

CANON ANNUAL REPORT 2022

Fiscal Year Ended December 31, 2022

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Cover Photo:

An X-ray CT system equipped with a photon-counting detector (PCCT) system has been installed at the National Cancer Center (NCC) Exploratory Oncology Research & Clinical Trial Center in Japan, where it is currently used to conduct research exploring the clinical applications of PCCT.

In the future, Canon will explore the new value offered by PCCT in a wide range of clinical fields, with the aim of promoting its rapid practical application.



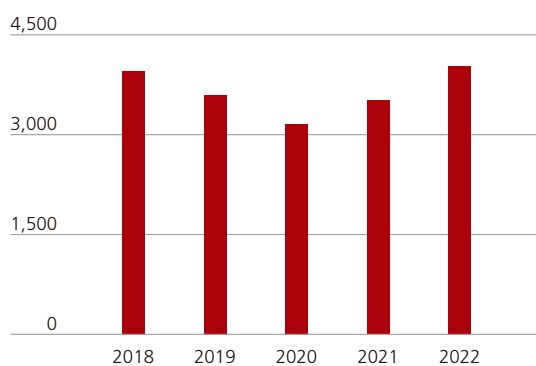
FINANCIAL HIGHLIGHTS

	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)
	2022	2021	Change (%)	2022
Net sales	¥ 4,031,414	¥ 3,513,357	+14.7	\$ 30,311,383
Operating profit	353,399	281,918	+25.4	2,657,135
Income before income taxes	352,440	302,706	+16.4	2,649,925
Net income attributable to Canon Inc.	243,961	214,718	+13.6	1,834,293
Net income attributable to Canon Inc. shareholders per share:				
—Basic	¥ 236.71	¥ 205.35	+15.3	\$ 1.78
—Diluted	236.63	205.29	+15.3	1.78
Total assets	¥ 5,095,530	¥ 4,750,888	+7.3	\$ 38,312,256
Canon Inc. shareholders' equity	¥ 3,113,105	¥ 2,873,773	+8.3	\$ 23,406,805

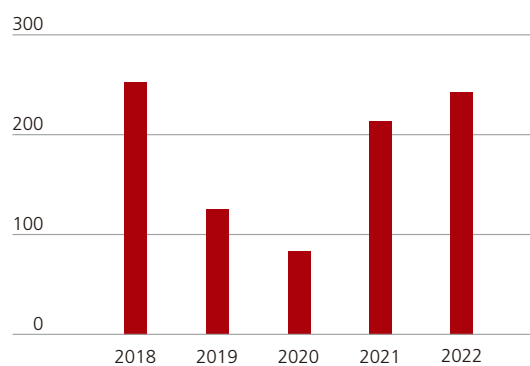
Notes:

1. Canon's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles.
2. U.S. dollar amounts are translated from yen at the rate of JPY133=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2022, solely for the convenience of the reader.

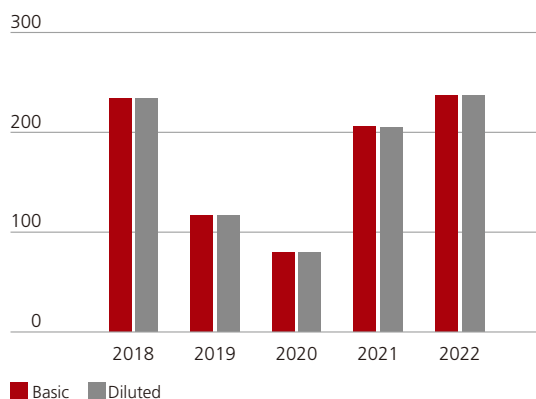
Net Sales (Billions of yen)



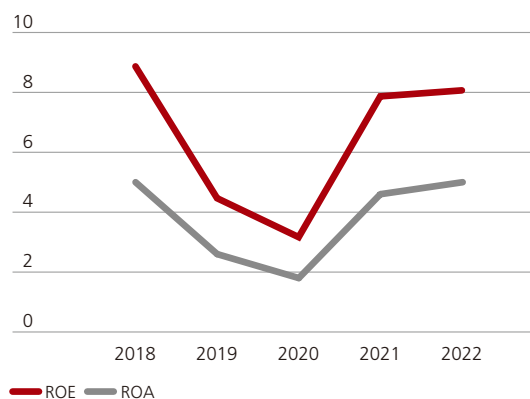
Net Income Attributable to Canon Inc. (Billions of yen)



Net Income Attributable to Canon Inc. Shareholders per Share (Yen)



ROE/ROA (%)



**Anticipating social change, we will
transform, boldly press forward and
become a truly excellent global
corporation**

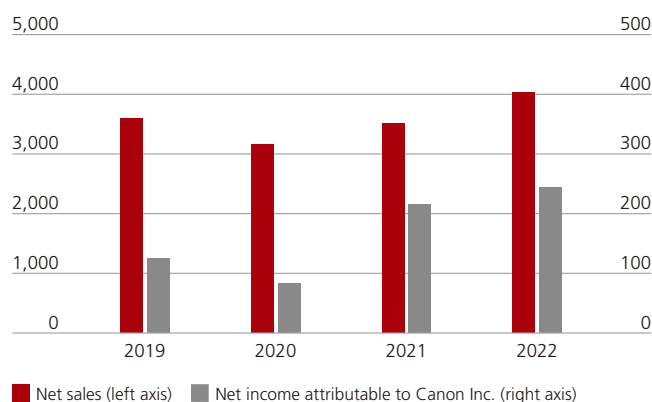
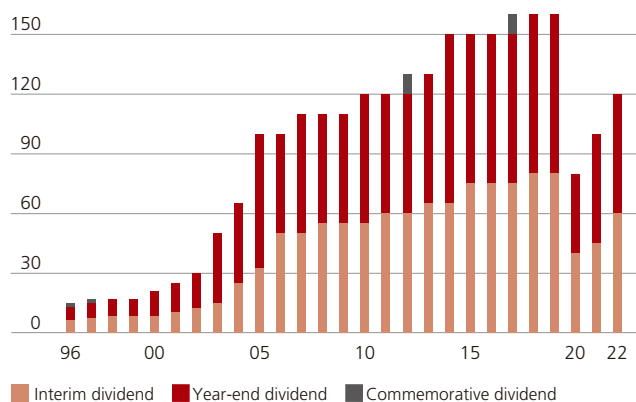


FUJIO MITARAI

Chairman & CEO
Canon Inc.

Net sales and net income attributable to Canon Inc.

(Billions of yen)

**Canon Inc. dividend per share (Yen)**

Performance in 2022

The global economy showed signs of a steady recovery in 2022 as the COVID-19 pandemic finally started to subside, but the Russian invasion of Ukraine brought a rise in energy and food prices and drove inflation even higher. Governments worldwide turned to tight monetary policies in an attempt to rein in rising inflation, and as a result, the recovery of the global economy slowed to a more moderate pace.

Under these circumstances, we were still able to increase our sales volume from the previous year by leveraging the first-rate product capabilities that underpin our global top-three market share in multiple businesses. In the Printing Group, we provided equipment best suited to the diversification of work locations with an extensive lineup of products, from office multifunction devices (MFDs) to home inkjet printers. In the Imaging Group, we expanded our lineup of mirrorless cameras and lenses to meet the needs of users seeking high-quality images. In the Medical Group, we brought to market CT and MRI systems that combine our imaging and medical technologies and boosted sales for these devices alongside those of diagnostic ultrasound systems. We also stepped up research into our X-ray CT system equipped with a photon-counting detector (PCCT) with the aim of practical application in the near future. In the Industrial

Group, we provided lithography equipment boasting outstanding productivity to meet the brisk investment plans of semiconductor manufacturers in anticipation of growth in such fields as AI, IoT, and electric vehicles that require numerous power semiconductor devices.

We made a group-wide concerted effort to get product supply volume back on track, despite the ongoing parts shortage and logistics difficulties, and we also reflected some of the higher costs in our selling prices. Moreover, we managed to mitigate rising expenses across the entire group, thereby ensuring our profitability.

As a result, we recorded strong sales and profit growth again in 2022; consolidated net sales rose 14.7% year on year to 4,031.4 billion yen, consolidated income before income taxes increased 16.4% to 352.4 billion yen, and consolidated net income attributable to Canon Inc. grew 13.6% to 244.0 billion yen.

Even though sales of cameras and printers declined, our new businesses, including medical and network cameras, grew steadily, and their aggregate sales exceeded 1,000 billion yen. Such significant progress in the transformation of our business portfolio helped consolidated net sales surpass the 4,000 billion yen mark for the first time in five years.

Excellent Global Corporation Plan

Phase I to Phase V (1996–2020)

Canon launched the Excellent Global Corporation Plan in 1996, and has since strengthened its management base through each of the plan's five-year stages, from Phase I through Phase V.

During Phase I, we stressed thorough cash flow management and significantly boosted productivity through the introduction of our cell production system, along with other measures. In Phase II, we stepped up efforts to digitalize our office multifunction devices and camera offerings, endeavored to strengthen the competitiveness of our products, and established a strong earnings structure. In Phase III, we rode the globalization and digitization wave to drive sales and profit higher. In 2007, we achieved record-high sales of 4,481.3 billion yen and recorded net profit of 488.3 billion yen. During that period, we also turned our attention to OLED displays and welcomed Canon Tokki (formerly Tokki) and Netherlands-based printer manufacturer Canon Production Printing (formerly Océ) into the Canon Group.

During Phase IV, we promoted diversification by way of expanding our existing businesses into other new businesses, such as the Cinema EOS System, whilst also accelerating our M&A strategy in pursuit of new growth. In this manner, we set out a

clear direction for shifting our focus for growth from B2C to B2B.

At that time, we turned Milestone Systems ("Milestone") and Axis Communications ("Axis") into subsidiaries in order to reinforce and expand our rapidly growing network camera business. Additionally, Canon Nanotechnologies (formerly Molecular Imprints) became a subsidiary, and we furthered the development of next-generation semiconductor manufacturing equipment that uses nanoimprint lithography, a technology that enables miniaturization and cost reductions for semiconductor devices.

In Phase V, under the basic policy of "embracing the challenge of new growth through a grand strategic transformation," we welcomed Canon Medical Systems Corporation ("Canon Medical"; formerly Toshiba Medical Systems) into the Canon Group, and completed the assembly of the four new businesses: commercial printing, network cameras, medical, and industrial equipment, while carrying out structural reforms on our existing businesses to re-establish their sustainable and highly profitable business structures. Thus we completed the first stage of our business portfolio transformation.

Phase I 1996–2000

Canon transformed its mindset to focus more on total (not partial) optimization and profitability (not sales) and also engaged in thorough cash flow management. We introduced various business innovations, including the selection and consolidation of business areas, and reform activities in such areas as production and development.

Phase II 2001–2005

Aiming to become No. 1 in all major business areas, Canon focused on strengthening its competitiveness by stepping up efforts to digitalize its products in line with the changing times. We embarked on a fundamental reform of procurement activity under the newly organized Procurement Headquarters, and we took steps to reform in-house systems, such as our personnel system, with the aim of balancing lifetime employment with merit-based principles.

Phase III 2006–2010

Canon moved ahead with new growth strategies, including the enhancement of existing businesses and expansion of new business areas, and also implemented reforms for supply chain management and IT systems in order to achieve real-time management that can readily adapt to changes.

Phase IV 2011–2015

Canon shifted away from a management policy targeting expansion of scale and reinforced its financial structure. While actively pursuing M&As, we pushed ahead with the rebuilding of our business foundation for future growth with a view to entering industries that will serve as new growth engines in step with the changing times.

Phase V 2016–2020

Canon endeavored to reconsolidate its long-standing core businesses (namely, cameras and office equipment) and completed the first stage of the grand strategic transformation of its business portfolio by working to expand and strengthen the following four new businesses that would underpin Canon's future: commercial printing, network cameras, medical, and industrial equipment.

Phase VI basic policy and key strategies

In Phase VI, which commenced in 2021, our basic policy is to “accelerate our productivity improvement and corporate portfolio transformation through new business creation” for 2025, the final year of Phase VI, we are targeting record-high net sales of more than 4,500 billion yen, an operating profit ratio of at least 12%, a net profit ratio of 8% or higher, and in terms of financial soundness, a shareholder equity ratio of at least 65%.

And in 2023, the halfway point of Phase VI, we will focus on three key challenges: (1) strengthening and expanding our industry-oriented business groups; (2) rebuilding our global production system; and (3) enhancing our product development centering on proprietary technologies.

Key Challenge 1

Strengthening and expanding our industry-oriented business groups

In April 2021, we bundled together the existing and new businesses that are technologically compatible with each other and placed them into the following four industry-oriented business groups: Printing, Imaging, Medical, and Industrial. We intend to further streamline operations by eliminating redundant functions and combine technologies within the Canon Group to trigger “chemical reactions” as we go about developing new products and solutions.

PRINTING GROUP

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Continuous feed press

The Printing Group primarily consists of office MFDs, laser printers, inkjet printers, and commercial and industrial printers.

In light of the shift away from analogue printing, the digital commercial printing field offers considerable room for growth. We will therefore aim to expand our lineup of products that can deliver high-quality images with a high level of productivity for graphic arts applications, such as catalogues and posters. We will also make a full-fledged entry into the industrial printing market for labels and packaging by utilizing the technology and customer base we now possess after our acquisition of UK-based Edale.

As for office MFDs, we will aim to offer more added value by providing printing solutions attuned to this era of digital transformation (DX), including cloud-based smart services for predictive maintenance as well as diagnosing and fixing failures. We will also aim to increase our market share by boosting our cost competitiveness mainly through the standardization of product platforms.

With regard to inkjet printers and laser printers, in order to support hybrid working styles that have become commonplace in the post-pandemic society, we will aim to offer a printing environment impervious to the constraints of physical working location by harnessing our two technological strengths in the printing field: electrophotography and inkjet. Moreover, we intend to focus on specific market segments in which demand for printing is particularly strong, such as educational institutions and hospitals.

IMAGING GROUP



Network camera

The Imaging Group comprises interchangeable-lens cameras, lenses, broadcast equipment, professional video cameras, network cameras, and other similar products. In this group we are aiming to secure the number one share of the full-frame mirrorless camera market to match our overall leading share of interchangeable-lens cameras, a market in which we currently command a dominant position. To that end, we intend to further expand our lineup of cameras and lenses.

Demand for network cameras is growing in various fields, not just security. We will collaborate with surveillance camera manufacturer Axis, video management software company Milestone, video content analytics company BriefCam, and cloud services provider Arcules to provide a suite of total solutions across the Canon Group, thereby further enhancing our presence in the industry.

In the field of video production, we will not only expand our products and services to help streamline production tasks and meet demand for less manpower, but we will also provide numerous video experiences as a leading company in the imaging industry. One such experience is our volumetric video system, which is already being employed in the world of professional sports to create 3D spatial data from multiple captured images. This technology is generating excitement as a new kind of visual experience and will likely pioneer new possibilities for visual expression in the future.

MEDICAL GROUP

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MRI system

The Medical Group handles diagnostic imaging equipment, including CT, MRI, and diagnostic ultrasound systems, as well as X-ray tubes and other components for medical applications. In this group, we have our sights set on augmenting our global business operations, overhauling our worldwide sales network, and strengthening our product competitiveness. Firstly, in the US—a country that has an enormous influence in the global healthcare market—we will accelerate the reorganization and fortification of our sales network there centering on Canon Healthcare USA, INC., a group company we established in 2023.

Also, from the perspective of enhancing our product capabilities, we will aim to commercialize as quickly as possible our next-generation X-ray CT system equipped with a photon-counting detector (PCCT) technology, which provides clear images with smaller radiation dose. Group company Redlen Technologies boasts sophisticated technology of X-ray detectors, the key device used in PCCT. Redlen Technologies is currently undertaking joint clinical research with the National Cancer Center Japan and is pressing ahead with R&D activities with the aim of practical implementation at the earliest possible time. It also aims to capture the number one share of the global CT market.

To further boost earnings contributions, we are reinforcing our production engineering to promote automation and in-house production capabilities, whilst also drastically reducing costs starting with the upstream design stage.

INDUSTRIAL GROUP



Semiconductor lithography equipment

The Industrial Group handles semiconductor and flat panel display (FPD) lithography equipment, as well as OLED manufacturing equipment and similar products. This group is establishing a system for expanding production capacity to meet strong demand for semiconductor lithography systems and is developing a global sales network in response to the ongoing shift toward domestic production of semiconductors in countries and regions throughout the world. For our semiconductor lithography systems, we are constructing new manufacturing facilities at our Utsunomiya Office (which is slated to come online in the first half of 2025), which will enable us to significantly scale up our production capacity. At the same time, we will make thorough efforts to keep costs down. We also have plans to rebuild our sales network and improve our aftermarket service framework. And with a view to enabling mass production at the earliest possible time, we are also working hand-in-hand with semiconductor manufacturers on groundbreaking nano-imprint lithography technology that can fabricate semiconductor devices with even greater miniaturization while lowering energy consumption and operating costs.

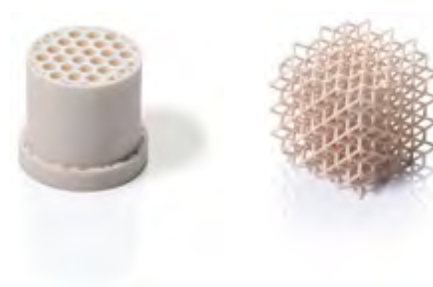
In the panel market, manufacturers will soon have to decide on which kinds of panels they want to use in their products. However, we have expected a definite increase up ahead in devices that use high-definition, energy-efficient, and flat-screen OLED panels. In anticipation of another wave of investment by panel makers, we will aim to generate higher earnings by providing FPD lithography equipment and OLED vacuum deposition equipment capable of contributing to greater productivity.

FRONTIER BUSINESS

Frontier Business Promotion Headquarters is engaged in the exploration of new businesses by drawing on Canon's core technology competencies in the three fields of solutions, life sciences, and materials. For example, in the materials field, we are developing highly functional materials that can potentially be utilized in various settings, including coating materials like antireflective compounds and hydrophilic paints, as well as ceramics materials for 3D printers. We intend to establish clear evaluation criteria, including market scale, technological superiority, and cost competitiveness, in a bid to identify areas with future growth potential.



Research and development of ceramic material for 3D printers.



Complex structure achieved with ceramics.

Key Challenge 2

Rebuilding our global production system

Since the 1970s, we have continued to expand our production sites to different regions in Asia, but we are now reassessing those sites and reorganizing them in order to avoid supply chain disruptions and geopolitical risks. One such step is the reshoring of production from overseas back to Japan. We will

promote both of automation and in-house production as a set of primary enablers of cost reduction, integrating our design, production engineering, and manufacturing floor processes. In doing so, we plan to increase production in Japan with a level of cost competitiveness superior to that of overseas production.

Key Challenge 3

Enhancing our product development centering on proprietary technologies

In recent years we have leveraged M&As to develop new businesses. However, going forward, we also intend to further strengthen our product development capabilities centering on our proprietary technologies with the aim of creating new businesses. Under the framework of our broadly redefined industry-oriented business groups, we intend to combine the respective technologies of each group to trigger “chemical reactions” as we pursue development of new products and solutions. Similarly, we expect the Frontier Business Promotion Headquarters to capitalize on the myriad technologies that

Canon possesses to create new businesses in the fields of solutions, materials, and life sciences leveraging its cross-divisional structure.

It is vital that we nurture technicians and engineers who can shoulder the responsibility of product development in order to achieve the aforementioned objectives. This is why we are pushing ahead with a new personnel system to certify the global engineers that lead the development of cutting-edge technology as “top scientists.” We are also promoting a scheme for developing software engineers by reskilling employees.

In conclusion

Following the grand strategic transformation of our business portfolio, Canon is now undergoing a major transfiguration in what could probably be described as a “third founding” of the company. We continue to position ourselves for sustainable growth overall by adapting to the turbulence that each business experiences in this highly uncertain business environment. Key to achieving sustainable growth is possessing the ability to swiftly adapt to the rapidly changing socio-economic system. To put it more simply, “change is progress, transformation is advancement.” We will continue to grow by demonstrating our comprehensive capabilities in development, procurement,

production, and sales, all the while pursuing further productivity improvements and the transformation of our business portfolio with a view to attaining our 2025 targets. We look forward to your continued support and understanding.



Fujio Mitarai
Chairman & CEO
Canon Inc.

BUSINESS STRATEGY

10 PRINTING GROUP

12 IMAGING GROUP

14 MEDICAL GROUP

16 INDUSTRIAL GROUP

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Increasing our share of the office and prosumer markets and establishing dominant positions in commercial and industrial printing

Photo caption: The ColorStream 8000 continuous-feed printer combines efficiency with high-quality printing.

Given the acceleration of Digital Transformation (DX) and the adoption of new lifestyles and working styles, we aim to boost our market share in both the office and prosumer fields. We are also looking to establish dominant positions in commercial and industrial printing where the shift from analogue to digital is gathering momentum.

2022 Performance

In the office Multifunction Device (“MFD”) market, a recovery in the number of people returning to offices spurred the replacement of equipment, which was stagnant during the COVID-19 pandemic. At the same time, demand for print followed a path of gradual recovery. We managed to get our

supply of products back on track and boost unit sales, in particular, the imageRUNNER ADVANCE DX C5800, a medium- to high-speed model for high print volume business environments. Sales of services and consumables also increased year-on-year. We also achieved considerable cost reduction by launching products that share the same platform.

As for laser and inkjet printers, both sales volume and revenue grew significantly on the back of a recovery in product supply volume, which was insufficient due to plant shut downs in 2021 during the pandemic. Particularly in China, where the government had adopted a zero-COVID policy, sales volume of inkjet printers hit a record high, driven by demand for remote working and home learning.

As for production printers used in commercial and industrial printing, amid the accelerating shift towards digital printing that offers greater cost- and labor-saving performance, significant revenue growth was driven by year-on-year increases in sales volume for continuous-feed printers, high-speed cut-sheet printers, and large-format printers.

Toward further growth

Even though the COVID-19 pandemic dispersed the workforce, and DX advancement is driving the move to paperless, we still expect firm demand for printing equipment going forward because paper remains a useful medium for sharing ideas and information.

In order to support hybrid work styles, which is a combination of in-office and remote work, there is a need to provide a print environment that is free from restrictions on where to work. The Canon Group will capitalize on the strengths of having two digital printing technologies—electrophotography and inkjet—to provide new solutions for this DX era that leverages, among others, the cloud, in order to increase our share of the office and home printing markets.

In addition, digital commercial printing, which includes the printing of catalogues, posters and other material is a field with growth potential due to the shift away from analogue. We have incorporated the feedback of our printing company customers into developing printers with improved image quality and productivity. Recognized by the market, this is leading to sales expansion. We will also develop products

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The imageRUNNER ADVANCE DX series enhances office productivity with high-speed, yet quiet printing.

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Canon's inkjet printers meet broad-ranging demand for working or studying at home.

for, and make a full-fledged entry into, the industrial printing market for mainly labels and packaging by leveraging the wealth of technology and knowledge, as well as the customer relationships, of UK-based Edale, a company we acquired last year.

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Aiming for the No.1 position
in the global mirrorless camera
market and accelerating
business expansion in
network cameras

Photo caption: Canon's mirrorless cameras support users through outstanding corrective functions and high resolution.

By further expanding our product lineup, we aim to secure the world's No.1 position in mirrorless cameras. We will also expand our network camera business by capturing the rising demand. On top of this, we will establish new businesses in the imaging field, delivering new image experiences.

2022 Performance

The market for interchangeable-lens digital cameras remained solid with each manufacturer launching appealing products. Sales of the EOS R5 and EOS R6, full-frame mirrorless cameras that we launched in 2020, remained strong. We also added the EOS R7 and EOS R10 to our lineup, the first models in our EOS R system to feature an APS-C-size sensor. As a result, unit sales

of interchangeable-lens digital cameras increased year-on-year. Moreover, we launched six new interchangeable lenses for the EOS R system to meet the diverse needs of users, which led to an increase in unit sales.

As for network cameras, demand was strong for security and industrial applications and the market returned to its original growth trajectory after restrictions on economic activity to slow the spread of COVID-19 were relaxed. And within this business environment, we ramped up sales of camera and software solutions, which led to significant revenue growth.

In the field of contents creation, the digital cinema camera EOS R5 C was favorably received. And the remote camera system, a product that contributes to greater efficiency in video production, expanded its business. Sales of broadcast lenses performed well mainly in Europe and the United States. Also, our volumetric video system (free viewpoint video system) generated a lot of interest after it was adopted for use in professional sports and other events.

Toward further growth

We expect the interchangeable-lens digital camera market to remain solid, supported by firm demand from users who enjoy shooting photos and videos, primarily professionals and advanced amateur photographers who demand high-quality images. To meet the diverse needs of users, we will continuously bring to the market entry-level to professional use cameras that offer improved performance as well as interchangeable lenses to revitalize the market as the leading camera company. We are currently expanding our lineup of mirrorless cameras in order to secure the No.1 position in this field as well.

As for network cameras, in addition to continued growth in surveillance applications, we also expect to see strong growth in non-surveillance applications, such as marketing activities at commercial facilities and the management of processes and detection of abnormalities at production sites. We will reinforce collaboration among group companies such as Axis, Milestone, BriefCam, and Arcules to provide the group's extensive lineup of cameras and software as total solutions. This includes video input, video management and analytics, which will lead to realizing a growth faster than the market.

We will also work on creating new businesses by applying



Canon's high-resolution network camera systems support safe and secure learning environments.

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Volumetric video technology offers an immersive image experience for sports events.

the optical technologies we have cultivated thus far in the fields of lenses, sensors, and image processing.

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Aiming for No.1 in global CT market and increased share in MRI and diagnostic ultrasound systems, by bolstering product competitiveness and overseas sales structure

Photo caption: CT system that delivers high-resolution images, but also alleviates the strain on patients with less radiation exposure.

Aiming to become No. 1 in the global CT market by 2025, we are simultaneously focused on bolstering our sales structure in the United States, which is designated a key region, and early commercialization of an X-ray CT System with Photon-counting detector. Additionally, we are boosting the competitiveness of MRI and diagnostic ultrasound systems, to raise our share in these markets.

2022 Performance

As for the medical equipment market, investment in large diagnostic imaging equipment such as CT and MRI systems recovered, particularly in Europe and the United States, after being put on hold during the COVID-19 pandemic. New products,

notably CT and MRI systems that utilize technologies of the Imaging Group to alleviate burdens associated with testing on healthcare professionals and patients, garnered favorable reviews in the market.

As for diagnostic ultrasound systems, we posted increased sales of premium-class devices that were highly evaluated for their outstanding image quality, particularly in Europe and Asia. In fact, one diagnostic ultrasound system was recognized with the METI Minister's Award in the 2022 National Commendation for Invention.

In addition, with an eye on future growth, we developed a photon-counting CT system in Japan that delivers clear images but with much less exposure to radiation. The system has been installed at the Exploratory Oncology Research & Clinical Trial Center of the National Cancer Center, furthering research with a view to the first fully clinical implementation in Japan. Also, in the medical component business, we expanded production capacity at a new plant to support brisk sales growth generated by Canon Electron Tubes & Devices, while in the healthcare IT field, we worked to strengthen our organization by merging the system integration business for electronic health records, medical practice accounting systems, and other hospital information, into a Canon Group company.

Internationally, we welcomed "NXC Imaging," a U.S. sales agency, into the Canon Group, and Nordisk Røntgen Teknik A/S, a Danish company boasting cutting-edge technology in the development and manufacture of diagnostic X-ray systems, into the Canon Group.

Toward further growth

To contribute to the increasing sophistication of healthcare, with our focus on diagnostic imaging equipment, we aim to expand our business sphere to include healthcare IT and in-vitro diagnostics.

Whilst we are a leading manufacturer of diagnostic imaging equipment in Japan, we recognize the need to increase our presence in overseas markets in order to generate future growth. Of highest priority, and in order to become No. 1 in the global market for CT systems, we aim for early commercialization of our next-generation photon-counting CT. We are currently accelerating research in this area, installing at the

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MRI system that uses new workflow to deliver both quality and efficiency in examinations.

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Canon's diagnostic ultrasound system that delivers high-definition images with less noise.

National Cancer Center Japan an X-ray CT system equipped with a photon-counting detector that harnesses the technology of Canadian-based Redlen Technologies, a company Canon acquired in 2021. With the aim of commanding at least 10% of the US market—a country that has an enormous influence in the global healthcare market—we set up a new company on the outskirts of Cleveland to mainly undertake upstream marketing activities. We will look to enhance Canon's presence as we undertake joint research with medical institutions, forging strong relationships with key opinion leaders in the US healthcare space. We aim to capitalize on these benefits to achieve strong growth not only in the US, but also in the global market.

In the field of healthcare IT, we aim to provide high-quality diagnoses and efficient medical care by consolidating, processing, and analyzing data collected from clinical settings. Moreover, in the field of in-vitro diagnostics, we will work on expanding our business domains into peripheral testing systems, such as test reagents.



Responding to soaring demand for semiconductor manufacturing equipment and preparing for growth in demand for flat panel display manufacturing equipment

Photo caption: Demand for semiconductor lithography equipment is expected to grow in the future as well.

As we take steps to ramp up production capacity to fully capture lively demand for semiconductor lithography equipment, we will also strengthen our product capabilities in flat panel display (FPD) lithography equipment, OLED display manufacturing equipment, and in the IT panel field where we anticipate medium- to long-term growth.

2022 Performance

The transition to a smart society facilitated by AI, IoT, 5G, and other technological innovations is driving stronger demand for semiconductors and display panels in various fields. Sales volume of semiconductor lithography equipment increased significantly year-on-year, buoyed by strong demand for power

devices, sensors, and a broad range of other devices. As we also expect demand to expand going forward, we decided to augment our production capacity by constructing a new factory at our Utsunomiya Office. We also started offering Lithography Plus, a solution platform that not only enables us to improve the efficiency of lithography equipment support operations, but also delivers optimal process proposals to customers.

As for FPD lithography equipment, sales declined compared with the previous year during which we recovered from installation delays caused by the pandemic. For OLED display manufacturing equipment, while the capital investment of customers remained in a phase of adjustment, we made steady progress in preparing for future growth, mainly by launching lithography equipment with improved resolution and productivity for high-resolution large panels.

Toward further growth

The semiconductor device market is expected to maintain growing going forward owing to expanding applications. For that reason, we think demand for lithography equipment will also rise. To accommodate rising demand, we intend to further bolster our product competitiveness and accelerate the expansion of our production capacity. Unlike the conventional method of lithography that uses light to form semiconductor circuit patterns, nanoimprint lithography technology—now in the final stage ahead of mass production—uses simple manufacturing equipment to form patterns by pressing a mold, or so-called “mask,” engraved with circuit patterns onto the substrate like a stamp. No complicated processes for drawing minute circuit patterns are required, which lowers the costs for semiconductor manufacturers considerably. In addition, nanoimprinting does not require any powerful lasers or elaborate vacuum and cooling equipment, thereby greatly reducing power consumption. We intend to contribute to society by leveraging these strengths that help minimize impacts on the global environment.

We expect the adoption of OLEDs for use in IT panels for laptop computers and tablets will continue to drive growth in the panel market. In this field too, we will aim to generate stronger earnings by supplying FPD lithography equipment and OLED display manufacturing equipment that contribute to greater productivity of panel maker who are our customers.



Nanoimprint lithography is currently being developed at Kioxia's Yokkaichi plant for practical use.



OLED display manufacturing equipment being increasingly utilized in various ways.

AT A GLANCE

PRINTING GROUP



Office multifunction devices (MFDs)



Laser multifunction printers (MFPs)

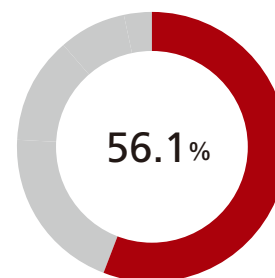


Digital continuous feed presses



Large format printers (Inkjet)

Composition of Sales (%)



Main Products

- Office multifunction devices (MFDs)
- Document solutions
- Laser multifunction printers (MFPs)
- Laser printers
- Inkjet printers
- Image scanners
- Calculators
- Digital continuous feed presses
- Digital sheet-fed presses
- Large format printers

IMAGING GROUP



Interchangeable-lens digital cameras
—Mirrorless cameras



Interchangeable-lens digital cameras
—Digital SLR cameras

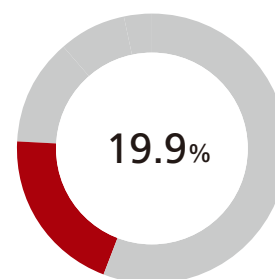


Interchangeable lenses



Network cameras

Composition of Sales (%)

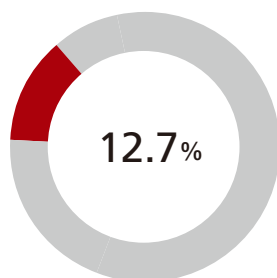


Main Products

- Interchangeable-lens digital cameras
- Interchangeable lenses
- Digital compact cameras
- Compact photo printers
- MR Systems
- Network cameras
- Video management software
- Video content analytics software
- Digital camcorders
- Digital cinema cameras
- Broadcast equipment
- Projectors

Note: The percentage figures for the four groups presented in the pie charts above do not add up to 100% because "Others and Corporate" and "Eliminations" recorded in consolidation accounting, were not included in calculation considerations.

Composition of Sales (%)



Main Products

- Computed tomography (CT) systems
- Diagnostic ultrasound systems
- Diagnostic X-ray systems
- Magnetic resonance imaging (MRI) systems
- Clinical chemistry analyzers
- Digital radiography systems
- Ophthalmic equipment



Computed tomography (CT) systems



Diagnostic X-ray systems



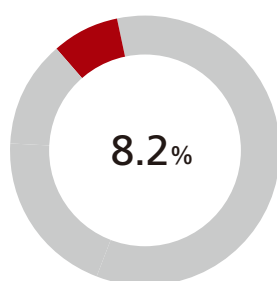
Diagnostic ultrasound systems



Digital radiography systems

MEDICAL GROUP

Composition of Sales (%)



Main Products

- Semiconductor lithography equipment
- FPD (Flat panel display) lithography equipment
- OLED Display Manufacturing Equipment
- Vacuum thin-film deposition equipment
- Die bonders



Semiconductor lithography equipment



FPD (Flat panel display) lithography equipment



Organic LED (OLED) panel manufacturing equipment



Die bonders

INDUSTRIAL GROUP

RESEARCH & DEVELOPMENT



In partnership with the NCC, Canon is furthering the development of a next-generation X-ray CT system that offers less exposure to radiation during scans.

Canon is stepping up R&D efforts to create innovation and accurately meet the needs of society.

R&D Expenses and Patents

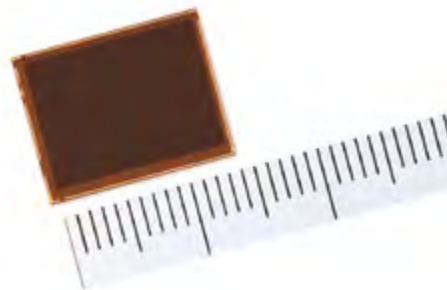
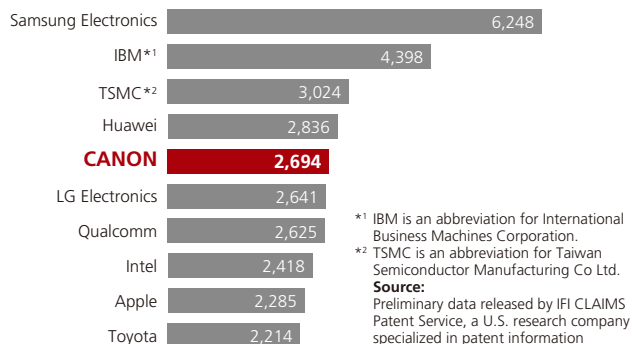
Globally, technology is in the midst of a transformation. Changes are occurring in R&D whereby companies are adding innovation-focused R&D for solving social issues to their existing invention-focused R&D portfolios.

Canon's invention-focused R&D hinges on industry-academia collaboration and open innovation, while in the innovation-focused R&D space, in addition to the modification of proprietary technologies, we make use of alliances with other companies and M&A.

We are diversifying our businesses with core competency management that combines fundamental and core competency technologies in various ways. Moreover, intellectual property, environmental technology, and other fundamental value-creation technologies that we have accumulated are underpinning the launch of new businesses and the expansion of existing ones.

In 2022, R&D expenses amounted to ¥306.7 billion, and the ratio of R&D expenses to net sales was 7.6%. Our focus on R&D has also helped us establish a leading position in intellectual

2022 Top Ten U.S. Patent Holders by Company



Successfully developed an ultra-small SPAD sensor capable of capturing color images in 3.2-megapixel resolution.

property. Canon was granted 2,694 patents in the US in 2022, ranking it fifth. We also maintained our No.1 ranking among Japanese companies for the 18th consecutive year.

Initiatives to Establish New Businesses

Taking a long-term view, Canon focuses on discovering new technologies for the future.

Japan's first low-radiation X-ray CT system installed at NCC's Exploratory Oncology Research & Clinical Trial Center

Canon has developed an X-ray CT system equipped with a photon-counting detector that harnesses the technology of Redlen Technologies, a Group company boasting world-leading technology in semiconductor detector module development and manufacturing. The system has been installed at the Exploratory Oncology Research & Clinical Trial Center of the National Cancer Center (NCC) in Japan. It greatly reduces radiation exposure during scanning because it directly detects X-rays, unlike conventional indirect X-ray detection. Owing to improved detectability of lesions due to higher resolution, the system is expected to provide greater diagnostic accuracy in all phases of clinical care, from prevention and diagnosis to evaluation of treatment and long-term prognosis. We will work closely with the NCC to advance development with the aim of early commercialization.

Developer of SPAD image sensor featured in *Nature Index*

Utilizing Canon's own pixel architecture that efficiently captures and greatly multiplies faint particles of light, we are developing an ultra-small SPAD sensor capable of capturing 3.2-megapixel

color images—a higher resolution than full HD (approx. 2.07 megapixels), even in low-light environments. In 2022, lead researcher Kazuhiro Morimoto was selected as one of four nanoscience researchers to be featured in the UK science journal *Nature* for his significant contribution to the development of SPAD sensors.

Development of oxide-based solid electrolyte which accelerates the practical use of all-solid-state batteries

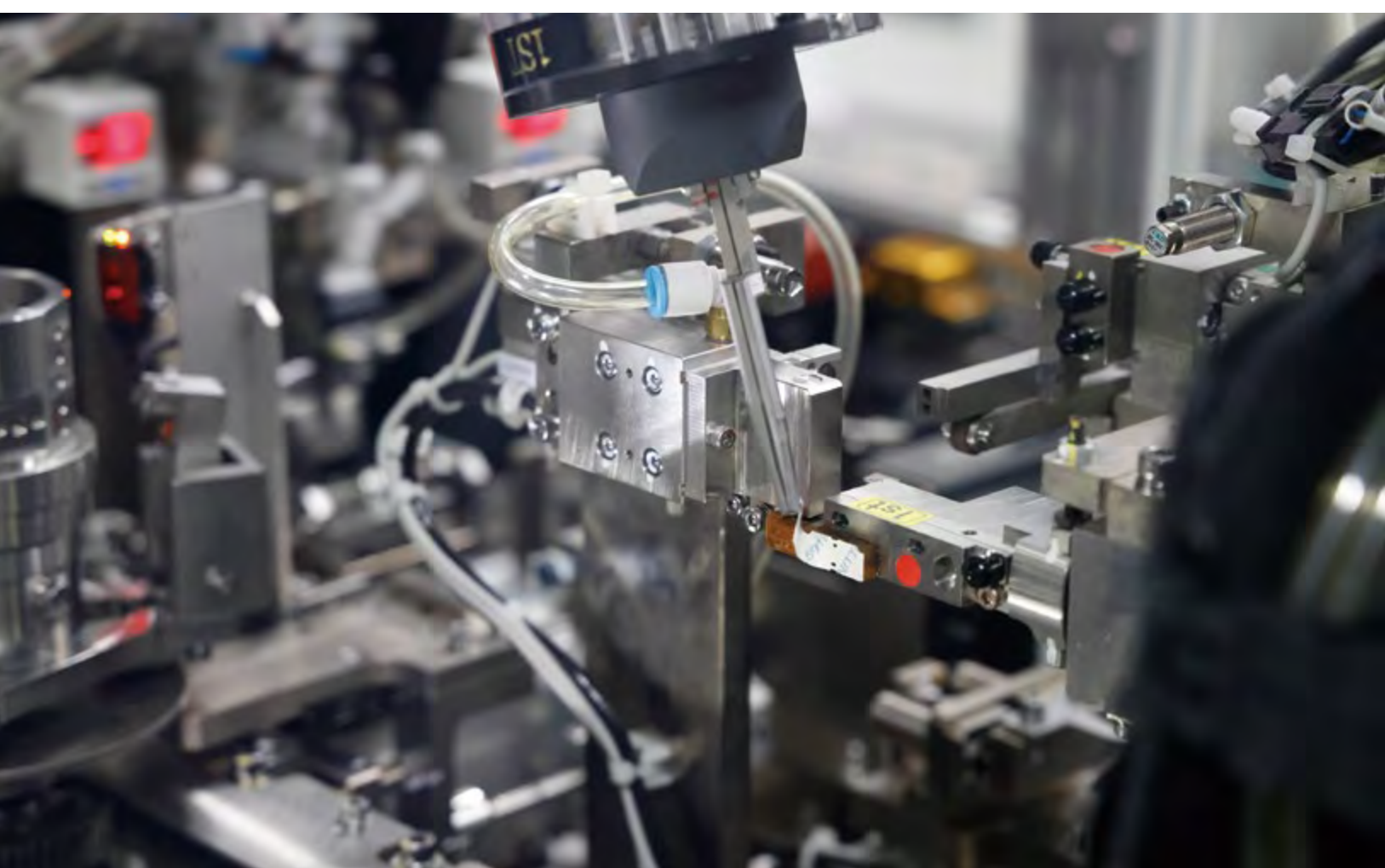
Given the safety concerns surrounding widely-used lithium-ion batteries, such as the leak of liquid electrolytes, all-solid-state batteries that utilize a solid electrolyte instead of liquid are attracting a great deal of attention. Canon Optron, in collaboration with the National Institute of Advanced Industrial Science and Technology, has developed an oxide-based solid electrolyte that can be sintered at lower temperatures than conventional solid electrolytes, thus suppressing the formation of resistive material that reduces battery performance. A production line will be set up in Canon Optron's plant in Yuki City, Ibaraki, with mass production and sales to start in June 2023.

Contribute to improving the fan experience using volumetric video (free viewpoint video) technology

Canon introduces Volumetric Video System to US Professional Basketball League. It was a response to the needs of fans, such as being able to enjoy the immersive feeling of actually being in the field.

In order to meet the demands of the league, we are improving image quality and developing new services, aiming for early commercialization.

PRODUCTION



Production line for automated assembly of interchangeable lens (Utsunomiya Office).

Canon has constantly pursued ultimate perfection in manufacturing. While striving to further improve production-engineering technology, including the automation of assembly, we also focus on developing human resources with outstanding technical skills.

Globally Optimized Production

Canon employs a globally optimized production system through which we comprehensively determine the most rational locations to produce its products. This decision hinges on changes in social and economic circumstances and takes into account country and region-specific factors such as costs, tax systems, logistics, ease of procuring parts, and labor. In Japan,

we are endeavoring to reduce costs by establishing mother factories that integrate development, procurement, and production processes. Additionally, we have plans to build a new CMOS image sensor factory at our Hiratsuka plant and new semiconductor manufacturing facilities at our Utsunomiya plant in an effort to bolster our production capacity to meet growing demand. Meanwhile, in emerging countries and regions, we



Young engineers aiming to improve their skills through competition etc.



Product evaluation testing at a production site (Oita Canon).

are boosting productivity by further honing the skills of employees and we manufacture products by utilizing agile and flexible systems that leverage the characteristics of each region.

Production Automation and In-house Production

Canon endeavors to create original products by actively pursuing the in-house production of not only CMOS sensors and other key devices and components, but also production equipment like automated assembly machines and high-precision processing equipment, as well as molding dies. To produce high-quality products at low cost, we aim to establish highly reliable automated production lines. We have rolled out fully automated production lines with zero human intervention for toner cartridges and we seek to do the same for the manufacturing of cameras in the future.

Development of Human Resources

To further strengthen manufacturing, Canon also focused on nurturing its most skilled technicians in specialist fields, known as Master Craftsmen, and those who contribute to the advancement of manufacturing with their wide-ranging skills and knowledge of mainly assembly and component processing, known as Meisters. These technicians contribute to the improvement of Canon's production-engineering technology and play an active role at the front line of production by passing on the skills they have honed over the years to the next generation.

Initiatives for Environmentally Conscious Manufacturing and Enhanced Product Quality

Canon created the Energy Cost Reduction Working Group as a horizontally integrated organization to take group-wide action on reducing energy consumption. Since 2019, in a joint undertaking in Utsunomiya City, Tochigi Prefecture, with three other companies, Canon launched the Kiyohara Industrial Park Smart Energy Project, realizing major energy savings. By sharing use of electric power and heat (steam and hot water) between multiple business sites with differing levels of demand, the project achieved significant energy savings which would not be possible for a single business site alone. In addition, Canon is working to expand the use of renewable energy, especially in Europe and Asia, while taking regional renewable energy uptake status and economic efficiency into consideration.

In addition, guided by our mission to guarantee the high quality of our products, "no claims, no trouble," basic policy on product quality, we have drawn up our own rules in the form of a quality management system that we adhere to exhaustively. This guarantees that our products are safe, can be enjoyed with peace of mind, and provide satisfaction to our customers. Our unique quality standards not only comply with international quality management standards and relevant laws and regulations in each country or region, but they also take into account the usage conditions and safety of our customers. Moreover, we endeavor to bring to market only the products that have satisfied our quality standards after putting them through rigorous evaluations with well-developed testing equipment and thorough checks in each manufacturing process.

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Canon exhibited an MR system that fuses real-time images and CG at China International Import Expo.

Canon reinforces its sales and marketing capabilities by providing innovative products and advanced solutions tailored to meet the characteristics of each region.

Japan

Sales in Japan amounted to ¥864.8 billion, or 21.5% of consolidated net sales.

Sales increased for mid-range and high-end mirrorless cameras and RF mount interchangeable lenses. Sales of high-value inkjet printers were also brisk. As for core business equipment, such as office MFPs and laser printers, sales increased, buoyed by a recovery in product supply. As for our IT solutions business,

system integration (SI) service and data center sales to major corporations increased, boosted by active IT investments by corporations. As for SMBs, sales of security services, as well as in our core focus area of maintenance and operations services for mainly IT equipment, also increased. Going forward, we will work to further improve profitability in Canon product businesses and expand sales in the IT solutions business work to increase sales and profitability.

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Photographing of the world premiere show “CP+2022” for cameras and photographic images as an online event.

The Americas

Sales in the Americas amounted to ¥1,255.4 billion, or 31.1% of consolidated net sales.

Canon U.S.A. handles marketing operations for North, Central, and South America. Since the year before last it has continued to maintain the top position in unit sales for both color and monochrome office MFDs, whilst sales of interchangeable-lens digital cameras, particularly full-frame mirrorless cameras, have remained firm. In this product category too, Canon U.S.A. has come to secure a dominant leading market share in terms of sales volume. Also, Canon's latest technologies centering on video solutions for virtual spaces and hybrid working environments garnered considerable attention when they were presented at CES 2022, the world's largest technology showcase event. In addition, a new group company, Canon Healthcare USA, INC., was established in 2023 as part of Canon's medical business with the aim of expanding its share of the US healthcare market—the world's largest—and further strengthening its global competitiveness.

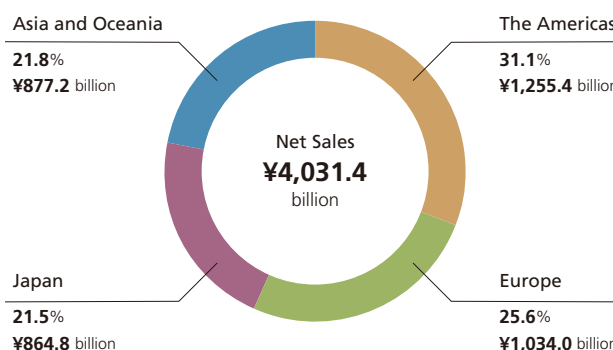
Europe (Europe, Middle East, Africa)

Sales in Europe region amounted to ¥1,034.0 billion, or 25.6% of consolidated net sales.

Canon Europe oversees business in the EMEA region—Europe, the Middle East and Africa and operating in approximately 120 countries and regions.

Our ‘Make It Future-proof’ live event welcomed production

Composition of Sales by Region



print partners and customers. Discussions focused on their future business transformation and we offered solutions to challenges and opportunities facing the European print market. In addition, we showcased the innovation and unity of our wide range of products.

We were the Official Imaging Supporter for the Birmingham 2022 Commonwealth Games, and we will be the Official Imaging Supporter for the Rugby World Cup France 2023. Through both opportunities, we demonstrated our full breadth of imaging and printing technologies, products, and solutions.

Asia and Oceania

Sales in Asia and Oceania region amounted to ¥877.2 billion, or 21.8% of consolidated net sales.

With the aim of furthering our “in China, for China” strategy for the rapidly expanding Chinese market, we showcased Canon's imaging technology with a focus on solutions at the 5th China International Import Expo (CIIE2022), one of the largest trade fairs in the world. We also plan to support the upcoming 19th Asian Games as the only main sponsor in a bid to widely and deeply promote our products and services to the broader Asian market. Through such activities, we hope to express our appreciation to our customers and continue to undertake sales activities whilst shortening the distance to market based on the slogan “closer to customer.”

Environment

Canon seeks to supply products and services that enrich people's lives while also reducing environmental impact, based on initiatives across the entire product lifecycle.



A. Birdwatching in Shimomaruko Forest within the premises of Canon's headquarters.
B. Canon promotes the closed-loop recycling of used toner cartridges.
C. Remanufacturing of office MFDs at Canon Giessen (Germany).

Basic Approach

In 2008, Canon formulated “Action for Green” as our environmental vision, positioning “environmental value” as the main concept in initiatives to realize a society that achieves a beneficial balance between lifestyle enrichment and the environment. To create this value, Canon seeks to supply products and services that enrich people’s lives while also reducing environmental impact, based on initiatives across the entire product lifecycle. We are focusing on four material areas: (1) Climate change; (2) Resource efficiency; (3) Chemical substances; and (4) Biodiversity.

In addition to its own business activities, such as development, production, and sales, Canon monitors the CO₂ emission and other environmental impact at each stage of the product lifecycle, including those of suppliers and customers, and works to reduce them. We support the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) and we constantly disclose climate-related information in our sustainability reports and on our website.

Climate Change

We are furthering environmental activities on a group-wide basis with the goal of achieving an average annual improvement of 3% for the index of lifecycle CO₂ emissions per product unit as a yardstick for reducing our environmental footprint across the entire lifecycle of our products. As of 2022 we have achieved a 43% improvement compared to 2008 (average annual improvement of 4.1%) by carrying out a whole host of

environmental activities. For example, we are making products smaller and lighter, streamlining logistics operations, conserving energy use at our production sites, ensuring energy conservation when products are in use, and recycling used products. In addition, we have reduced our global CO₂ emissions from business activities by 23% compared to 2013—Japan’s base year for climate action targets—predominantly by pursuing energy savings in not only lighting and air-conditioning, but even production equipment, as well as the adoption of renewable energy sources. Our CO₂ emissions data is disclosed every year and verified by third-party assurance.

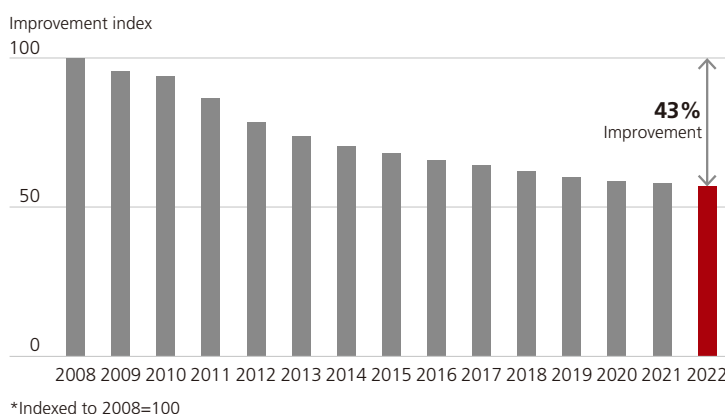
By working closely with society and implementing a number of initiatives across the entire lifecycle of our products, we aim to achieve net-zero CO₂ emissions by 2050.

Resources Efficiency

Canon operates five recycling centers in four regions around the world. To ensure more efficient use of limited resources and reduce waste, we are continuing initiatives aimed at circulating resources within the same regions where they are consumed and making products smaller and lighter, and reusing and recycling used products as much as possible. In particular, we are pursuing product-to-product recycling—in other words, recycling used products into new ones, including the remanufacturing of office multifunction devices and the closed-loop recycling of toner cartridges.

Moreover, the Canon Eco Technology Park, which opened in 2018, strives to realize state-of-the-art resource recycling. We

Lifecycle CO₂ Emissions Improvement Index per Product



are also working to reduce, reuse, and recycle plastic waste at our business sites worldwide, for instance, by switching from polystyrene foam to pulp mold for use in product packaging materials in order to reduce, and ultimately phase out, single-use plastics, a movement that is gaining traction globally.

Canon is also promoting the recycling of water resources. The Kitsuki Plant of Oita Canon Materials Inc., which faces Beppu Bay, an area rich in precious natural resources and living organisms, has introduced a closed drainage system that does not discharge any wastewater other than rainwater in consideration of the impact on the ecosystem. Furthermore, in recognition of its coastal and riverside cleanup activities and educational programs, including factory tours and environmental outreach classes to raise awareness about the importance of water resources, Oita Canon Materials Inc. was awarded the METI Minister's Prize in the 2022 Japan Water Awards.

Chemical Substances

Canon comprehensively manages chemical substances in products and those used in manufacturing processes to prevent pollution of the global environment and adverse effects on people's health. Our basic approach to management involves confirming products do not contain regulated chemical substances that exceed the prescribed standard and production sites do not discharge regulated chemical substances that exceed the prescribed standard. Particularly for chemical substances in products, we have built a group-wide environmental assurance system, and we develop products in conformity with standards established in-house that are in line with the most stringent regulations in the world.

Biodiversity

Guided by the "Nature Positive" slogan raised to halt nature loss, Canon is partnering with stakeholders around the world to undertake activities that meet the needs of local

communities. As part of these activities, we globally run the Canon Bird Branch Project in an effort to engage in the protection of biodiversity across the Canon Group. The site of Canon's global headquarters in Tokyo is home to the thickly wooded Shimomaruko Forest of approximately 1,000 trees. An environment conducive to wild bird life is maintained owing mainly to the installation and cleaning of nesting boxes for birds, as well as the surveys on the migration of wild birds to the site.

Furthermore, a biotope (which is similar to a habitat) has been created within the premises of Canon Optron with the aim of promoting a symbiotic relationship with nature and the local community. Bird-attracting trees have been planted in the middle of the biotope, and to create an environment suitable for not just birds, but various other creatures too, other innovative plans were developed, such as the building of a pond with shallow and deep sections. In this way, the biotope is contributing to diversity, highlighted by the fact that the different species of birds observed there have increased from 5 to 16.

Meanwhile, Canon USA supports the New York Marine Rescue Center (NYMRC), which rescues and protects injured sea turtles and other marine mammals, and strives to conserve marine life. Since 2019, it has been an annual summer tradition for employees, their families and friends to watch the moment when the sea turtle rescued by the NYMRC is released back into the Atlantic Ocean.

Social

Since our founding, we have inherited the spirit of “Respect for humanity” and aim to realize a society where all human beings can live together, work together, and live happily for many years to come.



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- A. The Tsuzuri Project aims to preserve original cultural assets and utilize high-resolution facsimiles.
B. A photography and videography workshop in Finland as part of the Canon Young People Programme.
C. *Miraisha* Programme, a photography and videography workshop, in Kenya.

Basic Approach

We adopted *kyosei* as our corporate philosophy in 1988.

Kyosei conveys our dedication to seeing all people, regardless of culture, customs, language or race, harmoniously living and working together in happiness into the future.

In keeping with this corporate philosophy, we continue to carry out a multitude of initiatives for the benefit of people and society and to contribute to the achievement of the SDGs, all the while fulfilling our role as a member of society to ensure Canon's sustained growth and development. Such measures include respecting human rights, promoting diversity, upholding occupational safety and health management, developing human resources, and sociocultural support activities.

Respecting Human Rights

In 2021, we expressed the Canon Group Human Rights Policy in accordance with the United Nations' Guiding Principles on Business and Human Rights. Guided by this policy, we engage in a human rights due diligence process to identify significant human rights risks in the Canon Group. We also put in place a grievance mechanism, engage in dialogue with stakeholders, conduct human rights awareness training, and address human rights risks in supply chains.

Promoting Diversity

Under our corporate philosophy of *kyosei*, Canon respects global diversity and actively encourages the fair hiring and promotion of employees, regardless of gender, age, or disability. We make every effort to promote the advancement of female employees, and we support the intentions of male employees to participate in child rearing, help employees balance work and nursing care duties, and encourage the active participation of sexual minorities, including those in the LGBT community, as well as employees with disabilities.

As part of this initiative, we have established VIVID, a company-wide horizontally integrated organization spearheaded by the Executive Vice President. VIVID stands for Vital workforce and Value Innovation through Diversity. The ratio of women in management reached 3.6% in 2022 compared to 1.4% in 2011, before VIVID was established. We are also steadily advancing other measures, such as encouraging male employees to participate in child-rearing and supporting a balance between nursing care and work. We celebrated the 10th

Ratio of Female Employees by Position (Canon Inc.)

	2018	2019	2020	2021	2022
Employees	15.8	16.1	16.5	16.6	16.8
Managers	2.6	2.9	3.0	3.3	3.6
Executives	4.2	3.9	4.2	4.0	3.8

Percentage of Male Employees Taking Childcare Leave (Canon Inc.)

2018	2019	2020	2021	2022
9.2	16.3	27.7	33.4	47.7

anniversary of VIVID in 2022, and we intend to further step up our efforts to promote diversity going forward.

Responsible Procurement in Supply Chain

Canon is committed to fulfilling socially responsible procurement in cooperation with its business partners. In 2019, we joined the Responsible Business Alliance (RBA). In 2022, we conducted self-assessments at 57 manufacturing sites and 331 major suppliers using the RBA Self-Assessment Questionnaire (SAQ), and found no major risks. We also submit an annual conflict minerals report with third-party assurance to the U.S. Securities and Exchange Commission.

Sociocultural Support Activities

To commemorate Canon's 70th anniversary, in 2008, we established the Canon Institute for Global Studies and the Canon Foundation.

The Canon Institute for Global Studies is a think tank that investigates and analyzes issues with an eye on the future of Japan and the world from a global perspective, with a focus on global macroeconomics, resources and energy, the environment, and diplomacy and security, and makes policy proposals. In addition, the Canon Foundation provides grants to assist in a broad range of science and technological research. The Canon Foundation's activities are now based on the concept of assisting research studies in cutting-edge science and technology fields with the aim of creating new value for society.

Furthermore, as a company that contributes to the development of visual culture, since 2007, Canon and Kyoto Culture

Association (NPO) have been working on the Tsuzuri Project (officially named the Cultural Heritage Inheritance Project) with the aim of preserving original cultural assets and utilizing high-resolution facsimiles. By combining Canon's advanced digital technologies, ranging from input to image processing and output, with traditional Kyoto craftsmanship, we have produced high-resolution facsimiles of important Japanese cultural assets, including folding screens, sliding doors known as *fusuma*, and handscrolls. These facsimiles have been donated to temples and shrines, local municipalities, or museums with a special connection to them so they can be widely viewed by the public.

Meanwhile, as part of its efforts to realize a sustainable society, Canon Europe is developing the Canon Young People Programme (YPP) in Europe, the Middle East and Africa, with the objective to give young people a voice to create a better and more sustainable future by introducing them to the power of creative visual storytelling, aligned to the United Nations SDGs.

Also, in Africa, where the unemployment rate of young people is a serious problem, Canon Europe is promoting its *Miraisha* Programme with the aim of improving the technical skills of young people in the region and expanding their opportunities for employment in the photography, video production, and printing industries. *Miraisha* is a portmanteau of the Japanese word for future, *mirai*, and the Swahili word for life, *maisha*.

Governance



Fujio Mitarai, Chairman & CEO sharing important matters such as management policies with executives.

Fundamental Approach

In order to establish a sound corporate governance structure and continuously raise corporate value, Canon Inc. believes that it is essential to improve management transparency and strengthen management supervising functions.

Governance Structure

Basic Policy

Canon Inc. is globally expanding its business in various business fields, including printing, imaging, medical, and industrial, and aims to aggressively expand into new business fields in the future. In order to make prompt decisions in each business field, and make important decisions on matters that straddle the entire Canon Group or several business fields from a company-wide perspective and at the same time secure appropriate decision making and execution of operation, Canon Inc. judges the corporate governance structure below to be effective.

Board of Directors

While the focus of the organizational structure of the Board of Directors is on Representative Directors that oversee company-wide business strategies or execution such as the CEO, COO, CFO, CTO, and Representative Directors or Executive Directors that oversee multiple business fields or headquarters functions, at least two Independent Outside Directors are appointed while also assuring that they account for one third or more of the total number of Directors, in order to secure sound management. The Board of Directors, in accordance with laws and regulations, makes important decisions and supervises the execution of duties by officers.

Except for the above, the CEO and other Representative Directors are active in decision making and execution, and under the command and supervision of the Representative Directors, Executive Officers that are elected through resolution of the Board of Directors make decisions and execute operations of each business field or function.

The Board of Directors consists of five members, three Representative Directors from inside Canon Inc. and two

Outside Directors that qualify as Independent Directors.

Additionally, there will be 40 Executive Officers, including two females and one non-Japanese as of April 1, 2023.

Audit & Supervisory Board

As a body which is in charge of the audit of operations, under the principles of autonomy, which is independent from the Board of Directors, Canon Inc. has full-time Audit & Supervisory Board Members that are familiar with Canon Inc.'s businesses or its management structure, and Independent Outside Audit & Supervisory Board Members that have extensive knowledge in specialized areas such as law, finance and accounting, and internal control. The Audit & Supervisory Board, which is composed of these individuals, cooperates with the Canon Inc.'s Accounting Auditors and internal audit division, oversees the status of duty execution of operations and corporate assets to secure the soundness of management.

There are five Audit & Supervisory Board Members of which three are Independent Outside Audit & Supervisory Board Members.

In accordance with auditing policies and plans decided at Audit & Supervisory Board meetings, the Audit & Supervisory Board Members attend Board of Directors' meetings and other important gatherings such as Corporate Strategy Committee meetings. They are also able to listen to reports from Directors and employees, review documents related to important decisions, and conduct audits by investigating the situation of businesses and property of Canon Inc. and its subsidiaries. Additionally, the Office of Audit & Supervisory Board Members is independent from the control of the Directors, and it has a dedicated staff. The Audit & Supervisory Board Members can order headquarter management and other operations to conduct investigations in cases of necessity. In this way, the Audit & Supervisory Board plays a role in monitoring management, conducting strict audits of Directors' execution of duty, including the status of development of the internal control system. Furthermore, the Audit & Supervisory Board Members cooperate closely with the accounting auditors and Canon Inc.'s internal auditing arm, and such cooperation serves to improve each monitoring function.

Procedures in the Nomination of Directors etc.

Canon Inc. established the "Nomination and Remuneration

Advisory Committee," a non-statutory committee, which consists of the CEO, two Independent Outside Directors and one Independent Outside Audit & Supervisory Board Member. At the time, Director and Audit & Supervisory Board Member candidates are nominated and Executive Officers are appointed, including the selection of a successor for the chief executive officer position, the CEO recommends candidates thereof from among individuals that have been recognized as having met the prescribed requirements, and the Committee checks the fairness and validity of such recommendation prior to submission to and deliberation by the Board of Directors. Additionally, as for Audit & Supervisory Board Member candidates, prior to deliberation of the Board of Directors, consent of the Audit & Supervisory Board shall be acquired.

Requirements of Director and Audit & Supervisory Board Member Candidates and Executive Officers

Director and Audit & Supervisory Board Member candidates and Executive Officers are people that have the ability to fairly and effectively execute duties and, in principle, are selected from people that have met the following requirements, regardless of personal attributes such as gender, nationality, age etc.

Representative Directors and Executive Directors	Have a true understanding of the corporate philosophy and code of conduct of Canon Inc. At the same time, have broad familiarity with Canon Inc.'s businesses and operations, gained through, for example, Executive Officer experience. Have the ability to make effective decisions that overlook multiple businesses and functions. In addition to this, the CEO shall be a person with the ability to lead the Canon Group, having, in particular, a wealth of knowledge and skill related to management and a clear vision and a strong sense of responsibility.
Independent Outside Directors	In addition to meeting the independence standard that is separately determined by the Board of Directors, have an abundance of experience and superior insight into fields such as business management, risk management, law, and economics.
Audit & Supervisory Board Members	Be familiar with Canon Inc.'s businesses or its management structure, or have an abundance of experience and superior insight into professional fields such as law, finance, accounting, and internal control. As for Outside Audit & Supervisory Board Members, additionally meet the independence standards that are separately determined by the Board of Directors.
Executive Officers	Have been highly evaluated in terms of character and ability in managerial assessment and managerial talent training programs, and also have sufficient knowledge, experience and judgment ability, to shoulder the responsibility of execution in specific fields, and truly understand the corporate philosophy and code of conduct of Canon Inc.

Corporate Strategy Committee, Risk Management Committee, and Disclosure Committee

Canon Inc. established the Corporate Strategy Committee, consisting of Representative Directors and some Executive Officers. Among items to be decided by the CEO, the Committee undertakes prior deliberations on important matters pertaining to Canon Group strategies. Outside Directors and Audit & Supervisory Board Members attend Corporate Strategy Committee meetings and are able to express their own opinions. Based on a resolution passed by the Board of Directors, Canon Inc. set up the Risk Management Committee, which formulates policy and action proposals regarding improvement of the Canon Group risk management system. The Risk Management Committee consists of three entities: the Financial Risk Management Subcommittee, which is tasked with improving systems to ensure reliability of financial reporting; the Compliance Subcommittee, which is tasked with promoting corporate ethics and improving legal compliance systems; and the Business Risk Management Subcommittee, which is charged with improving systems to manage overall

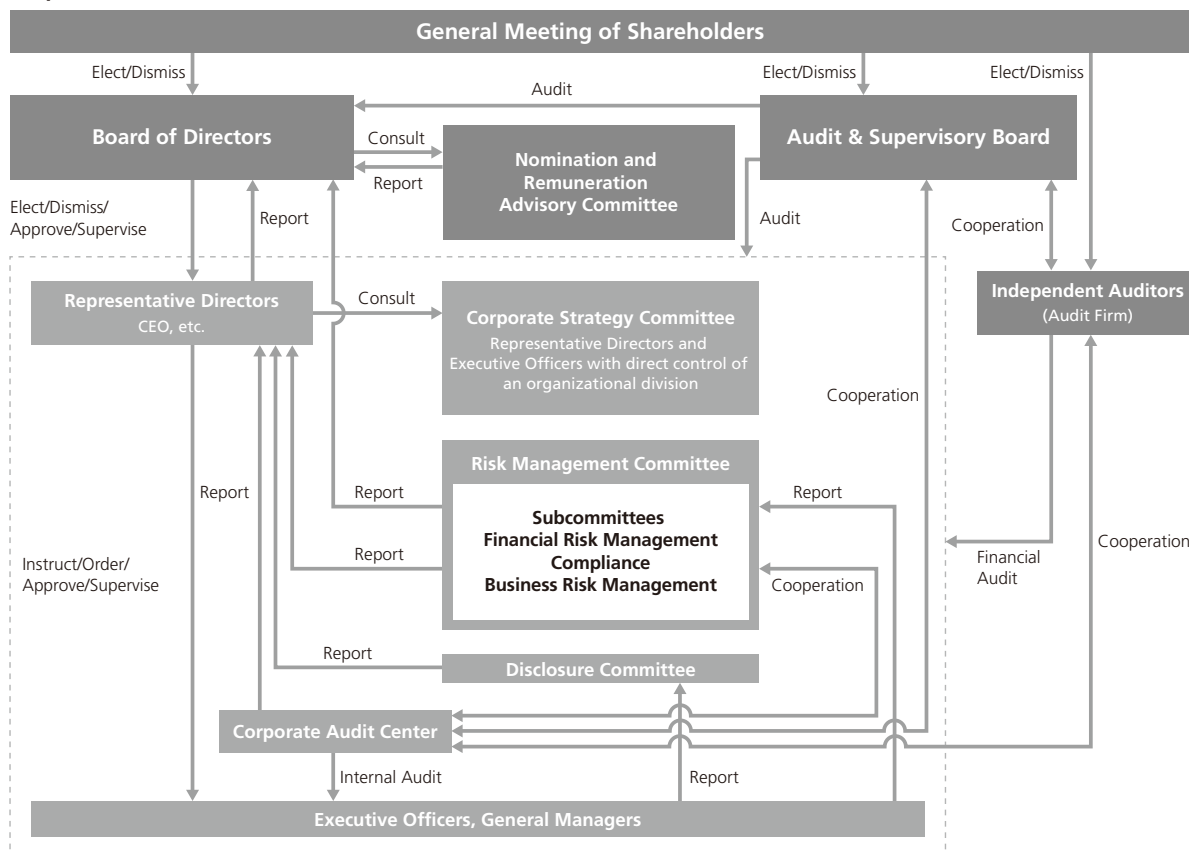
business risks, including risks related to product quality and information leak. The Risk Management Committee verifies the risk management system's improvement and implementation and reports the status to the CEO and the Board of Directors.

In addition, the Disclosure Committee was established to undertake deliberations pertaining to information disclosure, including content and timing, to ensure important corporate information will be disclosed in a timely and accurate manner.

Internal Audit Division

Canon Inc. has established the Corporate Audit Center as its internal auditing division, which audits, evaluates, and makes recommendations on compliance and internal control systems etc. The Corporate Audit Center also conducts audits on topics such as quality, the environment, safety and health. Audit results are reported not only to the CEO and CFO, but also to the Audit & Supervisory Board Members and the Audit & Supervisory Board. In addition, Canon Inc. has established a system in which reports are also regularly given to outside directors and those outside directors can request submission of proposals to the Board of Directors, as necessary.

Corporate Governance Structure



Details of Canon Inc.'s corporate governance structure are available on Canon Inc.'s website under "an overview of Corporate Governance at Canon Inc." <https://global.canon/en/ir/strategies/governance.html>

FINANCIAL SECTION

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FINANCIAL OVERVIEW

GENERAL

The following discussion and analysis provides information that management believes to be relevant to understanding Canon's consolidated financial condition and results of operations. References in this discussion to the "Company" are to Canon Inc. and, unless otherwise indicated, references to the financial condition or operating results of "Canon" refer to Canon Inc. and its consolidated subsidiaries.

OVERVIEW

Canon is one of the world's leading manufacturers of office multifunction devices ("MFDs"), laser printers, inkjet printers, cameras, medical equipment and lithography equipment. Canon earns revenues primarily from the manufacture and sale of these products domestically and internationally. Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporate group targeting continued growth and development.

Canon divides its businesses into four segments: the Printing Business Unit, the Imaging Business Unit, the Medical Business Unit and the Industrial Business Unit.

Economic environment

Looking back at 2022, while the global economy resumed its economic activities in earnest, the pace of economic recovery slowed due to global inflation and tight monetary policies in order to control inflation in each country. In the United States, although affected by inflation and tightening monetary policy, the economic recovery continued due to robust increases in personal consumption and expansion of exports. In Europe, the economy slowed down due to surge in energy prices resulting from the Ukraine crisis and continuous price hikes caused by inflation. In China, the recovery of personal consumption declined and capital investment slowed due to restrictions implemented under its Zero-COVID strategy. In other emerging countries, the economy recovered moderately, mainly in India and Southeast Asia. In Japan, affected by surge in price of energy and inflation caused by depreciation of the yen, the economy continued to recover moderately, mainly in terms of personal consumption.

Market environment

Amid the unstable economic environment, in the markets in which Canon operates, despite a shortage of semiconductor chips and supply chain disruptions, demand improved moderately. Looking at performance by products, demand for office multifunction devices (MFDs) remained firm due to a recovery of in-office work. Meanwhile demand for laser printers and inkjet printers slowed due to decreased demand from customers working from home. For cameras, demand remained solid, mainly for mirrorless cameras and lenses for professionals and enthusiasts. For medical equipment, demand in Japan declined this year due to a drop-off following the conclusion

of government spending in 2021, although investments in the medical field recovered slowly, mainly for diagnostic imaging unit products outside Japan. For semiconductor lithography equipment, while the memory devices market declined, overall demand remained firm due to strong demand for power devices and sensors. For FPD (Flat Panel Display) lithography equipment, demand tended to decline due to decreased demand from customers working from home amid the COVID-19 pandemic, and demand for laptop computers decreased in response to the current economic slowdown.

The average value of the yen for the year was ¥131.66 against the U.S. dollar, a year-on-year depreciation of approximately ¥22, and ¥138.42 against the euro, a year-on-year depreciation of approximately ¥8.

Summary of operations

In 2022, Canon ensured adequate supplies of products through sustained efforts such as switching to alternative components and seeking new vendors, and taking swift action to secure transportation capacity while utilizing alternative transportation routes to deal with a shortage of components and the logistics disruption. Net sales for the year increased by 14.7% year-on-year to ¥4,031,414 million due to adjustment of product prices and depreciation of the yen. Sales by new business exceeded ¥1,000 billion, and net sales exceeded ¥4,000 billion for the first time in five years since 2017 as a result of the business portfolio transformation. Gross profit as a percentage of net sales decreased by 1.0 points to 45.3% due to the increase in the ratio of hardware sale caused by stabilization of production supply including printers, in addition to the increased costs of parts and logistics. However, gross profit increased by 12.3% year-on-year to ¥1,827,802 million, mainly due to price adjustment of products and the depreciation of the yen. Although operating expenses increased by 9.5% year-on-year to ¥1,474,403 million as a result of increased operating expenses denominated in foreign currencies due to the depreciation of the yen, as well as an increase in selling expenses accompanying a growth in sales, the operating expense to sales ratio decreased by 1.8 points to 36.5% due to continued efficiency-focused cost control and improvements to management structure. As a result, operating profit increased by 25.4% year-on-year to ¥353,399 million. Other income (deductions) decreased by ¥21,747 million year-on-year to a loss of ¥959 million, mainly due to deterioration of valuation gains and losses on securities and currency exchange losses from liabilities, incurred by group finance, denominated in foreign currencies, caused by the depreciation of the yen. As a result, income before income taxes increased by 16.4% year-on-year to ¥352,440 million and net income attributable to Canon Inc. increased by 13.6% year-on-year to ¥243,961 million. Basic net income attributable to Canon Inc. shareholders per share was ¥236.71 for the year, a year-on-year increase of ¥31.36.

Total assets increased by ¥344,642 million to ¥5,095,530

million at December 31, 2022, compared with the end of previous year, mainly due to an increase of inventories resulting from procuring electrical part, materials and key parts, and increasing of trade receivable due to increase of sales. In 2022, the decrease of long-term loans by ¥120.0 billion was a result of the repayment of loans for the acquisition of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation). Under this condition, total liabilities increased by ¥94,041 million to ¥1,746,500 million at December 31, 2022, compared with the end of previous year mainly due to a increase of short-term loans in response to the increase in required working capital. Total equity increased by ¥250,601 million to ¥3,349,030 million at December 31, 2022, compared with the end of previous year, mainly due to an increase in retained earnings resulting from net income attributable to Canon, and an increase in accumulated other comprehensive income due to the depreciation of the yen. In addition, there were repurchases of treasury stock twice. Under these conditions, Canon Inc. shareholders' equity as a percentage of total assets increased by 0.6 points to 61.1%.

Key performance indicators

The following are the key performance indicators ("KPIs") that Canon uses in managing its business. The changes from year to year in these KPIs are set forth in the table shown below.

Net sales and profit ratio

As Canon pursues the goal to become a truly excellent global corporation, one indicator upon which Canon's management places strong emphasis is revenue. The following are some of the KPIs related to revenue that management considers to be important.

Net sales is one such KPI. Canon derives net sales primarily from the sale of products and, to a lesser extent, provision of services associated with its products. Sales vary depending on such factors as product demand, the number and size of transactions within the reporting period, market acceptance for new products, and changes in sales prices. Other factors involved are market share and market environment. In addition, management considers the evaluation of net sales by product to be important for the purpose of assessing Canon's sales performance in various products, taking into account recent market trends.

Gross profit to net sales ratio is another KPI for Canon. Under the basic policy of Phase VI of the Excellent Global Corporation Plan, Canon has been consistently strengthening business competitiveness and striving to provide highly profitable products with price competitiveness. Furthermore, Canon promotes cost reduction initiatives across the Canon Group through in-house production and automation of assembly processes which integrate the three functions of design, production technology and manufacturing. Canon will continue to actively take these measures to improve Canon's gross profit to net sales ratio.

Operating profit to net sales ratio, income before income taxes to net sales ratio, and R&D expense to net sales ratio are considered to be KPIs by Canon. Canon is focusing on two areas for improvement. Canon is striving to control and reduce its selling, general and administrative expenses as its first key point. Secondly, Canon's R&D policy is designed to maintain adequate spending in core technology to sustain Canon's leading position in its current business areas and to exploit opportunities in other markets. Canon believes such investments will create the basis for future success in its business and operations.

Cash flow management

Canon also places significant emphasis on cash flow management. The following are the KPIs relating to cash flow management that Canon's management believes to be important.

Inventory turnover measured in days is a KPI because it measures the efficiency of supply chain management. Inventories have inherent risks of becoming obsolete, physically damaged or otherwise decreasing significantly in value, which may adversely affect Canon's operating results. To mitigate these risks, management believes that it is crucial to continue reducing work-in-process inventories by decreasing production lead times in order to promptly recover related product expenses, while balancing risks of supply chain disruptions by optimizing finished goods inventories in order to avoid losing potential sales opportunities.

The debt to total assets ratio is also one of the KPIs. For a manufacturing company like Canon, it generally takes considerable time to realize profit from a business due to lead times required for R&D, manufacturing and sales. Therefore, management believes that it is important to have sufficient financial strength. Canon will continue to reduce its dependency on external funds for capital investments in favor of generating the necessary funds from its own operations.

Canon Inc. shareholders' equity to total assets ratio is another KPI for Canon. Canon believes that its shareholders' equity to total assets ratio measures its long-term sustainability. Canon also believes that achieving a high or rising shareholders' equity ratio indicates that Canon has maintained a strong financial position or further improved its ability to fund debt obligations and other unexpected expenses. In the long-term, Canon's management believes a high shareholders' equity ratio will enable Canon to maintain a high level of stable investments for its future operations and development. As Canon puts strong emphasis on its R&D activities, management believes that it is important to maintain a stable financial base and, accordingly, a high level of its shareholders' equity to total assets ratio.

KEY PERFORMANCE INDICATORS

	2022	2021	2020	2019	2018
Net sales (Millions of yen)	4,031,414	3,513,357	3,160,243	3,593,299	3,951,937
Gross profit to net sales ratio	45.3%	46.3%	43.5%	44.8%	46.4%
R&D expense to net sales ratio	7.6%	8.2%	8.6%	8.3%	8.0%
Operating profit to net sales ratio	8.8%	8.0%	3.5%	4.9%	8.7%
Income before income taxes to net sales ratio	8.7%	8.6%	4.1%	5.4%	9.2%
Inventory turnover measured in days	69 days	66 days	60 days	59 days	56 days
Debt to total assets ratio	8.2%	6.8%	10.9%	10.8%	8.2%
Canon Inc. shareholders' equity to total assets ratio	61.1%	60.5%	55.7%	56.3%	57.5%

Note: Inventory turnover measured in days is determined by: Inventory divided by net sales for the previous six months, multiplied by 182.5.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and based on the selection and application of significant accounting policies which require management to make significant estimates and assumptions. These estimates and assumptions include future market conditions, net sales growth rate, gross margin and discount rate. Though Canon believes that the estimates and assumptions are reasonable, actual future results may differ from these estimates and assumptions. In addition, actual results and outcomes may differ from management's estimates and assumptions due to pandemic, geopolitical risk and economic slowdown risk in response to inflation. Canon believes that the following are the more critical judgment areas in the application of its accounting policies that currently affect its financial condition and results of operations.

Revenue recognition

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

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

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

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

The majority of service arrangements for the products are executed in combination with related products. Transaction prices for products and services need to be allocated to each performance obligation on a relative standalone selling price basis where judgements are required. Canon estimates the standalone selling price using a range of prices that would meet the allocation objective based on all the information that is reasonably available including market conditions and other observable inputs. If transaction prices of the product or service contracts are not within the acceptable range then the revenue is subject to allocation based on the estimated standalone selling prices. Canon recognizes the incremental costs of obtaining a contract as an expense when related products of the Printing Business Unit are sold.

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

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

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

Allowance for credit losses

Allowance for credit losses for trade and lease receivables is maintained for all customers based on ASC 326 "Financial Instruments – Credit Losses," based on historical experiences of credit losses and reasonable and supportable forecasts. An additional reserve for individual accounts is recorded when Canon becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted. When all collection options are exhausted including legal recourse, the accounts or portions thereof are deemed to be uncollectable and charged against the allowance.

Valuation of inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the average method for domestic inventories and principally the first-in, first-out method for overseas inventories. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make a sale. Canon routinely reviews its inventories for their salability and for indications of obsolescence to determine if inventories should be written down to market value. Judgments and estimates must be made and used in connection with establishing such allowances in any accounting period. In estimating the net realizable value of its inventories, Canon considers the age of the inventories and the likelihood of spoilage or changes in market demand for its inventories.

Impairment of long-lived assets

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

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally by the declining-balance method, except for certain assets which are depreciated by the straight-line method over the estimated useful lives of the assets.

Lease

As for lessor accounting, Canon provides leasing arrangement to its customers primarily for the sale of office products. Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and related revenue is recognized ratably over the lease term. When product leases are bundled with maintenance contracts, revenue is allocated based upon the estimated standalone selling prices of the lease and non-lease components. Lease components generally include product and financing while non-lease components generally consist of maintenance contracts and supplies. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into account to determine the lease term when it is reasonably certain that the customers will exercise these options. The majority of Canon's lease contracts do not contain bargain purchase options for their customers.

As for lessee accounting, Canon has operating and finance leases for various assets including office buildings, warehouses, employees' accommodations, and vehicles. Canon determines if an arrangement is a lease at the inception of each contract. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into accounts to determine the lease term when it is reasonably certain that it will exercise these options. Canon's lease arrangements do not contain material residual value guarantees or material restrictive covenants. As a rate implicit in most of Canon's leases cannot be determined, Canon uses incremental borrowing rate based on the information available at commencement to determine the present values of lease payments. Canon has lease contracts with lease and non-lease components, which are accounted for separately. Canon allocates the consideration in the lease contract to the lease and non-lease components based upon the estimated standalone prices. Costs associated with operating lease assets are recognized on a straight-line basis over the term of the lease.

Business combinations

Acquisitions are accounted for using the acquisition method of accounting. The acquisition method of accounting requires the identification and measurement of all acquired tangible and intangible assets and assumed liabilities at their respective fair values, as of the acquisition date. The determination of the fair value of net assets acquired involves significant judgment and estimates, such as future cash flow projections, appropriate discount and capitalization rates and other estimates based on available market information. Estimates of future cash flows are based on a number of factors including operating results, known and anticipated trends, as well as market and economic conditions.

Goodwill and other intangible assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon recognizes an impairment charge in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Fair value of a reporting unit is determined primarily based on the discounted cash flow analysis which involves estimates of projected future cash flows and discount rates. Estimates of projected future cash flows are primarily based on Canon's forecast of future growth rates. Estimates of discount rates are determined based on the weighted average cost of capital, which considers primarily market and industry data as well as specific risk factors. Canon has completed its impairment test in the fourth quarter of 2022 and determined that there were no reporting units that failed the impairment test as the fair value of each reporting unit substantially exceeded its respective carrying amount. However, with regard to goodwill attributed to the Medical Reporting Unit, fair value in excess of reported carrying amount as a percentage is lower than other reporting units. As a result, a future reduction in cash flows of the related business could trigger an impairment. The goodwill related to this reporting unit as of December 31, 2022 is ¥542,695 million. Future cash flows for the Medical Reporting Unit were based on a mid-term management plan that considered the future market growth of medical equipment and growth in geographies where Canon operates its medical business. Intangible assets with finite useful lives consist primarily of software, trademarks, patents and developed technology, license fees and customer relationships, which are amortized using the straight-line method. The estimated useful lives of software are from 3 years to 8 years, trademarks are 15 years, patents and developed technology are from 7 years to 21 years, license fees are 8 years, and customer relationships are from 10 years to 15 years, respectively.

Income tax uncertainties

Canon considers many factors when evaluating and estimating income tax uncertainties. These factors include an evaluation of the technical merits of the tax positions as well as the amounts and probabilities of the outcomes that could be realized upon settlement. The actual resolutions of those uncertainties will inevitably differ from those estimates, and such differences may be material to the financial statements.

Valuation of deferred tax assets

Canon currently has significant deferred tax assets, which are subject to periodic recoverability assessments. Realization of Canon's deferred tax assets is principally dependent upon its achievement of projected future taxable income. Canon's judgments regarding future profitability may change due to future market conditions, its ability to continue to successfully execute its operating activities and other factors. Any changes in these factors may require possible recognition of significant valuation allowances to reduce the net carrying value of these deferred tax asset balances. When Canon determines that certain deferred tax assets may not be recoverable, the amounts, which may not be realized, are charged to income tax expense and will adversely affect net income.

Employee retirement and severance benefit plans

Canon has significant employee retirement and severance benefit obligations that are recognized based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets. Management must consider current market conditions, including changes in interest rates, in selecting these assumptions. Other assumptions include assumed rate of increase in compensation levels, mortality rate. Changes in assumptions inherent in the valuation are reasonably likely to occur from period to period. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect future pension expenses. While management believes that the assumptions used are appropriate, the differences may affect employee retirement and severance benefit costs in the future.

In preparing its financial statements for 2022, Canon estimated a weighted-average discount rate used to determine benefit obligations of 1.2% for Japanese plans and 4.1% for foreign plans and a weighted-average expected long-term rate of return on plan assets of 3.1% for Japanese plans and 5.7% for foreign plans. In estimating the discount rate, Canon uses available information about rates of return on high-quality fixed-income government and corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. Canon establishes the

expected long-term rate of return on plan assets based on management's expectations of the long-term return of the various plan asset categories in which it invests. Management develops expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

Decreases in discount rates lead to increases in actuarial pension benefit obligations which, in turn, could lead to an increase in service cost and amortization cost through amortization of actuarial gain or loss, a decrease in interest cost, and vice versa. For 2022, a decrease of 50 basis points in the discount rate increases the projected benefit obligation by approximately ¥77,641 million. The net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, is deferred until subsequent periods.

Decreases in expected returns on plan assets may increase net periodic benefit cost by decreasing the expected return amounts, while differences between expected value and actual fair value of those assets could affect pension expense in the following years, and vice versa. For 2022, a decrease of 50 basis points in the expected long-term rate of return on plan assets would increase approximately ¥4,862 million in net periodic benefit cost. Canon multiplies management's expected long-term rate of return on plan assets by the value of its plan assets to arrive at the expected return on plan assets that is included in pension expense. Canon defers recognition of the difference between this expected return on plan assets and the actual return on plan assets. The net deferred amount affects future pension expense.

Canon recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in its consolidated balance sheets, with a corresponding adjustment to an accumulated other comprehensive income (loss), net of tax.

Environmental Liabilities

Liabilities for environmental remediation and other environmental costs are accrued when environmental assessments or remedial efforts are probable and the costs can be reasonably estimated, and are included in other noncurrent liabilities in the consolidated balance sheets. Such liabilities are adjusted as further information develops or circumstances change. Costs of future obligations are not discounted to their present values.

Recently Issued Accounting Guidance

Please refer to Note 1 of the Notes to Consolidated Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS

	Millions of yen				
	2022	change	2021	change	2020
Net sales	4,031,414	+14.7%	3,513,357	+11.2%	3,160,243
Products and Equipment	3,231,837	+15.2%	2,804,680	+12.6%	2,489,829
Services	799,577	+12.8%	708,677	+5.7%	670,414
Operating profit	353,399	+25.4%	281,918	+155.0%	110,547
Income before income taxes	352,440	+16.4%	302,706	+132.4%	130,280
Net income attributable to Canon Inc.	243,961	+13.6%	214,718	+157.7%	83,318

Note: See note to KEY PERFORMANCE INDICATORS

Sales

In the current business term, while the global economy resumed its economic activities in earnest, the pace of economic recovery slowed due to global inflation and tight monetary policies in order to control inflation in each country. In such an environment, despite a shortage of semiconductor chips and supply chain disruptions, Canon's consolidated net sales in 2022 totaled ¥4,031,414 million, an increase of 14.7% from the previous year largely due to a moderate recovery of demand in each segment. Net sales of products and equipment totaled ¥3,231,837 million, a year-on-year increase of 15.2%, while net sales of services totaled ¥799,577 million, a year-on-year increase of 12.8%.

Overseas operations are significant to Canon's operating results and generated 78.5% of total net sales in 2022. Such sales are denominated in the applicable local currencies and are subject to fluctuations in the value of the yen relative to those currencies. Despite efforts to reduce the impact of currency fluctuations on operating results, including localization of manufacturing in some regions along with procuring parts and materials from overseas suppliers, Canon believes such fluctuations have had and will continue to have a significant effect on its results of operations.

The average value of the yen during the year was ¥131.66

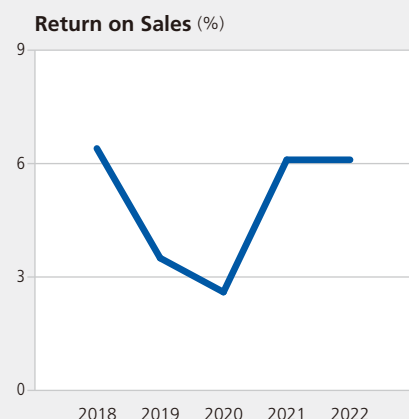
against the U.S. dollar, a year-on-year depreciation of approximately ¥22, and ¥138.42 against the euro, a year-on-year depreciation of approximately ¥8. The effects of foreign exchange rate fluctuations positively affected net sales by ¥339,996 million in 2022. This favorable impact consisted of approximately ¥245,939 million of favorable impact for the U.S. dollar denominated sales and favorable impact of ¥56,297 million for the euro denominated sales, and favorable impact of ¥37,760 million for other foreign currency denominated sales.

Cost of sales

Cost of sales principally reflects the cost of raw materials, parts and labor used by Canon in the manufacture of its products. A portion of the raw materials used by Canon is imported or includes imported materials. Many of these raw materials are subject to fluctuations in world market prices accompanied by fluctuations in foreign exchange rates that may affect Canon's cost of sales. Other components of cost of sales include depreciation expenses, maintenance expenses, light and fuel expenses, and rent expenses. In 2022, Canon was affected by rising prices of parts and materials, as well as by rising transportation costs due to the high demand for international freight transport. Under these conditions, the ratios of cost of sales to net sales for 2022 and 2021 were 54.7% and 53.7%, respectively. Cost of sales as a percentage of net sales increased by 1.0 points.

Gross profit

Canon's gross profit in 2022 increased by 12.3% to ¥1,827,802 million from 2021. However, the gross profit to net sales ratio decreased by 1.0 points to 45.3%. The increase in the gross profit was mainly due to price adjustment of products and the depreciation of the yen. However, the decrease in gross profit to net sales ratio was mainly due to the increase in the ratio of hardware sale caused by stabilization of production supply including printers, in addition to the increased costs of parts and logistics.



Operating expenses

The major components of operating expenses are payroll, R&D, advertising expenses and other marketing expenses. Operating expenses in 2022 increased by 9.5% year on year to ¥1,474,403 million as a result of increased operating expenses denominated in foreign currencies due to the depreciation of the yen, as well as an increase in selling expenses accompanying a growth in sales. However, operating expenses as a percentage of net sales decreased by 1.8 points to 36.5% due to continued efficiency-focused cost control and improvements to management structure.

Operating profit

Operating profit in 2022 increased by 25.4% from 2021 to a total of ¥353,399 million. The operating profit to net sales ratio increased by 0.8 points to 8.8% from 2021.

Other income (deductions)

Other income (deductions) for 2022 was a loss of ¥959 million, a decrease of ¥21,747 million from 2021 mainly due to deterioration of valuation gains and losses on securities and currency exchange losses from liabilities, incurred by group finance, denominated in foreign currencies, caused by the depreciation of the yen.

Income before income taxes

Income before income taxes in 2022 was ¥352,440 million, an increase of 16.4% from 2021, and constituted 8.7% of net sales.

Income taxes

Income taxes in 2022 increased by ¥20,490 million from 2021. The effective tax rate for 2022 was 26.2%, which was lower than the statutory tax rate in Japan. This resulted from a combination of factors such as the increase in tax credits of R&D expenses and the lower effective tax rates at foreign subsidiaries compared to the statutory tax rate in Japan.

Net income attributable to Canon Inc.

As a result, net income attributable to Canon Inc. in 2022 increased by 13.6% to ¥243,961 million, which represents 6.1% of net sales.

Segment information

Canon operates four segments: the Printing Business Unit, the Imaging Business Unit, the Medical Business Unit and the Industrial Business Unit.

- **The Printing Business Unit** mainly includes Office MFDs / Document solutions / Laser MFPs / Laser printers / Inkjet printers / Image scanners / Calculators / Digital continuous feed presses / Digital sheet-fed presses / Large format printers
- **The Imaging Business Unit** mainly includes Interchangeable-lens digital cameras / Interchangeable lenses / Digital compact cameras / Compact photo printers / MR Systems / Network cameras / Video management software / Video content analytics software / Digital camcorders / Digital cinema cameras / Broadcast equipment / Projectors
- **The Medical Business Unit** mainly includes CT systems / Diagnostic ultrasound systems / Diagnostic X-ray systems / MRI systems / Clinical chemistry analyzers / Digital radiography systems / Ophthalmic equipment
- **The Industrial Business Unit** mainly includes Semiconductor lithography equipment / FPD lithography equipment / OLED display manufacturing equipment / Vacuum thin-film deposition equipment / Die bonders

Operating results by segment

Please refer to the table of sales by segment in Note 23 of the Notes to Consolidated Financial Statements.

Within the Printing Business Unit, unit sales increased compared with the previous year due to the recovery of office MFDs production, thanks to supplies of semiconductor chips improving in the second half of the year. Sales of services and consumables increased moderately compared with the previous year due to a recovery of increase of in-office work. As for laser printers and inkjet printers, unit sales increased significantly compared with the previous year due to the recovery from stagnating production activities resulting from COVID-19 infections. However, consumables decreased compared with the previous year due to decreased demand from customers working from home. For equipment in the production printing market, sales increased compared with the previous year due to strong sales of the varioPRINT iX series of high-speed cut-sheet color inkjet presses, while revenue from services also increased. These factors resulted in total sales for the business unit of ¥2,261,938 million, a year-on-year increase of 16.7%, while income before income taxes decreased by 3.1% year-on-year to ¥225,780 million, due to the increase in costs of parts and logistics, despite price adjustment of products.

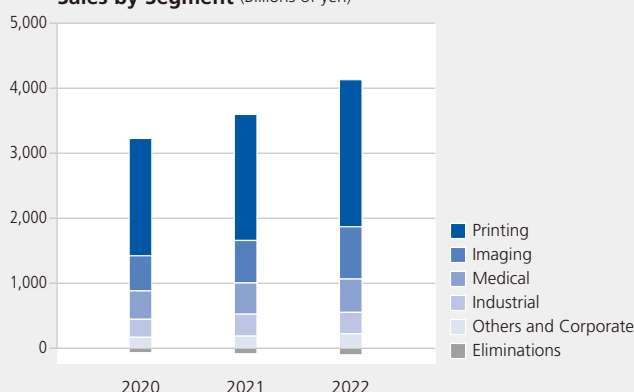
As for the Imaging Business Unit, unit sales of interchangeable-lens digital cameras were above those of the same period of the previous year due to continued robust demand for full-frame mirrorless cameras including the EOS R5 and EOS R6 as well as favorable reviews of the new EOS R7 and EOS R10 APS-C-size mirror-less cameras, despite stagnant production activities caused by a shortage of components. Unit sales of lenses increased owing to strong sales of RF-series interchangeable-lenses that expanded the product lineup. As for network cameras, sales increased significantly, mainly as a result of strengthening sales activities in response to diversifying market needs in addition to the recovery of product supply. As for professional video production equipment, sales of Cinema EOS-series cameras, including the new EOS R5 C, as well as professional video cameras and broadcast lenses, were strong. These factors resulted in total sales for the business unit of ¥803,480 million, a year-on-year increase of 22.9%, while income before income taxes increased by 63.2% year-on-year to ¥128,033 million mainly as a result of improved profitability due to an enhanced product mix.

As for the Medical Business Unit, demand in Japan declined this year due to a drop-off after an uptick from government spending, which concluded in 2021, and delays of installation work at medical institutions overseas. However, demand of large systems such as Computed tomography (CT) systems and Magnetic resonance imaging (MRI) systems which was restricted due to the COVID-19 pandemic recovered overseas, mainly in Europe and the United States. Canon achieved

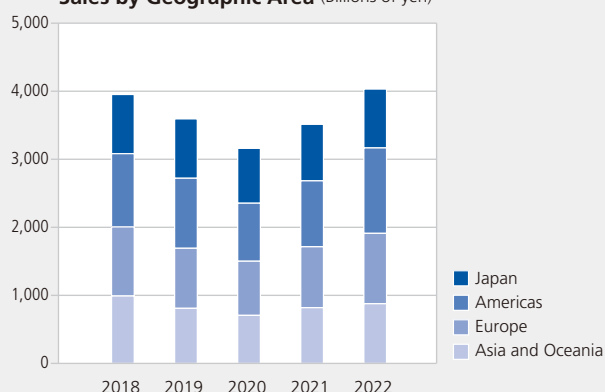
steady sales by addressing the tight supply of components against a backdrop of record-high orders. Sales of diagnostic ultrasound systems were also strong. These factors resulted in total sales for the business unit of ¥513,331 million, a year-on-year increase of 6.9%, the highest recorded sales in the history of the business unit. Income before income taxes decreased by 7.0% year-on-year to ¥31,895 million due to an increase in other income (deductions) accompanying a corporate acquisition transaction occurred in the prior year.

As for the Industrial Business Unit, regarding semiconductor lithography equipment, unit sales increased compared with the previous year as a result of maximizing production capacity amid strong sales for a wide range of products such as power devices and sensors. For FPD lithography equipment, performance remained high despite a decrease in unit sales compared with the previous year when the business unit caught up with the delayed equipment installation, although this was mitigated by the minimized impacts of both decreased demand from customers working from home amid the COVID-19 pandemic and the economic slowdown in the current year. For OLED display manufacturing equipment, sales decreased compared with the previous year as panel manufacturers reconsidered investment plans in response to diversifying OLED panel applications. These factors resulted in total sales for the business unit of ¥329,232 million, a year-on-year decrease of 2.5%, while income before income taxes totaled ¥59,213 million, a year-on-year increase of 30.7% following the increased unit sales of semiconductor lithography equipment.

Sales by Segment (Billions of yen)



Sales by Geographic Area (Billions of yen)



SALES BY SEGMENT

	Millions of yen				
	2022	change	2021	change	2020
Printing	2,261,938	+16.7%	1,938,847	+7.4%	1,804,427
Imaging	803,480	+22.9%	653,532	+20.7%	541,314
Medical	513,331	+6.9%	480,362	+10.2%	436,074
Industrial	329,232	-2.5%	337,721	+22.0%	276,806
Others and Corporate	223,021	+19.5%	186,593	+10.3%	169,140
Eliminations	(99,588)	—	(83,698)	—	(67,518)
Total	4,031,414	+14.7%	3,513,357	+11.2%	3,160,243

Note: Based on the realignment of Canon's internal management structure, from 2022, Canon has changed the name and structure of segments from Industrial and Others Business Unit and Corporate and eliminations to Industrial Business Unit, Others and Corporate and Eliminations. Sales by segment amounts for the years ended December 31, 2021 and 2020 also have been reclassified.

SALES BY GEOGRAPHIC AREA

	Millions of yen				
	2022	change	2021	change	2020
Japan	864,808	+4.1%	830,378	+3.0%	806,305
Americas	1,255,405	+29.6%	968,839	+13.7%	852,451
Europe	1,034,008	+15.5%	894,898	+12.5%	795,616
Asia and Oceania	877,193	+7.1%	819,242	+16.1%	705,871
Total	4,031,414	+14.7%	3,513,357	+11.2%	3,160,243

Note: This summary of net sales by geographic area is determined by the location where the product is shipped to the customers.

Sales by geographic area

Please refer to the table of sales by geographic area in Note 23 of the Notes to Consolidated Financial Statements.

In Japan, net sales increased by 4.1% from the previous year mainly owing to an increase in sales of RF-series interchangeable-lenses.

In the Americas, net sales increased by 29.6% from the previous year mainly owing to an increase in unit sales of office MFDs and depreciation of the yen.

In Europe, net sales increased by 15.5% from the previous year mainly owing to an increase in sales of RF-series interchangeable-lenses and depreciation of the yen.

In Asia and Oceania, net sales increased by 7.1% from the previous year mainly owing to an increase in unit sales of office MFDs and depreciation of the yen.

FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSACTIONS

Canon's marketing activities are performed by subsidiaries in various regions in local currencies, while the cost of sales is generally in yen. Given Canon's current operating structure, appreciation of the yen has a negative impact on net sales and the gross profit to net sales ratio. To reduce the financial risks from changes in foreign exchange rates, Canon utilizes derivative financial instruments, which consist principally of foreign currency exchange contracts.

The operating profit on foreign operation sales is usually lower than that from domestic operations because foreign

operations consist mainly of marketing activities. Marketing activities are generally less profitable than production activities, which are mainly conducted by the Company and its domestic subsidiaries. Please refer to the table of geographic information in Note 23 of the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Canon's basic policy for financial strategies is to maintain a sound financial position through consistent cash flow management, and the two basic principles of cash flow management are as follows:

- Canon strives to improve a highly profitable structure by further improving the profitability of existing businesses and accelerating the growth of new businesses.
- Canon strives to maintain financial soundness by keeping total capital investments for medium-term business expansion and growth within the range of depreciation and amortization expenses. However, Canon plans to actively engage in large-scale M&A for growth strategies, and also raises external funds as needed.

Raising Funds (Cash-In)

Canon is basically funded by net cash provided by operating activities. In procuring funds, Canon considers terms, currencies and methods in light of financial market conditions, and selects the most appropriate instrument from a variety of options.

Use of Funds (Cash-Out)

The principal use of cash is determined in accordance with the following priorities.

- Investment for growth such as capital investment, R&D, M&A, etc.:
Canon values M&A as an option for early development and expansion of new businesses. The selection of investment targets is based on the growth potential and size of the market, and on the market being highly compatible with the Canon's business domains and technologies.
- Return to shareholders:
Canon returns profits to shareholders stably and aggressively, mainly in the form of a dividend, taking into consideration medium- to long-term business prospects, planned future investments, cash flow and other factors.
- Repayment of borrowings:
Canon has been repaying borrowings steadily to have sufficient financial strength, following investment for growth and return to shareholders.

Cash and cash equivalents decreased by ¥39,294 million to ¥362,101 million in fiscal 2022 compared to the previous year. Canon's cash and cash equivalents are primarily denominated in Japanese yen and in U.S. dollars, with the remainder denominated in other currencies.

Net cash provided by operating activities decreased by ¥188,425 million to ¥262,603 million in fiscal 2022 compared to the previous year as a result of higher inventory levels of key devices and main products, and an increase in required working capital. The major component of Canon's cash inflow is cash received from customers, and the major components of Canon's cash outflow are payments for parts and materials, selling, general and administrative expenses, R&D expenses and income taxes.

For fiscal 2022, cash inflow from cash received from

customers decreased due to increase of trade receivable by sales improvement. There were no significant changes in Canon's collection rates. Cash outflow for payments for parts and materials increased due to an increase of inventory, especially key devices and main products, compared with the inventory in fiscal 2021. Cash outflow for payments for income taxes increased due to an increase in taxable income.

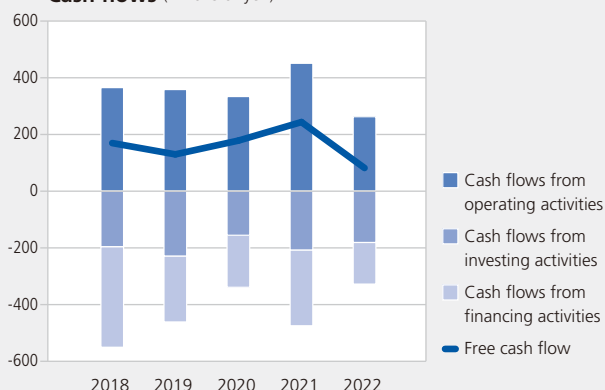
Net cash used in investing activities decreased by ¥26,436 million to ¥180,820 million in fiscal 2022 mainly due to a decrease in acquisitions of business and the increased sales of fixed assets resulting from optimization of branch office capacity at overseas sales subsidiaries, while capital investment to improve efficiency and productivity remained consistent and purchases of securities increased. Purchases of fixed assets increased by ¥11,177 million to ¥188,527 million in fiscal 2022 and purchases of securities increased by ¥19,396 million to ¥21,558 million in fiscal 2022.

Canon defines "free cash flow" as cash flows from operating activities less cash flows from investing activities. For fiscal 2022, free cash flow decreased by ¥161,989 million to ¥81,783 million as compared with ¥243,772 million for fiscal 2021.

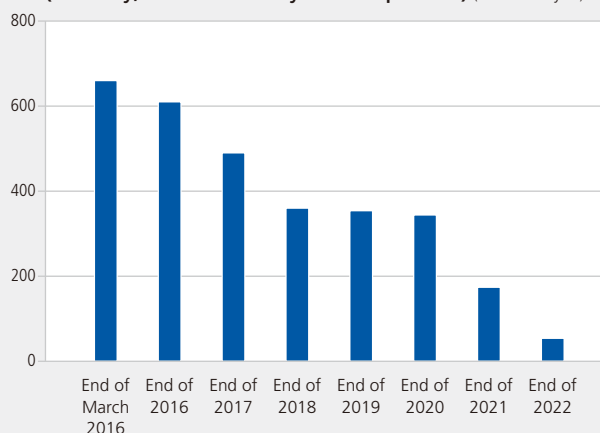
Note: "Free cash flow" is a non-GAAP measure. Refer to the "Non-GAAP Financial Measures" section for the explanation and the reconciliation to the reported GAAP measure.

Canon's management places importance on cash flow management and frequently monitors this indicator. Furthermore, Canon's management believes that this indicator is significant in understanding Canon's current liquidity and the alternatives of use in financing activities because it takes into consideration its operating and investing activities and believes that such indicator is beneficial to investors. Canon refers to this indicator together with relevant U.S. GAAP financial measures shown in its consolidated statements of cash flows and consolidated balance sheets for cash availability analysis.

Cash flows (Billions of yen)



Outstanding balances of loans for the acquisition of Toshiba Medical Systems Corporation (Currently, Canon Medical Systems Corporation) (Billions of yen)



Net cash used in financing activities totaled ¥146,844 million in fiscal 2022, mainly due to a decrease of long-term loans by ¥120,000 million as a result of the repayment of loans which was provided for the acquisition of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation) and the dividend payout of ¥119,326 million. The Company paid dividends in fiscal 2022 of ¥115.00 per share.

To the extent Canon relies on external funding for its liquidity and capital requirements, it generally has access to various funding sources, including the issuance of additional share capital, issuance of corporate bond or loans. While Canon has been able to obtain funding from its traditional financing sources and from the capital markets, and believes it will continue to be able to do so in the future, there can be no assurance that adverse economic or other conditions will not affect Canon's liquidity or long-term funding in the future.

Canon's long-term debt mainly consists of bank borrowings and finance lease obligations.

In order to facilitate access to global capital markets, Canon obtains a credit rating from S&P Global Ratings ("S&P"). In addition, Canon maintains a rating from Rating and Investment Information, Inc. ("R&I"), a rating agency in Japan, for access to the Japanese capital market.

As of February 28, 2023, Canon's debt ratings are: S&P: A (long-term), A-1 (short-term); and R&I: AA (long-term). Canon does not have any rating downgrade triggers that would

accelerate the maturity of a material amount of its debt. A downgrade in Canon's credit ratings or outlook could, however, increase the cost of its borrowings.

As part of its ongoing business, Canon does not participate in transactions that create relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Canon provides guarantees for its employees, affiliates and other companies. The guarantees for the employees are principally made for their housing loans. The guarantees for affiliates and other companies are made for their lease obligations and bank loans to ensure that those companies operate with less financial risk.

Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are 1 year to 12 years in case of employees with housing loans, and 1 year to 6 years in case of affiliates and other companies with lease obligations and bank loans. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥1,535 million at December 31, 2022. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2022 were not significant.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes Canon's contractual obligations at December 31, 2022.

Millions of yen	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations:					
Long-term debt:					
Loan from the banks	54,000	54,000	—	—	—
Other debt	3,589	1,172	1,414	756	247
Operating lease obligations	123,609	35,535	46,776	23,349	17,949
Purchase commitments for:					
Property, plant and equipment	101,351	101,351	—	—	—
Parts and raw materials	287,591	287,591	—	—	—
Other long-term liabilities:					
Contribution to defined benefit pension plans	34,658	34,658	—	—	—
Total	604,798	514,307	48,190	24,105	18,196

Note: See Note 9, 11, 19 and 20 in the Notes to Consolidated Financial Statements for further details. The table does not include provisions for uncertain tax positions and related accrued interest and penalties, as the specific timing of future payments related to these obligations cannot be projected with reasonable certainty. See Note 12, Income Taxes in the Notes to Consolidated Financial Statements for further details.

Canon provides warranties of generally less than one year against defects in materials and workmanship on most of its consumer products. Estimated product warranty related costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses. Estimates for accrued product warranty costs are primarily

based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure. As of December 31, 2022 accrued product warranty costs are included in accrued expenses and amounted to ¥20,887 million.

Canon's management believes that current financial resources, cash generated from operations and Canon's potential capacity for additional debt and/or equity financing will be sufficient to fund current and future capital requirements.

Canon's management policy in recent periods to optimize inventory levels is intended to maintain an appropriate balance among relevant imperatives, including minimizing working capital requirement, avoiding undue exposure to the risk of inventory obsolescence, and maintaining the ability to sustain sales despite the occurrence of unexpected disasters.

Canon's total inventory turnover measured in days were 69, 66, and 60 days at the end of the fiscal years 2022, 2021, and 2020, respectively. The inventory turnover in 2022 increased due to an increase in inventories of products in process at plants and in transit to dealers, in order to focus on securing electronic parts, raw materials and important parts amid a shortage of semiconductor components and international logistics disruption.

Canon is committed to cash flow management in order to strengthen its financial base. While actively investing to expand its business performance, Canon is also ensuring stable free cash flow by keeping total capital investments within the range of depreciation and amortization.

Increase in property, plant and equipment on an accrual basis in 2022 amounted to ¥156,593 million compared with ¥151,914 million in 2021 and ¥132,302 million in 2020. For 2023, Canon projects its increase in property, plant and equipment will be approximately ¥210,000 million.

Employer contributions to Canon's worldwide defined benefit pension plans were ¥31,705 million in 2022, ¥43,782 million in 2021 and ¥26,965 million in 2020. Employer contributions to Canon's worldwide defined contribution pension plans were ¥24,346 million in 2022, ¥22,660 million in 2021, and ¥16,334 million in 2020. In addition, employer contributions

to the multiemployer pension plan of certain subsidiaries were ¥4,720 million in 2022, ¥4,822 million in 2021 and ¥4,224 million in 2020.

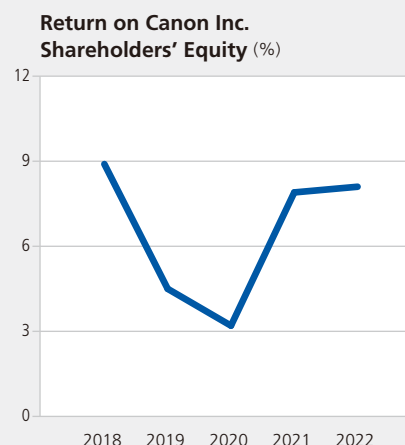
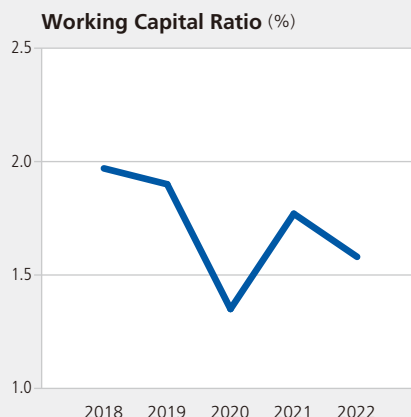
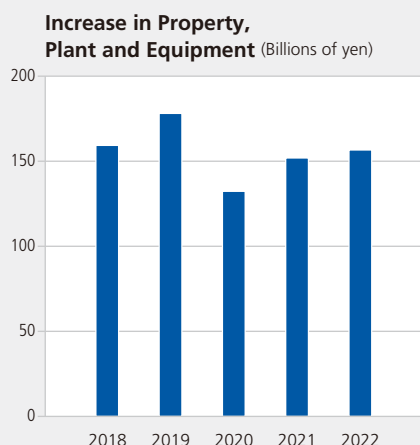
Working capital in 2022 decreased by ¥26,951 million to ¥790,561 million, compared with ¥817,512 million in 2021 and ¥462,954 million in 2020. The decrease was primarily due to an increase in short-term loans (including the current portion of long-term debt). Canon believes its working capital will be sufficient for its requirements for the foreseeable future. Canon's capital requirements are primarily dependent on management's business plans regarding the levels and timing of purchases of fixed assets and investments. The working capital ratio (ratio of current assets to current liabilities) for 2022 was 1.58 compared to 1.77 for 2021 and to 1.35 for 2020.

Return on assets (net income attributable to Canon Inc. divided by the average of total assets) was 5.0% in 2022, compared to 4.6% in 2021 and 1.8% in 2020. It improved from the previous fiscal year due to an increase in net income as a result of improved business performance.

Return on Canon Inc. shareholders' equity (net income attributable to Canon Inc. divided by the average of total Canon Inc. shareholders' equity) was 8.1% in 2022 compared with 7.9% in 2021 and 3.2% in 2020. It improved from the previous fiscal year due to a significant increase in net income, although shareholders' equity increased due to an increase in retained earnings resulting from an increase in profit and an increase in foreign currency translation adjustments resulting from the depreciation of the yen.

In Phase VI, one of Canon's management policies is to thoroughly implement cash flow management, and Canon is restrengthening its financial base.

In fiscal 2022, loans decreased by ¥120,000 million due to the repayment of loans which was provided for the



acquisition of Toshiba Medical Systems Corporation (currently, Canon Medical Systems Corporation). On the other hand, short-term loans were increased in response to the increase in required working capital. As a result, **the debt to total assets ratios** were 8.2%, 6.8% and 10.9% as of December 31, 2022, 2021 and 2020, respectively. Canon had short-term loans, current operating lease liabilities, long-term debt, and noncurrent operating lease liabilities of ¥417,413 million, ¥320,971 million, ¥506,172 million as of December 31, 2022, 2021, and 2020, respectively.

Canon Inc. shareholders' equity to total assets ratios were 61.1%, 60.5% and 55.7% as of December 31, 2022, 2021 and 2020, respectively. Canon maintains strong financial base by increase in shareholders' equity through an increase in retained earnings resulting from net income attributable to

Canon, and an increase in accumulated other comprehensive income due to the depreciation of the yen.

Non-GAAP Financial Measures

Canon has reported its financial results in accordance with U.S. GAAP. In addition, Canon has discussed its results using the combination of two GAAP cash flow measures, Net cash provided by operating activities and Net cash used for investing activities, which Canon refers to as "Free Cash Flow" which is a non-GAAP measure. Canon believes this measure is beneficial to an investor's understanding of its current liquidity and the alternatives of uses of financing activities because it takes into consideration its operating and investing activities.

A reconciliation of this non-GAAP financial measure and the most directly comparable measure calculated and presented in accordance with GAAP is set forth on the following table.

FREE CASH FLOW

	Millions of yen	
	2022	2021
Net cash provided by operating activities	262,603	451,028
Net cash used in investing activities	(180,820)	(207,256)
Free cash flow	81,783	243,772

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Since its founding, Canon has diversified its business and increased its competitiveness by developing and diversifying core competence management that comprises various core competence technologies ("core technologies") to create industry-leading core products, fundamental technologies that form the basis of technology accumulation and basic technologies for value which are technology and expertise that support the Canon brand accumulated during the Company's growth and the basis of commercialization technology.

Canon's key R&D strategies are as follows:

- Reinforce fundamental technologies and value creation technologies
- Create future businesses based on strong core technologies and fundamental technologies
- Enhance innovation-type R&D in response to the demands of the current age

Canon strives to implement the above R&D strategies as follows:

- ***Reinforce fundamental technologies and value creation technologies:***

Contribute to higher efficiency of existing businesses by further evolving value creation technologies. Alongside this, extract the essence of a wide range of core technologies possessed by existing businesses, deepen fundamental technologies and inject them into core technologies of new businesses. In doing so, Canon will further strengthen the competitiveness of existing businesses and growing new businesses.

- ***Create future businesses based on strong core technologies and fundamental technologies:***

Promote development of new business areas through technology diversification. For example, Canon will develop devices that utilize materials technology –the foundation of ink and toner materials– as well as materials with unique properties, and work on development of next-generation technologies that lead to business creation.

• **Enhance innovation-type R&D in response to the demands of the current age:**

Build upon trends such as DX and carbon neutrality, promote R&D that leads to corporate value improvement. In particular, focus on cyber-physical systems that closely integrate cyberspace, which enables the combination of various services, with physical (real world) space, the point of contact with people. Create various innovations by developing cyber-physical business models and products that stay one step ahead through developing advanced cyber technology with utilizing world-class core technologies in the physical field and business alliances.

R&D expenses were ¥306,730 million in fiscal 2022 and ¥287,338 million in fiscal 2021. The R&D expenses to net sales ratios were 7.6% in fiscal 2022 and 8.2% in fiscal 2021.

Canon believes that new products protected by a robust patent portfolio will not easily allow competitors to surpass them, and will give the Company an advantage in establishing standards in the market and industry.

Canon obtained the fifth greatest number of patents in the United States in 2022, according to the annual ranking list, released by IFI CLAIMS® Patent Services.

MARKET RISK EXPOSURES

Canon is exposed to market risks, including changes in foreign currency exchange rates, interest rates and prices of marketable securities and investments. In order to hedge the risk of changes in foreign currency exchange rates, Canon uses derivative financial instruments.

Equity price risk

Canon holds marketable securities included in current assets, which consist generally of highly-liquid and low-risk instruments. Investments included in noncurrent assets are held as long-term investments. Canon does not hold marketable securities and investments for trading purposes.

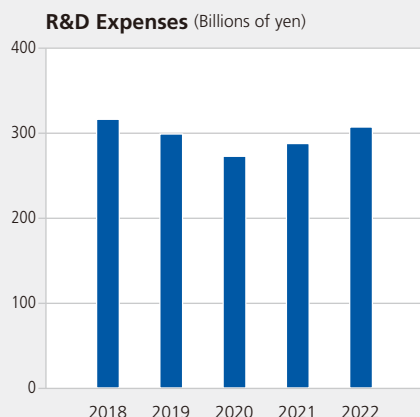
Maturities and fair values of such marketable securities and investments with original maturities of more than three months were as follows at December 31, 2022.

	Millions of yen
	Fair value
Fund trusts and others	638
Equity securities	21,770
	22,408

Foreign currency exchange rate and interest rate risk

Canon operates internationally, exposing it to the risk of changes in foreign currency exchange rates. Derivative financial instruments are comprised principally of foreign currency exchange contracts utilized by the Company and certain of its subsidiaries to reduce the risk. Canon assesses foreign currency exchange rate risk by continually monitoring changes in the exposures and by evaluating hedging opportunities. Canon does not hold or issue derivative financial instruments for trading purposes. Canon is also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations. Most of the counterparties are internationally recognized financial institutions and selected by Canon taking into account their financial condition, and contracts are diversified across a number of major financial institutions.

Canon's international operations expose Canon to the risk of changes in foreign currency exchange rates. Canon uses foreign exchange contracts to manage certain foreign currency exchange exposures principally from the exchange of U.S. dollars and euros into Japanese yen. These contracts are primarily used to hedge the foreign currency exposure of forecasted intercompany sales and intercompany trade receivables which are denominated in foreign currencies. In accordance with Canon's policy, a specific portion of foreign currency exposure resulting from forecasted intercompany sales are hedged using foreign exchange contracts which principally mature within three months.



The following table provides information about Canon's major derivative financial instruments related to foreign currency exchange transactions existing as of December 31,

2022. All of the foreign exchange contracts described in the following table have a contractual maturity date in 2023.

Millions of yen	U.S.\$	Euro	Others	Total
Forwards to sell foreign currencies:				
Contract amounts	57,098	74,266	17,716	149,080
Estimated fair value	754	856	483	2,093
Forwards to buy foreign currencies:				
Contract amounts	17,155	1,070	7,999	26,224
Estimated fair value	(315)	(9)	(316)	(640)

Canon expects that fair value changes and cash flows resulting from reasonable near-term changes in interest rates will be immaterial. Accordingly, Canon believes interest rate risk is insignificant. See also Note 9 of the Notes to Consolidated Financial Statements.

Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings in the same period as the hedged items affect earnings. All amounts recorded in accumulated other comprehensive income (loss) as of December 31, 2022 are expected to be recognized in net sales over the next twelve months. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings.

Canon has entered into certain foreign currency exchange contracts to manage its foreign currency exposures. These foreign currency exchange contracts have not been designated as hedges. Accordingly, the changes in fair values of these contracts are recorded in earnings immediately.

LOOKING FORWARD

Under the corporate philosophy of *kyosei*—living and working together for the common good—Canon's basic management policy is to contribute to the prosperity and well-being of the world while endeavoring to become a truly excellent global corporation targeting continued growth and development.

Based on this basic management policy, Canon launched the Excellent Global Corporation Plan in 1996 and, from Phase I to Phase V, has worked to strengthen its management base and improve corporate value. Under Phase V of the "Excellent Global Corporation Plan," which covered the years from 2016 to 2020, the four new businesses to serve as Canon's new growth drivers, namely, Commercial Printing, Network Cameras, Medical, and Industrial Equipment fully emerged and the basic framework for promoting transformation of the business portfolio was completed. Then in 2021, the initial

year of Phase VI of the Excellent Global Corporation Plan, Canon sought to further facilitate the transformation of its business portfolio by reorganizing its product-oriented business divisions into industry-oriented business groups, thereby establishing a framework for enhancing business competitiveness and creating new drivers of growth.

In 2021 and 2022, the business environment remained challenging due to the spread of COVID-19, supply chain disruptions caused by the tight supply of components and pressures on distribution, the conflict between Russia and Ukraine, lockdowns in Shanghai, and accelerating inflation worldwide. However, by harnessing the efforts of the entire Canon Group, including procurement and logistics operations, and backed by strong product competitiveness in each of its businesses, Canon achieved sales and profit growth for the second consecutive year.

Although it is likely that Canon will continue to operate under a volatile economic environment this year as well, Canon will seek to achieve greater performance while leveraging the collective strength of its development, procurement, production, and sales. In so doing, Canon will accordingly focus on the following measures under the basic policy of Phase VI of striving to "accelerate its corporate portfolio transformation by improving productivity and creating new businesses."

1. Further strengthen competitiveness of industry-oriented business groups

Canon will strengthen and expand its four industry-oriented business groups to promote business portfolio transformation.

(1) Printing Group

Even though companies have been shifting to paperless documents due to a greater dispersion of workplaces caused by the COVID-19 pandemic, as well as due to advances in digital transformation (DX), Canon is likely to see solid demand for printing devices given that paper remains an instrumental means of work-related conceptualization and information sharing.

In order to support hybrid work styles that combine office- and tele-work, there is a need to provide a print environment that is free from restrictions on where to work by utilizing the cloud. Leveraging the advantage of having two digital printing technologies, namely electrophotography and inkjet, the Canon Group will offer new solutions for the DX era in both office and home printing.

Furthermore, in the field of digital commercial printing of catalogs, posters and other material, which is poised for growth amid a shift from analog to digital, Canon is expanding sales of printing presses, recognized for their image quality and productivity, which have been further enhanced by incorporating feedback from printing companies, its customers. Furthermore, in the field of industrial printing, which includes labels and packaging, Canon plans to fully enter the market by developing new products while taking advantage of the wealth of technology, knowledge and customer relationships held by Edale Limited, a UK-based company that Canon acquired in 2022.

(2) Imaging Group

Although the overall market for digital cameras has shrunk significantly due to widespread use of smartphones, Canon expects demand to remain solid as current users of interchangeable-lens cameras are mainly professionals and enthusiasts who seek high-quality images. To address the needs of these users, Canon will continuously introduce cameras, from entry-class to professional level models that offer enhanced features as well as interchangeable lenses. In doing so, Canon, as a leading camera company, seeks to stimulate the market. Canon is currently expanding its lineup of mirrorless cameras with its sights set on establishing its position as No. 1 in that field.

In the network camera field, where surveillance applications are likely to keep driving growth due to escalating needs for safety and security, Canon also anticipates substantial growth accompanying an expanding range of applications for such cameras in areas other than surveillance. For instance, this is likely to include applications with respect to facilitating in-store marketing, implementing production control at manufacturing sites, and helping people avoid crowds and contact in places where individuals gather. Canon seeks to achieve market-exceeding growth by offering an abundant lineup of camera bodies and solutions with providing total services encompassing everything from video input to video management and analytics, cooperating with Canon Group companies such as Axis, Milestone Systems, BriefCam, and Arcules.

Canon will take steps to create new businesses by coming up with applications for optical-related technologies involving lenses, sensors, and image processing, cultivated by the Company thus far.

(3) Medical Group

Canon aims to contribute to medical treatment worldwide not only through diagnostic imaging systems, but also by broadening its business sphere, to include healthcare IT and in-vitro diagnostics.

Canon is Japan's leading manufacturer of diagnostic imaging systems and accordingly deem it necessary to establish a similar presence overseas in order to achieve growth going forward. First, to become the No. 1 company worldwide in CT systems, Canon aims to achieve early commercialization of the next-generation of CT scanners that utilize photon-counting technology. To such ends, Canon developed an X-ray CT system equipped with a photon-counting detector that uses the technology of Canada-based Redlen Technologies, which Canon acquired two years ago. Having installed it at the National Cancer Center of Japan, Canon is accelerating the development of this system. Furthermore, with the aim of achieving a market share of over 10% in the United States, which is highly influential market worldwide, Canon established a new company in January 2023 in the suburbs of Cleveland to focus on marketing. As such, Canon will work to achieve substantial growth in part by increasing its presence as Canon engages in joint research with U.S. medical institutions and promotes stronger relationships with medical practitioners who serve as key opinion leaders. Moreover, to achieve high growth, Canon will spread the benefits to markets not only in the United States, but also to markets worldwide.

In the healthcare IT field, Canon supports the provision of high-quality diagnoses and efficient medical treatment by making it possible to integrate, process, and analyze data collected in clinical settings. Furthermore, in the in-vitro diagnostics field, Canon will expand its business domain to include testing reagents and other areas around testing equipment.

(4) Industrial Group

As applications for semiconductors and displays continue to expand, prompted by innovation particularly with respect to AI, IoT, 5G, and other technologies, Canon anticipates continuing market growth and subsequently expect demand for manufacturing equipment to rise. As for semiconductor lithography equipment, with its sights set on addressing growing demand, Canon aims to increase its market share by further enhancing product competitiveness and bolstering production capacity. Unlike conventional lithography technology that uses light to expose circuit patterns, the nanoimprint lithography manufacturing equipment being developed by Canon enlists a simple process of stamping a circuit pattern from a mold imprinted with such patterns. Nanoimprint lithography

enables semiconductor manufacturers to reduce costs significantly because it eliminates the necessity of complex processes for etching minute circuit patterns. It also helps to reduce impact on the global environment as it consumes significantly less power given that it does not require powerful lasers and it does not need large vacuum systems or cooling systems.

In the panel market, IT panels used in PCs and tablets are likely to drive growth going forward. As such, Canon will continue to provide FPD lithography equipment and OLED display manufacturing equipment that help panel manufacturers, its customers, boost productivity.

Furthermore, Canon aims to expand the industrial business domain by developing new equipment that integrates core technologies of the group in the areas of ultra-precision positioning, ultra-precision processing and vacuum systems.

2. Rebuild the global production system

Canon has been expanding its manufacturing facilities throughout Asia since the 1970s, but is now reviewing and reorganizing such production sites against the backdrop of supply chain interruptions and geopolitical risks. In its return to domestic production, which has been promoted up until now, Canon has taken a two-pronged approach of shifting to automation and in-house production, effectively achieving thorough cost reduction by integrating design, production technology, and manufacturing sites, thereby gaining competitive edge with respect to costs that is unmatched by overseas production.

3. Strengthen product development based on proprietary technologies

Whereas Canon has been turning to M&A initiatives as a means of developing new businesses in recent years, Canon seeks to create new businesses going forward by further reinforcing product development centered on proprietary technologies. Under its framework of business groups largely reorganized by industry, Canon has been working on developing new products and solutions by combining respective technologies in a manner that gives rise to a sort of chemical reaction. In addition, the Frontier Business Promotion Headquarters has been bringing together Canon's technologies from across the Canon Group with the aim to create new businesses in the fields of life science, materials, and solutions.

In order to achieve these goals, it is important to develop the technology experts who are responsible for product development, and Canon will promote this through a system to certify world-class engineers as "Top Scientists" who lead the development of cutting-edge technologies, and a system to train software engineers by reskilling employees.

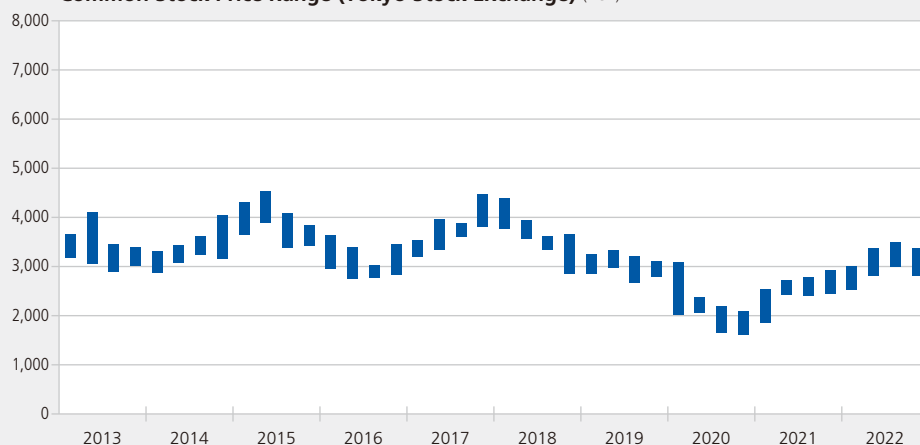
Forward looking statements

The foregoing discussion and other disclosure in this report contains forward-looking statements that reflect management's current views with respect to certain future events and financial performance. Actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events that may not prove to be accurate. The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements: foreign currency exchange rate fluctuations; the uncertainty of Canon's ability to implement its plans to localize production and other measures to reduce the impact of foreign currency exchange rate fluctuations; uncertainty as to economic conditions in Canon's major markets; uncertainty of continued demand for Canon's high-value-added products; Canon's ability to continue to develop products and to market products that incorporate new technology on a timely basis, are competitively priced, and achieve market acceptance; the possibility of losses resulting from foreign currency transactions designed to reduce financial risks from changes in foreign currency exchange rates; and inventory risk due to shifts in market demand; further resurgences of COVID-19 or emergence of other types of infectious disease; uncertainty in the global economic environment, including supply chain disruptions and rising inflation; and geopolitical events such as the unfolding situation in Ukraine. A detailed description of these and other risk factors is included in our annual report on Form 20-F, which is on file with the United States Securities and Exchange Commission.

TEN-YEAR FINANCIAL SUMMARY

	Millions of yen (except per share amounts)			
	2022	2021	2020	2019
Net sales:				
Domestic	864,808	830,378	806,305	872,534
Overseas	3,166,606	2,682,979	2,353,938	2,720,765
Total	4,031,414	3,513,357	3,160,243	3,593,299
Percentage of previous year	114.7%	111.2%	87.9%	90.9%
Net income attributable to Canon Inc.	243,961	214,718	83,318	124,964
Percentage of sales	6.1%	6.1%	2.6%	3.5%
Advertising	45,986	36,812	31,273	46,665
Research and development expenses	306,730	287,338	272,312	298,503
Depreciation and amortization	226,492	221,246	227,825	237,327
Capital expenditure	183,291	179,000	161,727	211,228
Long-term debt, excluding current installments	2,417	179,750	4,834	357,340
Canon Inc. shareholders' equity	3,113,105	2,873,773	2,575,031	2,685,496
Total assets	5,095,530	4,750,888	4,625,614	4,771,918
Per share data:				
Net income attributable to Canon Inc. shareholders per share:				
Basic	236.71	205.35	79.37	116.79
Diluted	236.63	205.29	79.35	116.77
Dividend per share	120.00	100.00	80.00	160.00
Stock price:				
High	3,516	2,938	3,099	3,338
Low	2,539	1,876	1,627	2,688
Average number of common shares in thousands	1,030,644	1,045,633	1,049,802	1,069,957
Number of employees	180,775	184,034	181,897	187,041

Common Stock Price Range (Tokyo Stock Exchange) (Yen)



Thousands of U.S. dollars
(except per share amounts)

2018	2017	2016	2015	2014	2013	2022
869,577	884,828	706,979	714,280	724,317	715,863	\$ 6,502,316
3,082,360	3,195,187	2,694,508	3,085,991	3,002,935	3,015,517	23,809,067
3,951,937	4,080,015	3,401,487	3,800,271	3,727,252	3,731,380	30,311,383
96.9%	119.9%	89.5%	102.0%	99.9%	107.2%	114.7%
252,441	242,081	150,334	219,943	254,627	229,829	1,834,293
6.4%	5.9%	4.4%	5.8%	6.8%	6.2%	6.1%
58,729	61,207	58,707	80,907	79,765	86,398	345,759
315,842	333,371	306,537	332,678	311,896	307,500	2,306,241
251,554	261,881	250,096	273,327	263,480	275,173	1,702,947
200,504	181,389	208,379	243,130	224,760	227,478	1,378,128
361,962	493,238	611,289	881	1,148	1,448	\$ 18,173
2,820,644	2,863,986	2,776,327	2,959,929	2,971,963	2,904,212	23,406,805
4,902,955	5,201,626	5,142,279	4,431,720	4,464,854	4,246,796	38,312,256
233.80	223.03	137.66	201.41	228.88	200.21	\$ 1.78
233.78	223.03	137.66	201.40	228.88	200.21	1.78
160.00	160.00	150.00	150.00	150.00	130.00	0.90
4,395	4,472	3,656	4,539	4,045	4,115	26.32
2,877	3,218	2,780	3,402	2,889	2,913	19.40
1,079,753	1,085,439	1,092,071	1,092,018	1,112,510	1,147,934	
195,056	197,776	197,673	189,571	191,889	194,151	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of U.S.\$1 = JPY133, the approximate exchange rate on the Tokyo Foreign Exchange Market as of December 30, 2022.

2. Depreciation and amortization and Capital expenditure are the total of tangible and intangible assets.

CONSOLIDATED BALANCE SHEETS

Canon Inc. and Subsidiaries
December 31, 2022 and 2021

	Millions of yen	
	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 1 and 22)	362,101	401,395
Short-term investments (Notes 2 and 22)	10,905	3,377
Trade receivables (Note 3)	636,803	522,432
Inventories (Note 4)	808,312	650,568
Current lease receivables (Notes 1 and 6)	137,038	121,324
Prepaid expenses and other current assets (Notes 15, 18 and 22)	215,990	193,165
Allowance for credit losses (Notes 3 and 6)	(15,235)	(13,916)
Total current assets	2,155,914	1,878,345
Noncurrent receivables (Note 20)	12,996	16,388
Investments (Notes 2 and 22)	65,128	60,967
Property, plant and equipment, net (Note 5)	1,035,065	1,041,403
Operating lease right-of-use assets (Note 19)	117,843	95,791
Intangible assets, net (Notes 7 and 8)	280,995	301,793
Goodwill (Notes 7 and 8)	972,626	953,850
Noncurrent lease receivables (Notes 1 and 6)	279,332	225,300
Other assets (Notes 11 and 12)	179,297	179,420
Allowance for credit losses (Note 6)	(3,666)	(2,369)
Total assets	5,095,530	4,750,888
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term loans and current portion of long-term debt (Notes 9 and 21)	296,384	44,891
Short-term loans related to financial services	41,200	42,300
Other short-term loans and current portion of long-term debt	255,184	2,591
Trade payables (Note 10)	355,930	338,604
Accrued income taxes (Note 12)	48,414	43,081
Accrued expenses (Notes 11 and 20)	365,847	323,929
Current operating lease liabilities (Note 19)	33,281	30,945
Other current liabilities (Notes 5, 15, 18 and 22)	265,497	279,383
Total current liabilities	1,365,353	1,060,833
Long-term debt, excluding current portion of long-term debt (Notes 9 and 21)	2,417	179,750
Accrued pension and severance cost (Note 11)	189,215	248,467
Noncurrent operating lease liabilities (Note 19)	85,331	65,385
Other noncurrent liabilities (Notes 12 and 15)	104,184	98,024
Total liabilities	1,746,500	1,652,459
Equity:		
Canon Inc. shareholders' equity:		
Common stock		
Authorized 3,000,000,000 shares; issued 1,333,763,464 shares in 2022 and 2021	174,762	174,762
Additional paid-in capital (Note 13)	404,838	403,119
Legal reserve (Note 13)	64,509	68,015
Retained earnings (Note 13)	3,664,735	3,538,037
Accumulated other comprehensive income (loss) (Note 14)	62,623	(151,794)
Treasury stock, at cost; 318,250,096 shares in 2022 and 287,991,705 shares in 2021	(1,258,362)	(1,158,366)
Total Canon Inc. shareholders' equity	3,113,105	2,873,773
Noncontrolling interests	235,925	224,656
Total equity	3,349,030	3,098,429
Total liabilities and equity	5,095,530	4,750,888

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Canon Inc. and Subsidiaries

Years ended December 31, 2022, 2021 and 2020

	Millions of yen		
	2022	2021	2020
Net sales (Notes 6,14,15 and 18)			
Products and Equipment	3,231,837	2,804,680	2,489,829
Services	799,577	708,677	670,414
	4,031,414	3,513,357	3,160,243
Cost of sales (Notes 5, 8, 11 and 19)			
Products and Equipment	1,828,555	1,552,766	1,463,637
Services	375,057	332,799	320,738
	2,203,612	1,885,565	1,784,375
Gross profit	1,827,802	1,627,792	1,375,868
Operating expenses (Notes 1, 5, 8, 11, 14, 16, 19 and 20):			
Selling, general and administrative expenses	1,167,673	1,058,536	993,009
Research and development expenses	306,730	287,338	272,312
	1,474,403	1,345,874	1,265,321
Operating profit	353,399	281,918	110,547
Other income (deductions):			
Interest and dividend income	5,177	2,232	2,923
Interest expense	(1,046)	(647)	(854)
Other, net (Notes 1, 2, 7, 11, 14 and 18)	(5,090)	19,203	17,664
	(959)	20,788	19,733
Income before income taxes	352,440	302,706	130,280
Income taxes (Note 12)	92,356	71,866	34,337
Consolidated net income	260,084	230,840	95,943
Less: Net income attributable to noncontrolling interests	16,123	16,122	12,625
Net income attributable to Canon Inc.	243,961	214,718	83,318
	Yen		
Net income attributable to Canon Inc. shareholders per share (Note 17):			
Basic	236.71	205.35	79.37
Diluted	236.63	205.29	79.35

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Canon Inc. and Subsidiaries

Years ended December 31, 2022, 2021 and 2020

	Millions of yen		
	2022	2021	2020
Consolidated net income	260,084	230,840	95,943
Other comprehensive income (loss), net of tax (Note 14):			
Foreign currency translation adjustments	186,563	120,439	(17,354)
Net unrealized gains and losses on securities	(34)	—	—
Net gains and losses on derivative instruments	449	(972)	970
Pension liability adjustments	29,897	56,508	1,382
	216,875	175,975	(15,002)
Comprehensive income (loss)	476,959	406,815	80,941
Less: Comprehensive income attributable to noncontrolling interests	18,581	19,102	13,961
Comprehensive income (loss) attributable to Canon Inc.	458,378	387,713	66,980

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EQUITY

Canon Inc. and Subsidiaries

Years ended December 31, 2022, 2021 and 2020

	Millions of yen									
	Common stock	Additional paid-in capital	Legal reserve	Other retained earnings	Total retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total Canon Inc. shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2019	174,762	405,017	67,572	3,455,083	3,522,655	(308,442)	(1,108,496)	2,685,496	198,484	2,883,980
Cumulative effects of accounting standard update—adoption of ASU No. 2016-13				(159)	(159)			(159)	—	(159)
Equity transactions with noncontrolling interests and other		(316)				(9)	(15)	(340)	1,091	751
Dividends to Canon Inc. shareholders (120.00 yen per share)				(126,938)	(126,938)			(126,938)		(126,938)
Dividends to noncontrolling interests									(4,526)	(4,526)
Transfers to legal reserve			1,864	(1,864)	—			—		—
Comprehensive income:										
Net income				83,318	83,318			83,318	12,625	95,943
Other comprehensive income (loss), net of tax (Note 14):										
Foreign currency translation adjustments						(17,355)		(17,355)	1	(17,354)
Net unrealized gains and losses on securities										
Net gains and losses on derivative instruments						987		987	(17)	970
Pension liability adjustments						30		30	1,352	1,382
Total comprehensive income (loss)								66,980	13,961	80,941
Repurchases and reissuance of treasury stock		(81)		(69)	(69)		(49,858)	(50,008)		(50,008)
Balance at December 31, 2020	174,762	404,620	69,436	3,409,371	3,478,807	(324,789)	(1,158,369)	2,575,031	209,010	2,784,041
Equity transactions with noncontrolling interests and other		(62)						(62)	1,725	1,663
Dividends to Canon Inc. shareholders (85.00 yen per share)				(88,891)	(88,891)			(88,891)		(88,891)
Dividends to noncontrolling interests									(5,181)	(5,181)
Transfers to legal reserve		(1,429)	(1,421)	2,850	1,429			—		—
Comprehensive income:										
Net income				214,718	214,718			214,718	16,122	230,840
Other comprehensive income (loss), net of tax (Note 14):										
Foreign currency translation adjustments						119,165		119,165	1,274	120,439
Net unrealized gains and losses on securities										
Net gains and losses on derivative instruments						(994)		(994)	22	(972)
Pension liability adjustments						54,824		54,824	1,684	56,508
Total comprehensive income (loss)								387,713	19,102	406,815
Repurchases and reissuance of treasury stock		(10)		(11)	(11)		3	(18)		(18)
Balance at December 31, 2021	174,762	403,119	68,015	3,538,037	3,606,052	(151,794)	(1,158,366)	2,873,773	224,656	3,098,429
Equity transactions with noncontrolling interests and other		298	(4,538)	4,536	(2)			296	(1,151)	(855)
Dividends to Canon Inc. shareholders (115.00 yen per share)				(119,326)	(119,326)			(119,326)		(119,326)
Dividends to noncontrolling interests									(6,161)	(6,161)
Transfers to legal reserve		1,432	1,032	(2,464)	(1,432)			—		—
Comprehensive income:										
Net income				243,961	243,961			243,961	16,123	260,084
Other comprehensive income (loss), net of tax (Note 14):										
Foreign currency translation adjustments						185,768		185,768	795	186,563
Net unrealized gains and losses on securities						(34)		(34)		(34)
Net gains and losses on derivative instruments						466		466	(17)	449
Pension liability adjustments						28,217		28,217	1,680	29,897
Total comprehensive income (loss)								458,378	18,581	476,959
Repurchases and reissuance of treasury stock		(11)		(9)	(9)		(99,996)	(100,016)		(100,016)
Balance at December 31, 2022	174,762	404,838	64,509	3,664,735	3,729,244	62,623	(1,258,362)	3,113,105	235,925	3,349,030

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Canon Inc. and Subsidiaries

Years ended December 31, 2022, 2021 and 2020

	Millions of yen		
	2022	2021	2020
Cash flows from operating activities:			
Consolidated net income	260,084	230,840	95,943
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Depreciation and amortization	226,492	221,246	227,825
(Gain) loss on disposal of fixed assets	(6,458)	7,745	4,326
Deferred income taxes	(7,800)	(9,826)	(15,542)
(Increase) decrease in trade receivables	(78,203)	44,678	15,120
(Increase) decrease in inventories	(108,510)	(61,017)	16,075
(Increase) decrease in lease receivables (Notes 1 and 6)	(30,379)	(1,075)	10,230
Increase (decrease) in trade payables	3,293	52,138	(4,636)
Increase in accrued income taxes	3,472	24,017	43
Increase (decrease) in accrued expenses	23,407	(8,673)	(16,413)
Decrease in accrued pension and severance cost	(42,580)	(41,477)	(16,601)
Other, net	19,785	(7,568)	17,435
Net cash provided by operating activities	262,603	451,028	333,805
Cash flows from investing activities:			
Purchases of fixed assets (Note 5)	(188,527)	(177,350)	(164,719)
Proceeds from sale of fixed assets (Note 5)	14,733	3,796	7,815
Purchases of held-to-maturity securities	—	(2,216)	—
Proceeds from maturity of held to maturity securities	2,151	—	—
Purchases of securities	(21,558)	(2,162)	(592)
Proceeds from sale and maturity of securities	7,680	1,714	558
Acquisitions of businesses, net of cash acquired (Note 7)	(5,890)	(31,751)	(127)
Other, net	10,591	713	1,626
Net cash used in investing activities	(180,820)	(207,256)	(155,439)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt (Note 9)	300	175,100	2,100
Repayments of long-term debt (Note 9)	(122,067)	(347,029)	(11,095)
(Decrease) increase in short-term loans related to financial services, net (Note 9)	(1,100)	(2,700)	5,100
Increase (decrease) in other short-term loans, net (Note 9)	197,826	(175)	542
Transaction with noncontrolling interests	3,700	1,527	1,376
Dividends paid	(119,326)	(88,891)	(126,938)
Repurchases and reissuance of treasury stock, net	(100,016)	(17)	(50,008)
Other, net	(6,161)	(5,181)	(4,526)
Net cash used in financing activities	(146,844)	(267,366)	(183,449)
Effect of exchange rate changes on cash and cash equivalents	25,767	17,305	(47)
Net change in cash and cash equivalents	(39,294)	(6,289)	(5,130)
Cash and cash equivalents at beginning of year	401,395	407,684	412,814
Cash and cash equivalents at end of year	362,101	401,395	407,684
Supplemental disclosure for cash flow information:			
Cash paid during the year for:			
Interest	994	599	1,028
Income taxes	102,579	71,573	45,471

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canon Inc. and Subsidiaries

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

Canon Inc. (the "Company") and its subsidiaries (collectively "Canon") is one of the world's leading manufacturers of office multi-function devices ("MFDs"), laser printers, ink-jet printers, cameras, medical equipment and lithography equipment. Canon reports in four reportable segments: the Printing Business Unit, the Imaging Business Unit, the Medical Business Unit and the Industrial Business Unit with Others and Corporate. Products of the Printing Business Unit consist mainly of office MFDs, document solutions, laser multifunction printers ("MFPs"), laser printers, inkjet printers, image scanners, calculators, digital continuous feed presses, digital sheet-fed presses and large format printers. Products of the Imaging Business Unit consist mainly of interchangeable-lens digital cameras, interchangeable lenses, digital compact cameras, compact photo printers, MR systems, network cameras, video management software, video content analytics software, digital camcorders, digital cinema cameras, broadcast equipment and projectors. Products of the Medical Business Unit consist mainly of computed tomography ("CT") systems, diagnostic ultrasound systems, diagnostic X-ray systems, magnetic resonance imaging ("MRI") systems, clinical chemistry analyzers, digital radiography systems and ophthalmic equipment. Products of the Industrial Business Unit consist mainly of semiconductor lithography equipment, Flat Panel Display ("FPD") lithography equipment, Organic Light-Emitting Diode ("OLED") display manufacturing equipment, vacuum thin-film deposition equipment and die bonders. Others consist mainly of handy terminals and document scanners. Sales are made principally under the Canon brand name, almost entirely through sales subsidiaries. These subsidiaries are responsible for marketing and distribution, and primarily sell to retail dealers in their geographic areas. Further segment information is described in Note 23.

Canon sells laser printers on an OEM basis to HP Inc.; such sales constituted 12.0%, 11.6% and 11.4% of consolidated net sales for the years ended December 31, 2022, 2021 and 2020, respectively, and are included in the Printing Business Unit.

Canon's manufacturing operations are conducted primarily at 29 plants in Japan and 13 overseas plants which are located in countries and regions such as the United States, Germany, France, the Netherlands, Taiwan, China, Malaysia, Thailand, Vietnam and Philippines.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan. Foreign subsidiaries maintain their books of account in conformity with financial accounting standards of the countries of their domicile.

Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements

to conform with U.S. generally accepted accounting principles ("U.S. GAAP"). These adjustments were not recorded in the statutory books of account.

Canon has changed the presentation of "Current lease receivables" separated from "Prepaid expenses and other current assets" and "Noncurrent lease receivables" separated from "Other assets" in the consolidated balance sheets from 2022. Consolidated balance sheet for the year ended December 31, 2021 has also been reclassified.

Canon has also reclassified certain items in the consolidated statements of cash flows for the year ended December 31, 2021 and 2020 to conform to the current year's presentation.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its majority owned subsidiaries and those variable interest entities where the Company or its consolidated subsidiaries are the primary beneficiaries. All intercompany balances and transactions have been eliminated.

(d) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant estimates and assumptions are reflected in valuation and disclosure of accounts including: revenue recognition, allowance for credit losses, inventories, long-lived assets, leases, goodwill and other intangible assets with indefinite useful lives, environmental liabilities, deferred tax assets, uncertain tax positions, employee retirement and severance benefit obligations and business combinations. Actual results could differ materially from those estimates. In addition, actual results and outcomes of the Company may differ from management's estimates and assumptions due to pandemic, geopolitical risk and economic slowdown including impacts of rising inflation.

(e) Translation of Foreign Currencies

Assets and liabilities of the Company's subsidiaries located outside Japan with functional currencies other than Japanese yen are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from translation of financial statements are excluded from earnings and are reported in other comprehensive income (loss).

Gains and losses resulting from foreign currency transactions and translation of assets and liabilities denominated in foreign currencies are included in other income (deductions) in the consolidated statements of income. Foreign currency

exchange gains and losses were net losses of ¥34,772 million, ¥21,746 million and ¥4,451 million for the years ended December 31, 2022, 2021 and 2020, respectively.

(f) Cash Equivalents

All highly liquid investments acquired with original maturities of three months or less are considered to be cash equivalents. Certain debt securities with original maturities of less than three months, classified as available-for-sale debt securities of ¥627 million and ¥500 million at December 31, 2022 and 2021, respectively, are included in cash and cash equivalents in the consolidated balance sheets.

(g) Investments

Investments consist primarily of time deposits with original maturities of more than three months, debt and equity securities and investments in affiliated companies.

Canon classifies investments in debt securities as held-to-maturity debt securities and available-for-sale securities. Canon does not hold any trading securities which are bought and held primarily for the purpose of sale in the near term. Canon reports investments with maturities of less than one year as short-term investments.

Available-for-sale debt securities and equity securities with readily determinable fair value that are not accounted for under the equity method are recorded at fair value which is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate. The changes in fair value for equity securities are included in other, net in the consolidated statements of income. The changes in fair value for available-for-sale debt securities are included in net unrealized gains and losses on securities in the consolidated statements of comprehensive income.

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

Available-for-sale debt securities are regularly reviewed for other-than-temporary declines in the carrying amount based on criteria that include the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and Canon's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value. For available-for-sale debt securities for which the declines are deemed to be other-than-temporary and there is no intent to sell, the impairment is separated into the amount related to credit loss, which is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income (loss). For available-for-sale debt securities for which the declines are deemed to be other-than-temporary and there is an intent to sell, the impairment in its entirety is recognized in earnings. Canon recognizes an impairment loss to the extent the cost basis of the investment exceeds the fair value of the investment.

Canon measures non-marketable equity securities without

readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer.

Realized gains and losses are determined by the average cost method and reflected in earnings.

Investments in affiliated companies over which Canon has the ability to exercise significant influence, but does not hold a controlling financial interest, are accounted for by the equity method.

(h) Allowance for Credit Losses

Allowance for Credit Losses for trade and lease receivables is maintained for all customers based on ASC 326 "Financial Instruments – Credit Losses," based on historical experiences of credit losses and reasonable and supportable forecasts. An additional reserve for individual accounts is recorded when Canon becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted. When all collection options are exhausted including legal recourse, the accounts or portions thereof are deemed to be uncollectable and charged against the allowance.

(i) Inventories

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

(j) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, and acquired intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset and the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated sum of undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(k) Property, Plant and Equipment, net

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated principally by the declining-balance method, except for certain assets which are depreciated by the straight-line method over the estimated useful lives of the assets.

The depreciation period ranges from 3 years to 60 years for buildings and 1 year to 20 years for machinery and equipment.

Gains and losses from the sale of property, plant and equipment are included in selling, general and administrative expenses in the consolidated statements of income.

(l) Leases

As for lessor accounting, Canon provides leasing arrangements to its customers primarily for the sale of office products. Revenue from the sale of these products under sales-type leases is recognized at the inception of the lease. Interest income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and related revenue is recognized ratably over the lease term. When product leases are bundled with maintenance contracts, revenue is allocated based upon the estimated standalone selling prices of the lease and non-lease components. Lease components generally include product and financing while non-lease components generally consist of maintenance contracts and supplies. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into account to determine the lease term when it is reasonably certain that customers will exercise these options. The majority of Canon's lease contracts do not contain bargain purchase options for their customers. Assets leased to others under operating leases are stated at cost and depreciated to the estimated residual value of the assets by the straight-line method over a period of generally 2 years to 50 years.

As for lessee accounting, Canon has operating and finance leases for various assets including office buildings, warehouses, employees' accommodations, and vehicles. Canon determines if an arrangement is a lease at the inception of each contract. Some of the contracts include options to extend or to terminate the lease. Canon takes such options into account to determine the lease term when it is reasonably certain that it will exercise these options. Canon's lease arrangements do not contain material residual value guarantees or material restrictive covenants. As a rate implicit in the most of Canon's leases cannot be determined, Canon uses incremental borrowing rates based on the information available at commencement to determine the present values of lease payments. Canon has lease contracts with lease and non-lease components, which are accounted for separately. Canon allocates the consideration in the lease contract to the lease and non-lease components based upon the estimated standalone prices. Costs associated with operating lease assets are recognized on a straight-line basis over the term of the lease.

(m) Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. All goodwill is assigned to the reporting unit or units that benefit from the synergies arising from each business combination. If the

carrying amount assigned to the reporting unit exceeds the fair value of the reporting unit, Canon recognizes an impairment charge in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Intangible assets with finite useful lives consist primarily of software, trademarks, patents and developed technology, license fees and customer relationships, which are amortized using the straight-line method. The estimated useful lives of software are from 3 years to 8 years, trademarks are 15 years, patents and developed technology are from 7 years to 21 years, license fees are 8 years, and customer relationships are from 10 years to 15 years. Certain costs incurred in connection with developing or obtaining internal-use software are capitalized. These costs consist primarily of payments made to third parties and the salaries of employees working on such software development. Costs incurred in connection with developing internal-use software are capitalized at the application development stage. In addition, Canon capitalizes the cost which was incurred subsequent to the stage of assuring the technological feasibility of the software, either developed or acquired, for marketing purposes.

(n) Environmental Liabilities

Liabilities for environmental remediation and other environmental costs are accrued when environmental assessments or remedial efforts are probable and the costs can be reasonably estimated, and are included in other noncurrent liabilities in the consolidated balance sheets. Such liabilities are adjusted as further information develops or circumstances change. Costs of future obligations are not discounted to their present values.

(o) Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Canon records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not realizable.

Canon recognizes the financial statement effects of tax positions when it is more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Interest and penalties accrued related to unrecognized tax benefits are included in income taxes in the consolidated statements of income.

(p) Stock-Based Compensation

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

(q) Net Income Attributable to Canon Inc. Shareholders per Share

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

(r) Revenue Recognition

Canon generates revenue mainly through the sale of products of the Printing Business Unit, the Imaging Business Unit, the Medical Business Unit and the Industrial Business Unit, supplies and related services under separate contractual arrangements. Revenue is recognized when, or as, control of promised goods or services transfers to customers in an amount that reflects the consideration to which Canon expects to be entitled in exchange for transferring these goods or services. For further information, please refer to Note 15.

(s) Research and Development Costs

Research and development costs are expensed as incurred.

(t) Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were ¥45,986 million, ¥36,812 million and ¥31,273 million for the years ended December 31, 2022, 2021 and 2020, respectively.

(u) Shipping and Handling Costs

Shipping and handling costs totaled ¥62,126 million, ¥53,347 million and ¥47,721 million for the years ended December 31, 2022, 2021 and 2020, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

(v) Derivative Financial Instruments

All derivatives are recognized at fair value and are included in prepaid expenses and other current assets, or other current liabilities in the consolidated balance sheets.

Canon uses and designates certain derivatives as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge). Canon formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. Canon also formally assesses, both at the hedge's inception and on an ongoing basis, whether

the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Canon discontinues hedge accounting prospectively. Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the hedged item, and reclassified in the same income statement line item in which the earnings effect of the hedged item is reported.

Canon also uses certain derivative financial instruments which are not designated as hedges. The changes in fair values of these derivative financial instruments are immediately recorded in earnings.

Canon classifies cash flows from derivatives as cash flows from operating activities in the consolidated statements of cash flows.

(w) Guarantees

Canon recognizes, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing guarantees.

(x) Recent Accounting Guidance***Recently adopted accounting guidance***

In November 2021, Accounting Standards Update ("ASU") No. 2021-10, "Disclosures by Business Entities about Government Assistance"-ASC 832 ("Government Assistance"), was issued by the Financial Accounting Standards Board ("FASB"). The standard requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. The disclosures shall include; (1) information about natures of the transactions and related accounting policies used to account for the transactions, (2) the line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item, and (3) significant terms and conditions of the transactions, including commitments and contingencies. Canon adopted the standard from the end of the year beginning January 1, 2022. The adoption of this standard did not have a material impact on its disclosure.

Recently issued accounting guidance not yet adopted

In October 2021, ASU No. 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers"-ASC 805 ("Business Combinations"), was issued by FASB. The standard requires us to apply ASC 606 "Revenue from Contracts with Customers" to recognize and measure contract assets and contract liabilities acquired in a business combination. The standard is effective for interim and annual reporting periods beginning after December 15, 2022. Canon is currently evaluating the adoption date and the effect that the adoption of the standard will have on its consolidated

results of operations and financial condition.

In March 2022, ASU No. 2022-02, "Troubled Debt Restructurings and Vintage Disclosures"-ASC 326 ("Credit Losses"), was issued by FASB. The standard requires us to expand disclosures for certain loan re-financings and restructurings, and requires current-period gross write-offs by year of origination for financing receivables and net investments in leases. The standard is effective for interim and annual reporting periods beginning after December 15, 2022. The adoption of this standard is not expected to have a material impact its consolidated results of operation and financial condition.

In September 2022, ASU No. 2022-04, "Disclosure of Supplier Finance Program Obligations"-ASC 405-50 ("Liabilities - Supplier Finance Programs"), was issued by FASB. The standard requires entities that use supplier finance

programs in connection with the purchase of goods and services to disclose the key terms of the programs and information about obligations outstanding at the end of the reporting period, including a rollforward of those obligations. The standard's requirements to disclose the key terms of the programs and information about obligations outstanding are effective for interim and annual reporting periods beginning after December 15, 2022. The standard's requirement to disclose a rollforward of obligations outstanding is effective for annual reporting periods beginning after December 15, 2023. Canon is currently evaluating the effect that the adoption of the standard will have on its disclosure information. Canon does not expect the adoption of the standard will have an effect on its consolidated results of operation and financial condition.

2. INVESTMENTS

There were no held-to-maturity debt securities as of December 31, 2022. Held-to-maturity debt securities included in short-term investments in the accompanying consolidated balance sheet were ¥2,164 million at December 31, 2021.

The cost, gross unrealized holding gains, gross unrealized holding losses and fair value for available-for-sale debt securities included in short-term investments and investments by major security type at December 31, 2022 are as follows:

	Millions of yen			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Corporate bonds	9,277	35	11	9,301
Noncurrent:				
Corporate bonds	4,850	—	65	4,785
	14,127	35	76	14,086

There were no available-for-sale debt securities included in short-term investments and investments at December 31, 2021.

Maturities of available-for-sale debt securities included in short-term investments and investments in the accompanying consolidated balance sheets at December 31, 2022 are as follows:

	Millions of yen
	Fair value
Due within one year	9,301
Due after one year through five years	4,785
Total	14,086

The unrealized and realized gains and losses related to equity securities for the years ended December 31, 2022, 2021 and 2020 are as follows:

Years ended December 31	Millions of yen		
	2022	2021	2020
Net gains (losses) recognized during the period on equity securities	(6,267)	8,958	1,959
Less: Net gains (losses) recognized during the period on equity securities sold during the period	117	467	477
Unrealized gains (losses) recognized during the period on equity securities still held at December 31	(6,384)	8,491	1,482

The carrying amount of non-marketable equity securities without readily determinable fair value totaled ¥6,808 million and ¥6,661 million at December 31, 2022 and 2021, respectively. The impairment or other adjustments resulting from observable price changes recorded during the years ended

December 31, 2022 and 2021 were not significant.

Time deposits with original maturities of more than three months are ¥1,604 million and ¥1,213 million at December 31, 2022 and 2021, respectively, and are included in short-term investments in the accompanying consolidated balance sheets.

Investments in affiliated companies accounted for by the equity method are as follows:

Years ended December 31	Millions of yen, except percentage data		
	2022 Ownership percentage	2022	2021
Canon Korea Inc.	50%	14,073	11,627
Others	—	14,428	10,398
	—	28,501	22,025

The difference between the carrying amount of investment in each affiliate and Canon's share of its net assets is immaterial.

Canon's share of the net earnings in affiliated companies accounted for by the equity method, included in other income

(deductions), were earnings of ¥2,174 million and ¥1,396 million for the year ended December 31, 2022 and 2021, respectively, and losses of ¥994 million for the years ended December 31, 2020.

3. TRADE RECEIVABLES

Trade receivables are summarized as follows:

December 31	Millions of yen	
	2022	2021
Notes	30,535	28,616
Accounts	606,268	493,816
Trade receivables	636,803	522,432
Less allowance for credit losses	(13,305)	(12,494)
	623,498	509,938

4. INVENTORIES

Inventories are summarized as follows:

December 31	Millions of yen	
	2022	2021
Finished goods	486,826	395,381
Work in process	253,026	199,153
Raw materials	68,460	56,034
	808,312	650,568

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and are summarized as follows:

December 31	Millions of yen	
	2022	2021
Land	275,261	276,306
Buildings	1,760,058	1,728,811
Machinery and equipment	1,893,745	1,849,271
Construction in progress	60,914	43,283
Finance lease right-of-use assets	7,315	6,533
Cost	3,997,293	3,904,204
Less accumulated depreciation	(2,962,228)	(2,862,801)
Property, plant and equipment, net	1,035,065	1,041,403

Depreciation expense for the years ended December 31, 2022, 2021 and 2020 was ¥162,841 million, ¥156,333 million and ¥162,733 million, respectively.

Amounts due for purchases of property, plant and equipment were ¥24,745 million and ¥29,562 million at December

31, 2022 and 2021, respectively, and are included in other current liabilities in the accompanying consolidated balance sheets. Fixed assets presented in the consolidated statements of cash flows include property, plant and equipment and intangible assets.

6. LESSOR ACCOUNTING

Lease income is included in products and equipment sales in the accompanying consolidated statements of income. Supplemental income statement information is as follows:

Years ended December 31	Millions of yen		
	2022	2021	2020
Lease income – sales-type and direct financing leases			
Revenue at lease commencement	122,941	84,895	92,133
Interest income on lease receivables	20,919	18,351	18,594
	143,860	103,246	110,727
Lease income – operating leases	34,798	27,122	23,878
Variable lease income	5,606	5,277	5,343
	184,264	135,645	139,948

Lease Receivables

Lease receivables represent financing leases, which consist of sales-type leases and direct financing leases. These receivables typically have terms ranging from 1 year to 8 years. Lease

receivables within one year and more than one year are presented in current lease receivables and noncurrent lease receivables in the accompanying consolidated balance sheets, respectively. The components of the lease receivables are as follows:

December 31	Millions of yen	
	2022	2021
Total minimum lease payments receivable	442,870	366,051
Unguaranteed residual values	13,560	12,192
Executory costs	—	—
Unearned income	(40,060)	(31,619)
	416,370	346,624
Less allowance for credit losses	(5,596)	(3,791)
	410,774	342,833
Less current portion	(135,108)	(119,902)
	275,666	222,931

Allowance for Credit Losses

The activities in the allowance for credit losses are as follows:

Years ended December 31	Millions of yen	
	2022	2021
Balance at beginning of year	3,791	3,068
Write-offs	(3,605)	(2,157)
Provision	3,769	2,331
Translation adjustments and other	1,641	549
Balance at end of year	5,596	3,791

Canon has policies in place to ensure that its products are sold to customers with an appropriate credit history and continuously monitors its customers' credit quality based on information including length of period in arrears, macroeconomic conditions, initiation of legal proceedings against customers and bankruptcy filings. The allowance for credit losses of lease receivables is evaluated collectively based on historical

experiences of credit losses and reasonable and supportable forecasts. An additional reserve for individual accounts is recorded when Canon becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings. Lease receivables which are past due or individually evaluated for impairment at December 31, 2022 and 2021 are not significant.

Equipment leased to customers

The cost of equipment leased to customers under operating leases included in property, plant and equipment, net at December 31, 2022 and 2021 was ¥151,858 million and

¥143,160 million, respectively. Accumulated depreciation on equipment under operating leases at December 31, 2022 and 2021 was ¥93,215 million and ¥87,879 million, respectively.

Maturity Analysis

The following is a schedule by year of the future minimum lease payments to be received under finance leases and non-cancellable operating leases at December 31, 2022.

Year ending December 31:	Millions of yen	
	Financing leases	Operating leases
2023	152,187	13,236
2024	119,567	8,106
2025	85,578	5,305
2026	53,864	2,539
2027	23,266	1,657
Thereafter	8,408	497
	442,870	31,340

Information about transferring lease receivables

Canon has syndication arrangements to sell its entire interests in lease receivables to the third-party financial institutions. The transactions under the arrangements are accounted for as sales in accordance with ASC 860 "Transfers and Servicing." There were no significant transfers of lease receivables for the year ended December 31, 2022 and 2021 while the transfers of lease receivables for the year ended December 31, 2020 were ¥19,185 million. The amount that remained uncollected was ¥13,077 million and ¥23,984 million at December 31, 2022 and

2021, respectively. Cash proceeds from the transactions are included in (Increase) decrease in lease receivables under the cash flow from operating activities in the consolidated statements of cash flows. Canon continues to provide collection and administrative services for the financial institutions. The amount associated with the servicing liability measured at fair value was not significant at December 31, 2022 and 2021. Canon also retains limited recourse obligations which cover credit defaults. The recourse obligations were not significant at December 31, 2022 and 2021.

7. ACQUISITIONS

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

Redlen possesses advanced technologies of radiation detection and imaging solutions of Cadmium Zinc Telluride ("CZT") semiconductor detector modules which play an important role in the development of photon-counting CT systems ("PCCT"). This technology will enable Canon to accelerate the development of competitive PCCT systems, and strengthen its CT systems and the medical systems business. In addition, Canon will provide CZT semiconductor detector modules to medical equipment manufacturers around the world, thus helping to strengthen Canon's medical component business. In this way, Canon will continue to contribute to the advancement of global diagnostic imaging.

The acquisition was accounted for using the acquisition method of accounting. Acquisition-related costs were

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

The consideration for the acquisition was provisionally valued at the acquisition date based on the Share Purchase Agreement, and subsequently, an adjustment was made to the acquisition price within the measurement period after the acquisition date and determined on December 31, 2021. As a result, the fair value of the previously held equity investment before the acquisition date and the gain on the step acquisition have been adjusted.

The final allocation of the purchase price to the assets acquired and the liabilities assumed on the acquisition date was as follows:

	Millions of yen
Current assets	4,043
Intangible assets	8,955
Goodwill	28,826
Others	389
Assets acquired	42,213
Liabilities assumed	5,350
Net assets acquired	36,863

The intangible assets acquired are composed by ¥8,929 million of technical assets and ¥26 million of other intangible assets, and are subject to amortization. The useful life of the technical assets and the other intangible assets are 21 years and 5 years, respectively. The weighted average useful life of the total intangible assets is approximately 21 years.

Goodwill is composed of the synergy effects of merging

Redlen and Canon which is not tax deductible. The items is allocated to the Medical Business Unit when conducting the impairment test of goodwill. Net sales and net income of Redlen generated from the acquisition date which is reflected in the consolidated statement of income for the year ended December 31, 2021 was not material.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets subject to amortization acquired during the year ended December 31, 2022, including those recorded from businesses acquired, totaled ¥26,698 million, which primarily consist of software of ¥26,342 million. The weighted average amortization periods for intangible assets in total acquired during the year ended December 31, 2022 are approximately 5 years. The weighted average amortization period for software acquired during the year ended December 31, 2022 is approximately 5 years.

Intangible assets subject to amortization acquired during the year ended December 31, 2021, including those recorded from business acquired as stated in Note 7, totaled ¥36,015 million, which primarily consist of software of ¥25,965 million. The weighted average amortization periods for intangible assets in total acquired during the year ended December 31, 2021 are approximately 9 years. The weighted average amortization period for software acquired during the year ended December 31, 2021 is approximately 5 years.

The components of intangible assets subject to amortization at December 31, 2022 and 2021 were as follows:

December 31	Millions of yen			
	2022		2021	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Software	428,693	327,568	399,331	300,905
Customer relationships	161,424	70,900	158,513	59,465
Patents and developed technology	140,136	84,020	133,923	70,795
Trademarks	46,122	24,446	45,726	21,350
License fees	12,139	6,972	16,881	10,098
Other	15,251	10,959	18,765	10,521
	803,765	524,865	773,139	473,134

Aggregate amortization expense for the years ended December 31, 2022, 2021 and 2020 was ¥63,651 million, ¥64,913 million and ¥65,092 million, respectively. Estimated amortization expense for intangible assets currently held for the next five years ending December 31 is ¥54,644 million in 2023, ¥45,139 million in 2024, ¥38,081 million in 2025, and

¥31,478 million in 2026, and ¥21,918 million in 2027.

Intangible assets not subject to amortization other than goodwill at December 31, 2022 and 2021 were not significant.

For management reporting purposes, goodwill is not allocated to the reporting unit. Goodwill has been allocated to its respective reporting unit for impairment testing.

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2022 and 2021 were as follows:

Year ended December 31	Millions of yen					
	2022					
	Printing	Imaging	Medical	Industrial*	Others and Corporate*	Total
Goodwill - gross	146,025	293,749	537,183	9,512	706	987,175
Accumulated impairment losses	(33,325)	—	—	—	—	(33,325)
Balance at beginning of year	112,700	293,749	537,183	9,512	706	953,850
Goodwill acquired during the year	1,114	—	947	—	—	2,061
Translation adjustments and other	7,624	3,076	4,565	1,463	(13)	16,715
Goodwill - gross	157,561	296,825	542,695	10,975	693	1,008,749
Accumulated impairment losses	(36,123)	—	—	—	—	(36,123)
Balance at end of year	121,438	296,825	542,695	10,975	693	972,626

Year ended December 31	Millions of yen					
	2021					
	Printing	Imaging	Medical	Industrial*	Others and Corporate*	Total
Goodwill - gross	142,185	289,999	506,513	8,559	724	947,980
Accumulated impairment losses	(32,416)	—	—	—	—	(32,416)
Balance at beginning of year	109,769	289,999	506,513	8,559	724	915,564
Goodwill acquired during the year	—	—	28,826	—	—	28,826
Translation adjustments and other	2,931	3,750	1,844	953	(18)	9,460
Goodwill - gross	146,025	293,749	537,183	9,512	706	987,175
Accumulated impairment losses	(33,325)	—	—	—	—	(33,325)
Balance at end of year	112,700	293,749	537,183	9,512	706	953,850

* Based on the realignment of Canon's internal management structure, from 2022, Canon has changed the name and structure of segments from Industrial and Others Business Unit and Corporate and eliminations to Industrial Business Unit, Others and Corporate and Eliminations. Changes in the carrying amounts of goodwill by segment for the fiscal year ended December 31, 2021 also have been reclassified.

9. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans related to financial services are external loans held by Canon's lease subsidiaries for the purpose of financing its customers through loans. Short-term loans related to financial services consisting of bank borrowings at December 31, 2022 and 2021 were ¥41,200 million and ¥42,300 million, and other short-term loans consisting of bank borrowings

were ¥200,012 million and ¥1,301 million respectively. The weighted average interest rate on short-term borrowings outstanding at December 31, 2022 and 2021 were 0.14% and 0.19%, respectively. Unused overdraft facilities at December 31, 2022 were ¥550,000 million. The overdraft facilities bear interest at a rate equal to a base rate plus a spread.

Long-term debt consisted of the following:

December 31	Millions of yen	
	2022	2021
Loan from banks; bearing interest rates of 0.22% at December 31, 2022 and 0.21% at December 31, 2021 ^{*1}	54,000	174,000
Other debt ^{*2}	3,589	7,040
	57,589	181,040
Less current portion	(55,172)	(1,290)
	2,417	179,750

^{*1} During the year ended December 31, 2022, Canon prepaid ¥120,000 million of the outstanding loan under the unsecured revolving credit facility contracts which had expiration date in December 2023. The outstanding loans under the credit facilities are ¥54,000 million at a floating interest of 0.22% and Canon has no unused credit facilities as of December 31, 2022.

^{*2} Other debt consisted of Bank loans and finance lease obligations as of December 31, 2022 and 2021.

The aggregate annual maturities of long-term debt outstanding at December 31, 2022 were as follows:

Year ending December 31:	Millions of yen
2023	55,172
2024	817
2025	597
2026	392
2027	364
Thereafter	247
	57,589

Both short-term and long-term bank loans are primarily made under general agreements which provide that security and guarantees for present and future indebtedness shall be given upon request of the bank, and that the bank shall have

the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due to the bank.

10. TRADE PAYABLES

Trade payables are summarized as follows:

December 31	Millions of yen	
	2022	2021
Notes	82,702	82,243
Accounts	273,228	256,361
	355,930	338,604

11. EMPLOYEE RETIREMENT AND SEVERANCE BENEFITS

The Company and certain of its subsidiaries have contributory and noncontributory defined benefit pension plans covering substantially all of their employees. Benefits payable under the plans are based on employee earnings and years of service.

The Company and certain of its subsidiaries also have defined contribution pension plans covering substantially all of their employees.

Obligations and funded status

Reconciliations of beginning and ending balances of the projected benefit obligations and the fair value of the plan assets are as follows:

Actuarial gains in the projected benefit obligation in 2022 were primarily the result of an increase in the discount rate.

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2022	2021	2022	2021
Change in benefit obligations:				
Projected benefit obligations at beginning of year	909,634	911,121	476,230	477,337
Service cost	29,063	30,194	7,551	3,827
Interest cost	4,851	4,815	7,301	5,965
Plan participants' contributions	—	—	741	658
Actuarial (gain) loss	(101,222)	2,935	(158,318)	(21,133)
Benefits paid	(46,055)	(39,390)	(19,420)	(13,471)
Plan amendments	(44)	(41)	608	(10,617)
Curtailments and settlements	(1,478)	—	(1,669)	(682)
Foreign currency exchange rate changes	—	—	30,679	34,346
Projected benefit obligations at end of year	794,749	909,634	343,703	476,230
Change in plan assets:				
Fair value of plan assets at beginning of year	756,743	724,039	394,912	321,713
Actual return on plan assets	(50,994)	52,688	(135,292)	24,024
Employer contributions	13,400	11,652	18,305	32,130
Plan participants' contributions	—	—	741	658
Benefits paid	(35,321)	(31,636)	(19,420)	(13,471)
Settlements	—	—	(106)	1,743
Foreign currency exchange rate changes	—	—	29,411	28,115
Fair value of plan assets at end of year	683,828	756,743	288,551	394,912
Funded status at end of year	(110,921)	(152,891)	(55,152)	(81,318)

Amounts recognized in the consolidated balance sheets at December 31, 2022 and 2021 are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2022	2021	2022	2021
Other assets	7,469	2,911	18,442	13,596
Accrued expenses	(1,461)	(1,208)	(1,308)	(1,041)
Accrued pension and severance cost	(116,929)	(154,594)	(72,286)	(93,873)
	(110,921)	(152,891)	(55,152)	(81,318)

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2022 and 2021 before the effect of income taxes are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2022	2021	2022	2021
Actuarial loss	123,711	156,028	92,620	104,647
Prior service credit	(13,662)	(20,371)	(8,597)	(10,319)
	110,049	135,657	84,023	94,328

The accumulated benefit obligation for all defined benefit plans was as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2022	2021	2022	2021
Accumulated benefit obligation	769,140	883,462	329,843	462,306

The projected benefit obligations and the fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets are as follows:

December 31	Millions of yen			
	Japanese plans		Foreign plans	
	2022	2021	2022	2021
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	765,781	895,898	340,589	473,860
Fair value of plan assets	650,680	739,581	283,701	391,054
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligations	740,658	870,314	321,630	455,164
Fair value of plan assets	650,680	739,581	277,541	386,223

Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss)

Net periodic benefit cost for Canon's employee retirement and severance defined benefit plans for the years ended December 31, 2022, 2021 and 2020 consisted of the following components:

Years ended December 31	Millions of yen					
	Japanese plans			Foreign plans		
	2022	2021	2020	2022	2021	2020
Service cost	29,063	30,194	30,604	7,551	3,827	5,303
Interest cost	4,851	4,815	4,064	7,301	5,965	6,087
Expected return on plan assets	(23,161)	(21,618)	(21,013)	(17,001)	(15,221)	(12,006)
Amortization of prior service credit	(6,743)	(8,303)	(8,732)	(1,114)	(818)	(675)
Amortization of actuarial loss	5,230	8,768	12,401	5,989	7,341	6,122
(Gain) loss on curtailments and settlements	(666)	—	—	(627)	—	236
	8,574	13,856	17,324	2,099	1,094	5,067

Service cost component of net periodic benefit cost for Canon's employee retirement and severance defined benefit plans is included in cost of sales and operating expenses in the

consolidated statements of income. The components other than the service cost component are included in other, net of other income (deductions) in the consolidated statements of income.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the years ended December 31, 2022, 2021 and 2020 are summarized as follows:

Years ended December 31	Millions of yen					
	Japanese plans			Foreign plans		
	2022	2021	2020	2022	2021	2020
Current year actuarial (gain) loss	(27,067)	(28,135)	(26,479)	(6,024)	(29,936)	31,296
Current year prior service credit	(44)	(41)	(859)	608	(10,617)	(1,463)
Amortization of actuarial loss	(5,230)	(8,768)	(12,401)	(5,989)	(7,341)	(6,122)
Amortization of prior service credit	6,743	8,303	8,732	1,114	818	675
Curtailments and settlements	(10)	—	—	(14)	(531)	(966)
	(25,608)	(28,641)	(31,007)	(10,305)	(47,607)	23,420

Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

December 31	Japanese plans		Foreign plans	
	2022	2021	2022	2021
Discount rate	1.2%	0.5%	4.1%	1.5%
Assumed rate of increase in future compensation levels	2.6%	2.6%	2.5%	0.7%
Interest crediting rate for cash balance plans	1.8%	1.9%	1.0%	1.0%

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

Years ended December 31	Japanese plans			Foreign plans		
	2022	2021	2020	2022	2021	2020
Discount rate	0.5%	0.5%	0.5%	1.5%	1.5%	1.6%
Assumed rate of increase in future compensation levels	2.6%	2.6%	2.6%	0.7%	0.9%	1.0%
Expected long-term rate of return on plan assets	3.1%	3.0%	3.0%	5.7%	4.4%	4.8%
Interest crediting rate for cash balance plans	1.9%	1.9%	1.9%	1.0%	1.0%	1.0%

Canon determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. Canon considers the current

expectations for future returns and the actual historical returns of each plan asset category.

Plan assets

Canon's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, Canon formulates a "model" portfolio which comprises of the optimal combination of equity securities and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the "model" portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. Canon evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the "model" portfolio. Canon revises the "model" portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Canon's model portfolio for Japanese plans consists of three major components: approximately 30% is invested in equity

securities, approximately 45% is invested in debt securities, and approximately 25% is invested in other products, such as investments in insurance contracts including life insurance company general accounts.

Outside Japan, investment policies vary by country, but Canon's model portfolio for foreign plans consists of three major components: approximately 15% is invested in equity securities, approximately 35% is invested in debt securities, and approximately 50% is invested in other products, such as investments in real estate assets.

The target allocation percentages of plan assets set by Canon's investment policies approximate the actual allocation percentages of plan assets at December 31, 2022 and 2021.

The equity securities are selected primarily from stocks that are listed on securities exchanges. Prior to investing, Canon investigates the business condition of the investee companies, and appropriately diversifies investments by type of industry and other relevant factors. The debt securities are selected primarily from government bonds, public debt instruments, and

corporate bonds. Prior to investing, Canon investigates the quality of the issue, including rating, interest rate, and repayment dates, and appropriately diversifies the investments. Pooled funds are selected using strategies consistent with the equity and debt securities described above. As for insurance contracts, there are several types of insurance contracts between Canon and the life insurance companies including life insurance company general accounts which guarantee the payments of

interest based on expected interest rates and return of capital, and insured pension plans which cover future designated contractual benefit payments to covered participants. With respect to investments in foreign financial products, Canon investigates the stability of the underlying governments and economies, the market characteristics such as settlement systems and the taxation systems. For each such investment, Canon selects the appropriate investment country and currency.

The three levels of input used to measure fair value are more fully described in Note 22. The fair values of Canon's pension plan assets at December 31, 2022 and 2021, by asset category, are as follows:

December 31	Millions of yen							
	2022							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (a)	92,382	—	—	92,382	—	—	—	—
Foreign companies	10,373	—	—	10,373	9,382	—	—	9,382
Pooled funds (b)	—	167,605	—	167,605	—	31,481	—	31,481
Debt securities:								
Government bonds (c)	69,331	—	—	69,331	—	—	—	—
Municipal bonds	—	1,071	—	1,071	—	3,244	—	3,244
Corporate bonds	—	13,986	—	13,986	—	16,970	—	16,970
Pooled funds (d)	—	134,266	—	134,266	—	113,005	—	113,005
Mortgage backed securities (and other asset backed securities)	—	11,309	—	11,309	—	9,804	—	9,804
Insurance contracts	—	95,029	—	95,029	—	13,153	27,824	40,977
Other assets	—	75,736	1,189	76,925	—	33,927	—	33,927
Investment measured at net asset value	—	—	—	11,551	—	—	—	29,761
	172,086	499,002	1,189	683,828	9,382	221,584	27,824	288,551
December 31	Millions of yen							
	2021							
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Japanese companies (e)	95,698	—	—	95,698	—	—	—	—
Foreign companies	12,746	—	—	12,746	11,628	—	—	11,628
Pooled funds (f)	—	180,286	—	180,286	—	43,026	—	43,026
Debt securities:								
Government bonds (g)	133,691	—	—	133,691	—	—	—	—
Municipal bonds	—	1,264	—	1,264	—	2,899	—	2,899
Corporate bonds	—	19,373	—	19,373	—	7,821	—	7,821
Pooled funds (h)	—	145,348	—	145,348	—	138,687	—	138,687
Mortgage backed securities (and other asset backed securities)	—	11,449	—	11,449	—	6,826	—	6,826
Insurance contracts	—	114,624	—	114,624	—	6,287	39,398	45,685
Other assets	—	28,181	366	28,547	—	106,657	532	107,189
Investment measured at net asset value	—	—	—	13,717	—	—	—	31,151
	242,135	500,525	366	756,743	11,628	312,203	39,930	394,912

- (a) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥236 million.
- (b) These funds invest in listed equity securities consisting of approximately 20% Japanese companies and 80% foreign companies for Japanese plans, and mainly foreign companies for foreign plans.
- (c) This class includes approximately 65% Japanese government bonds and 35% foreign government bonds for Japanese plans, and mainly foreign government bonds for foreign plans.
- (d) These funds invest in approximately 30% Japanese government bonds, 50% foreign government bonds, 5% Japanese municipal bonds, and 15% corporate bonds for Japanese plans. These funds invest in approximately 55% foreign government bonds and 45% corporate bonds for foreign plans.
- (e) The plan's equity securities include common stock of the Company and certain of its subsidiaries in the amounts of ¥234 million.
- (f) These funds invest in listed equity securities consisting of approximately 30% Japanese companies and 70% foreign companies for Japanese plans, and mainly foreign companies for foreign plans.
- (g) This class includes approximately 80% Japanese government bonds and 20% foreign government bonds for Japanese plans.
- (h) These funds invest in approximately 25% Japanese government bonds, 55% foreign government bonds, 5%

Japanese municipal bonds, and 15% corporate bonds for Japanese plans. These funds invest in approximately 75% foreign government bonds and 25% corporate bonds for foreign plans.

Each level into which assets are categorized is based on inputs used to measure the fair value of the assets, and does not necessarily indicate the risks or ratings of the assets.

Level 1 assets are comprised principally of equity securities and government bonds, which are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions.

Level 2 assets are comprised principally of pooled funds that invest in equity and debt securities, corporate bonds, investments in life insurance company general accounts and other assets. Pooled funds are valued at their net asset values that are calculated by the sponsor of the fund and have daily liquidity. Corporate bonds are valued using quoted prices for identical assets in markets that are not active. Investments in life insurance company general accounts are valued at conversion value. Other assets are comprised principally of interest bearing cash and hedge funds.

The fair values of Level 3 asset, consisting of investments in insured pension plans and hedge funds, were ¥29,013 million and ¥40,296 million at December 31, 2022 and 2021, respectively. Actual returns on, purchases and sales of these assets during the years ended December 31, 2022 and 2021 were not significant.

Contributions

Canon expects to contribute ¥15,614 million to its Japanese defined benefit pension plans and ¥19,044 million to its foreign defined benefit pension plans for the year ending December 31, 2023.

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year ending December 31:	Millions of yen	
	Japanese plans	Foreign plans
2023	46,177	15,856
2024	45,013	16,721
2025	46,423	17,591
2026	44,715	18,722
2027	49,524	19,985
2028 – 2032	224,410	118,393

Multiemployer pension plans

The amounts of cost recognized for the multiemployer pension plans primarily in the Netherlands for the years ended December 31, 2022, 2021 and 2020 were ¥4,720 million, ¥4,822 million and ¥4,224 million, respectively. The multiemployer pension plan in which the subsidiaries in the

Netherlands participated was 108.3% funded as of December 31, 2021. The terms of the collective bargaining agreements are negotiated on a regular basis between the local labor unions and participating employers. Canon is not liable for other participating employers' obligations under the terms and conditions of the agreements.

Defined contribution plans

The amounts of cost recognized for the defined contribution pension plans of the Company and certain of its subsidiaries

for the years ended December 31, 2022, 2021 and 2020 were ¥24,346 million, ¥22,660 million and ¥16,334 million, respectively.

12. INCOME TAXES

Domestic and foreign components of income before income taxes and the current and deferred income tax expense attributable to such income are summarized as follows:

Years ended December 31	Millions of yen		
	2022		
	Japanese	Foreign	Total
Income before income taxes	177,235	175,205	352,440
Income taxes:			
Current	53,104	47,052	100,156
Deferred	(1,129)	(6,671)	(7,800)
	51,975	40,381	92,356
<hr/>			
Years ended December 31	Millions of yen		
	2021		
	Japanese	Foreign	Total
Income before income taxes	165,927	136,779	302,706
Income taxes:			
Current	47,491	34,201	81,692
Deferred	6,883	(16,709)	(9,826)
	54,374	17,492	71,866
<hr/>			
Years ended December 31	Millions of yen		
	2020		
	Japanese	Foreign	Total
Income before income taxes	48,186	82,094	130,280
Income taxes:			
Current	24,063	25,816	49,879
Deferred	(6,007)	(9,535)	(15,542)
	18,056	16,281	34,337

The Company and its domestic subsidiaries are subject to a number of income taxes, which, in the aggregate, represent a

statutory income tax rate of approximately 31% for the years ended December 31, 2022, 2021 and 2020.

A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes is as follows:

Years ended December 31	2022	2021	2020
Japanese statutory income tax rate	31.0%	31.0%	31.0%
Increase (reduction) in income taxes resulting from:			
Expenses not deductible for tax purposes	0.6	0.7	2.3
Income of foreign subsidiaries taxed at lower than Japanese statutory tax rate	(3.1)	(3.9)	(5.8)
Tax credit for research and development expenses	(2.8)	(3.2)	(1.7)
Change in valuation allowance	(0.3)	(3.9)	2.4
Deferred tax liabilities on undistributed earnings of foreign subsidiaries	1.6	4.5	2.6
Tax credit at foreign subsidiaries	(0.5)	(0.3)	(1.3)
Effect of enacted changes in tax laws	0.0	(1.0)	(1.5)
Other	(0.3)	(0.2)	(1.6)
Effective income tax rate	26.2%	23.7%	26.4%

Net deferred income tax assets and liabilities are included in the accompanying consolidated balance sheets under the following captions:

December 31	Millions of yen	
	2022	2021
Other assets	131,063	138,507
Other noncurrent liabilities	(38,518)	(43,402)
	92,545	95,105

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are presented below:

December 31	Millions of yen	
	2022	2021
Deferred tax assets:		
Inventories	14,107	11,263
Accrued business tax	2,732	3,387
Accrued pension and severance cost	55,986	67,752
Research and development – costs capitalized for tax purposes	7,119	5,004
Property, plant and equipment	40,549	35,658
Operating lease liabilities	20,515	17,328
Accrued expenses	28,080	29,331
Net operating losses carried forward	34,045	33,873
Other	48,675	48,621
	251,808	252,217
Less valuation allowance	(17,732)	(19,073)
Total deferred tax assets	234,076	233,144
Deferred tax liabilities:		
Undistributed earnings of foreign subsidiaries	(20,306)	(19,677)
Tax deductible reserve	(3,658)	(4,007)
Financing lease revenue	(17,335)	(14,602)
Operating lease right-of-use assets	(20,090)	(17,066)
Intangible assets	(46,054)	(51,173)
Other	(34,088)	(31,514)
Total deferred tax liabilities	(141,531)	(138,039)
Net deferred tax assets	92,545	95,105

The net changes in the total valuation allowance were a decrease of ¥1,341 million, a decrease of ¥11,679 million and an increase of ¥3,074 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Based on the level of historical taxable income and

projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that Canon will realize the benefits of these deferred tax assets, net of the valuation allowance, at December 31, 2022.

At December 31, 2022, Canon had net operating losses which can be carried forward for income tax purposes of ¥177,351 million to reduce future taxable income. Periods available to reduce future taxable income vary in each tax jurisdiction and generally range from one year to an indefinite period as follows:

	Millions of yen
Within one year	1,431
After one year through five years	18,404
After five years through ten years	35,727
After ten years through twenty years	3,849
Indefinite period	117,940
	177,351

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries as the tax law provides a means by which the dividends from a domestic subsidiary can be received tax free.

Canon has not recognized deferred tax liabilities of ¥19,408 million for a portion of undistributed earnings of foreign

subsidiaries of ¥857,289 million as of December 31, 2022 because Canon intends to permanently reinvest such undistributed earnings of foreign subsidiaries. Deferred tax liabilities will be recognized when such undistributed earnings are no longer permanently reinvested.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Years ended December 31	Millions of yen		
	2022	2021	2020
Balance at beginning of year	9,813	8,572	8,120
Additions for tax positions of the current year	583	1,168	—
Additions for tax positions of prior years	220	216	208
Reductions for tax positions of prior years	(2,538)	—	(49)
Settlements with tax authorities	(594)	(62)	—
Other	870	(81)	293
Balance at end of year*	8,354	9,813	8,572

* The unrecognized tax benefits were offset by deferred tax assets in the amount of ¥1,800 million, ¥1,695 million and ¥1,412 million as of December 31, 2022, 2021 and 2020, respectively, and reported under "other noncurrent liabilities" on the consolidated balance sheets.

The total amounts of unrecognized tax benefits that would reduce the effective tax rate, if recognized, were ¥8,354 million and ¥9,813 million at December 31, 2022 and 2021, respectively.

Although Canon believes its estimates and assumptions of unrecognized tax benefits are reasonable, uncertainty regarding the final determination of tax examination settlements and any related litigation could affect the effective tax rate in a future period. Based on each of the items of which Canon is aware at December 31, 2022, no significant changes to the unrecognized tax benefits are expected within the next twelve months.

Canon recognizes interest and penalties accrued related to

unrecognized tax benefits in income taxes. Both interest and penalties accrued at December 31, 2022 and 2021, and interest and penalties included in income taxes for the years ended December 31, 2022, 2021 and 2020 were not significant.

Canon files income tax returns in Japan and various foreign tax jurisdictions. In Japan, Canon is no longer subject to regular income tax examinations by the tax authority for years before 2021. Canon is also no longer subject to a transfer pricing examination by the tax authority for years before 2021. In other major foreign tax jurisdictions, including the United States and the Netherlands, Canon is no longer subject to income tax examinations by tax authorities for years before 2014 with a few exceptions.

13. LEGAL RESERVE AND RETAINED EARNINGS

The Corporation Law of Japan provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Corporation Law of Japan also provides that additional paid-in capital and legal reserve are available for appropriations by resolution of the shareholders. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of their respective countries.

Cash dividends and appropriations to the legal reserve charged to retained earnings for the years ended December 31, 2022, 2021 and 2020 represent dividends paid out during

those years and the related appropriations to the legal reserve. Retained earnings at December 31, 2022 did not reflect current year-end dividends in the amount of ¥60,931 million which were approved by the shareholders in March 2023.

The amount available for dividends under the Corporation Law of Japan is based on the amount recorded in the Company's nonconsolidated books of account in accordance with financial accounting standards of Japan. Such amount was ¥832,748 million at December 31, 2022.

Retained earnings at December 31, 2022 included Canon's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥19,787 million.

14. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2022, 2021 and 2020 are as follows:

	Millions of yen				
	Foreign currency translation adjustments	Net unrealized gains and losses on securities	Gains and losses on derivative instruments	Pension liability adjustments	Total
Balance at December 31, 2019	(96,282)	—	(887)	(211,273)	(308,442)
Equity transactions with noncontrolling interests and other	(9)	—	—	—	(9)
Other comprehensive income (loss) before reclassifications	(17,355)	—	(1,199)	(7,530)	(26,084)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	2,186	7,560	9,746
Net change during the year	(17,364)	—	987	30	(16,347)
Balance at December 31, 2020	(113,646)	—	100	(211,243)	(324,789)
Other comprehensive income (loss) before reclassifications	119,689	—	(3,330)	49,759	166,118
Amounts reclassified from accumulated other comprehensive income (loss)	(524)	—	2,336	5,065	6,877
Net change during the year	119,165	—	(994)	54,824	172,995
Balance at December 31, 2021	5,519	—	(894)	(156,419)	(151,794)
Other comprehensive income (loss) before reclassifications	189,827	(44)	(7,430)	25,768	208,121
Amounts reclassified from accumulated other comprehensive income (loss)	(4,059)	10	7,896	2,449	6,296
Net change during the year	185,768	(34)	466	28,217	214,417
Balance at December 31, 2022	191,287	(34)	(428)	(128,202)	62,623

Reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2022, 2021 and 2020 are as follows:

Years ended December 31	Amount reclassified from accumulated other comprehensive income (loss) *			Affected line items in consolidated statements of income
	Millions of yen			
	2022	2021	2020	
Foreign currency translation adjustments	(5,883)	(759)	—	Selling, general and administrative expenses
	1,824	235	—	Income taxes
	(4,059)	(524)	—	Consolidated net income
	—	—	—	Net income attributable to noncontrolling interests
	(4,059)	(524)	—	Net income attributable to Canon Inc.
Net unrealized gains and losses on securities	13	—	—	Other, net
	(3)	—	—	Income taxes
	10	—	—	Consolidated net income
	—	—	—	Net income attributable to noncontrolling interests
	10	—	—	Net income attributable to Canon Inc.
Gains and losses on derivative instruments	10,683	3,285	3,034	Net Sales
	(2,889)	(959)	(775)	Income taxes
	7,794	2,326	2,259	Consolidated net income
	102	10	(73)	Net income attributable to noncontrolling interests
	7,896	2,336	2,186	Net income attributable to Canon Inc.
Pension liability adjustments	3,386	7,519	10,082	Other, net
	(561)	(1,625)	(2,484)	Income taxes
	2,825	5,894	7,598	Consolidated net income
	(376)	(829)	(38)	Net income attributable to noncontrolling interests
	2,449	5,065	7,560	Net income attributable to Canon Inc.
Total amount reclassified, net of tax and noncontrolling interests	6,296	6,877	9,746	

* Amounts in parentheses indicate gains in consolidated statements of income.

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments, including amounts attributable to noncontrolling interests, are as follows:

Years ended December 31	Millions of yen		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2022:			
Foreign currency translation adjustments			
Amount arising during the year	191,679	(1,057)	190,622
Reclassification adjustments for gains and losses realized in net income	(5,883)	1,824	(4,059)
Net change during the year	185,796	767	186,563
Net unrealized gains and losses on securities:			
Amount arising during the year	(54)	10	(44)
Reclassification adjustments for gains and losses realized in net income	13	(3)	10
Net change during the year	(41)	7	(34)
Net gains and losses on derivative instruments:			
Amount arising during the year	(10,057)	2,712	(7,345)
Reclassification adjustments for gains and losses realized in net income	10,683	(2,889)	7,794
Net change during the year	626	(177)	449
Pension liability adjustments:			
Amount arising during the year	32,527	(5,455)	27,072
Reclassification adjustments for gains and losses realized in net income	3,386	(561)	2,825
Net change during the year	35,913	(6,016)	29,897
Other comprehensive income (loss)	222,294	(5,419)	216,875
2021:			
Foreign currency translation adjustments			
Amount arising during the year	122,075	(1,112)	120,963
Reclassification adjustments for gains and losses realized in net income	(759)	235	(524)
Net change during the year	121,316	(877)	120,439
Net gains and losses on derivative instruments:			
Amount arising during the year	(4,596)	1,298	(3,298)
Reclassification adjustments for gains and losses realized in net income	3,285	(959)	2,326
Net change during the year	(1,311)	339	(972)
Pension liability adjustments:			
Amount arising during the year	68,729	(18,115)	50,614
Reclassification adjustments for gains and losses realized in net income	7,519	(1,625)	5,894
Net change during the year	76,248	(19,740)	56,508
Other comprehensive income (loss)	196,253	(20,278)	175,975
2020:			
Foreign currency translation adjustments			
Amount arising during the year	(17,583)	229	(17,354)
Reclassification adjustments for gains and losses realized in net income	—	—	—
Net change during the year	(17,583)	229	(17,354)
Net gains and losses on derivative instruments:			
Amount arising during the year	(1,731)	442	(1,289)
Reclassification adjustments for gains and losses realized in net income	3,034	(775)	2,259
Net change during the year	1,303	(333)	970
Pension liability adjustments:			
Amount arising during the year	(2,495)	(3,721)	(6,216)
Reclassification adjustments for gains and losses realized in net income	10,082	(2,484)	7,598
Net change during the year	7,587	(6,205)	1,382
Other comprehensive income (loss)	(8,693)	(6,309)	(15,002)

15. REVENUE

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

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

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

The majority of service arrangements for the products are executed in combination with related products. Transaction prices for products and services need to be allocated to each performance obligation on a relative standalone selling price basis where judgements are required. Canon estimates the standalone selling price using a range of prices that would meet the allocation objective based on all the information that is reasonably available including market conditions and other observable inputs. If transaction prices of the product or service contracts are not within the acceptable range then the

revenue is subject to allocation based on the estimated stand-alone selling prices. Canon recognizes the incremental costs of obtaining a contract as an expense when related products of the Printing Business Unit are sold.

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

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

Disaggregated revenue by timing is as follows. Disaggregated revenue by business unit, product and geographic area are described in Note 23.

	Millions of yen						
	Printing	Imaging	Medical	Industrial*	Others and Corporate*	Eliminations*	Consolidated
2022:							
Revenue recognized at a point in time	1,673,767	795,442	348,138	259,317	211,956	(99,588)	3,189,032
Revenue recognized over time	588,171	8,038	165,193	69,915	11,065	—	842,382
Total	2,261,938	803,480	513,331	329,232	223,021	(99,588)	4,031,414
2021:							
Revenue recognized at a point in time	1,419,043	646,849	329,323	241,379	177,107	(83,698)	2,730,003
Revenue recognized over time	519,804	6,683	151,039	96,342	9,486	—	783,354
Total	1,938,847	653,532	480,362	337,721	186,593	(83,698)	3,513,357
2020:							
Revenue recognized at a point in time	1,316,556	534,685	287,849	160,597	160,062	(67,518)	2,392,231
Revenue recognized over time	487,871	6,629	148,225	116,209	9,078	—	768,012
Total	1,804,427	541,314	436,074	276,806	169,140	(67,518)	3,160,243

* Based on the realignment of Canon's internal management structure, from 2022, Canon has changed the name and structure of segments from Industrial and Others Business Unit and Corporate and eliminations to Industrial Business Unit, Others and Corporate and Eliminations. Changes in the disaggregated revenue by timing and by segment for the fiscal year ended December 31, 2021 and 2020 also has been reclassified.

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

Canon recognizes contract assets primarily for unbilled receivables mainly arising from services contracts for the products of the Printing Business Unit. Contract assets are reclassified to trade receivables when they are billed under the terms of the contract. The difference between the opening and closing balances of contract assets primarily results from the timing difference of Canon's performance and billing to customers. Contract assets at December 31, 2022 and 2021 were ¥39,251 million and ¥44,722 million, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheets.

Canon typically bills to the customer when the performance obligation is satisfied and collects the payment in relatively short term except for certain maintenance service of the products of the Printing Business Unit and the Medical Business Unit and certain industrial equipment for which Canon occasionally receives the payment in advance from customers. The amount received in excess of revenue recognized is recorded as deferred revenue until the performance obligation

for distinct goods or services are satisfied. Deferred revenue at December 31, 2022 and 2021 were ¥141,840 million and ¥132,087 million, respectively, and are included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets. Revenue recognized for the year ended December 31, 2022, which had been included in the deferred revenue balance at December 31, 2021, was ¥112,720 million.

Remaining performance obligations for products and equipment at December 31, 2022 primarily arise from the sales of certain industrial equipment, amounting to ¥163,039 million, 64% of which is expected to be recognized as revenue within one year, 31% is within two years and remaining 5% is within three years. Disclosure of remaining performance obligations is not required for the majority of services since the related revenue is recognized on an as billed basis applying the right to invoice practical expedient or is generated from the contracts with original expected duration of less than one year. The portion of fixed maintenance service contract for the products of the Printing Business Unit and the Medical Business Unit with original expected duration of more than one year is ¥110,782 million and the average remaining period for these fixed contracts as of December 31, 2022 is about 2 years.

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

16. STOCK-BASED COMPENSATION

On April 28, 2022, based on the approval of the board of directors, the Company granted stock options to its directors and executive officers to acquire 69,000 shares of common stock. Those to whom stock acquisition rights are granted (the "Holder(s)") shall be entitled to exercise all the stock acquisition rights together within 10 days (in case the last day is not a business day, the following business day) from after the date when they cease to hold any position as a director or an executive officer of the Company. These option awards have a 30 year exercisable period. The grant-date fair value per share of the stock options granted during the year ended December 31, 2022 was ¥2,541.

On April 28, 2021, based on the approval of the board of directors, the Company granted stock options to its directors and executive officers to acquire 43,700 shares of common

stock. Those to whom stock acquisition rights are granted (the "Holder(s)") shall be entitled to exercise all the stock acquisition rights together within 10 days (in case the last day is not a business day, the following business day) from after the date when they cease to hold any position as a director or an executive officer of the Company. These option awards have a 30 year exercisable period. The grant-date fair value per share of the stock options granted during the year ended December 31, 2021 was ¥2,227.

The compensation cost recognized for these stock options for the years ended December 31, 2022 was ¥175 million, for 2021 was ¥97 million and for 2020 was ¥147 million, and is included in selling, general and administrative expenses in the consolidated statements 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:

Years ended December 31	2022	2021
Expected term of option (in years)	5.0	5.0
Expected volatility	25.88%	24.83%
Dividend yield	3.28%	3.04%
Risk-free interest rate	(0.02%)	(0.10%)

A summary of option activity under the stock option plans as of and for the years ended December 31, 2022, 2021 and 2020 is presented below:

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
		Yen	Year	Millions of yen
Outstanding at January 1, 2020	185,800	1	29.0	555
Granted	98,900	1		
Exercised	(37,100)	1		
Outstanding at December 31, 2020	247,600	1	28.4	324
Granted	43,700	1		
Exercised	(4,800)	1		
Outstanding at December 31, 2021	286,500	1	27.8	802
Granted	69,000	1		
Exercised	(4,900)	1		
Outstanding at December 31, 2022	350,600	1	27.2	1,001
Exercisable at December 31, 2022	350,600	1	27.2	1,001

The total fair values of shares vested were ¥175 million, ¥97 million, and ¥147 million for the years ended December 31, 2022, 2021, and 2020, respectively. Cash received from the

exercise of stock options for the years ended December 31, 2022, 2021 and 2020 were not significant.

17. NET INCOME ATTRIBUTABLE TO CANON INC. SHAREHOLDERS PER SHARE

A reconciliation of the numerators and denominators of basic and diluted net income attributable to Canon Inc. shareholders per share computations is as follows:

Years ended December 31	Millions of yen		
	2022	2021	2020
Basic net income attributable to Canon Inc.	243,961	214,718	83,318
Diluted net income attributable to Canon Inc.	243,957	214,714	83,315
Number of shares			
Weighted average common shares outstanding	1,030,644,385	1,045,632,588	1,049,802,197
Effect of dilutive securities:			
Stock options	334,875	277,066	229,691
Diluted common shares outstanding	1,030,979,260	1,045,909,654	1,050,031,888
Yen			
Net income attributable to Canon Inc. shareholders per share:			
Basic	236.71	205.35	79.37
Diluted	236.63	205.29	79.35

18. DERIVATIVES AND HEDGING ACTIVITIES

Risk management policy

Canon operates internationally, exposing it to the risk of changes in foreign currency exchange rates. Derivative financial instruments are comprised principally of foreign exchange contracts utilized by the Company and certain of its subsidiaries to reduce the risk. Canon assesses foreign currency exchange rate risk by continually monitoring changes in the exposures and by evaluating hedging opportunities. Canon does not hold or issue derivative financial instruments for speculative purposes. Canon is also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations. Most of the counterparties are internationally recognized financial institutions and selected by Canon taking into account their financial condition, and contracts are diversified across a number of major financial institutions.

Foreign currency exchange rate risk management

Canon's international operations expose Canon to the risk of changes in foreign currency exchange rates. Canon uses foreign exchange contracts to manage certain foreign currency exchange exposures principally from the exchange of

U.S. dollars and euros into yen. These contracts are primarily used to hedge the foreign currency exposure of forecasted intercompany sales and intercompany trade receivables that are denominated in foreign currencies. In accordance with Canon's policy, a specific portion of foreign currency exposure resulting from forecasted intercompany sales is hedged using foreign exchange contracts which principally mature within three months.

Cash flow hedge

Changes in the fair value of derivative financial instruments designated as cash flow hedges, including foreign exchange contracts associated with forecasted intercompany sales, are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings in the same period as the hedged items affect earnings. All amounts recorded in accumulated other comprehensive income (loss) as of December 31, 2022 are expected to be recognized in net sales over the next twelve months. Changes in the fair value of a foreign exchange contract for the period between the date that the forecasted intercompany sales occur and its maturity date are recognized in earnings.

Derivatives not designated as hedges

Canon has entered into certain foreign exchange contracts to primarily offset the earnings impact related to fluctuations in foreign currency exchange rates associated with certain assets denominated in foreign currencies. Although these

foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting, the contracts are effective from an economic perspective. The changes in the fair value of these contracts are recorded in earnings immediately.

Contract amounts of foreign exchange contracts at December 31, 2022 and 2021 are set forth below:

December 31	Millions of yen	
	2022	2021
To sell foreign currencies	149,080	169,392
To buy foreign currencies	26,224	27,453

Fair value of derivative instruments in the consolidated balance sheets

The following tables present Canon's derivative instruments measured at gross fair value as reflected in the consolidated balance sheets at December 31, 2022 and 2021.

Derivatives designated as hedging instruments

December 31		Millions of yen	
		Fair value	
	Balance sheet location	2022	2021
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	176	42
Liabilities:			
Foreign exchange contracts	Other current liabilities	416	777

Derivatives not designated as hedging instruments

December 31		Millions of yen	
		Fair value	
	Balance sheet location	2022	2021
Assets:			
Foreign exchange contracts	Prepaid expenses and other current assets	2,539	23
Liabilities:			
Foreign exchange contracts	Other current liabilities	846	1,342

Effect of derivative instruments in the consolidated statements of income

The following tables present the effect of Canon's derivative instruments in the consolidated statements of income for the years ended December 31, 2022, 2021 and 2020.

Derivatives in cash flow hedging relationships

Years ended December 31	Millions of yen		
	Gain (loss) recognized in OCI	Gain (loss) reclassified from accumulated OCI into income	
	Amount	Location	Amount
2022: Foreign exchange contracts	(10,057)	Net sales	(10,683)
2021: Foreign exchange contracts	(4,596)	Net sales	(3,285)
2020: Foreign exchange contracts	(1,731)	Net sales	(3,034)

Derivatives not designated as hedging instruments

Years ended December 31	Location	Millions of yen		
		Gain (loss) recognized in income on derivative		
		2022	2021	2020
Foreign exchange contracts	Other, net	(11,926)	(6,099)	104

19. LESSEE ACCOUNTING

Lease costs are included in cost of sales or selling general and administrative expense in accompanying consolidated statements of income. Supplemental income statement information is as follows:

Years ended December 31	Millions of yen		
	2022	2021	2020
Operating lease cost	45,109	39,699	40,053
Short-term lease cost	15,566	13,961	14,245
Other lease cost	219	71	120
Total	60,894	53,731	54,418

Operating lease cash flow

Supplemental cash flow information is as follows.

Years ended December 31	Millions of yen		
	2022	2021	2021
Cash paid for amount included in the measurement of lease liabilities			
Operating cash flows from operating leases	42,178	39,879	36,733
Noncash activity - Rights of use assets obtained in exchange for lease liabilities			
Operating leases	56,854	21,588	30,700

Maturity Analysis

The following is a schedule by year of the future minimum lease payments under operating leases at December 31, 2022.

Years ending December 31:	Millions of yen
2023	35,535
2024	26,718
2025	20,058
2026	13,704
2027	9,645
Thereafter	17,949
Total future minimum lease payments	123,609
Less Imputed Interest	(4,997)
	118,612

Remaining lease term and discount rate

The following is remaining lease term and discount rate under operating leases at December 31, 2022 and 2021.

December 31	2022	2021
Weighted-average remaining lease term	54 months	54 months
Weighted-average discount rate	2.5%	2.1%

20. COMMITMENTS AND CONTINGENT LIABILITIES**Commitments**

At December 31, 2022, commitments outstanding for the purchase of property, plant and equipment approximated ¥101,351 million, and commitments outstanding for the purchase of parts and raw materials approximated ¥287,591 million.

Guarantees

Canon occupies sales offices and other facilities under lease arrangements accounted for as operating leases. Deposits mainly for restoration made under such arrangements aggregated ¥10,086 million and ¥10,812 million at December 31, 2022 and 2021, respectively, and are included in noncurrent receivables in the accompanying consolidated balance sheets.

Canon provides guarantees for its employees, affiliates

and other companies. The guarantees for the employees are principally made for their housing loans. The guarantees for affiliates and other companies are made for their lease obligations and bank loans to facilitate financing.

Canon would have to perform under a guarantee if the borrower defaults on a payment within the contract terms. The contract terms are 1 year to 12 years in case of employees with housing loans, and 1 year to 6 years in case of affiliates and other companies with lease obligations and bank loans. The maximum amount of undiscounted payments Canon would have had to make in the event of default is ¥1,535 million at December 31, 2022. The carrying amounts of the liabilities recognized for Canon's obligations as a guarantor under those guarantees at December 31, 2022 were not significant.

Canon also offers assurance-type warranties under which it generally guarantees the performance of products delivered and services rendered for a certain period or term. Estimated product warranty costs are recorded at the time revenue is recognized and are included in selling, general and administrative expenses in the accompanying consolidated statements of income. Estimates for accrued product warranty costs are based on historical experience. Accrued product warranty costs are included in accrued expenses in the accompanying consolidated balance sheets and the changes for the years ended December 31, 2022 and 2021 are summarized as follows:

Years ended December 31	Millions of yen	
	2022	2021
Balance at beginning of the year	16,949	14,300
Additions	19,678	15,687
Utilization	(14,934)	(11,928)
Other	(806)	(1,110)
Balance at end of the year	20,887	16,949

Legal proceedings

Canon is involved in various claims and legal actions arising in the ordinary course of business. Canon has recorded provisions for liabilities when it is probable that liabilities have been incurred and the amount of loss can be reasonably estimated. Canon reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of the negotiations, settlements, rulings, advice of legal counsel and other

information and events pertaining to a particular case. Based on its experience, although litigation is inherently unpredictable, Canon believes that any damage amounts claimed in outstanding matters are not a meaningful indicator of Canon's potential liability. In the opinion of management, any reasonably possible range of losses from outstanding matters would not have a material adverse effect on Canon's consolidated financial position, results of operations, and cash flows.

21. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

Fair value of financial instruments

The estimated fair values of Canon's financial instruments at December 31, 2022 and 2021 are set forth below. The following summary excludes cash and cash equivalents, trade receivables, noncurrent receivables, short-term loans, trade payables and accrued expenses, and the fair values of these instruments approximate their carrying amounts. The summary also excludes investments and derivative instruments which are disclosed in Note 2 and Note 22, and Note 18, respectively.

December 31	Millions of yen			
	2022		2021	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Long-term debt, including current portion of long-term debt	(54,205)	(54,205)	(177,410)	(177,343)

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

Long-term debt

Canon's long-term debt instruments are classified as Level 2 instruments and valued based on the present value of future cash flows associated with each instrument discounted using current market borrowing rates for similar debt instruments of comparable maturity. The levels are more fully described in Note 22.

Limitations of fair value estimates

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Concentrations of credit risk

No single customer accounted for more than 10 percent of consolidated trade receivables as of December 31, 2022 or 2021.

22. FAIR VALUE MEASUREMENTS

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

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

Assets and liabilities measured at fair value on a recurring basis

The following tables present Canon's assets and liabilities that are measured at fair value on a recurring basis consistent with the fair value hierarchy at December 31, 2022 and 2021.

December 31	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	—	627	—	627
Short-term investment:				
Available-for-sale:				
Corporate bonds	—	9,301	—	9,301
Investments:				
Available-for-sale:				
Corporate bonds	—	4,785	—	4,785
Fund trusts and others	255	383	—	638
Equity securities	21,770	—	—	21,770
Prepaid expenses and other current assets:				
Derivatives	—	2,715	—	2,715
Total assets	22,025	17,811	—	39,836
Liabilities:				
Other current liabilities:				
Derivatives	—	1,262	—	1,262
Total liabilities	—	1,262	—	1,262

December 31	Millions of yen			
	2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	—	500	—	500
Short-term investment:				
Available-for-sale:				
Corporate bonds	—	—	—	—
Investments:				
Available-for-sale:				
Corporate bonds	—	—	—	—
Fund trusts and others	281	328	—	609
Equity securities	28,640	—	—	28,640
Prepaid expenses and other current assets:				
Derivatives	—	65	—	65
Total assets	28,921	893	—	29,814
Liabilities:				
Other current liabilities:				
Derivatives	—	2,119	—	2,119
Total liabilities	—	2,119	—	2,119

Level 1 investments are comprised principally of Japanese equity securities, which are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions. Level 2 assets and liabilities are comprised principally of corporate bonds included in cash and cash equivalents, investments or short-term investments, and derivatives. Corporate bonds included in cash and cash equivalents, and investments or short-term investments are valued using quoted prices for identical assets in markets that are not active or quotes obtained from counterparties or third parties.

Derivative financial instruments are comprised of foreign

exchange contracts. Level 2 derivatives are valued using quotes obtained from counterparties or third parties, which are periodically validated by pricing models using observable market inputs, such as foreign currency exchange rates and interest rates, based on market approach.

Assets and liabilities measured at fair value on a nonrecurring basis

There were no significant assets or liabilities to be measured at fair value on a nonrecurring basis during the year ended December 31, 2022 and 2021.

23. SEGMENT INFORMATION

Canon reports in four reportable segments: the Printing Business Unit, the Imaging Business Unit, the Medical Business Unit and the Industrial Business Unit with Others and Corporate, which are based on the organizational structure and information reviewed by Canon's management to evaluate results and allocate resources.

Based on the realignment of Canon's internal management structure, from 2022, Canon has changed the name and structure of segments from Industrial and Others Business Unit and Corporate and eliminations to Industrial Business Unit, Others and Corporate and Eliminations.

The primary products included in each segment are as follows:

Printing Business Unit:

Office multifunction devices (MFDs) / Document solutions/
Laser multifunction printers (MFPs) / Laser printers /
Inkjet printers / Image scanners / Calculators /
Digital continuous feed presses / Digital sheet-fed presses /
Large format printers

Imaging Business Unit:

Interchangeable-lens digital cameras / Interchangeable lenses /
Digital compact cameras / Compact photo printers /

MR Systems / Network cameras / Video management software /
Video content analytics software / Digital camcorders /
Digital cinema cameras / Broadcast equipment / Projectors

Medical Business Unit:

Computed tomography (CT) systems /
Diagnostic ultrasound systems / Diagnostic X-ray systems /
Magnetic resonance imaging (MRI) systems /
Clinical chemistry analyzers / Digital radiography systems /
Ophthalmic equipment

Industrial Business Unit:

Semiconductor lithography equipment /
FPD (Flat panel display) lithography equipment /
OLED display manufacturing equipment /
Vacuum thin-film deposition equipment / Die bonders

Others:

Handy terminals / Document scanners

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1. Canon evaluate results and allocate resources for each segment based on income before income taxes.

Information about operating results and assets for each segment as of and for the years ended December 31, 2022, 2021 and 2020 is as follows:

	Millions of yen						
	Printing	Imaging	Medical	Industrial	Others and Corporate	Eliminations	Consolidated
2022:							
Net sales:							
External customers	2,255,402	803,057	513,028	320,817	139,110	—	4,031,414
Intersegment	6,536	423	303	8,415	83,911	(99,588)	—
Total	2,261,938	803,480	513,331	329,232	223,021	(99,588)	4,031,414
Operating cost and expenses	2,049,964	676,850	482,326	271,213	296,399	(98,737)	3,678,015
Operating profit	211,974	126,630	31,005	58,019	(73,378)	(851)	353,399
Other income (deductions)	13,806	1,403	890	1,194	(12,147)	(6,105)	(959)
Income before income taxes	225,780	128,033	31,895	59,213	(85,525)	(6,956)	352,440
Total assets	1,224,187	349,338	356,799	233,969	2,952,891	(21,654)	5,095,530
Depreciation and amortization	72,946	20,374	13,418	12,195	107,559	—	226,492
Capital expenditures	66,550	17,841	11,956	15,271	71,673	—	183,291
2021:							
Net sales:							
External customers	1,934,012	651,494	480,029	328,164	119,658	—	3,513,357
Intersegment	4,835	2,038	333	9,557	66,935	(83,698)	—
Total	1,938,847	653,532	480,362	337,721	186,593	(83,698)	3,513,357
Operating cost and expenses	1,713,154	574,814	450,942	292,854	282,643	(82,968)	3,231,439
Operating profit	225,693	78,718	29,420	44,867	(96,050)	(730)	281,918
Other income (deductions)	7,259	(256)	4,876	434	14,978	(6,503)	20,788
Income before income taxes	232,952	78,462	34,296	45,301	(81,072)	(7,233)	302,706
Total assets	1,009,922	236,143	311,247	212,156	2,999,754	(18,334)	4,750,888
Depreciation and amortization	69,549	21,840	12,435	11,193	106,229	—	221,246
Capital expenditures	63,609	12,069	11,888	10,127	81,307	—	179,000
2020:							
Net sales:							
External customers	1,800,898	539,560	435,368	271,149	113,268	—	3,160,243
Intersegment	3,529	1,754	706	5,657	55,872	(67,518)	—
Total	1,804,427	541,314	436,074	276,806	169,140	(67,518)	3,160,243
Operating cost and expenses	1,657,319	535,584	410,830	249,346	265,576	(68,959)	3,049,696
Operating profit	147,108	5,730	25,244	27,460	(96,436)	1,441	110,547
Other income (deductions)	5,076	(778)	300	677	15,645	(1,187)	19,733
Income before income taxes	152,184	4,952	25,544	28,137	(80,791)	254	130,280
Total assets	913,931	239,605	286,749	239,992	2,963,532	(18,195)	4,625,614
Depreciation and amortization	69,725	22,201	11,781	12,266	111,852	—	227,825
Capital expenditures	56,613	12,540	7,244	8,082	77,248	—	161,727

Intersegment sales are recorded at the same prices used in transactions with third parties. Expenses not directly associated with specific segments are allocated based on the most reasonable measures applicable. Corporate expenses include certain corporate research and development expenses. Amortization costs of identified intangible assets resulting from the purchase price allocation of Toshiba Medical Systems Corporation (currently, Canon Medical Systems

Corporation) are also included in corporate expenses. Segment assets are based on those directly associated with each segment. Corporate assets primarily consist of cash and cash equivalents, investments, deferred tax assets, goodwill, identified intangible assets from acquisitions and corporate properties. Capital expenditures represent the additions to property, plant and equipment and intangible assets measured on an accrual basis.

Information about sales by product and service to external customers for each segment for the years ended December 31, 2022, 2021 and 2020 is as follows:

Years ended December 31	Millions of yen		
	2022	2021	2020
Printing			
Office multifunction devices	570,175	477,000	455,357
Office others	320,713	279,366	267,123
Office	890,888	756,366	722,480
Laser printers	647,192	560,159	502,157
Inkjet printers and Others	355,270	328,932	326,041
Prosumer	1,002,462	889,091	828,198
Production	362,052	288,555	250,220
Total	2,255,402	1,934,012	1,800,898
Imaging			
Cameras	509,464	432,885	347,240
Network cameras and Others	293,593	218,609	192,320
Total	803,057	651,494	539,560
Medical			
Diagnostic equipment	513,028	480,029	435,368
Industrial			
Optical equipment	240,332	215,890	144,387
Industrial equipment	80,485	112,274	126,762
Total	320,817	328,164	271,149
Others and Corporate	139,110	119,658	113,268
Consolidated	4,031,414	3,513,357	3,160,243

Based on the realignment of Canon's internal management structure, from 2022, Canon has changed products category and some product sales, which were previously included in

Others, have been added to Lithography equipment and are presented as Optical equipment.

Information by major geographic area as of and for the years ended December 31, 2022, 2021 and 2020 is as follows:

	Millions of yen		
	2022	2021	2020
Net sales:			
Japan	864,808	830,378	806,305
Americas	1,255,405	968,839	852,451
Europe	1,034,008	894,898	795,616
Asia and Oceania	877,193	819,242	705,871
Total	4,031,414	3,513,357	3,160,243
Long-lived assets:			
Japan	953,140	986,638	1,011,109
Americas	167,968	152,137	133,648
Europe	173,774	158,297	175,516
Asia and Oceania	139,021	141,915	143,265
Total	1,433,903	1,438,987	1,463,538

Net sales are attributed to areas based on the location where the products are shipped and the services are performed to the customers. Other than in Japan and the United States, Canon does not conduct business in any individual country in which its sales in that country exceed 10% of consolidated net sales. Net sales in the United States were ¥1,183,022 million, ¥907,909

million and ¥801,376 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Long-lived assets represent property, plant and equipment, intangible assets, and operating lease right-of-use assets for each geographic area.

24. SUBSEQUENT EVENT

On January 5, 2023, Canon borrowed ¥140,000 million under its existing overdraft facilities with Mizuho Bank, Ltd. and MUFG Bank, Ltd. for required operating funds. The

overdraft facilities bear interest at a rate equal to a base rate plus a spread.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Years ended December 31	Millions of yen				
	Balance at beginning of period	Addition-charged to income	Deduction bad debts written off	Translation adjustments and other	Balance at end of period
2022:					
Allowance for credit losses					
Trade receivables	12,494	817	(1,167)	1,161	13,305
Lease receivables	3,791	3,769	(3,605)	1,641	5,596
2021:					
Allowance for credit losses					
Trade receivables	11,645	1,857	(1,540)	532	12,494
Lease receivables	3,068	2,331	(2,157)	549	3,791
2020:					
Allowance for credit losses					
Trade receivables	10,359	3,419	(1,983)	(150)	11,645
Lease receivables	2,627	2,351	(2,199)	289	3,068

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Canon is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Canon; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of Canon are being made only in accordance with authorizations of management and directors of Canon; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Canon's assets that could have a material effect on the financial statements.

Because there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Canon's management assessed the effectiveness of internal control over financial reporting as of December 31, 2022. In making this assessment, management used the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on its assessment, management concluded that, as of December 31, 2022, Canon's internal control over financial reporting was effective.

Canon's independent registered public accounting firm, Deloitte Touche Tohmatsu LLC, has issued an audit report on the effectiveness of Canon's internal control over financial reporting. This report appears in Item 18.



Fumio Miturai
Chairman & CEO



Toshizo Tanaka
Executive Vice President & CFO

March 30, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

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Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

To the shareholders and the Board of Directors of
Canon Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Canon Inc. and subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2022, and the related notes and the schedule listed in the Index at Item 18 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill—Medical Reporting Unit—Refer to Notes 1 and 8 to the financial statements*Critical Audit Matter Description*

The Company tests goodwill for impairment annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist. The fair value of a reporting unit is determined primarily based on the discounted cash flow analysis, which involves estimates of projected future cash flows and discount rates. The Company's total consolidated goodwill was ¥972,626 million (19.1% of Total assets) as of December 31, 2022, of which ¥542,695 million (55.8% of Goodwill) was allocated to the Medical Reporting Unit. The estimates of projected future cash flows for the Medical Reporting Unit are based on a mid-term management plan that considered the future market growth of medical equipment and growth in geographies where the Company operates its medical business. The estimate of discount rate is determined based on the weighted average cost of capital, which considers primarily market and industry data as well as specific risk factors.

The Company has completed its impairment test in the fourth quarter of 2022 and determined that the Medical Reporting Unit did not fail the impairment test as the fair value of the unit exceeded its carrying amount; however, the fair value in excess of reported carrying value as a percentage is lower than other reporting units. As a result, a future reduction in cash flows of the Medical Reporting Unit could trigger an impairment.

Given the goodwill attributed to the Medical Reporting Unit represents 55.8% of the total consolidated goodwill and there are significant judgements made by management to estimate the fair value of the Medical Reporting Unit, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the projected future cash flows and the selection of the discount rate required a high degree of auditor judgment and an increased extent of effort, including the need to involve fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the projected future cash flows and selection of the discount rate used by management to estimate the fair value of the Medical Reporting Unit included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over management's estimates and assumptions used in the projected future cash flows and selection of the discount rate.
- We evaluated management's ability to accurately project future cash flows by comparing actual results to management's historical projections.
- We made inquiries of management to understand significant assumptions used in the projected future cash flows.
- We evaluated the reasonableness of management's projected future cash flows by comparing the projections to actual results and a mid-term management plan for respective net sales, cost of sales and other elements, which comprise management's projected future cash flows.

- We evaluated the reasonableness of management's significant assumptions regarding the revenue growth rate, which could have a significant impact on the fair value of the Medical Reporting Unit, by comparing the revenue growth rates to the expected market growth rate for each type of medical equipment included in the third-party industry reports.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the valuation methodology and selected discount rate by:
 - Examining whether the valuation methodology used including the one to determine the discount rate was consistent with existing valuation practices that are both generally accepted in practice and recognized as appropriate in similar circumstances.
 - Testing the source information underlying the determination of the discount rate and the mathematical accuracy of the calculation.
 - Developing a range of independent estimates and comparing those to the discount rate selected by management.

Deloitte Touche Tohmatsu LLC

March 30, 2023

We have served as the Company's auditor since 2020.



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To the shareholders and the Board of Directors of
Canon Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Canon Inc. and subsidiaries (the “Company”) as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2022, of the Company and our report dated March 30, 2023, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte Touche Tohmatsu LLC

March 30, 2023

TRANSFER AND REGISTRAR'S OFFICE

Canon Inc.

30-2, Shimomaruko 3-chome, Ohta-ku, Tokyo 146-8501, Japan

Manager of the Register of Shareholders

Mizuho Trust & Banking Co., Ltd.
1-3-3, Marunouchi, Chiyoda-ku, Tokyo 100-8241, Japan

Depository and Agent with Respect to American Depository Receipts for Common Shares

JPMorgan Chase Bank, N.A.
383 Madison Avenue, Floor 11, New York, NY 10179, USA

SHAREHOLDER INFORMATION

Stock Exchange Listings:

Tokyo, Nagoya, Fukuoka and Sapporo Stock exchanges

On February 13, 2023, the Company notified the NYSE of its decision to delist. On February 24, 2023, the Company filed Form 25 with the SEC in connection with the delisting from the NYSE. The delisting became effective on March 6, 2023.

Ordinary General Meeting of Shareholders:

March of each year

Further Information:

For publications or information, please contact the Public Affairs Headquarters, Canon Inc., Tokyo, or access Canon's Website at global.canon/en

MAJOR CONSOLIDATED SUBSIDIARIES

(As of December 31, 2022)

Manufacturing

Canon Precision Inc.
Canon Tokki Corporation
Fukushima Canon Inc.
Canon Medical Systems Corporation
Canon Electron Tubes & Devices Co., Ltd.
Canon Components, Inc.
Canon Semiconductor Equipment Inc.
Canon Chemicals Inc.
Canon Electronics Inc.
Canon Finetech Nisca Inc.
Canon ANELVA Corporation
Nagahama Canon Inc.
Canon Machinery Inc.
Oita Canon Materials Inc.
Oita Canon Inc.
Nagasaki Canon Inc.
Miyazaki Canon Inc.
Canon Virginia, Inc.
Quality Electrodynamics, LLC
Canon Bretagne S.A.S.
Canon Production Printing Netherlands B.V.
Canon Production Printing Germany GmbH & Co.KG
Axis Communications AB
Canon Dalian Business Machines, Inc.
Canon (Suzhou) Inc.
Canon Zhongshan Business Machines Co., Ltd.
Canon Inc., Taiwan
Canon Vietnam Co., Ltd.
Canon Hi-Tech (Thailand) Ltd.
Canon Prachinburi (Thailand) Ltd.
Canon Business Machines (Philippines), Inc.
Canon Opto (Malaysia) Sdn. Bhd.
Canon Machinery (Malaysia) Sdn. Bhd.

Research & Development

Canon Research Centre France S.A.S.

Marketing & Other

Canon Marketing Japan Inc.
Canon System and Support Inc.
Canon IT Solutions Inc.
Canon Medical Finance Co., Ltd.
Canon U.S.A., Inc.
Canon Canada Inc.
Canon Solutions America, Inc.
Canon Financial Services, Inc.
Canon Medical Systems USA, Inc.
Axis AB
Canon Europa N.V.
Canon Europe Ltd.
Canon Ru LLC
Canon (UK) Ltd.
Canon Deutschland GmbH
Canon (Schweiz) AG
Canon Nederland N.V.
Canon France S.A.S.
Canon Middle East FZ-LLC
Canon Italia S.p.A.
Canon Medical Systems Europe B.V.
Milestone Systems A/S
Canon (China) Co., Ltd.
Canon Hongkong Co., Ltd.
Canon Semiconductor Equipment Taiwan, Inc.
Canon Singapore Pte. Ltd.
Canon India Pvt. Ltd.
Canon Australia Pty. Ltd.



CANON INC.

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