**	**75**
Cash dividends paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(24)**	**(24)**
Net change in the year	**(2,670)**	**(38)**	**168**	**3,600**	**1,089**	**23**	**1,112**
Balance at December 31, 2022	**¥ 5,203**	**¥ (15)**	**¥ 294**	**¥ 6,668**	**¥ 399,571**	**¥ 801**	**¥ 400,372**

• See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Year Ended December 31, 2022

(Millions of yen)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income before income taxes	**¥ 51,523**	¥ 43,095
Depreciation and amortization	**9,593**	10,246
Amortization of goodwill (Note 27)	**30**	—
Increase (decrease) in allowance for doubtful receivables	**111**	(243)
Increase (decrease) in accrued pension and severance costs	**(3,480)**	(544)
Decrease (increase) in prepaid pension and severance costs	**(46)**	(45)
Increase (decrease) in accrued bonuses	**(716)**	(1,486)
Loss (gain) on sales and disposal of property, plant and equipment, net	**108**	112
Loss (gain) on sales of investments in securities	**(712)**	(1,255)
Loss on impairment of investments in securities	**58**	18
Loss (gain) on sales of shares of subsidiaries and associates	**—**	(856)
Loss (gain) on investments in partnership	**29**	(278)
Decrease (increase) in notes and accounts receivable	**(2,895)**	(1,988)
Decrease (increase) in inventories	**(3,280)**	(7,467)
Increase (decrease) in notes and accounts payable-trade	**986**	2,222
Income taxes paid	**(13,820)**	(13,104)
Other, net	**236**	4,330
Net cash provided by operating activities	**37,725**	32,757
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	**(8,890)**	(14,587)
Proceeds from sales of property, plant and equipment	**24**	18
Payments for purchases of intangible assets	**(894)**	(2,242)
Payments for purchases of investments in securities	**(676)**	(1,089)
Proceeds from sales of investments in securities	**1,330**	1,893
Payments for purchases of shares of a subsidiary	**(210)**	—
Proceeds from sales of shares of a subsidiary	**—**	847
Decrease (increase) in short-term loans receivable, net	**11**	3
Other, net	**(802)**	(737)
Net cash used in investing activities	**(10,107)**	(15,894)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of finance lease obligations	**(56)**	(62)
Payments for purchases of treasury stock	**(4)**	(3)
Dividends paid	**(11,020)**	(9,073)
Dividends paid to non-controlling interests	**(24)**	(22)
Other, net	**(156)**	—
Net cash used in financing activities	**(11,260)**	(9,160)
Effect of exchange rate changes on cash and cash equivalents	**245**	195
Net increase in cash and cash equivalents	**16,603**	7,898
Cash and cash equivalents at beginning of year	**68,029**	60,131
Cash and cash equivalents at end of year (Note 6)	**¥ 84,632**	¥ 68,029

• See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Canon Marketing Japan Inc. and Consolidated Subsidiaries
Year Ended December 31, 2022

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 in order to present them in a form that is more familiar to readers outside of Japan.

Japanese yen figures less than a million yen are rounded to the nearest million yen.

In addition, certain changes have been made to the presentation of the consolidated financial statements of the previous fiscal year to conform to those of the current fiscal year.

2 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements for the fiscal year ended December 31, 2022, include the accounts of the Company and all of its 15 (14 in 2021) subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group has also been 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.

QB5 Inc. has been included in the scope of consolidation from the current fiscal year due to the acquisition of its shares.

(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, allowance for specific receivables from customers experiencing financial difficulties is estimated on an individual basis. For all other receivables, allowance is calculated based on past experiences of credit losses.

(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. Items depreciated by the straight-line method are rental assets, certain assets of consolidated subsidiaries, buildings purchased on or after April 1, 1998 with the exception 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 — Lessees' accounting

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

(2) Accounting method for depreciation of lease assets — Lessees' accounting

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

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

(i) Method and period for amortization of goodwill

Goodwill is, in principle, amortized on a straight-line basis over five years.

(j) 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 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.

(k) Accrued Bonuses

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

(l) Accrued Directors' Bonuses

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

(m) 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.

(n) 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.

(o) 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.

(p) 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 periods 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.

(q) 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.

(r) 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.

(s) 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 in foreign currency are translated at the average exchange rates prevailing during the year.

(t) Per Share Amounts

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

Shareholders' equity per share is computed based on the number of shares of common stock outstanding at year end.

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

(u) Standards for Recognizing Significant Revenues and Expenses

The key performance obligations in the Group's main businesses related to revenue from contracts with customers and the usual point in time at which these obligations are satisfied (the usual point in time at which revenue is recognized) are as follows.

The Group sells and provides services for products. It also sells products and provides services in the IT solutions and industrial equipment and healthcare fields. For sales of products that do not require customer acceptance inspections, the Group is generally entitled to receive consideration for the transaction from the customer when the product is delivered, as legal ownership of the product, physical possession, significant risks associated with ownership of the product, and economic value are transferred to the customer. Therefore, revenue is recognized when the product has been delivered to the customer because the performance obligation is deemed to be satisfied when control over the product is transferred to the customer at that point in time. For sales of products that require customer acceptance inspections, the Group is entitled to receive consideration for the transaction from the customer when the product is inspected as legal ownership of the product, physical possession, significant risks associated with ownership of the product, and economic value are transferred to the customer. Accordingly, revenue is recognized when the product has been inspected and accepted to the customer because the performance obligation is deemed to be satisfied when control over the product is transferred to the customer at that point in time. Services for products are mainly maintenance contracts for business equipment, which are either routine or recurring services. Therefore, revenue is recognized on a straight-line basis over a specific period depending on the nature of the contract with the customer because the performance obligation is deemed to be satisfied over time as the services are provided to the customer in accordance with the contract. For contracts where the Group is entitled to receive consideration from the customer for the portion of the performance obligation satisfied according to the volume of product used, revenue is recognized based on the amount obtained by multiplying the unit price stipulated in the contract by the volume of product used, which is based on the judgement that the customer shall receive benefits in proportion to the volume of product used. Consideration for transactions is generally settled within a short period from the time the performance obligation is satisfied, and the amount of the promised consideration does not include a significant financial component. Furthermore, for certain sales of products and provision of services for certain products, consideration for transactions is received in advance.

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 in the aggregate.

Consumers segment

Transaction prices for the sale of products include rebates and other forms of variable consideration that are contingent upon the achievement of predetermined targets and are mainly related to products generally sold to retailers. Rebates and other variable consideration are deducted from the transaction price and rebates are estimated using the expected value method based on past performance and other factors.

Enterprise and Area segments

Maintenance and operation services and outsourcing of IT solutions are services provided to customers consistently over the period of the contract. Therefore, revenue is recognized on a straight-line basis over a certain period depending on the nature of the contract with the customer, based on the judgment that the performance obligation is satisfied over time. For contracts in which the Group is entitled to receive consideration from the customer for the portion of the performance obligation satisfied according to the labor hours or the work performed, revenue is recognized based on the volume obtained by multiplying the unit price stipulated in the contract by the labor hours or the work performed for the service because the customers receive benefits in proportion to the labor hours or the work performed for the service.

For System Integration (SI) services that involve contract software development, revenue is recognized over the period of development in proportion to the progress toward completion when it can be reasonably estimated, as the results are transferred to the customer in accordance with the development progress. To estimate the progress toward completion, the input method based on costs incurred (cost-to-cost method) is used to recognize revenue because the costs incurred are proportional to the progress toward completion. In cases where the progress toward completion cannot be reasonably estimated, revenue is recognized based on the cost recovery method for those items for which the costs incurred in proportion to the progress completed can be recovered.

Professional segment

For SI services involving the contract development of systems for the healthcare and other sectors, please refer to the relevant information on performance obligation for the Enterprise and Area segments.

(v) Research and Development Costs

Research and development costs are charged to income as incurred.

(w) Stock-Based Compensation

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

(x) 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.

(y) Other Significant Matters for Preparing Consolidated Financial Statements

(1) Application of consolidated taxation system

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

(2) 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 the current consolidated taxation system to group tax sharing system. With regard to differences under the group tax sharing system established by the 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 Practical Issues Task Force (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.

From the beginning of the following fiscal year, the Group plans to apply "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021), which stipulates the accounting treatment and disclosure of corporate tax, local corporate tax, and tax effect accounting when applying the group tax sharing system.

(z) New Accounting Pronouncements

(Accounting Standard for Fair Value Measurement, etc.)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

(1) Overview

The guidance stipulates the treatment of calculation of fair value of investment trusts and notes thereto, and treatment of notes to fair value of investments in partnerships, etc., in which the net amount equivalent to the equity interest is recorded on the balance sheet.

(2) Scheduled date of application

The guidance is scheduled to be applied at the beginning of the fiscal year ending December 31, 2023.

(3) Effect of applying the accounting standard, etc.

The effect of applying the accounting standard was under review at the time of preparation of the consolidated financial statements.

(Accounting Standard for Corporate Income Taxes, Local Inhabitant Taxes, and Enterprise Taxes, etc.)

"Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022)
"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022)
"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

The guidance stipulates the treatment of the tax effect of the sale of shares of subsidiaries when the Group's corporate tax system is applied and the classification of the income taxes to be recorded when other comprehensive income is taxed

(2) Scheduled date of application

The guidance is scheduled to be applied at the beginning of the fiscal year ending December 31, 2025.

(3) Effect of applying the accounting standard, etc.

The effect of applying the accounting standard was under review at the time of preparation of the consolidated financial statements.

3 Changes in Accounting Policies

The Group adopted 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 and other standards in which the portion related to fair value (the "Standard of Fair value") was revised from January 1, 2022, prospectively. The Standard of Fair value is similar to IFRS 13 and Topic 860 of US GAAP and established the measurement method and input hierarchy of fair value. Related disclosure was made in Note 23.

In addition, the note "matters concerning fair value of financial instruments and breakdown by input level" has been included under Note 23 "Financial Instruments". However, in accordance with the transitional treatment set forth in the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), information on the previous fiscal year has not been included.

4 Changes in Presentation

(Changes due to the application of "Accounting Standard for Revenue Recognition", etc.)

The Company applied the "Accounting Standard for Revenue Recognition" (ASBJ Standard No. 29, March 31, 2020) from January 1, 2022. Due to the application of this standard, "notes and accounts receivable-trade", which is included under "current assets" in the consolidated balance sheet of the previous fiscal year, has been disclosed under "notes accounts receivable-trade and contract assets" as of December 31, 2022. In accordance with the transitional treatment prescribed in Paragraph 89-4 of the "Accounting Standard for Revenue Recognition", reclassifications have not been made for the previous fiscal year as a result of this change in presentation. In addition, in accordance with the transitional treatment prescribed in Paragraph 89-4 of the "Accounting Standard for Revenue Recognition", information on the previous fiscal year has not been included under "Revenue Recognition".

5 Significant Accounting Estimates

The Group records the deferred tax assets amounts for all of future temporary differences for which the timing of realization is reasonably estimated. This is because stable taxable income has been achieved for the years ended December 31, 2022 and 2021, and the Group forecasts that the subsequent business environment is unlikely to significantly change in the near future. Deferred tax assets as of December 31, 2022 and 2021, were ¥ 12,904 million and ¥ 14,975 million, respectively. The Group considers the estimated future taxable income and business environment to be appropriate as they are determined based on the best estimate and judgement by management. However, they may be affected by changes in future business and economic environment as well as revision and promulgation of related laws and regulations. If management estimate and judgement about future taxable income and business environment needs to be revised, the amount to be recognized in the consolidated financial statements for the following years may be affected.

6 Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2022 and 2021, consisted of the following:

(Millions of yen)

	2022	2021
Cash and deposits	**¥ 84,132**	¥ 67,529
Certificates of deposit due within three months	**500**	500
Cash and cash equivalents	**¥ 84,632**	¥ 68,029

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 that matured at the year-end were as follows:

(Millions of yen)

	2022	2021
Notes receivable-trade	**¥ 227**	¥ 207
Electronically recorded monetary claims-operating	**698**	534

8 Inventories

The components of Inventories as of December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022	2021
Merchandise	**¥ 33,410**	¥ 30,656
Service parts	**4,487**	3,922
Work in process	**100**	146
Supplies	**524**	512
Total	**¥ 38,521**	¥ 35,236

Write-downs of inventories, net of the amount of the reversal, for the years ended December 31, 2022 and 2021, were ¥ 1,140 million and ¥ 1,199 million, respectively. Accrued loss on contracts included in cost of sales for the years ended December 31, 2022 and 2021, were ¥ (150) million and ¥ 309 million, respectively.

9 Investments in Securities

Investments in securities classified as available-for-sale as of December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022	2021
Marketable equity securities	**¥ 10,887**	¥ 15,687
Unlisted equity securities	**769**	668
Investments in investment partnerships	**1,656**	998
Total	**¥ 13,312**	¥ 17,353

The carrying amounts and aggregate fair values of marketable equity securities as of December 31, 2022 and 2021, were as follows:

(Millions of yen)

2022				2021			
Cost	**Unrealized gains**	**Unrealized losses**	**Fair value**	Cost	Unrealized gains	Unrealized losses	Fair value
¥ 4,007	**¥ 7,087**	**¥ (207)**	**¥ 10,887**	¥ 4,359	¥ 11,531	¥ (203)	¥ 15,687

Available-for-sale securities which did not have a quoted price as of December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022	2021
Unlisted equity securities	¥ 769	¥ 668
Investments in investment partnerships	1,656	998
Total	¥ 2,425	¥ 1,666

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022			2021		
	Proceeds	Realized gains	Realized losses	Proceeds	Realized gains	Realized losses
Marketable equity securities	¥ 1,302	¥ 730	¥ (18)	¥ 1,552	¥ 1,255	—
Others	—	—	—	—	—	—
Total	¥ 1,302	¥ 730	¥ (18)	¥ 1,552	¥ 1,255	—

Impairment loss on listed equity securities for the year ended December 31, 2022 was ¥ 55 million. Impairment loss on unlisted equity securities for the years ended December 31, 2022 and 2021 were ¥ 3 million and ¥ 18 million, 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, 2022 and 2021, were ¥ 3,538 million and ¥ 3,508 million, respectively.

11 Lease Obligations and Deposits

Lease obligations and deposits included in other long-term liabilities as of December 31, 2022, 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
Current portion of lease obligations (see Note 23)	¥ 53	¥ 46	—	—
Lease obligations, excluding current portion (see Note 23)	81	74	—	2024–2027
Other interest-bearing liabilities				
Guarantee deposits received	2,596	2,219	0.00%	—
Total	¥ 2,730	¥ 2,339	—	—

12 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. 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 the beginning and end of year, excluding the simplified method in (3)

(Millions of yen)

	2022	2021
Retirement benefit obligations at beginning of year	¥ 210,250	¥ 213,121
Service costs	5,685	5,820
Interest costs	1,067	1,095
Actuarial (gains) losses	(20,684)	(861)
Benefit paid	(10,908)	(8,925)
Retirement benefit obligations at end of year	¥ 185,410	¥ 210,250

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

(Millions of yen)

	2022	2021
Plan assets at beginning of year	¥ 170,501	¥ 166,498
Expected return on plan assets	4,256	4,156
Actuarial gains (losses)	(14,240)	4,443
Contributions from the employer	2,892	2,990
Benefit paid	(8,951)	(7,586)
Plan assets at end of year	¥ 154,458	¥ 170,501

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

(Millions of yen)

	2022	2021
Accrued pension and severance costs at beginning of year	¥ 743	¥ 845
Net periodic benefit costs	136	99
Benefit paid	(35)	(23)
Contributions to plans	(46)	(46)
Decrease resulting from exclusion of subsidiaries in consolidation	—	(132)
Accrued pension and severance costs at end of year	¥ 798	¥ 743

(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)

	2022	2021
Funded retirement benefit obligations	**¥ 167,366**	¥ 190,935
Plan assets	**(154,839)**	(170,872)
	12,527	20,063
Unfunded retirement benefit obligations	**19,222**	20,430
Net liabilities and assets in consolidated balance sheets	**¥ 31,749**	¥ 40,493
Accrued pension and severance costs	**¥ 32,142**	¥ 40,914
Prepaid pension and severance costs	**(393)**	(421)
Net liabilities and assets in consolidated balance sheets	**¥ 31,749**	¥ 40,493

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

(5) Retirement benefit costs

Retirement benefit costs for the years ended December 31, 2022 and 2021, consisted of the following:

(Millions of yen)

	2022	2021
Service costs	**¥ 5,685**	¥ 5,820
Interest costs	**1,067**	1,095
Expected return on plan assets	**(4,256)**	(4,156)
Amortization of actuarial (gains) losses	**(939)**	1,250
Amortization of prior service costs	**(282)**	(302)
Net periodic benefit costs using the simplified method	**136**	99
Retirement benefit costs of defined benefit plans	**¥ 1,411**	¥ 3,806

(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, 2022 and 2021, were as follows:

(Millions of yen)

	2022			2021		
	Unrecognized prior service costs	**Unrecognized actuarial gains and losses**	**Total**	Unrecognized prior service costs	Unrecognized actuarial gains and losses	Total
At beginning of year	**¥ (1,207)**	**¥ (3,235)**	**¥ (4,442)**	¥ (1,509)	¥ 3,319	¥ 1,810
Net change	**282**	**(5,505)**	**(5,223)**	302	(6,554)	(6,252)
At end of year	**¥ (925)**	**¥ (8,740)**	**¥ (9,665)**	¥ (1,207)	¥ (3,235)	¥ (4,442)

(7) Plan assets

(i) Main components of plan assets

Ratios for main components of plan assets were as follows:

	2022	2021
Bonds	**14%**	22%
Stocks	**4**	4
Pooled funds	**54**	52
Life insurance company general accounts	**14**	16
Other	**14**	6
Total	**100%**	100%

Note: The composition of pooled funds was 45% in bonds and 55% in stocks as of December 31, 2022, and 44% in bonds and 56% in stocks as of December 31, 2021.

(ii) Method 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, 2022 and 2021, were as follows:

	2022	2021
Discount rates	**0.87–1.54%**	0.24–0.60%
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 ¥ 1,889 million and ¥ 1,922 million for the years ended December 31, 2022 and 2021, respectively.

13 Contingent Liabilities (Guarantee Obligations)

The Company provides the following guarantee obligations.

(Millions of yen)

	2022	2021
Guarantees for employees' housing loans	**¥ 4**	¥ 4

14 Shareholders' Equity

The Companies Act of Japan went into effect on May 1, 2006, replacing the Commercial Code. This applies 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 contributed in-kind 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 in 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 fiscal 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, up to 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).

15 Common Stock and Dividends

1. The following table shows the movement of number of common stock for the years ended December 31, 2022 and 2021:

(Thousands of shares)

	As of January 1, 2021	Increase or purchase	Decrease or sale	As of December 31, 2021	Increase or purchase	Decrease or sale	As of December 31, 2022
Issued stock	131,080	—	—	131,080	**—**	**—**	**131,080**
Treasury stock	1,413	1	9	1,405	**1**	**2**	**1,404**

Note a: The increase in treasury stock of 1 thousand shares and 1 thousand shares for the years ended December 31, 2022 and 2021, respectively, was due to the purchase of fractional stock.
Note b: The decrease in treasury stock of 2 thousand shares and 9 thousand shares for the fiscal year ended December 31, 2022, and 2021, respectively, was due to disposal for performance-linked stock incentives.

2. Matters regarding dividends

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

Semiannual interim dividends are paid to the common shareholders of the Company as of semiannual period-end and annual dividends are 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, 2022 and 2021, were as follows:

	2022			2021		
	Resolution date	Total dividends (Millions of yen)	Dividends per share (yen)	Resolution date	Total dividends (Millions of yen)	Dividends per share (yen)
Annual dividends	**March 29, 2022**	**¥ 5,835**	**¥ 45**	March 26, 2021	¥ 5,187	¥ 40
Interim dividends	**July 25, 2022**	**¥ 5,187**	**¥ 40**	July 27, 2021	¥ 3,890	¥ 30

Annual dividends of ¥ 6,484 million (¥ 50 dividend per share) was resolved by the General Meeting of Shareholders held on March 29, 2023.

Total dividend per share was ¥ 90 and ¥ 75 for the years ended December 31, 2022 and 2021, respectively.

16 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, 2022 and 2021.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022	2021
DEFERRED TAX ASSETS:		
Accrued pension and severance costs	**¥ 10,071**	¥ 12,732
Accrued bonuses	**1,163**	1,399
Accrued business tax and business office tax	**815**	765
Asset retirement obligations	**758**	691
Excess depreciation of long-lived assets	**624**	758
Recording of estimated future variable consideration	**559**	733
Loss on disposal and devaluation of inventories	**555**	506
Excess amortization of software	**509**	688
Loss on impairment of investments in securities	**264**	568
Allowance for long-term continuous service rewards	**233**	279
Loss on valuation of golf club membership	**96**	98
Accrued product warranties	**75**	90
Lump-sum depreciable assets	**55**	54
Tax loss carryforwards	**43**	57
Loss on impairment of long-lived assets	**31**	31
Other	**1,264**	1,257
Gross deferred tax assets	**17,115**	20,706
Less: valuation allowance	**(472)**	(803)
Total deferred tax assets	**¥ 16,643**	¥ 19,903
DEFERRED TAX LIABILITIES:		
Unrealized gain (loss) on available-for-sale securities	**¥ 2,332**	¥ 3,526
Deferred capital gain	**1,280**	1,280
Other	**127**	122
Total deferred tax liabilities	**¥ 3,739**	¥ 4,928
Net deferred tax assets	**¥ 12,904**	¥ 14,975

17 Revenue

The Group adopted a revised Standard for Revenue Recognition from January 1, 2022, prospectively. The revised Standard for Revenue Recognition requires the disclosure of the following additional information.

1. Information on the disaggregation of revenue based on contracts with customers

(a) Disaggregation of revenue

As stated in Note 27, the Group has four reportable segments (Consumers, Enterprise, Area, and Professional). The revenue disaggregated and the reconciliation of the disaggregated revenue with the four reportable segments for the fiscal year ended December 31, 2022, was as follows:

(Millions of yen)

	Consumers	Enterprise	Area	Professional	Other	Total
Overall sales of IT solutions						
SI services	¥ 0	¥ 62,493	¥ 9,945	¥ 9,601	—	¥ 82,039
Maintenance and operation service / outsourcing	2	32,910	10,071	407	¥ 3,531	46,921
IT products and system sales	29,257	33,342	45,099	8	1,108	108,814
Other	107,316	56,827	148,674	30,361	13	343,191
Revenue from contracts with customers	¥ 136,575	¥ 185,572	¥ 213,789	¥ 40,377	¥ 4,652	¥ 580,965
Other revenue	¥ 0	¥ 5,936	¥ 1,231	—	—	¥ 7,167
Total	¥ 136,575	¥ 191,508	¥ 215,020	¥ 40,377	¥ 4,652	¥ 588,132

Note: "Other" is a business segment that is not included in the reportable segments of the Company and includes the shared service business.

(b) Basic information for understanding revenues from contracts with customers

The basic information for understanding revenues is listed under (u) Standards for Recognizing Significant Revenues and Expenses in 2. Summary of Significant Accounting Policies.

(c) Contract balances

The receivables from contracts with customers and contact liabilities as of December 31, 2022, were as follows:

(Millions of yen)

	January 1, 2022	December 31, 2022
Receivables from contracts with customers:	¥ 95,369	¥ 97,272
Contract assets:	11,038	11,940
Contract liabilities included in other current liabilities:	17,055	17,639

Note: For the fiscal year ended December 31, 2022, the balance of Notes receivable-trade was ¥ 86,219 and the balance of Accounts receivable-trade was ¥ 11,053, respectively.
Contract assets refer to the Group's right to consideration for goods and services, primarily in terms of outsourced software development, for which the Group has fulfilled part of or all of its performance obligations at the year-end but has not yet billed to customers.
Contract assets are recognized as receivables based on contracts with customers when the Group's right to consideration becomes unconditional.
Contract liabilities refer to, primarily, advances received from customers as payments for products and, in cases where the Group provides services on an ongoing basis, advances paid to the Group for services not yet performed.
Contract liabilities are reversed following the recognition of revenues.
The amounts of revenue recognized for the year ended December 31, 2022, that was included in the contract liability balance at beginning of year was ¥ 10,469 million.
The amounts of revenue recognized for the fiscal year ended December 31, 2022, from performance obligations satisfied or partially satisfied in previous years were immaterial.

(d) Transaction price allocated to the remaining performance obligation

The revenue expected to be recognized in the future related to performance obligations that are unsatisfied as of December 31, 2022, were as follows:

(Millions of yen)

	2022
Within 1 year	¥ 7,761
Between 1 year and 2 years	3,232
Between 2 and 3 years	1,736
Between 3 and 4 years	1,075
Between 4 and 5 years	425
Later than 5 years	62
Total	¥ 14,291

Note 1: Among the Group's maintenance contracts for business devices, the contracts where revenues are recognized based on the amount calculated by multiplying the unit price stipulated in the contract by the volume of product used, are not included in the above table.
Note 2: The Group applies the convenience method of practice in noting the transaction price allocated to the remaining performance obligations and does not include in the notes contracts with an initially expected contract term of one year or less.

18 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, 2022 and 2021, were ¥ 712 million and ¥ 402 million, respectively.

19 Stock-Based Compensation

The Company's stock option plan which replaced former performance-linked stock incentives plan was approved by the General Meeting of Shareholders held on March 29, 2022. Based on the approval of the board of Directors, the Company granted stock options to its directors and executive officers. In accordance with the provisions of the stock acquisition rights agreement between the Company and a holder of the stock acquisition rights, the number of granted stock acquisition rights that may be exercised by such holders is adjusted (range from 0% to 100% of granted) based on the level of consolidated net income before taxes for the fiscal year that stock acquisition rights was granted and the holder of the stock acquisition rights shall be entitled to exercise the number of exercisable stock acquisition rights only in a lump sum within a period of 10 days (or the next business day, if the tenth day is a holiday) from the day immediately following the day when they cease to hold any position as a director or an executive officer of the Company. The grant date was April 28, 2022. The number and category of grantees of stock options are 4 directors (excluding outside directors) and 7 executive officers, for a total of 11. These option awards have a 30 year exercisable period from April 29, 2022, and exercise price per share is ¥ 1. The grant-date fair value per share of the stock options granted for the fiscal year ended December 31, 2022, was ¥ 2,606. The work period for stock option grantees is from March 29, 2022, to March 29, 2023.

The compensation cost recognized for these stock options for the year ended December 31, 2022, was ¥ 29 million, and it was included in selling, general and administrative expenses in the consolidated statement of income.

The fair value of the option award was estimated on the date of grant using the Black-Sholes option pricing model that incorporates the assumptions presented below:

	For the year ended December 31, 2022
Expected term of option (in years)	[3.1 years / 37 months]
Expected volatility	29.34%
Dividend yield	2.65%
Risk-free interest rate	(0.04)%

A summary of option activity under the stock option plans as of and for the year ended December 31, 2022, was presented below:

	Shares	Weighted-average exercise Price (Yen)	Fair value at the grant date (Yen)
Granted	20,000	¥ 1	¥ 2,606
Forfeited	5,100	—	—
Exercised	—	—	—
Outstanding as of December 31, 2022	14,900	¥ 1	—

Granted shares outstanding as of December 31, 2022, consist of vested shares of 11,175 and unvested shares of 3,725.

The total fair values of shares vested for the year ended December 31, 2022, was ¥ 29 million.

The number of forfeited shares due to non-vesting of rights is estimated in consideration of vesting conditions and other factors.

20 Selling, General and Administrative Expenses

The primary components of "Selling, general and administrative expenses" for the years ended December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022	2021
Salaries and allowances	¥ 68,454	¥ 71,462
Accrued bonuses	2,753	3,537
Accrued directors' bonuses	118	98
Provision of allowance for long-term continuous service rewards	312	357
Net periodic retirement benefit costs	2,743	5,053
Accrued product warranties	234	288
Provision (reversal) of allowance for doubtful receivables	150	(48)

21 Other Income (Expenses)

The components of "Gain on sales of long-lived assets" for the years ended December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022	2021
Machinery and vehicles	¥ 1	¥ 4
Furniture and fixtures	1	2
Rental assets	0	—
Software	1	0
Total	¥ 3	¥ 6

The components of "Loss on sales and disposal of long-lived assets" for the years ended December 31, 2022 and 2021, were as follows:

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

(Millions of yen)

	2022	2021
Buildings and structures	¥ 0	—
Furniture and fixtures	8	¥ 1
Total	¥ 8	¥ 1

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

(Millions of yen)

	2022	2021
Buildings and structures	¥ 18	¥ 35
Furniture and fixtures	33	24
Rental assets	50	57
Software	15	6
Other	0	1
Total	¥ 116	¥ 123

For the fiscal year ended December 31, 2021, loss on disaster of ¥ 169 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 ¥ 203 million was recorded as insurance income due to disaster.

22 Lease Transactions

Operating lease transactions

1. Lessees' accounting

The following table shows future minimum lease payments at December 31, 2022 and 2021, for non-cancelable operating leases:

(Millions of yen)

	2022	2021
Due within one year	¥ 2,539	¥ 2,223
Due after one year	6,155	6,256
Total	¥ 8,694	¥ 8,479

2. Lessors' accounting

The following table shows future minimum lease income at December 31, 2022 and 2021, for non-cancelable operating leases:

(Millions of yen)

	2022	2021
Due within one year	¥ 2,987	¥ 1,892
Due after one year	8,907	8,998
Total	¥ 11,894	¥ 10,890

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, if 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 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 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 “(x) Key Hedge Accounting Methods” of Note 2 Summary of Significant Accounting Policies.

2. Fair values of financial instruments

The book values of financial instruments in the consolidated balance sheets as of December 31, 2022 and 2021, their fair values, and the differences between the two are as follows:

As of December 31, 2022

The Group adopted 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 and other standards which was revised the portion related to fair value (the “Standard of Fair value”) from January 1, 2022, prospectively (See Note 3). Cash and cash equivalents, notes and accounts receivable-trade, short-term loans receivable, and notes and accounts payable-trade are not included in the table above as they are cash and settled within a short period of time and, accordingly, the book values approximate their fair values.

(Millions of yen)

	Book value	Fair value	Difference
(1) Investments in securities	**¥ 10,887**	**¥ 10,887**	**—**
Asset total	**¥ 10,887**	**¥ 10,887**	**—**
(2) Derivative transactions (Note 1)	**¥ (21)**	**¥ (21)**	**—**

Note 1: Assets and liabilities arising from derivative transactions are indicated in net amounts, whereas items that amount to a net liability are shown in parentheses.

The fair value measurements of financial instruments are classified into the following three levels based on the observability and significance of the inputs used to measure fair value measurements.

Level 1: Fair value measurement is determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurement is determined using directly or indirectly observable inputs other than Level 1 inputs.

Level 3: Fair value measurement is determined using significant unobservable inputs.

When multiple inputs with a significant impact are used to determine the fair value, the fair value of the financial instrument is classified into the lowest level in the fair value measurement among the levels to which these inputs belong.

(1) Financial Instruments Measured at Fair Value on the Consolidated Balance Sheet

(Millions of yen)

Category	Fair Value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Available-for-sale securities				
Stocks	**¥ 10,887**	**—**	**—**	**¥ 10,887**
Total assets	**¥ 10,887**	**—**	**—**	**¥ 10,887**
Derivative transactions				
Forward exchange contracts	**—**	**¥ 21**	**—**	**¥ 21**
Total liabilities	**—**	**¥ 21**	**—**	**¥ 21**

Note: Description of the valuation methods and inputs used to measure fair value measurements

Investments in securities

The fair values of investments in securities are measured at the quoted market price of the stock exchange for listed stocks. The fair values of listed stocks are classified into Level 1 as they are traded on the active market.

Derivative Transactions

The fair values of forward exchange contracts are determined based on the quoted prices obtained from counterparty financial institutions and, accordingly, are classified into Level 2.

As of December 31, 2021

Cash and cash equivalents, notes and accounts receivable-trade, short-term loans receivable, and notes and accounts payable-trade are not included in the table above as they are cash and settled within a short period of time and, accordingly, the book values approximate their fair values.

(Millions of yen)

	Book value	Fair value	Difference
(1) Investments in securities	¥ 15,687	¥ 15,687	—
Asset total	¥ 15,687	¥ 15,687	—
(2) Derivative transactions (Note)	¥ 33	¥ 33	—

Note: Assets and liabilities arising from derivative transactions are indicated in net amounts.

Note a: The redemption schedule of monetary claims as of December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022		2021	
	Due within 1 year	1 year to 5 years	Due within 1 year	1 year to 5 years
Cash and cash equivalents	**¥ 84,632**	**—**	¥ 68,029	—
Notes and accounts receivable-trade	**—**	**—**	107,368	—
Notes receivable-trade	**11,053**	**—**	—	—
Accounts receivable-trade	**87,438**	**—**	—	—
Short-term loans receivable	**180,013**	**—**	180,004	—
Total	**¥ 363,136**	**—**	¥ 355,401	—

Note b : The repayment schedule of lease obligations as of December 31, 2022 and 2021, were as follows:

(Millions of yen)

	2022					2021				
	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	**¥ 46**	**¥ 32**	**¥ 23**	**¥ 14**	**¥ 5**	¥ 53	¥ 37	¥ 23	¥ 15	¥ 6

24 Related Party Information

Transaction conditions and policies for deciding transaction conditions with the parent company (Canon Inc.)

(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) Loans of capital, interest rates on loans are decided rationally after considering market interest rates. Furthermore, collateral is not accepted.

Transaction with the parent company for the fiscal year ended December 31, 2022, and related balance as of December 31, 2022, were as follows:

Category	Name of company	Address	Investments in capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Relationship with related party	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%**	**Manufacturing of products sold by Canon MJ**	**Operating transactions**	**Purchases of products**	**¥ 158,803**	**Accounts payable-trade**	**¥ 17,385**
								Sales of office equipment and consumables, and other inventories	**¥ 4,755**	**Accounts receivable-trade and others**	**¥ 1,309**
							Non-operating transactions	**Loans of capital**	**—**	**Short-term loans receivable**	**¥ 180,000**

Transaction with the parent company for the fiscal year ended December 31, 2021, and related balance as of December 31, 2021, were as follows:

Category	Name of company	Address	Investments in capital (Millions of yen)	Business contents or occupation	Percentage possession of voting rights (Ownership) (%)	Relationship with related party	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%	Manufacturing of products sold by Canon MJ	Operating transactions	Purchases of products	¥ 148,759	Accounts payable-trade	¥ 16,154
								Sales of office equipment and consumables, and other inventories	¥ 4,074	Accounts receivable-trade and others	¥ 1,204
							Non-operating transactions	Loans of capital	—	Short-term loans receivable	¥ 180,000

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

25 Per Share Data

A reconciliation of the numerators and denominators of basic and diluted income attributable to owners of the parent per share computation for the years ended December 31, 2022 and 2021, was as follows:

(Millions of yen)

	2022	2021
Net income attributable to owners of the parent	**¥ 35,552**	¥ 29,420

(Thousands of shares)

	2022	2021
Average common shares outstanding	**129,676**	129,673
Effect of diluted securities	**31**	28
Diluted common shares outstanding	**129,707**	129,701

Note: The effect of diluted securities of 31 thousand shares for the fiscal year ended December 31, 2022, was due to the grants of performance-linked stock incentives and stock option and the effect of diluted securities of 28 thousand shares for the fiscal year ended December 31, 2021, was due to the grants of performance-linked stock incentives.

A reconciliation of the numerators and denominators of shareholders' equity per share as of December 31, 2022 and 2021, was as follows:

(Millions of yen)

	2022	2021
Total equity at end of year	**¥ 400,372**	¥ 374,677
Less – non-controlling interests	**(801)**	(727)
Less – Stock acquisition rights	**(29)**	—
Shareholders' equity	**¥ 399,542**	¥ 373,950
Shares outstanding at year-end (thousands of shares)	**129,676**	129,675

Computed per share data were as follows:

(Yen)

	2022	2021
Net income attributable to owners of the parent per share		
Basic	**¥ 274.16**	¥ 226.88
Diluted	**274.10**	226.83
Shareholders' equity per share	**3,081.07**	2,883.74

26 Other Comprehensive Income

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 for the years ended December 31, 2022 and 2021:

(Millions of yen)

	2022	2021
Unrealized gain (loss) on available-for-sale securities:		
Amount arising during the year	**¥ (3,207)**	¥ 6,537
Reclassification adjustments	**(656)**	(1,255)
Pre-tax amount	**(3,863)**	5,282
Tax effect	**1,190**	(1,638)
Net-of-tax amount	**(2,673)**	3,644
Deferred gain (loss) on derivatives under hedge accounting:		
Amount arising during the year	**(54)**	75
Pre-tax amount	**(54)**	75
Tax effect	**16**	(23)
Net-of-tax amount	**(38)**	52
Foreign currency-translation adjustments:		
Amount arising during the year	**194**	129
Reclassification adjustments	**—**	7
Pre-tax amount	**194**	136
Tax effect	**—**	—
Net-of-tax amount	**194**	136
Defined retirement benefit plans:		
Amount arising during the year	**6,444**	5,304
Reclassification adjustments	**(1,221)**	948
Pre-tax amount	**5,223**	6,252
Tax effect	**(1,623)**	(1,940)
Net-of-tax amount	**3,600**	4,312
Total other comprehensive income	**¥ 1,083**	¥ 8,144

27 Segment Information

1. 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.

(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.

(3) Information by reportable segment as of and for the years ended December 31, 2022 and 2021, were as follows:

As of and for the year ended December 31, 2022

(Millions of yen)

	Reportable segment				Other (Note a)	Total	Adjustments (Note b)	Consolidated (Note c)
	Consumers	Enterprise	Area	Professional				
Net sales:								
External customers	¥ 136,575	¥ 191,508	¥ 215,020	¥ 40,377	¥ 4,652	¥ 588,132	—	¥ 588,132
Intersegment	38	11,222	11,541	1,293	7,630	31,724	¥ (31,724)	—
Total	¥ 136,613	¥ 202,730	¥ 226,561	¥ 41,670	¥ 12,282	¥ 619,856	¥ (31,724)	¥ 588,132
Segment income (loss)	¥ 13,940	¥ 17,073	¥ 15,564	¥ 5,240	¥ (1,750)	¥ 50,067	¥ (120)	¥ 49,947
Segment assets	47,480	109,103	70,912	20,253	3,436	251,184	292,556	543,740
Other items:								
Depreciation and amortization	685	6,422	1,710	294	18	9,129	464	9,593
Amortization of goodwill	—	—	—	—	30	30	—	30
Changes in the amount of property, plant and equipment and intangible assets	349	7,286	1,166	124	3	8,928	137	9,065

As of and for the year ended December 31, 2021

(Millions of yen)

	Reportable segment				Other (Note a)	Total	Adjustments (Note b)	Consolidated (Note c)
	Consumers	Enterprise	Area	Professional				
Net sales:								
External customers	¥ 129,433	¥ 180,043	¥ 209,199	¥ 30,059	¥ 3,352	¥ 552,086	—	¥ 552,086
Intersegment	38	10,552	11,627	1,477	7,887	31,581	¥ (31,581)	—
Total	¥ 129,471	¥ 190,595	¥ 220,826	¥ 31,536	¥ 11,239	¥ 583,667	¥ (31,581)	¥ 552,086
Segment income (loss)	¥ 13,573	¥ 13,856	¥ 12,046	¥ 2,488	¥ (2,267)	¥ 39,696	¥ 3	¥ 39,699
Segment assets	45,914	110,215	67,622	20,158	2,220	246,129	280,289	526,418
Other items:								
Depreciation and amortization	468	7,177	1,923	296	28	9,892	354	10,246
Amortization of goodwill	—	—	—	—	—	—	—	—
Changes in the amount of property, plant and equipment and intangible assets	858	9,493	2,023	136	56	12,566	68	12,634

Note a: "Other" is a business segment that is not included in the reportable segments of the Company. The Other segment includes the shared service business.
Note b: 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.
Note c: Total segment income (loss) after adjustments for reportable and other business segments equals operating income in the consolidated statement of income.

2. Related information

As of December 31, 2022 and 2021

(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

(a) 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.

(b) 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.

(4) Information on remaining balance of goodwill by reportable segment

As of December 31, 2022

(Millions of yen)

	Reportable Segments				Other	Total	Adjustments	Amount recorded on consolidated financial statements
	Consumer	Enterprise	Area	Professional				
Balance at year-end	—	—	—	—	¥ 327	¥ 327	—	¥ 327

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, 2022, 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, 2022, 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.

Reliability of IT systems related to revenue recognition for maintenance services	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Note 2, Summary of Significant Accounting Policies, (u) Standards for Recognizing Significant Revenues and Expenses, to the consolidated financial statements, the Group sells products and provides services in the IT solutions, industrial equipment, healthcare and other fields, in addition to selling and providing services for Canon products. Note 17, Revenue, to the consolidated financial statements, which includes information related to disaggregated revenue from contracts with customers, discloses revenue from "Other" for the Enterprise and Area segments for the year ended December 31, 2022, of 56,827 million yen and 148,674 million yen, respectively. This revenue mainly consisted of sales of Canon products, such as office Multifunctional Printers ("office MFPs") and laser printers, and revenue from related maintenance services. The service fees under maintenance service contracts for the office MFPs are calculated primarily based on the number of sheets, either copied or printed, during specified periods of time and the unit price prescribed in the contracts. The service fees under these contracts include technical fees for the Group's service engineers, rental fees for drum units, toners and consumable parts. The number of sheets copied or printed is automatically counted by the equipment installed within each office MFP, and the count data is primarily transmitted via network to the maintenance contract management system. The maintenance contract management system then automatically calculates the service fees based on the count data and unit price linked to the customer data registered in the system. As such, major processes, such as data count, data collection, fee calculation, and interface of relevant revenue data to the accounting system, are heavily dependent on the effectiveness of internal controls over IT systems. 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 internal controls over the IT systems as a key audit matter.	To address the key audit matter, we performed the following procedures, among others, to test internal controls with the assistance of our IT specialists: • To evaluate the accuracy of the automatic sheet counting function of the office MFPs, we compared the actual number of sheets copied or printed against the count data stored within the office MFPs. • To evaluate the accuracy and completeness of the interface of the count data between the office MFPs and the maintenance contract management system, we compared the count data stored in the office MFPs against the count data recorded in the maintenance contract management system. In addition, we tested internal controls that monitor the status over the collection of the count data from the office MFPs. • To evaluate the accuracy of the fee calculation for the maintenance services in the maintenance contract management system, we independently recalculated the fees using the count data and the contract unit prices, based on the contract terms registered in the maintenance contract management system, and compared the result with the actual fees automatically calculated in the maintenance contract management system. • To evaluate the accuracy and completeness of the interface of relevant data between the maintenance contract management system and the accounting system, we compared the number and amount of maintenance service transactions between both systems. • To evaluate the design and operating effectiveness of general IT controls, including user access controls, change management controls and system operations controls, which relate to aforementioned IT systems relevant to automated counts, data interface, and automated calculation, we performed inquiries of the Group's system administrators and inspection of relevant supporting documents.

Independent Auditor's Report

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

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.

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- 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 31, 2023

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