

Product Responsibility

Quality Management

Approach to Quality

In 1964, Canon determined that its basic quality concept* is to ensure that customers have “no claims, no trouble,” and has since striven to earn the trust and heartfelt satisfaction of customers around the world by providing products of surpassing quality. Based on this mindset, the Canon Group’s firm commitment is to adhere to the Canon Quality motto that incorporates the three keywords “Safety + Smartness + Satisfaction” —the elements we view as essential to product quality. We are dedicated to improving the quality of products over their lifecycles.



* “To contribute to the growth of the company and prosperity of the world, with the realization of ‘no claims, no trouble’ as our goal, based upon the company’s corporate philosophy and aims.” (Canon Quality Assurance Basic Regulations, Article 2)

Quality Assurance System

At Canon, we have developed an in-house quality management system that we follow assiduously. The system has three defining characteristics, as outlined below.

- (1) Fulfills all the requirements of the international quality assurance standard ISO 9001*¹
- (2) Incorporates the concept of “essential safety” as standard for quality management
- (3) Introduces a framework for checking quality in product commercialization processes to ensure reliable product safety standards*²

Using our in-house quality management system as a base, the various Headquarters divisions at Canon Inc. implement rigorous quality control by building quality assurance (QA) systems that are optimized for the characteristics of each business, as well as in compliance with the legal and regulatory standards of each country and region.

Supplementing the vertically integrated activities of each business division to solve division-specific quality issues, we have formed two committees to focus on improving quality at each of the product development and production stages as part of efforts to coordinate QA activities across the Canon Group. Sharing best QA practices across the company has not only enabled us to increase quality at each stage of development and production but has also led to significant reductions in waste and costs.

*¹ The in-house regulations governing Canon’s quality management system are recognized by the International Register of Certificated Auditors (IRCA) as an alternative standard to ISO 9001.

*² This involves setting QA standards that must be satisfied for each of the stages in the development of Canon products from development and design to production and shipping. At each checkpoint along the development path, the QA framework requires a decision on whether the QA standard is satisfied to ensure rigorous control of product quality.

Education and Raising Quality Awareness

Canon employs a range of measures to instill high employee awareness of the need to maintain outstanding quality and attain further quality improvements, and to help employees gain related knowledge.

We continually communicate our basic concept and motto on quality, while also conducting annual Group-wide surveys of employees to ascertain the degree of quality awareness. Canon Inc. has designated November as Quality Month, and each year in November holds the Quality Fair and Quality Awards to raise quality awareness and recognize exceptional activities that have improved quality.

In addition, we provide online educational courses on quality for all employees and have developed a tiered training curriculum for Group companies in Japan and abroad. Alongside this, we have training programs customized to the specific circumstances and issues of each division, and we also conduct on-site training at production sites.

We focus particular attention on product safety training, conducting a wide range of specialized programs in areas such as product safety regulations, product liability laws, and substantial safety technology, as well as product safety orientations for new staff. In 2022, besides holding 10 training courses, we provided a set of four online lectures on safety regulations for products and chemicals, designed for access through the year by Canon Group employees with responsibilities in related areas.

Canon Inc. conducts e-learning activities to promote thorough understanding of the Voluntary Action Plan for Product Safety on an ongoing basis. In addition, we continually provide safety information, such as safety cautions when making repairs or exchanging parts, to Group companies involved with product sales, repair, and service.

Ensuring Product Safety

Voluntary Action Plan Based on the Basic Policy on Product Safety

Canon Inc. believes one of its most fundamental and important missions as a manufacturer is to provide safe products to customers. With this in mind, we formulated a Basic Policy on Product Safety that Group companies in Japan strictly adhere to.

Based on this policy, Canon Inc. and Group companies in Japan formulate and follow individual Voluntary Action Plans for Product Safety suited to their business format, working to ensure product safety while remaining customer-focused.

Moreover, we comply fully with government laws and notices, and have developed a system for immediate reporting, for example, in the unlikely event of an accident involving one of our products.

- 2022 Activities Scorecard for Canon Inc.
- Carried out review by senior management based on the Voluntary Action Plan for Product Safety (conducted annually since 2008)
- Continued efforts to raise awareness among customers about smoke emission from counterfeit batteries and the safe handling of electric cords and plugs, etc.
- Continued implementation of product safety training and emphasis on the importance of product safety during basic training on quality
- Continued implementation of e-learning course for all employees to promote understanding of the Voluntary Action Plan for Product Safety
- Revised six internal standards relating to product/chemical safety

Establishment of In-house Product Safety Technical Standards

Canon has established its own safety standards (for substantial safety*) for all Canon products, which take into account customer safety as well as legally stipulated product safety standards.

For example, Canon's safety-conscious standards call for the use of plastics that are more flame resistant than the law requires, and we implement double-protection schemes for important safety-related components. We regularly revise these standards in light of technological advances as well as changes in how customers use our products, and changes in customer demands regarding safety.

We use our proprietary safety standards to apply rigorous quality controls to all products within a framework for checking quality across product

commercialization processes. Ensuring that all our products are safe to use, we never release to market any product not meeting the standards.

* This means safety not only in terms of what is required by laws and statutes, but also any safety issue that can reasonably be expected to arise during customer use even if not regulated or mandated by law.

- Main Approaches to Safety Technology
 - Conduct safety assessments that address human factors (physical function, abilities, thinking and behavior), taking into account the variety of possible operations a user may perform
 - Engage in joint development with manufacturers of essential safety-related components, such as noncombustible parts and non-fail protective components
 - Conduct safety-confirmation testing based on abnormal voltage waveforms in commercial power supplies confirmed at marketing sites in each country and region
 - Hypothesize abnormalities, such as glitches or malfunctions, and conduct stricter safety-evaluation testing than is required by the laws of each country or region

Quality Assessment During Development

- Creation of Assessment Environment for the Delivery of Safe Products

Canon Inc. has set up testing facilities compliant with public standards and relevant laws to accurately and thoroughly assess the safety of products in terms of electromagnetic interference (EMI), noise, flame resistance ratings, volatile organic compounds (VOCs), genotoxicity, and electrical safety.

Canon Inc. has also obtained certification in public standards such as ISO/IEC*1, enabling certified testing to be carried out in-house according to highly precise measurements. Specifically, Canon is equipped with the industry's leading testing technology, including semi-anechoic chambers for EMI testing that are among the largest and best in Japan, shielded rooms, and semi-anechoic chambers for acoustic noise testing. In addition to EMC testing*2, Canon is able to conduct in-house testing necessary for applying for Blue Angel*3 and other certifications.

*1 International Electrotechnical Commission, an international standardization group that formulates standards on electrical and digital technologies.

*2 Electromagnetic Compatibility testing. Testing for electromagnetic interference caused by a product or its power source that may affect the operation of other equipment, and testing for electromagnetic susceptibility of the product itself that may result in malfunction.

*3 Launched in Germany as the world's first environmental labeling (ecolabeling) system.

Varied Safety-oriented Initiatives

■ **Safety Assessments of Chemical Substances Released from Products**

Canon assesses the chemical emissions from its printers, multifunctional devices (MFDs), projectors, and other products. Our assessments include measurements of data necessary for acquisition of Germany's Blue Angel environmental label.

To ensure the safety of customers using Canon products, we have also defined our own internal safety standards for volatile organic compounds (VOCs), based on the guidelines for internal exposure limits and indicators as set by major bodies in Japan, the US and Europe, along with the related international standards. We also check that our products conform to these standards.

The in-house laboratory conducting these assessments has received accreditation from Germany's Federal Institute for Materials Research and Testing (BAM) and is therefore capable of conducting the assessments required for applications for Blue Angel certification. It has also received ISO/IEC 17025 accreditation to conduct measurements in a fair and neutral manner.

The international standard relating to VOC emissions (ISO/IEC 28360-1) was revised in November 2021, applying new emission models and calculation formulae to printers and copiers equipped with energy-saving modes. We reflected this change at once in our internal measurement standards and all related product evaluations.



Chemical emission evaluation testing laboratory

■ **Safety Assessments of Ink, Toner, and Other Consumables**
 Canon assesses the safety of its ink, toner, and other consumables, enabling customers to use its printers and MFDs with confidence.

For example, with regard to the materials for ink and toner, we carry out assessments related to genotoxicity, thought to be closely linked to carcinogenicity, using bacterial reverse mutation tests and in vitro mammalian cell micronucleus tests. Regarding micronucleus tests, Canon is conducting in-house tests to assess the water-insoluble materials used in many Canon products.

Canon's testing laboratories are highly reliable and

have been certified by Japan's Ministry of Health, Labour and Welfare as in compliance with Good Laboratory Practice (GLP)* standards in the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. (Chemical Substances Control Law). Canon's laboratories also comply with GLP standards set by the Organization for Economic Cooperation and Development (OECD). Furthermore, Canon became the first in Japan to have its in vitro mammalian cell micronucleus test certified as in compliance with the GLP standards in the Chemical Substances Control Law.

* The standard for the management, testing and reporting of facilities and organizations that operate as testing agencies conducting chemical substance safety assessments. Testing according to GLP standards ensures reproducibility and data reliability. GLP standards set by the OECD were enacted in 1981, and since then, member countries have developed domestic laws and regulations based on these standards. Facilities certified as compliant under Japan's GLP standards in the Chemical Substances Control Law must have their certification renewed every three years, which involves receiving a new conformity screening prior to the expiration of the certification's validity period.

■ **Assessing the Safety of Chemicals and Medical Devices Through Animal Testing**

In some cases, animal testing is an effective means of verifying the impact a chemical may have on human health or the environment. Certain laws and regulations in Japan and other countries require the submission of animal test data as part of statutory safety assessments of chemicals and medical devices.

In light of this, Canon conducts animal testing through a third-party specialist institution, but only in cases where it cannot obtain existing data externally with regard to chemicals such as toners and inks, and no alternative is available. This approach is stipulated in our in-house rules on the safety of chemical products and in our adherence to the Three Rs* for animal testing. Furthermore, for certain components and materials used in medical devices, we commission external specialist organizations to conduct animal testing if necessary to comply with standards.

Canon will continue to gather information and conduct analysis on novel approaches and evaluation methods that do not require animal testing so that alternative forms of evaluation can be conducted.

* An internationally accepted set of guiding principles for the use of animals in testing proposed in 1959. Reduction: Reduce the number of animals used in testing. Refinement: Minimize the suffering of animals. Replacement: Use alternative methods to animal testing.

Ensuring Quality and Reliability in Parts Procurement

Canon actively pursues activities to ensure the quality and reliability of procured parts and materials used in products, so that they can be used for years with confidence.

To ensure product quality, we have devised technical checklists by type for important procured components; we also maintain a quality assurance framework to ascertain the technical capabilities of suppliers prior to

any new parts procurement. To enhance quality, we work together with suppliers on optimizing quality control systems and manufacturing processes. In addition, to help detect and resolve any quality defects at an early stage, we use high-precision nondestructive analysis technologies, such as X-ray CT scans and thermal analysis, to evaluate electronic components and isolate defects. We are also working to utilize and strengthen technologies such as chemical analysis to elucidate the causes of material degradation/damage or contamination.

Product/Service Security Measures
Measures to Address Vulnerabilities in Canon Products/Services

Network connectivity via the cloud or using smartphones is increasingly enhancing benefits from Canon products and services. On the other hand, there is a growing need for measures against rising cybersecurity risks such as leaks of personal information or confidential data. Canon emphasizes potential cybersecurity risks from the product development stage. If any specific security issues are identified, information is shared at once with relevant divisions so efforts can be made to prevent any impact on customers and mitigate related risk.

■ **Development Process**

Canon incorporates the necessary security features into products and services from the development stage, based on the trends in technology led by government entities, industry groups and software vendors on a global basis. We utilize methods such as review-based checks and vulnerability tests to mitigate related risks, with a secure development process positioned as a vital part of development. To stop recurrence of past vulnerabilities, we have made vulnerability assessment

a requirement before final quality sign-off, and processes to confirm anti-recurrence measures have been implemented are under Group-wide development.

■ **Education and Training**

Product/service vulnerabilities constitute a specialized area where technical progress and complexity make acquiring the latest knowledge and tracking developments a necessity. We define career and skill levels for our new software engineers, customer service engineers and security specialists, and have designed a level-specific security training curriculum to help develop critical human resources. Post-training follow-up processes also support onsite vulnerability testing to build practical skills alongside the theoretical knowledge base.

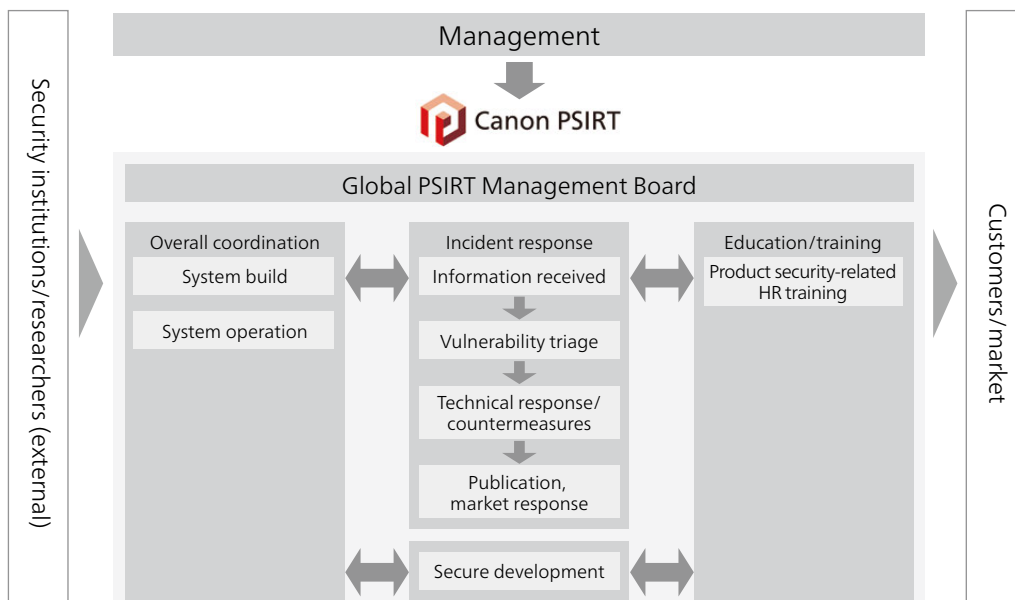
■ **Activities of Product Security Incident Response Team (Canon PSIRT)**

In January 2022, we created and initiated the Canon PSIRT program as an internal response to addressing any security issues as they arise in the marketplace.



Working in partnership with the METI's early warning framework and external groups such as the JPCERT Coordination Center, Canon PSIRT focuses on managing vulnerability-related market developments, including gathering the latest information. Fully integrated into our risk management approach, the PSIRT website releases the relevant information to customers on vulnerabilities in Canon products and services in a timely manner whenever they are received from researchers worldwide, thus ensuring our response to cybersecurity risks is on a par with the industry.

Reference: Canon PSIRT
<https://psirt.canon>



After-sales Support

Enhancing After-sales Services in Various Countries and Regions

After-sales service is crucial to enabling customers to use our products with confidence. Canon is putting efforts into expanding the after-sales service network to be able to provide the same level of prompt, reliable support anywhere in the world.

For example, to enhance customer usability and more easily resolve issues, we are expanding customer support services globally through our website. In addition to posting FAQs, product specifications, user manuals, and other support information, the latest driver software is also available for download. Support information and software are both based on content shared worldwide, while including needed local content for each country or region. Group marketing companies then localize the content in various languages.

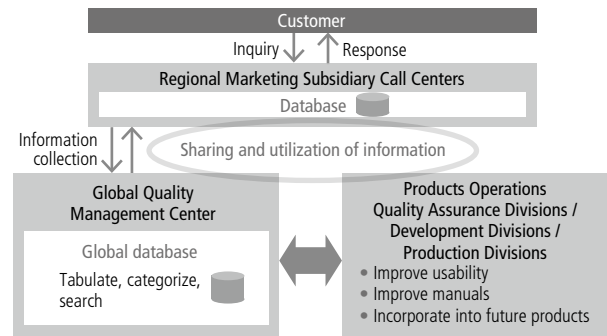
We continually monitor how customers use content and analyze survey responses and other data, feeding back the results to divisions producing content to constantly make updates and improve customer usability. We are also working to offer more user-friendly services by optimizing content to support the greater use of a wider range of information devices.

Market Information Collection and Analysis, Feedback

In order to achieve even greater customer satisfaction, Canon conducts product evaluations from the customer's perspective at the development stage, and incorporates customer feedback and requests in its development and design processes.

For example, using a framework called the Call Information Collection and Analysis System, we built a database of customer feedback and requests received by call centers at our marketing companies worldwide, and manage this data centrally. Development divisions take advantage of this data to enhance customer usability, such as improving display methods on product control panels or simplifying the steps needed to connect to wireless LAN. Information gleaned from customers is shared internally throughout the Group, including development divisions, production divisions and marketing companies, and used to improve each local site.

Call Information Collection and Analysis System

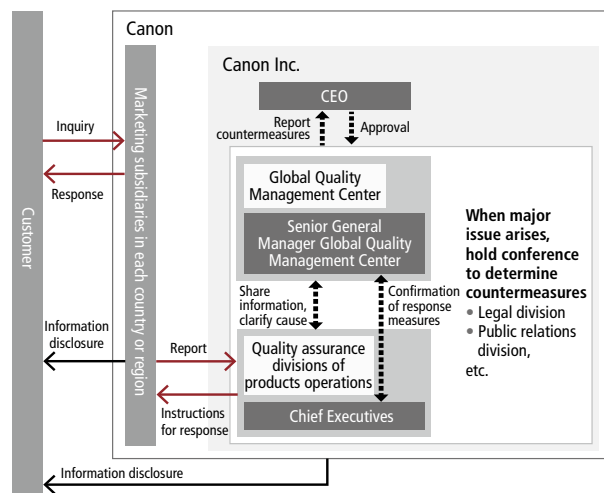


Process for Responding to Quality Issues

Should a quality issue arise, Canon has systems in place to promptly and appropriately investigate the cause, repair products free of charge, and disclose quality information. We also keep our customers informed about product quality issues and remedial procedures by placing product advisory statements in various newspapers and on our website.

There were no such statements in 2022. Should a quality issue arise, our marketing companies in each country or region, which serve as the contact point for customers, file a report with the quality assurance division of the respective Canon Inc. Headquarters division (products operations). The quality assurance division then investigates the cause of the issue as well as countermeasures. Moreover, in the event of a major issue, related Headquarters divisions (products operations), the Global Quality Management Center, legal division, and public relations division are consulted concerning response measures, and after the matter is reported to the CEO, action is promptly taken.

→ When issue arises When major issue arises → Information disclosure



Improving Product Usability

Providing Information on the Appropriate Use of Products

■ Pursuing Usability for Canon Products

From consumer products to industrial equipment, to ensure the greatest possible ease of understanding and use for customers with a wide range of needs, Canon carries out usability tests using both internal and external monitors, web-based surveys, and expert staff evaluations at the product development stage.

We objectively test human factors, including physical characteristics, perception, judgment, and operating burden, to develop products that customers can use comfortably and with ease. We built a dedicated monitoring test room equipped to allow detailed observation and recording of the behavior and actions of testers as they operate devices, including even hand movements.

Moreover, we are working to create safer testing environments by implementing measures to prevent infection such as a mechanism to broadcast testing scenarios for remote observation and the installation of clear plastic panels to block air-borne droplets.

■ Promoting Universal Design

Canon strives to develop people-friendly products by pursuing functionality, operability, and convenience from the customer's perspective in actual usage situations. As part of this effort, we have adopted a universal design approach through which we endeavor to create products from a customer perspective from the design stage onward, facilitating use by all customers, regardless of age, gender, nationality, or physical ability. At Canon, we approach product design and development from the perspective of making the customer "look like a natural."

For example, we evaluate and test usability, accessibility, and comfort from various perspectives, regarding aspects such as text sizes that are easy to read and color designs that are easy to recognize for people with various visual sensitivities. Information obtained from these activities is valuable in the development of more user-friendly products.

Moreover, aiming to encourage efforts in universal design, we distribute a guidance booklet to all development divisions that addresses the physical characteristics of users and various other issues that arise during product use, and also conduct e-learning courses to enhance knowledge in this area. We also create customer-oriented pamphlets and post website content among other steps to share information both inside and outside the company about the universal design initiatives underway at Canon.

Principles of Universal Design

- **Ensuring Inherent Usability**
After obtaining a thorough understanding of the customer's usage circumstances, we give every consideration to the inherent usability of the design in keeping with the product's purpose and usage environment.
- **Creating Products and Services People Enjoy Using**
We continually pursue innovative idea creation that goes beyond simple problem-solving in order to create products and services that customers want to use.
- **Applying Cutting-Edge Technologies**
We apply Canon's leading technologies to products to improve customer convenience and to help customers realize a richer, more comfortable life.

Reference: Canon's Universal Design
<https://global.canon/en/design/ud/>

■ Product Accessibility

Canon is working to increase the accessibility of its products in order to make them easy to use for the elderly and persons with disabilities.

Section 508 of the United States Rehabilitation Act requires that agencies of the federal government only purchase products that meet stipulated accessibility standards. The results of Section 508 accessibility evaluations of Canon products have been collected into a VPAT* and made available on the Canon U.S.A. website. To facilitate ready access for our developers, content on Section 508 stipulations is also made available internally in the form of Accessibility Evaluation Guidelines. Over in Europe, the European Accessibility Act, an EU Directive, was promulgated in 2019. European Standard EN 301 549, which is consistent with Section 508 standards, is now beginning to be adopted for government procurement, not only in Europe but also globally.

Canon is committed to continuously gathering the latest information, and to developing products that are compliant with the accessibility requirements of each country and region.

* Voluntary Product Accessibility Template, a document that evaluates how accessible a particular product is according to Section 508 standards.

Corporate Governance

Fundamental Policy and Structure

Fundamental Policy

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. At the same time, a sense of ethics and mission held by each executive and employee of a company is very important in order to achieve continuous corporate growth and development.

Reference: An Overview of Corporate Governance at Canon Inc. <https://global.canon/en/ir/strategies/governance.html>

Governance Structure

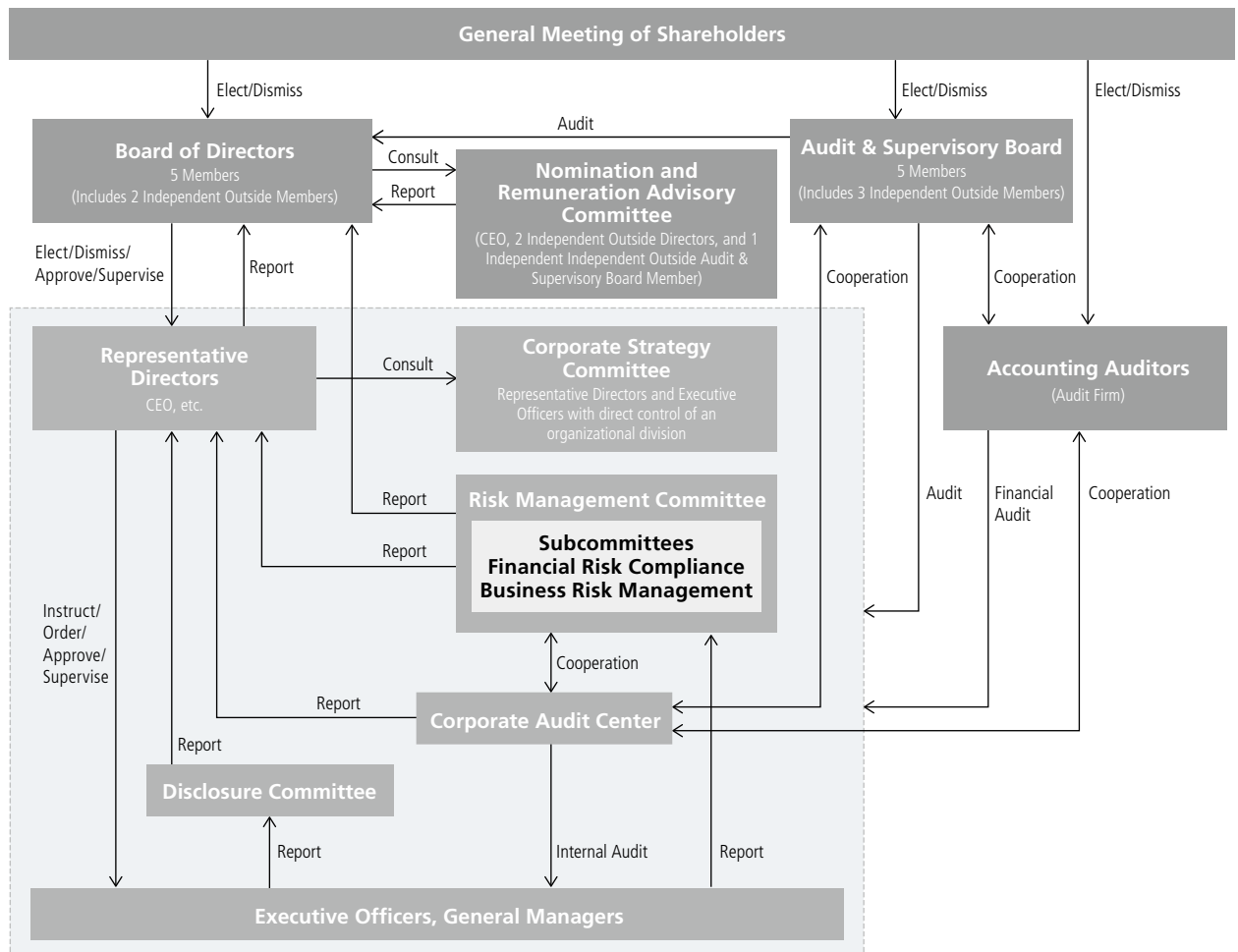
Basic Views

Canon Inc. is globally expanding its businesses 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 for the entire Canon Group or matters that straddle several business fields from a company-wide perspective and at the same time secure appropriate decision making and execution of operation, the Canon Inc. judges the corporate governance structure below to be effective.

Change in Corporate Governance Structure to Continually Improve Corporate Value

2005	2008	2009	2010	2014	2015	2016	2020
	Introduced the Executive Officer system	Appointed non-Japanese Executive Officer	Reduced the number of Directors (from 25 to 17)	Appointed Outside Directors (two)	Appointed female Executive Officer Measures to assess effectiveness of Board of Directors	Reduced the number of Directors (from 17 to 6) Established Nomination and Remuneration Advisory Committee Established the Independence Standards for Independent Directors/Audit and Supervisory Board Members	

Corporate Governance Structure



* The grey boxes represent the Organizations executing operations.

■ 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 are 40 Executive Officers, including two females and one non-Japanese.

■ 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 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 internal 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, etc., 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, etc., and it has a dedicated staff. The Audit & Supervisory Board Members can order headquarters 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 services to improve each monitoring function.

■ Nomination and Remuneration Committee

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.

In particular, with regard to chief executive officer candidates, it is the CEO's responsibility to select and train candidates through an executive training system and a mechanism for accumulating management experience, including the transfer of persons who have been selected as Executive Officers and involvement in company-wide projects. And the process is confirmed by the Nomination and Remuneration Advisory Committee.

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.

■ Corporate Strategy 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.

■ Risk Management Committee

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.

■ Disclosure Committee

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, and information security. Audit results are reported not only to the CEO and CFO, but also to the Audit & Supervisory Board Members and the Audit & Supervisory

Board as described in "Cooperation between Audit & Supervisory Board Members and Internal Auditing" (→P74). 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.

Board Policies and Procedures in the Appointment of Senior Management and the Nomination of Director and Audit & Supervisory Board Member Candidates

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 and age.

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

Representative Directors and Executive Directors	Have a true understanding of the corporate philosophy and code of conduct of the company. At the same time, have broad familiarity with the company'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 the company'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, to shoulder the responsibility of execution in specific fields, and truly understand the corporate philosophy and code of conduct of the company.

Skills of Board of Directors

The skills that Canon Inc.'s Board of Directors should generally possess overall, and the skills possessed by each current Director are publicly disclosed on the website below. Canon Inc., taking into account the changing business environment, and as appropriate, will continue to explore the most suitable makeup of the Board of Directors, reviewing the skills that Canon Inc.'s Board of Directors should possess overall.

Reference: Corporate Governance
<https://global.canon/en/csr/management/governance.html>

Function, Role, Independence, and Appointment of Outside Directors and Outside Audit & Supervisory Board Members

Canon Inc. establishes the "Independence Standards for Independent Directors/Audit and Supervisory Board Members" resolved by the Board of Directors with the consent of all Audit and Supervisory Board Members, in order to clarify the standards for ensuring independence of Independent Directors / Audit and Supervisory Board Members of Canon Inc., taking into consideration Japan's Corporate Governance Code (Principle 4.9) and the independence criteria set by securities exchanges in Japan. The standards are posted on Canon Inc.'s website. All of Canon Inc.'s Outside Directors and Outside Audit & Supervisory Board Members satisfy the standards for independence, and assume roles that contribute to the maintenance and improvement of the Board of Directors' transparency and accountability. In addition, all of our Outside Directors and Outside Audit & Supervisory Board Members are registered as Independent Directors/Audit & Supervisory Board Members with the stock exchanges of Tokyo, Nagoya, Fukuoka and Sapporo in accordance with the requirements of the relevant stock exchange.

Reference: Independence Standards for Independent Directors/Audit and Supervisory Board Members

Canon Inc. deems that a person who satisfies the requirements for Outside Directors/Audit and Supervisory Board Members prescribed by the Corporation Law of Japan, and meets the independence criteria set by securities exchanges in Japan, and does not fall into any of the items below, is an "Independent Director/Audit and Supervisory Board Member" (a person who is independent from the management of Canon Inc. and unlikely to have conflicts of interest with general shareholders).

1. A person/organization for which Canon Group (Canon Inc. and its subsidiaries; hereinafter the same) is a major client, or a major client of Canon Group, or an executing person of such organization or client
2. A major lender to Canon Group, or an executing person of such lender
3. A large shareholder of Canon Inc., or an executing person of such shareholder
4. A person/organization receiving large amounts of contributions from Canon Group, or an executing person of such organization
5. A consultant, accounting professional or legal professional who has received a large amount of money or other properties from Canon Group, other than as compensation for being a director/Audit and Supervisory Board Member (if the recipient is a corporation, partnership or any other organization, this item applies to any person belonging to said organization.)
6. A certified public accountant belonging to the audit firm engaged to conduct the statutory audit of Canon Group (including any such accountant to whom this item has applied in the last 3 business years)
7. An executing person of another company in cases where an executing person of Canon Group is an outside director/Audit and Supervisory Board Member of such other company
8. An immediate family member (spouse and a relative within the second degree of kinship) of any of the persons listed in each of items 1 to 7; provided, however that the persons to whom this is applicable shall be limited to key executing persons such as directors, executive officers of companies and partners of advisory firms

Outside Directors and Outside Audit & Supervisory Board Members

Name		Reasons for Appointing
Outside Directors	Kunitaro Saida	Kunitaro Saida has been serving as an attorney in corporate legal affairs subsequent to his distinguished career as Superintending Prosecutor of High Public Prosecutors Offices (in Takamatsu, Hiroshima, and Osaka), and also has experience serving as an Outside Director and an Outside Audit & Supervisory Board Member for other companies. Canon Inc. elected him as an Outside Director in hopes that he will furnish particularly useful advice, drawing on his wealth of experience and high level of expertise regarding legal affairs when taking part in discussions on internal control mechanisms and corporate governance, including from the perspective of ensuring compliance.
	Yusuke Kawamura	Yusuke Kawamura has a wealth of experience as an Outside Director along with capacity as an expert with respect to financial and securities systems as well as strategy for managing financial institutions, given that he worked as a securities company and subsequently served in various positions, including as a university professor, a commissioner of councils of Japan's Ministry of Finance and Financial Services Agency, and an Executive Counselor of the Japan Securities Dealers Association. Canon Inc. elected him as an Outside Director in hopes that he will furnish particularly useful advice, drawing on his wealth of experience and high level of expertise regarding finance and securities, especially when taking part in discussions on M&A and ESG-related topics from a shareholder and investor perspective.
Outside Audit & Supervisory Board Members	Yutaka Tanaka	Yutaka Tanaka had for many years served as a judge in charge of civil cases, and subsequently has been engaging in corporate legal affairs as an attorney and as a law school professor. Canon Inc. elected him as an Outside Audit & Supervisory Board Member as it desires to leverage his considerable experience and high level of expert knowledge about legal affairs to further enhance Canon Inc.'s auditing system.
	Hiroshi Yoshida	Hiroshi Yoshida has engaged in the practice of corporate accounting as a certified public accountant for many years. Canon Inc. elected him as an Outside Audit & Supervisory Board Member so that Canon Inc.'s management may utilize his wealth of experience and advanced expert knowledge related to corporate accounting in improving the appropriateness of audits.
	Koichi Kashimoto	Koichi Kashimoto has, over many years, been involved in business management of The Dai-ichi Life Insurance Company, Limited, has served as a supervisor of general affairs including legal affairs, and furthermore has extensive international experience. Canon Inc. elected him as an Outside Audit & Supervisory Board Member given expectations that he will utilize such knowledge and experience in performing audits encompassing the entire Group, including its overseas operations.

Analyzing and Evaluating the Effectiveness of the Board of Directors

Once a year, a questionnaire survey of Directors and Audit & Supervisory Board Members on the items below is conducted. Based on the result of the questionnaire survey, analysis and evaluations regarding the effectiveness of the entire Board of Directors are carried out at the Board of Directors' meeting.

- As for the operation of Board of Directors (including the appropriateness of when documents are distributed, how often meetings are held, and the time spent deliberating)
- As for the decision making and supervisory function of the Board of Directors (including the appropriateness of agenda items and agenda criteria of the Board of Directors as well as appropriateness, etc., of content that is reported.)
- As for the roles of Outside Directors and Audit & Supervisory Board Members (including the necessity of training, etc., regarding the understanding of company affairs and corporate structure)

As for fiscal year 2022, at the Board of Directors meeting held in February 2023, it was determined that there was no problem with the effectiveness of Board of Directors meetings due to ongoing measures to enhance deliberation at these meetings. These measures include, providing Outside Directors and the Audit & Supervisory Board with prior explanations of the meeting agendas, sharing management information by having Outside Directors attend Corporate Strategy Committee meeting, etc., and the periodical exchanging of opinions between Outside Directors and the Audit & Supervisory Board based on the findings of Audit & Supervisory Board Members, and creating opportunities for Outside Directors and Audit & Supervisory Board Members to receive individual explanations from each business group about their business strategy, and for Outside Directors and the Audit & Supervisory Board Members to receive explanations from the department in charge of sustainability about concrete measures. In the future, yearly analysis and evaluations will be continued and an overview of the results will be disclosed. At the same time, when necessary, efforts will be made to improve the running, etc., of Board of Directors meetings.

Executive Compensation

The remuneration of Representative Directors and Executive Directors consists of a basic remuneration, a bonus and stock-type compensation stock options as described below.

<Basic Remuneration>

Basic remuneration consists of a fixed amount of monetary remuneration paid monthly as consideration for the performance of duties of Directors. The amount is prescribed according to each Director's position and the degree to which the Director contributes in this role and the total remuneration amount is within the limit approved at the General Meeting of Shareholders. (Total remuneration amount here refers to the total basic remuneration of all Directors including Outside Directors.)

<Bonus>

As a reward for Director service over a one-year term, Directors receive a bonus once a year for which "consolidated income before income taxes" is used as a financial indicator to measure the results of annual group-wide corporate activities. The total amount of the Director's bonus is determined by multiplying such consolidated income with a given predetermined coefficient that corresponds with the Director's position. It is also determined through individual assessment based on the degree to which the Director contributes in this role.

Matters including whether a payment is allowed or the total amount of bonus as calculated above, are deliberated during the General Meeting of Shareholders every year.

<Stock-type Compensation Stock Options>

Once a year, stock acquisition rights on Canon Inc.'s shares are granted with the intent of providing an incentive for

Directors to further contribute to the improvement of medium- and long-term performance and raising corporate value through sharing the benefits and risks of share price fluctuations with Canon Inc.'s shareholders. The total amount of the stock acquisition rights is within the amount approved at the General Meeting of Shareholders and the number of those stock acquisition rights granted is calculated based on the amount determined by the Director's position, the consolidated income before income taxes in the previous year, as well as the degree to which the Director has contributed in this role (the amount of monetary compensation claims granted to Directors for the payment in exchange for the stock acquisition rights), and the stock price level at the time of granting. As remuneration is linked to the achievements throughout one's term in office, Canon Inc. has a system in place that allows the exercising of acquisition rights at the time of retirement.

As for Outside Directors and Audit & Supervisory Board Members, remuneration is limited to the basic remuneration, which is a fixed amount, paid each month.

■ Process for Determining Remuneration

Canon Inc., with the aim of ensuring the transparency and objectivity of the remuneration decision-making process as well as the validity of the remuneration system, 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. The Committee, after examining the rationale of the remuneration system, including calculation standards of the basic remuneration, the bonus and the granting standards of stock-type compensation stock option plan, reports to the Board of Directors to the effect that the system is reasonable.

Decisions regarding the amount and content of remuneration (the amount of basic remuneration and bonus as well as the number of stock-type compensation stock options) of each Director is delegated to the CEO. However, the CEO must make decisions based on the prescribed criteria in accordance with the policy described above and, prior to making a decision, the CEO must present the proposal to the Nomination and Remuneration Advisory Committee for confirmation.

The total amount of Directors' basic remuneration and stock-type compensation stock options is within the total remuneration (upper limit) that is approved by the shareholders' meeting. As for the bonus for Directors, the payment is fixed provided that the proposal about such payment submitted at the ordinary general meeting of shareholders is approved.

Remuneration for individual Audit & Supervisory Board Members is determined through discussion among the Audit & Supervisory Board Members within the limit of the remuneration amount approved by the General Meeting of Shareholders.

2022 Executive Compensation by Executive Category, Type of Compensation, and Number of Executives

Category of Position	Number of Directors and Audit & Supervisory Board Members	Remuneration Amounts by Classification (millions of yen)			Remuneration Amounts (millions of yen)
		Basic Remuneration	Bonus	Stock-type Compensation Stock Option	
Directors (excl. Outside Directors)	3	576	276	60	912
Outside Directors	2	49	–	–	49
Audit & Supervisory Board Members (excl. Outside Audit & Supervisory Board Members)	3	44	–	–	44
Outside Audit & Supervisory Board Members	3	59	–	–	59

* The above number of Audit & Supervisory Board Members includes one Audit & Supervisory Board Member who has resigned at the end of the Ordinary General Meeting of Shareholders for the 121st Business Term held on March 30, 2022.

* "Bonus" represents the accrued Directors' bonuses for this term.

* In the column Stock-type Compensation Stock Options, expense for this term are presented.

Director and Audit & Supervisory Committee Member Training and Cooperation

■ Training Policy for Directors and Audit & Supervisory Board Members

For Directors and Audit & Supervisory Board Members, when assuming their positions, training is carried out with the aim of thoroughly understanding their roles and responsibilities and securing necessary or useful knowledge for them to properly fulfill their duties. Also incumbent Directors and Audit & Supervisory Board Members can, at Canon Inc.'s expense, attend training courses held inside and outside the company. Furthermore, Outside Directors and Outside Audit & Supervisory Board Members, to familiarize them with the company's business, are given opportunities, including attending important meetings such as meetings of the Corporate Strategy Committee, holding meetings with the person in charge of business divisions, and visiting operation sites as necessary.

■ Cooperation between Audit & Supervisory Board Members and Internal Auditing

The Audit & Supervisory Board Members and the Audit & Supervisory Board receive from the internal auditing division outlines of their internal audit plan before conducting each audit as well as reports about important auditing items. After the internal audit is conducted, the Audit & Supervisory Board Members and the Audit & Supervisory Board hear reports on all audit results and evaluations. Furthermore, close cooperation is being worked for through, for example, the exchanging of opinions and information as necessary.

■ Cooperation between Audit & Supervisory Board Members and Accounting Auditors

Audit & Supervisory Board Members and the Audit and Supervisory Board, prior to the start of an audit, receive briefs from the Accounting Auditors which include an overview of the audit plan and an explanation of important audit matters, and confirms validity. Additionally, the Audit & Supervisory Board Members and the Audit & Supervisory Board, at least once a month, receive reports from the Accounting Auditors on such matters as the implementation of accounting audits, quarterly reviews, and internal control audits, as well as briefs on the results of audits prior to expressing their opinion. With regard to key audit matters, Audit & Supervisory Board Members and the Audit and Supervisory Board receive reports and exchange opinions on the implementation status of risk assessment procedures on a regular basis.

In addition to accompanying the Accounting Auditors to be present during actual inventory audits, Audit & Supervisory Board Members also hold meetings with the Accounting Auditors in charge of auditing major affiliated companies in an effort to keep track of the status of audits being conducted. As for the Accounting Auditors' system for managing the quality of the audit, detailed explanations are received and information is requested as necessary to confirm the appropriateness of such. For the purpose of monitoring the independence of the Accounting Auditors, the Company has introduced a system in which the Audit & Supervisory Board pre-approves the contents of audit and non-audit service contracts and the amount of remuneration, including those of subsidiaries.

Policy for Constructive Dialogue with Shareholders Policy

For sustainable growth and to help improve corporate value over a medium- to long-term perspective, Canon Inc. has constructive dialogue with shareholders through an Ordinary General Meeting of Shareholders, corporate strategy conferences, financial results conferences, and interviews with major institutional investors.

Structure to Promote Dialogue

Investor Relations (IR), sustainability, and legal divisions, are responsible for working together and promoting dialogue. The Executive Vice President & CFO oversees the entire structure to promote dialogue.

For analysts and institutional investors, the CEO hosts a corporate strategy conference at the beginning of the year. Other than this, the CFO hosts quarterly financial results conferences. For individual investors, on Canon Inc.'s website, specific pages containing information about corporate strategy, financial results, and financial data, etc., have been set up using descriptions that are easy to understand.

Additionally, Canon Inc. provides opportunities to meet with executive officers, Outside Directors, Audit & Supervisory Board Members, etc., as necessary, to engage in dialogue with analysts and institutional investors in Japan and overseas. For detail, see "An Overview of Corporate Governance at Canon Inc."

As for the opinions or demands that are obtained through dialogue with shareholders, accordingly, the department in charge reports to the CFO and the CFO reports important ones to the CEO or the Board of Directors.

Reference: Investor Relations
<https://global.canon/en/ir/>

Risk Management

Basic Approach

At Canon, we recognize that to ensure proper operations and to continually improve corporate value, implementation and maintenance of a risk management system to deal with significant risks that the Group may face in business operations is vital.

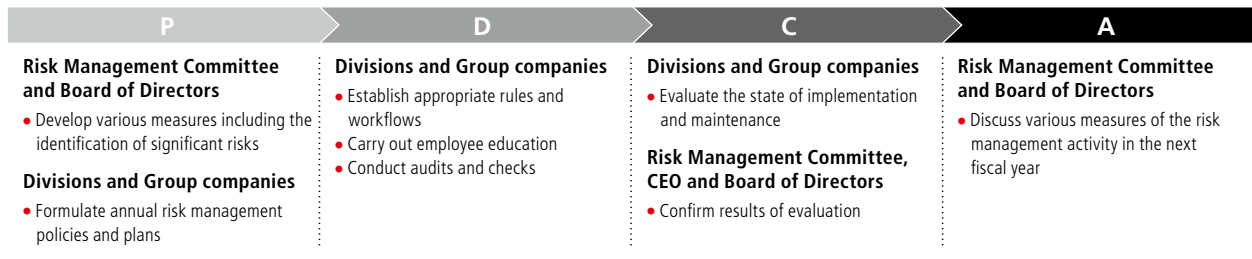
Risk Management System

Canon Inc. has established a risk management committee based on a resolution of the Board of Directors. Chaired by the CFO, the committee has established three subcommittees: the Financial Risk Management Subcommittee, Compliance Subcommittee, and Business Risk Management Subcommittee.

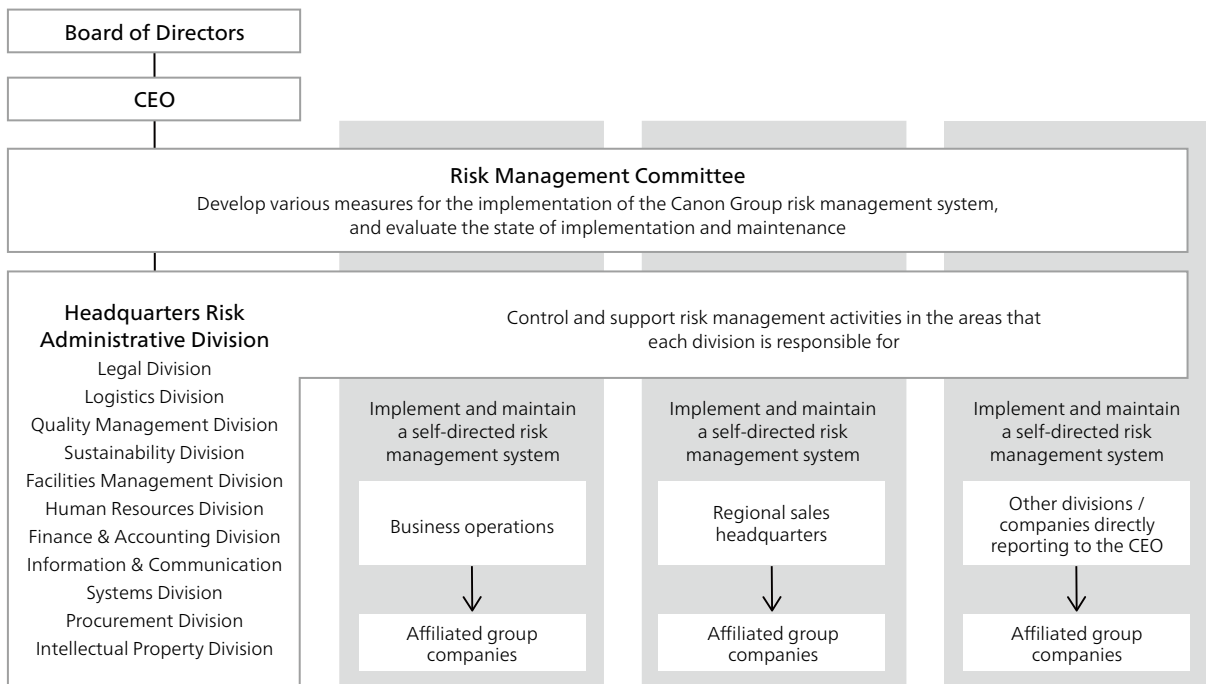
The Risk Management Committee develops various measures to implement Canon's risk management system, including identifying any significant risks (violations of laws and regulations or corporate ethics, inappropriate financial reporting, environmental issues, quality issues or information leaks, etc.) that the Group may face in the course of business.

Canon Inc. administrative divisions responsible for various risks associated with business activities, including the Legal Division, Logistics Division, Quality Management Division, Human Resources Division, Finance & Accounting Division, belong to the relevant subcommittee and according to their areas of responsibility, control and support the risk management activities of each Canon Inc. division and Group company.

Processes for Implementation and Maintenance of Risk Management System



Risk Management System



Under this system, each Canon Inc. division and Group company implements and maintains a self-directed risk management system and makes a yearly report to the Risk Management Committee on the results of its activities.

Having received the report of each subcommittee, division, and Group company, the Risk Management Committee evaluates the state of implementation and maintenance of the risk management system and reports its findings to the CEO and Board of Directors. The evaluation conducted in 2022 found no material flaws in the system.

Group-wide Risk Management Communication

During training for newly appointed Group executives conducted by the Human Resources Division at Canon Inc., participants are educated on the importance of autonomously implementing and maintaining a risk management system at each company, and the role of executives in implementing and maintaining such a system.

Furthermore, at Canon Inc. and Group companies in Japan, we distribute the Canon Group Risk Management Handbook to directors and executives. The handbook explains the significance of risk management, the Group's risk management system, our approach to implementing risk management and the role of management. When the Human Resources Division conducts training for newly appointed general managers and managers, it uses the handbook to educate them on the importance of risk management and the role of management in constructing the risk management system.

In addition, an intranet website provides employees of Canon Inc. and Group companies with timely information, including our approach to risk management and updates on activities.

Financial Risk Management

Canon Inc.'s internal control over financial reporting is maintained and performed in accordance with the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Financial Risk Management Subcommittee carries out activities to strengthen internal controls pertaining to financial risks for the entire Canon Group, including compliance with Japan's Companies Act and Financial Instruments and Exchange Act as well as the United States' Sarbanes-Oxley Act.

Specifically, we support each Group company to implement independent initiatives and self-driven educational activities, with each company implementing its own PDCA cycle on financial risk-related business procedures to target qualitative improvement in the reliability of the Group's financial reporting.

As a result of these initiatives, we determined that our internal controls over financial reporting as of December 31, 2022 were effective.

Promoting Compliance

The Compliance Subcommittee works to promote corporate ethics across the Group in accordance with the Canon Group Code of Conduct, developing and regularly reviewing the Group's compliance system. As a result of these initiatives, Canon had another year free from material fines or other sanctions in 2022.

Sections of the Canon Group Code of Conduct (Extract)

Management Stance

1. Contribution to Society

- Provision of excellent products
- Protection of consumers
- Preservation of the environment
- Social and cultural contributions
- Communication

2. Fair Business Activities

- Practice of fair competition
- Observance of corporate ethics
- Appropriate disclosure of information

Code of Conduct for Executives and Employees

1. Compliance with Corporate Ethics and Laws

- Fairness and sincerity
- Legal compliance in performance of duties
- Appropriate interpretation of applicable laws, regulations and company rules

2. Management of Corporate Assets and Property

- Strict management of assets and property
- Prohibition against improper use of company assets and property
- Protection of the company's intellectual property rights

3. Management of Information

- Management in compliance with rules
- Prohibition against personal use of confidential and proprietary information
- Prohibition against insider trading
- Prohibition against the unlawful acquisition of confidential or proprietary information pertaining to other companies
- Appropriate use of confidential and proprietary information pertaining to other companies

4. Conflicts of Interests / Separation of Personal and Company Matters

- Avoidance of conflicts of interests
- Prohibition against seeking, accepting or offering improper gifts, entertainment, or other benefits
- Prohibition against acquisition of pre-IPO shares

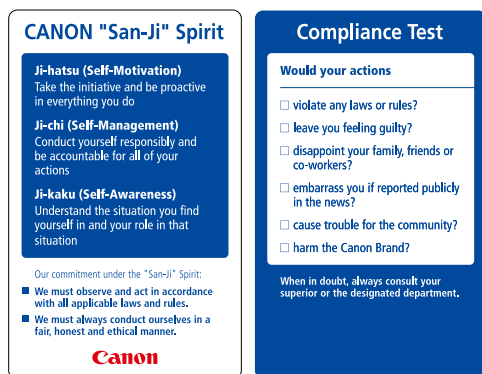
5. Maintenance and Improvement of Working Environment

- Respect for the individual and prohibition against discrimination
- Prohibition against sexual harassment
- Prohibition against bringing weapons or drugs to the company workplace

Promoting Corporate Ethics

■ Canon Group Code of Conduct and Compliance Card
 Canon established the Canon Code of Conduct in 1992, and later updated it as the Canon Group Code of Conduct in 2001. It clarifies the management stance of the entire Group and the standards that executives and employees must comply with in their duties. To ensure that its content is understood by executives and employees in countries and regions worldwide, in addition to Japanese, the Code of Conduct has been translated into more than 20 languages, including English, French, and Chinese, and adopted by a resolution of the Board of Directors of each Group company. A copy of the Code is issued to all executives and employees and its text is posted on our intranet system as part of further efforts to ensure that it is known and practiced by all.

In addition, a Compliance Card that employees can carry with them has been created in Japanese and more than 20 other languages, including English, French, and Chinese, and given out to Group executives and employees worldwide. Written on one side of the card is the *San-ji* (Three Selves) Spirit, which has been a guiding principle since our founding, and on the other side is a compliance test that enables employees to conduct a daily self-evaluation.



Compliance Card

■ Corporate Ethics and Compliance Training

Canon carries out corporate ethics and compliance training for employees suited to the circumstances and conditions of the region where they operate.

For example, Canon Inc. and Group companies in Japan conduct relevant training for executives and employees as part of new recruit training. Additionally, we have since 2004 designated a Compliance Week twice a year—once in the first half of the year and the other in the second half—in order to foster discussions in the workplace about compliance issues. Through these efforts, we strive to develop and improve operational processes to ensure that employees are aware of compliance and abide by the law.

■ Compliance Hotline System for Internal and External Whistleblowers

Canon Inc. has established a compliance hotline system to handle reports of compliance issues, including violations of laws, bribery and other forms of corruption, and other breaches of the Canon Group Code of Conduct. The confidentiality of informants is strictly maintained and protection against workplace retaliation is guaranteed. We also encourage appropriate use of the system by promoting awareness of it through such means as the intranet compliance website and compliance training. Reports can also be made anonymously. When a report containing a possible compliance violation is received, an investigation is launched to establish the facts and a final decision is made as to whether there is a compliance violation. If a compliance violation is found, the necessary corrective action is taken along with measures to prevent recurrence.

A compliance hotline has also been established at nearly all Group companies worldwide. Canon Inc. receives biannual reports from Group companies on the operational status of their respective compliance hotline systems. These biannual reports from each company include not only the number of cases filed but also a summary of each case, investigation results and responses, and measures to prevent recurrences. Reports made to Canon Inc. and Group companies are analyzed statistically to record the number of completed investigations by type of case, including those where a compliance violation is found. The analysis results are reported on a yearly basis to the Risk Management Committee and fed back to each Group company.

Canon has also set up hotlines for external stakeholders, which they can use to report specific human rights-related concerns and information in connection with Canon's corporate activity or other specific concerns relating to various risks in the supply chain. When a report is received, an investigation is launched to establish the facts and, based on the results, appropriate corrective procedures are introduced. Due care is taken to protect the privacy of informants and to ensure that they do not suffer disadvantageous treatment as a result, including the option of anonymous reporting.

The number of reports received in 2022 by the entire Group with its 180,775 employees was 284, mainly from Asia (including Japan) and the Americas. Of those with an investigation completed as of the end of 2022, compliance violations were confirmed in 52 cases. The reports received in 2022 included no serious compliance violations.

Compliance System

We have identified the significant compliance violation risks that Canon may face in the course of business (for example, violations of antitrust laws, anti-bribery laws and export control regulations) based on an assessment of the likelihood of the risk materializing and the scale of its potential impact on our business. To reduce these risks, we are working to improve the system to ensure legal compliance by improving operational workflows and rules, providing compliance training to applicable employees, and conducting audits and checks.

■ Strict Compliance with Security Trade Control

Canon implements a security trade control framework headed by the President. The framework ensures that we comply with regulations on the export of goods and technologies that could be diverted for use in weapons of mass destruction or conventional weaponry. Specifically, prior to entering into business we strictly check such issues as whether export goods and technologies are controlled by regulations, or whether counterparties are engaged in the development of weapons of mass destruction.

Security Trade Control is insufficient if undertaken by a single country or region. It is important to have international cooperation based on international treaties and export control regime agreements. To provide a unified policy and standard in the field of Security Trade Control, we established the Canon Security Trade Control Guidelines, which is implemented at Group companies worldwide.

In recent years there has been a move to use regulatory frameworks for security trade control in order to restrict the transactions of certain countries, regions, or corporations, mainly for reasons related to competition in the development of advanced technologies, information security, and protection of human rights. As it expands its range of business fields, Canon has also seen an increase in business transactions that require careful attention. We will pay close attention to the international situation and to the latest regulatory trends in our activities to ensure full compliance with Security Trade Control.

■ Compliance with Antitrust Laws

Canon recognizes that compliance with antitrust laws, which apply to all of its business activities, from product development to production, sales and after-sales service, is absolutely vital.

Business divisions of Canon Inc. and Group companies worldwide with sales and service functions conduct regular training for employees of divisions exposed to the risk of antitrust violations to educate them about antitrust laws, give examples of legal violations, and provide everyday operational compliance guidance. Employees are encouraged to make use of Canon's

antitrust law hotline (connected to the Legal Division) when unsure of how to interpret or apply antitrust laws.

■ Prevention of Corruption

The Canon Group CSR Basic Statement includes "9. Prevent corruption in all its forms including bribery," making clear to all stakeholders, both internal and external, the management stance adopted by Canon on bribery and other forms of corruption. In addition, the Canon Group Code of Conduct (→P76) clearly stipulates that Group executives and employees are prohibited from receiving benefits from business partners and corporate customers in the form of gifts or entertainment, etc., that exceed the social norm, and from providing similar benefits to government agencies, business partners and corporate customers. It also clearly prohibits actions that may cause conflicts of interest or constitute insider trading. In line with the above Basic Statement, we have formulated the Canon Supplier Code of Conduct, which requires our suppliers to refrain from engaging in any form of corruption, including bribery.

Based on the above policy, following identification and assessment of the risks that Canon may face in conducting business, the Risk Management Committee has identified violation of anti-corruption laws as a significant risk. As a countermeasure, corruption risk is assessed based on the country/region and type of business using such references as the Corruption Perceptions Index published by Transparency International, and then depending on such risk, anti-corruption systems are established in accordance with laws and guidelines related to anti-corruption in major countries, such as the Foreign Corrupt Practices Act (FCPA) of the United States and the Bribery Act of the United Kingdom. Specifically, for businesses and regions assessed as high risk, each Group company has established a responsible division and has clarified its management stance on anti-corruption and matters to be observed through the formulation of basic policies and company rules on anti-corruption. We are also putting in place systems to prevent corruption among suppliers, intermediaries, and other third parties outside Canon (performance of due diligence and inclusion of an anti-bribery clause in the contract) and conduct annual training for employees engaged in high-risk duties to deepen their understanding of the anti-corruption laws and regulations in major countries and regions. Moreover, we not only conduct audits depending on the risk of corruption but also conduct an annual survey (→P82) of suppliers as part of our supply chain management to check whether measures are in place to prevent the acceptance of bribes or inappropriate benefits. Finally, the Risk Management Committee undertakes an annual evaluation of the implementation and maintenance of the risk management system, which includes such

anti-corruption systems, and reports the results of such evaluations to the CEO and Board of Directors.

Reference: Canon Suppliers Code of Conduct
<https://global.canon/en/procurement/pdf/coc-e.pdf>

■ Protecting Personal Information

Based on its Personal Information Protection Policy established in April 2002 as a result of discussion by its Management Committee, Canon Inc. has drawn up and is improving its internal rules for processing of personal information, including its Personal Information Protection Regulation.

Furthermore, the Risk Management Committee has identified risk relating to infringement of personal information protection laws as a significant risk. Accordingly, Group companies worldwide have also introduced regular self-audits and education programs to support the establishment of systems to ensure that personal information is properly acquired and utilized.

Since the enactment of the EU's General Data Protection Regulation (GDPR) in May 2018, there have been active moves worldwide to strengthen the regulatory protection of personal information. The year 2020 for instance saw the amendment of Japan's Act on the Protection of Personal Information and the enactment of the California Consumer Privacy Act in the United States, while in 2021 China enacted its Personal Information Protection Law. Canon will continue to monitor these legislative trends and will address them appropriately.

Promoting Business Risk Management

The Business Risk Management Subcommittee is responsible for identifying significant operational risks in terms of their potential impact and managing them.

Action policies and plans for each identified significant risk are decided in cooperation with the responsible divisions across the Group, and system implementation and risk mitigation activities are promoted through each business division and the responsible division at each Group company.

Ensuring Complete Information Security

Recognizing that information security is a vital management task, Canon has established an appropriate management system for the entire Group, in accordance with the fundamental principles of information security regulations. The steps that we take under this system include measures to prevent leaks of confidential information, handle external cyber-attacks, bolster information security at production facilities, and provide information security training to raise employee awareness.

Moreover, Canon's information security division has acquired ISO 27001 certification, the international standard for building and operating information security management systems.

■ Information Security Management System Operations
 The Group Executive in charge of the Information & Communication Systems Headquarters is the senior executive in charge of information security at Canon Inc. and has decision-making responsibility for information security measures. The executive oversees the Information & Communication Systems Headquarters, which is the organization responsible for managing information security across the Canon Group.

If an information security incident occurs, the matter must be reported to the Information & Communication Systems Headquarters. It may also be reported to the Risk Management Committee (→P75), depending on circumstances.

The Information & Communication Systems Headquarters formulated the Canon Group Information Security Rules to ensure that uniform measures and a consistent approach to information security are applied across the Group, both in Japan and overseas. Each Group company creates regulations and guidelines based on these rules in line with its needs and conducts related training and awareness activities. The status of each Group company's information security measures is confirmed by means of internal inspections based on a common set of rules as well as through periodic audits by the Information and Communications Systems Headquarters, and improvements or revisions are made as needed.

In 2022, information security audits were again carried out at 23 Group companies in Japan and 27 Group companies overseas.

CSIRT*, a dedicated team for dealing with information security incidents, was created within Canon Inc.'s Information & Communication Systems Headquarters in 2015. At that time, Canon joined the Nippon CSIRT Association (NCA) to strengthen collaboration with CSIRTs in other companies.

* Computer Security Incident Response Team. This is a dedicated, organized group that deals with incidents involving computer security.

■ Information System Security Measures

Canon implements measures to safeguard the three elements of information security: confidentiality, integrity, and availability*1.

As part of measures to prevent the leakage of confidential data, we ensure that critical information is stored using a dedicated, access-controlled system with reinforced security and auto-recorded user activity. In addition, we have established an environment in which employees can safely access the company's information assets from outside the office, and we also carefully manage email attachments as well as the taking of company computers and storage media offsite.

As a measure against cyber-attacks, we use monitoring systems to identify any suspicious emails with possible malware*2 attachments. We also monitor

unauthorized online communications from internal sources to try and prevent attacks from causing more widespread damage.

In addition, we have participated each year since 2017 in cyber-attack response training (NISC^{*3}/NCA affiliated cross-field company-wide training), in order to strengthen our system for countering obstructions.

^{*1} Confidentiality: Enable only authorized personnel to access information.
Integrity: Ensure data and processing methods are accurate and cannot be modified without authorization.

Availability: Make data accessible to authorized personnel when needed.

^{*2} Malicious software (including computer viruses and ransomware) created with the deliberate intention of performing unauthorized or harmful operations.

^{*3} National center of Incident readiness and Strategy for Cybersecurity.

■ Security Measures for Production Facilities

Canon implements security measures for its production facilities to ensure malware, cyberattacks or other information security issues do not reduce productive capacity or otherwise disrupt production plans.

In the past, corporate mainframes or online information systems were the major targets for cyberattacks. Today, the growing use of off-the-shelf OS software and IoT means that production facilities attract the same level of information security risk. A separate approach is needed for production systems because production lead-times are longer than the customer support periods for off-the-shelf OS software. To ensure that Canon Inc. and Group manufacturing companies in Japan and overseas do not have to suspend operations due to a virus infection or similar attack, we also monitor the networks linked to important facilities and production lines for any unauthorized activity.

We also conduct security audits of production facilities to maintain a safe production environment.

■ Information Security Training to Raise Employee Awareness

In order to maintain and improve information security, Canon is focusing on raising awareness among employees who use information systems.

Both regular and mid-career hires are thoroughly trained on Canon's information security measures and rules through group training. In addition, all employees undergo annual information security training using our e-learning system.

About 25,000 people, the equivalent of all Canon employees, received information security training in 2022. Content to improve information security literacy*, including precautions when working from home, by studying methods for preventing virus infections and managing security vulnerabilities. In addition, special training sessions based on a targeted email attack were conducted involving all 62,000 Canon Inc. and Group company employees. This was intended to provide practical instruction in how to respond appropriately to

suspicious emails and thus avert widespread damage. Specifically, newly hired employees unaccustomed to using email in the work environment received separate training to reinforce their awareness.

* Knowledge and skills needed to implement proper information security measures.

Business Continuity Plan

Canon's Headquarters building and core facilities for information systems and research and development are concentrated in suburban areas of Tokyo. As the incidence of earthquakes in Japan is relatively high, it is also at greater risk of earthquake damage than other countries and regions. Canon also has a global network of facilities and offices engaged in research and development, procurement, production, logistics, marketing, and servicing. The occurrence of earthquakes, floods, other natural disasters, or terrorist attacks could cause disruption of the infrastructure for such facilities and offices. Canon believes that establishing a system to ensure that business operations can continue in the event of such a natural disaster or emergency represents one of the most important social responsibilities of any company. Based on this recognition, we have formulated a business continuity plan (BCP)^{*1} and Canon Group Disaster Preparedness Guidelines, and are taking other measures to ensure business continuity in the event of a disaster. Such measures include putting in place a backup system based on parallel production of similar models at a number of sites, upgrading buildings constructed according to old aseismic design standards, concluding disaster agreements with local communities, and developing systems for collecting information and reporting.

Due to the critical importance of our Shimomaruko headquarters in Tokyo, Japan, as the home base for all Group operations, we have established a crisis control center, installed backup generators, stockpiled fuel, equipment, and supplies, and established a multiplex communication system. Moreover, we set up a Disaster Recovery Center^{*2} to back up information systems to ensure that the core IT system will operate securely in the event of a large-scale disaster such as an inland earthquake in the Tokyo capital region.

We have updated all Group company facilities in Japan, setting up emergency communications equipment and support structures, and inculcated a sense of readiness in our employees through practical disaster-preparedness training. We also have systems that use data from surveillance cameras installed at each Group site so that any damage caused by natural disasters or other emergencies can be evaluated swiftly. Furthermore, we have prepared a leader's manual in order to safeguard human life immediately following a natural disaster or fire, prevent secondary disasters, and

protect company assets. Using this manual as a model, Group companies are also creating localized manuals based on the unique risks in the areas where they operate to facilitate the smooth restoration of services in the event of a disaster. Last year, 45 operational sites conducted emergency drills based on these manuals.

The global COVID-19 pandemic had an initial disruptive effect on our supply chains and production sites around the world, to which we responded with measures including temporary suspension of operations or reduction of output at certain plants. Since then, the state of emergency declared by the Japanese government, together with lockdowns in countries around the world, curfews, and other restrictions have had a limiting effect on economic activity, and the associated closure of offices and retail stores, limiting of international travel, and restricted availability of international cargo shipment have contributed to a corresponding negative effect on sales activities. Our response to these circumstances has included establishing a response team, cancelling large events inside and outside the company, staggering working hours, and implementing remote working in an effort to prevent the spread of infection. At the same time, by adapting to the changed external environment, we are working to restore production and sales activities globally.

*1 An action plan that includes measures to provide for the continuation of a minimal level of business in the event of disaster, accident, or other such event, and to restore operations promptly.

*2 A facility prepared for data backup in the event of a system breakdown due to a disaster.

Economic Security Initiatives

In recent years, many countries have placed increasing emphasis on economic security, taking steps for instance to safeguard their lead in cutting-edge technologies, enhance the independence of other important technologies, and mitigate threats to key material supply chains. This trend has also been reflected in legislation.

As a reaction to heightened geopolitical risks such as the struggle for dominance between the United States and China and the risk of conflict over Taiwan, there is now a perceived need to check for overdependence on certain countries or regions and other economic security risks.

To respond to these issues through Group-wide action, Canon Inc. established the Economic Security Office in January 2022. The aim of this new unit is to provide management support in the area of economic security through activities including gathering, classifying, and analyzing information from within and outside Canon and putting in place a framework for Group-wide sharing.

Proper Payment of Taxes

Canon believes that, as a multinational corporation with operations spanning the globe, the proper payment of taxes in the countries and regions where it operates is one of its most fundamental and important social responsibilities. Accordingly, Canon Inc.'s Finance & Accounting Headquarters operates an integrated tax management system in accordance with the principles set out below. As a result, Canon did not receive any negative tax-related judgments or assessments in 2022, nor was it subject to any major punitive measures, such as fines.

1. Pay taxes properly in accordance with the letter and the spirit of tax-related laws and ordinances without employing tax planning for tax avoidance purposes.
2. Ensure that tax accounting and other related processes are carried out unflinchingly, according to law.
3. Develop tax-related governance systems and work to raise awareness about tax compliance.
4. Adhere to common international rules on international taxation (guidelines set by the Organization for Economic Co-operation and Development and the United Nations) and ensure that actions are in compliance with the tax laws of each country.

Corporate Income Taxes

	2018	2019	2020	2021	2022
Taxes on income before income taxes (hundred million yen)	962	561	343	719	924
Effective tax rate on income before income taxes (%)	26.5	28.7	26.4	23.7	26.2

Supply Chain Management

Basic Approach

Canon has partnerships with thousands of suppliers, from whom it purchases considerable numbers of components, such as electronic parts, mechanical parts, units and materials. As part of its responsibility as a manufacturer operating a global business, Canon ensures that its procurement activity considers the needs of the global environment and society.

In 2019 Canon joined the Responsible Business Alliance (RBA), a coalition of companies that promotes socially responsible global supply chains.

Procurement Policy, Supplier Code of Conduct

Guided by its philosophy of *kyosei*, Canon sets out its basic approach to procurement in its Procurement Policy, which promotes the fair and equitable conduct of business with due consideration for corporate ethics, environmental conservation, and other key concerns. We request all suppliers to ensure that they understand and cooperate with the policy.

We have also formulated the Canon Supplier Code of Conduct, based on the RBA Code of Conduct. We are working with suppliers to develop a socially responsible global supply chain on issues such as labor, occupational health and safety, the environment, corporate ethics and management systems. We also request from second-tier suppliers understanding and adherence to the Canon Supplier Code of Conduct through first-tier suppliers. We publish the code on our corporate website to make it widely known to stakeholders while making it known to suppliers globally through an annual survey.

Reference: Procurement Policy

<https://global.canon/en/procurement/policy.html>

Reference: Canon Supplier Code of Conduct

<https://global.canon/en/procurement/pdf/coc-e.pdf>

Fair and Transparent Conduct of Business

Reinforcing Compliance in Procurement

Canon not only complies with laws and regulations on procurement globally, but also ensures complete fairness and transparency in dealings with its suppliers. Specifically, we established the Canon Group Procurement Code of Conduct for Executives and Employees in Charge of Procurement, which stipulates appropriate actions that persons in charge of procurement as well as executives and employees responsible for placing orders should keep closely in mind in order to maintain high standards of legal compliance and corporate ethics. Also, Canon's business processes are uniform across its global network based on a common set of detailed rules on procurement practices in place for Group companies worldwide.

To ensure company-wide consistency and uniformity, a department in charge of internal Group controls was

set up in the procurement division at Canon Inc. to maintain the rules, monitor compliance, and provide training for employees.

Promoting Open Procurement to Companies Worldwide

In line with our Procurement Policy, which outlines our intent to open our doors equally to suppliers worldwide and conduct business in a fair and impartial manner, we promote open procurement and invite proposals from suppliers not already in our network.

Canon set up the Suppliers Proposal Site within its corporate website with the purpose of collecting information, including product proposals and information related to production outsourcing (excluding intellectual property such as designs, ideas and inventions), from companies worldwide. Products proposed on this site are now being used in Canon products.

We will continue to duly consider all future proposals based on established rules.

Reference: Suppliers Proposal Site (on Procurement Information page under About Canon tab)

<https://global.canon/en/contact/suppliers/suppliers-form-e.html>

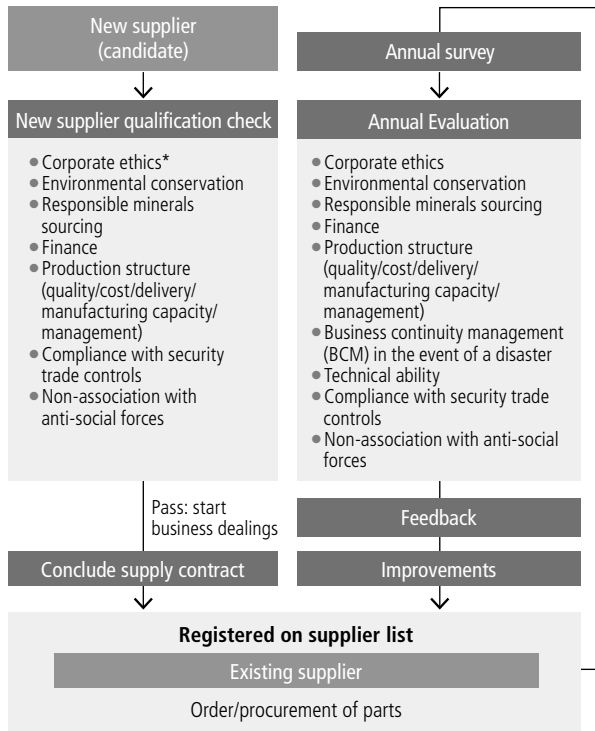
Initiatives with Suppliers

Supplier Evaluation

Before starting business dealings with a new supplier, Canon conducts an assessment based on the Canon Supplier Code of Conduct and other reference standards of whether the company fulfills all requisite standards in terms of corporate ethics (legal compliance, product safety, management of confidential information, human rights, labor, health and safety, intellectual property rights protection, etc.), environmental conservation (chemical substance management, prevention of air pollution and water pollution, proper disposal of waste, initiatives aimed at conserving energy and resources, reduction of GHG, and biodiversity conservation), finance, and production structure (quality, cost, delivery, manufacturing capacity, and management).

Only those suppliers who meet these criteria are accepted onto the Supplier List. Canon conducts an annual survey of suppliers registered on the list and makes a comprehensive evaluation based on the survey results, performance as a supplier, and other factors. The results are then reflected in the supplier list, enabling us to preferentially deal with suppliers with high evaluations. We conduct on-site audits of suppliers with low evaluations and provide guidance and instruction for improvement. In particular, Canon may choose to terminate business with suppliers if they are not complying with laws and social norms covering areas such as human rights, labor, and the environment.

Supplier Evaluation System



* Corporate ethics covers areas including legal compliance, product safety, management of confidential information, human rights, labor, health and safety, and intellectual property right protection.

For parts and materials suppliers of its main business products (“major suppliers”), Canon uses the RBA’s SAQ to identify their labor, health and safety, environmental, and ethical risks. Our 2022 survey of 340 companies elicited responses from 331 companies (representing 491 sites). No businesses were identified as high risk among these suppliers, but we provided feedback on the results of labor, health and safety, the environment and ethics to our major suppliers and requested that they identify weaknesses and improve on them. In 2022, we also took steps to verify the SAQ responses received from a number of major suppliers in Japan and Asia, including on-site checks.



On-site check at a supplier business in Japan

We also request major suppliers to sign an agreement concerning the RBA Code of Conduct. Out of 340 requests, consent was obtained from 328 (96.5%) major suppliers.

Starting from 2022, we additionally carried out risk assessments relating to labor, health and safety, the environment, and ethics, focusing specifically on labor agencies, the companies to which we subcontract operations such as security, cleaning, and cafeteria provision at our core business production sites, and the companies who manage our facilities and dormitories. The risk assessment did not identify any contractors as high risk, but we requested these business partners to carry out monitoring of regulatory compliance and risk and a small number of the suppliers to submit corrective action plans.

Green Procurement and Guidance to Suppliers

In the environmental area, Canon has established Canon Green Procurement Standards, which outline its environment-related requests to suppliers. Suppliers must comply with these standards to do business with Canon. Specifically, we view a supplier’s environmental management as consisting of two interrelated elements: management of business activities, and management of parts and materials. We require that the supplier must operate effective environmental management in each of the four frameworks labeled A–D in the diagram below. If a supplier is found to have a negative impact on the environment, we immediately demand corrective action be taken and check the status of improvements made.

Requirements of the Canon Green Procurement Standards

	Environmental management system	Performance
Business activities	A: Environmental management system for business activities Construction and operation of an environmental management system for business activities	B: Performance of business activities - Compliance with environment-related laws and regulations - Compliance with other applicable legal requirements - Non-use of prohibited substances - Reduced use of substances targeted for reduced levels of use - Preventative measures against soil and groundwater pollution
Parts & materials	C: Management of chemical substances in products Construction and operation of system for management of chemical substances in products	D: Performance of parts and materials - No prohibited substances are contained - No use-restricted substances are contained after a specified period

■ Evaluation of supplier (A-C)

■ Evaluation of parts and materials (D)

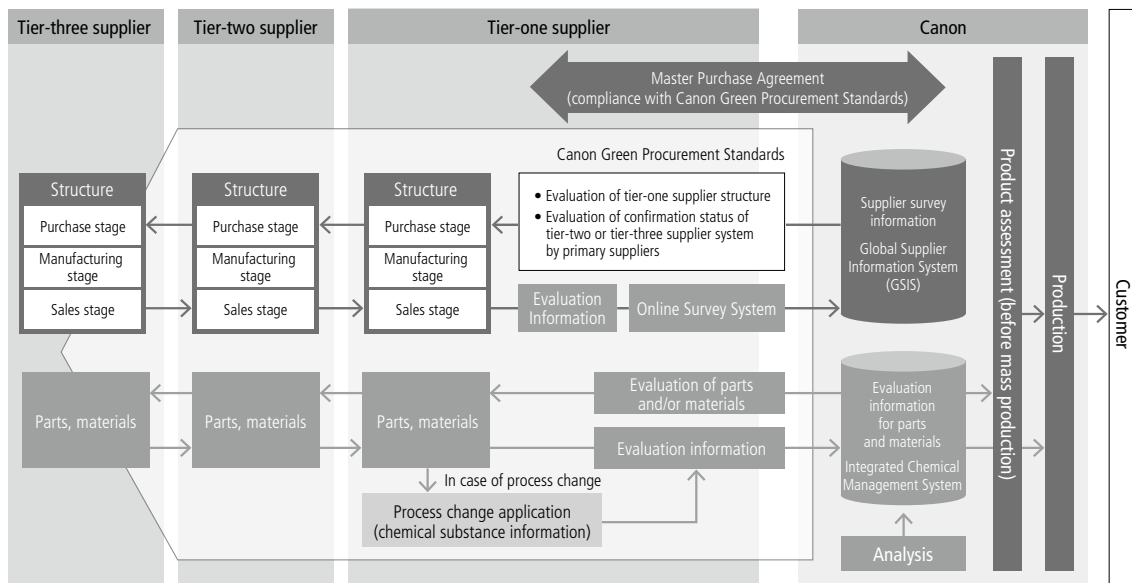
To promote environmental conservation activities, we require all partners throughout the supply chain to work for environmental impact reduction in their business activities by putting in place and operating an environmental management system. Specifically regarding the chemical substance content of products, alongside the requirements of our Green Procurement Standards, we have put in place an in-house system for centralized management of information on the content of such substances in parts and materials so as to exclude the possibility of product contamination with prohibited substances.

It was already Canon's practice to check the organization and environmental performance of a supplier's business activities and any corrective measures taken. Now, we have further strengthened our risk management to help prevent pollution in our supply chain. For example, in order to ensure compliance with

stricter regulations, we are taking measures to boost information gathering and analysis activities regarding laws and regulations on wastewater and emissions in emerging countries. We are also reinforcing risk management in plating processes, where there is a relatively high risk of environmental pollution associated with wastewater treatment as a certain volume of heavy metals is used. As some of our plating contractors, who constitute tier-two suppliers, lack an in-house wastewater treatment facility and subcontract services to a wastewater treatment provider, Canon now also verifies the compliance status of these subcontractors. Expanding the scope of risk management in this way helps ensure pollution prevention.

Reference: How to become a supplier
<https://global.canon/en/procurement/procedure.html>
 Reference: Green Procurement
<https://global.canon/en/procurement/green.html>

Hazardous Chemical Substances Management System



Reduction of Supply Chain Environmental Risk in Partnership with China's Institute of Public & Environmental Affairs (IPE)

Based on supply chain information published by the Institute of Public & Environmental Affairs (IPE), a Chinese environmental NGO, we help secondary and tertiary suppliers and other Chinese businesses located in the upstream of the supply chain to reduce environmental risk by making recommendations and carrying out improvements. By sharing information regularly and communicating with the IPE on best practice, we contribute to reducing environmental risk throughout the supply chain.

Cooperation with Suppliers

Canon is enhancing its cooperative relationships with suppliers through implementation of the EQCD concept, which stipulates the timely delivery of high-quality products at reasonable prices to customers worldwide, while taking the environment into consideration.

We hold business briefings for suppliers at each Canon Inc. operational site and each Group production site, seeking their understanding of procurement policies and their cooperation with business plans. The Group Executive in charge of Procurement Headquarters at Canon Inc. also holds procurement annual meeting for major suppliers worldwide to request their cooperation in complying with the Canon Supplier Code of Conduct, which includes items related to the environment and human rights, as well as explains procurement policies and reports on activities, in an effort to strengthen cooperation with suppliers.

Through such communication, we aim to share information with suppliers, strengthen collaboration, and grow together.

Hotline for Risks in the Supply Chain

Canon has set up a hotline to allow anyone inside or outside the company to anonymously report any concerns about the supply chain. This enables whistleblowers to share any specific concerns or information relating to issues such as child labor, forced labor, or other problems in the areas of human rights and occupational health and safety. This process is detailed in the Canon Supplier Code of Conduct and publicized.

Reference: Responsible Business Conduct Hotline
<https://global.canon/en/contact/csr/csr-form-e.html>

Addressing the Issue of Responsible Minerals Sourcing

Products manufactured and sold by the Canon Group and numerous other corporations contain materials that originate from a variety of minerals. These materials are sourced through diverse supply chains from their places of origin throughout the world. Mineral mining sites, smelters or other processing sites for some of those materials have been shown to have links to armed groups, serious human rights violations or environmental destruction. Corporations are therefore being called upon to exercise their social responsibility by identifying conflict/high-risk regions and avoiding the use of materials supplied from business operators disrespecting human rights or environmental conservation in those regions.

To reassure customers using Canon products, we are working with suppliers and industry bodies on responsible mineral sourcing initiatives.

Reference: Canon Group Basic Policy on Responsible Minerals Sourcing
<https://global.canon/en/csr/conflict/policy.html>

Due Diligence

Canon investigates the countries of origin of minerals and exercises due diligence, following the 5-step framework recommended by the Organisation for Economic Co-operation and Development (OECD) in its Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance) (Third Edition).

Based on a common Group-wide policy and survey reporting system, Canon identifies products that could contain certain metals or minerals and then conducts investigations of the parts and materials in question, tracing up the supply chain to determine places of origin. Canon exercises due diligence to identify any risk of funding armed groups along with human rights and environmental risks in conflict and high-risk areas around the world. The surveys utilize the Conflict Minerals Reporting Template (CMRT) Revision 6.22 published by the Responsible Minerals Initiative (RMI*), which has been updated to allow assessment of the abovementioned risks. In addition, we use internally developed formats to identify mineral sourcing risks. If investigations uncover significant risks, we work with suppliers to switch to low-risk supply chains, enabling us to carry out socially responsible minerals sourcing.

* An international program that plays a leading role in the response to conflict minerals.

Cooperation with Industry Groups

Since April 2015, Canon has supported the activities of the RMI, an international program focused on addressing the issue of conflict minerals.

In Japan, Canon is active as a leading member of the Responsible Minerals Trade Working Group (RMTWG) of the Japan Electronics and Information Technology Industries Association (JEITA). Canon is also a member of the Conflict Free Sourcing Working Group (CFSWG), which cooperates with JEITA and leading Japanese automakers.

Initiatives to Reduce Risk

Supplier cooperation is essential in identifying places of origin for minerals and related smelters. Canon takes steps to gain the understanding of suppliers and seek their cooperation with mineral sourcing investigations. This includes compiling a guidance manual on related procedures.

Furthermore, Canon established a page entitled “Procedure for the Submission of Concerns Regarding Mineral Risk” on its official website in 2015. Parties with specific concerns and/or information regarding circumstances of extraction, trade, handling and export of minerals (tantalum, tin, gold and tungsten) in conflict-affected and high-risk areas as they pertain to Canon product supply chains (such as facts indicating that those minerals are the source of funds for armed groups in conflict-affected areas and human rights violations) can contact Canon through this page.

Reference: Procedure for the Submission of Concerns Regarding Mineral Risk
<https://global.canon/en/contact/conflict/conflict-form-e.html>

Compliance with US Dodd-Frank Act (Conflict Minerals)

Tin, tantalum, tungsten and gold (3TG) produced in conflict-affected and high-risk areas are said by the United Nations and other authorities to have been used in some cases to provide funding for armed groups allegedly responsible for serious human rights violations, environmental destruction, illegal mining, and other issues. This is generally referred to as the “conflict minerals issue.”

In response, the United States introduced the Dodd-Frank Act in January 2013, which requires listed companies to investigate and disclose whether minerals and metals from the Democratic Republic of the Congo (DRC) and neighboring countries contained in their products could have been used to fund armed groups.

Canon submits a Conflict Minerals Report each year by the end of May to the U.S. Securities and Exchange Commission (SEC) detailing the status of Canon Group activities to address the conflict minerals issue.

In 2022, Canon sent CMRT-based surveys to roughly 3,200 suppliers with a response rate of about 94% (as of March 31, 2023).

As far as can be judged from the responses received, there was no evidence that Canon’s purchasing of parts and materials had financially benefited armed groups in the DRC region. However, the complex nature of the supply chain makes it difficult to identify specific smelters or in many cases to obtain clear responses. Given these and a range of other survey challenges, Canon is working for further risk identification and improvement. Smelters investigated in the survey are disclosed through a Conflict Minerals Report submitted to the U.S. Securities and Exchange Commission (SEC) annually.

In Europe, meanwhile, April 2021 saw the enactment of the EU’s Conflict Minerals Regulation, whose scope is not limited to the DRC and neighboring countries. Canon is not affected by this regulation, but it has carried out a risk assessment of the other countries involved.

Reference: Conflict Minerals Report (SEC filing)
https://global.canon/en/ir/library/form_sd.html

Response to Expanding Risk

Recent years have seen heightened worldwide attention given to the procurement risk associated also with non-3TG mineral substances. Specifically, cobalt — in growing demand for its use in lithium-ion batteries and other applications — is the focus of concern over potential human rights violations, including child labor, at mining locations. From 2021, Canon began providing all suppliers subject to survey with the industry standard survey format for Cobalt (Extended Minerals Reporting Template published by the Responsible Minerals Initiative) in order to investigate the status of cobalt use in Canon products and conduct related risk analysis. We will continue responding to this risk in collaboration with suppliers and industry associations.

Independent Assurance Report

Canon undergoes audits by independent private sector experts to gain independent assurance on whether the Group’s initiatives on conflict minerals investigation conform to international standards in the form of the OECD Guidance. An independent assurance report is attached to the Conflict Minerals Report filed with the SEC.

Compliance with Modern Slavery Act

The Modern Slavery Act 2015 enacted in the United Kingdom in 2015 mandates that enterprises of a certain scale operating in the UK publish annual statements detailing the risk of forced labor, human trafficking and child labor within their own operations and supply chain. In 2018, Australia enacted a Modern Slavery Act, under which companies above a certain size operating in Australia are required to evaluate the risk of forced labor and other issues in the supply chain and in their own business activities and to disclose measures taken to reduce the risk.

Annual statements are published by Canon Group companies that fall within the scope of the law, based on the information on human rights risk assessments conducted by Canon Group production sites and suppliers.

Annual statements are also published by Canon Medical and Axis in compliance with this legislation.

Reference: Canon Europa N.V., Canon Europe Ltd., and Canon (UK) Ltd. Modern Slavery Act Statement

https://canon.a.bigcontent.io/v1/static/2021_ms_statement-signed

Reference: Canon Australia Pty Ltd. Modern Slavery Statement

<https://modernslaveryregister.gov.au/statements/9654/>

Reference: CMSC Slavery and Human Trafficking Statement

https://global.medical.canon/about/corporate/Slavery_and_Human_Trafficking_Statement

Reference: Axis Modern Slavery Act Transparency Statement

<https://www.axis.com/dam/public/e8/aa/88/axis-modern-slavery-act--transparency-statement-2022-en-US-388796.pdf>