

Supply Chain Management

Fundamental Procurement Policies

Canon is enhancing its cooperative relationships with suppliers through implementation of the EQCD concept*1, which stipulates the timely delivery of high-quality products at reasonable prices to customers worldwide, while taking the environment into consideration.

Canon has formulated and widely published its Procurement Policy, and is endeavoring to build good relations with suppliers by deepening their understanding of Canon's basic stance toward procurement.

In keeping with its corporate philosophy of *kyosei*, Canon carries out procurement activities that give due consideration to society while also continually taking steps to further evolve its ecofriendly green procurement*2 practices.

*1 EQCD concept: This is Canon's basic product development policy. "E" stands for environment: Companies are not qualified to manufacture goods if they are incapable of environmental assurance. "Q" stands for quality: Companies are not qualified to market goods if they are incapable of providing quality products. "C" and "D" stand for cost and delivery: Companies are not qualified to compete if they are incapable of meeting cost and delivery requirements.

*2 Green procurement: Favoring the procurement of materials and products that have a lower environmental impact (→P45).

Procurement Policy

Following its corporate philosophy of *kyosei*, Canon aims, as a truly global company, to contribute to the prosperity and wellbeing of the world by developing, manufacturing and marketing useful products, raising profits, and achieving sound corporate growth and development.

The Procurement Division adopts a global perspective in purchasing quality, appropriately priced merchandise in a timely manner. This facilitates improvements in product quality and reductions in prices, and positions us to work with our suppliers to meet customer needs.

1. We comply with all applicable laws and regulations as well as corporate ethics, and operate in a manner that is protective of the environment.
2. We are open to any and all suppliers, and promote fair and free competition in accordance with the principles of faith and trust.
3. We improve manufacturing by mutual growth with reliable, quality suppliers, which are selected through a fair evaluation process.

Fair and Transparent Dealings

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, the Canon Group Procurement Code of Conduct for Executives and Employees in Charge of Procurement outlines 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 when it comes to 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 Canon Group companies both inside and outside Japan.

To ensure consistency and uniformity across the company, special internal controls sections have been set up within procurement divisions to maintain the rules, monitor compliance, and provide training for employees.

Main Procurement Compliance Initiatives

2007	Set up specialized internal controls sections within procurement divisions
2013	Upgraded existing procurement code of conduct and formulated Canon Group Procurement Code of Conduct for Executives and Employees in Charge of Procurement
2014	Established detailed procurement operation rules for entire Canon Group

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 operates the Suppliers Proposal Site within its main company website with the purpose of collecting information, including products handled and manufacturing consignment information, from companies worldwide (excluding intellectual property such as designs, ideas and inventions). Products proposed on this site are now being used in Canon products.

We will continue to give careful consideration to all future proposals based on established rules.

Reference: Suppliers Proposal Site
https://proposal.in.canon.co.jp/wwwcc/WWCDD800.aspx?PRM_CF_LANGUAGE=0

Socially Responsible Procurement

In a world of increasingly global supply chains, many social and environmental problems have been identified, including the use of forced or child labor and issues relating to environmental protection, which mainly affect emerging economies.

We formulated the Canon Supplier CSR Guidelines to promote socially responsible procurement across the Canon Group in partnership with suppliers. Together we engage in global procurement activities that take into account human rights, labor, health and safety, compliance and the environment to promote sustainable procurement across the entire supply chain.

We have set up a channel to receive feedback from suppliers. On our CSR website, suppliers can submit opinions and requests by sending a message on the page entitled "We welcome your comments on our CSR Activities."

Reference: We welcome your comments on our CSR Activities
<https://global.canon/en/contact/csr/csr-form-e.html>
 Reference: Canon Supplier CSR Guidelines
<https://global.canon/en/procurement/social.html>

Supplier Evaluations and Ongoing Surveys Incorporating Environmental and Social Perspectives

When beginning dealings with a new supplier, we review whether the supplier meets Canon's standards in such areas as financial position, management system (quality/cost/delivery date/manufacturing capacity), corporate ethics (legal compliance, product safety, management of confidential information, human rights, labor, occupational health and safety, and intellectual property rights protection, etc.) and global environmental conservation. Only suppliers who meet these standards are registered on our supplier list, along with existing procurement partners.

With regard to "human rights and labor," an area of high interest to stakeholders in recent years, survey items are set with reference to International Labor Organization (ILO) standards and the guidance of the Responsible Business Alliance (RBA), formerly known as the Electronic Industry Citizenship Coalition (EICC). We confirm whether appropriate consideration is given to such issues as child labor, forced labor that includes trafficking of persons, discrimination, minimum wage, working hours, and employee communication. In addition, in the environment field, we are pursuing green procurement of parts and materials for products from suppliers on the condition that they fulfill the Canon Green Procurement Standards.

As part of Canon's thorough approach to supply chain management, we conduct an annual survey of all companies registered on our supplier list. The survey covers a wide range of initiatives, including social and environmental aspects. We undertake a comprehensive evaluation of our suppliers based on the survey results and transaction performance, and reflect the results in the supplier list, giving preference to high-scoring suppliers. We also provide guidance and education to low-scoring suppliers to aid improvement.

In line with these efforts, Canon requires that its suppliers ask the same of their upstream suppliers (tier two suppliers for Canon).

■ Main Items Surveyed

- Financial position
- Business continuity management (BCM) in case of an emergency
- Environmental-conservation activities
- Compliance with conflict minerals issues
- Corporate ethics (legal compliance, product safety, management of confidential information, human rights, labor, occupational health and safety, and intellectual property rights protection, etc.)

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

Cooperation with Suppliers

Canon holds "business trends briefings" for suppliers at each Canon Inc. operational site and each Group production site, asking for their understanding of procurement policies and cooperation with business plans.

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

Addressing the Issue of Conflict Minerals

Certain minerals—notably tantalum, tin, gold and tungsten—that originate in the Democratic Republic of the Congo (DRC) and adjoining countries in Africa are used in many industrial products through global supply chains. Trade in some of these minerals is alleged to be funding armed groups in the DRC and adjoining countries who are instigating grave abuses of human rights, environmental destruction, and illegal mining. They are termed "conflict minerals."

In response, the United States enacted legislation requiring listed companies to confirm that conflict minerals that could fund these armed groups are not being used in their supply chains, and to provide related public disclosures. The legislation went into effect in January 2013.

Seeking to ensure that customers can use its products with peace of mind, Canon is working together with business partners and industry groups with the aim of avoiding the use of conflict minerals that could fund armed groups. As a listed company, Canon is required to submit a Conflict Minerals Report annually by the end of May with the U.S. Securities and Exchange Commission (SEC) detailing the status of Canon Group activities to address the issue of conflict minerals.

Reference: Conflict Minerals Report
<https://global.canon/en/csr/conflict/index.html>

Due Diligence

Canon identifies any products that could contain any of four minerals and conducts inquiries to its suppliers to trace the origin of the minerals back to its upstream supply chain regarding the parts and materials of the identified products. Then, Canon undertakes due diligence to identify the risks of funding armed groups relating to conflict minerals.

The surveys utilize the Conflict Minerals Reporting Template (CMRT), an industry standard published by the Responsible Minerals Initiative (RMI).

In fiscal 2017, Canon sent CMRT-based surveys to roughly 3,000 suppliers with a response rate of about 90%.

Within the scope of the responses, there was nothing to clearly suggest that the Canon Group's purchasing of parts

Canon Supplier CSR Guidelines

Pursuant to the Canon Group Basic Procurement Policy and the Canon Group CSR Basic Statement, we set forth the Canon Supplier CSR Guidelines to promote global procurement activities that take social needs into full consideration. Accordingly, we ask our suppliers to conduct the below initiatives

I. Consideration of human rights, labor, and health and safety of employees

- (1) Respect fundamental human rights of employees and do not discriminate against them based on such factors as race, nationality, gender, religion, and creed
- (2) Endeavor to utilize diverse human resources
- (3) Do not engage in child labor or forced labor (including human trafficking)
- (4) Promote sincere dialogue between employees and management in accordance with the laws and regulations of the country/region of location
- (5) Pay employees wages equal to or greater than legally mandated wages in accordance with the laws and regulations of the country/region of location
- (6) Prevent excessive overtime work and grant appropriate holidays
- (7) Ensure occupational health and safety at the workplace, and prevent occupational injuries

II. Sound and fair business activities

- (1) Comply with the laws, regulations and social norms of each country and region where business activities are conducted
- (2) Do not perform acts that obstruct fair, transparent and free competition
- (3) Manage and protect confidential information and personal information

- (4) Endeavor to prevent infringements of the intellectual property rights of others
- (5) Ensure thoroughness in security trade control in accordance with the laws and regulations of the country/region of location
- (6) Do not engage in corruption in all its forms including bribery
- (7) Endeavor to avoid complicity in armed insurgencies or anti-social forces
- (8) Endeavor to disclose relevant and accurate corporate information

III. Environmental preservation

- (1) Comply with the Canon Green Procurement Standards
- (2) Endeavor to minimize environmental burden through initiatives aimed at conserving energy, conserving resources, eliminating hazardous substances, and preserving biodiversity

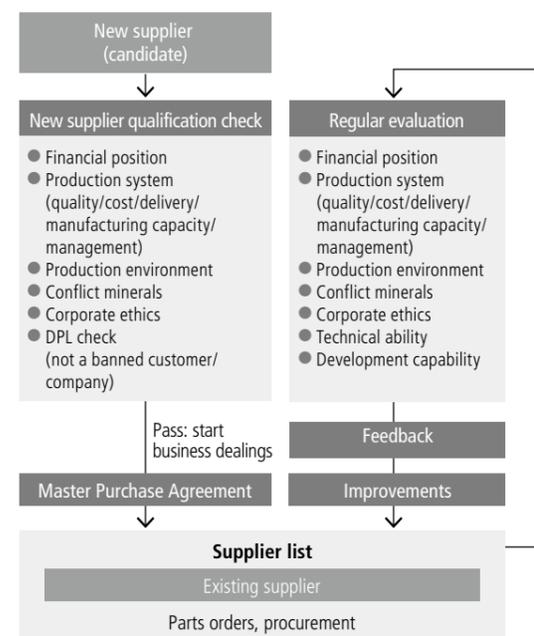
IV. Guarantee of continuance of corporate and business activities

- (1) Endeavor to preserve high level in quality, cost, delivery and technical aspects
- (2) Provide safe and secure products, parts, materials, services, etc.

V. Request to your suppliers for their cooperation

- (1) Request to your suppliers that they cooperate with initiatives for social responsibility, including those that concern human rights, labor, safety, legal compliance, the environment and product quality/safety

Supplier Evaluation System



and materials contributed to funding armed groups. However, recognizing the innate difficulties involved in identifying smelters and country of origin of minerals or lacking clarity in many responses due to its complicated supply chain, Canon is making efforts to improve the accuracy and efficiency of the inquiries.

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, as a member of the Responsible Minerals Trade Working Group (RMTWG) of the Japan Electronics and Information Technology Industries Association (JEITA), Canon supports activities of the JEITA briefings for firms in the electronics industry supply chain and sending letters to smelters urging them to accept RMI audits. Canon is also a member of the Conflict Free Sourcing Working Group (CFSWG), which cooperates with JEITA and leading Japanese automakers.

Independent Assurance Report

Canon undergoes audits by independent private sector experts to gain independent assurance on whether the Canon Group's initiatives on conflict minerals sourcing conform with international standards. An independent assurance report is attached to the Conflict Minerals Report filed with the SEC.

Basic Approach of the Canon Group Regarding Conflict Minerals (Excerpt)

Seeking to ensure that customers can use Canon products with peace of mind, the Canon Group is working together with business partners and industry entities to identify the history of minerals used in its products with the aim of avoiding the use of conflict minerals.

The Canon Group would like our business partners to understand the international circumstances surrounding the conflict minerals issue and support us in not using conflict minerals. By cooperating with surveys and audits conducted by Canon Group companies, we expect our business partners, as members of the global supply chain, to join the Canon Group in carrying out the responsible procurement of necessary minerals.

Reference: Basic Approach of the Canon Group Regarding Conflict Minerals
<https://global.canon/en/csr/conflict/policy.html>

Compliance with UK Modern Slavery Act

The Modern Slavery Act that was enacted in the UK in 2015 mandates enterprises operated in UK with a certain scale to publish annual statements detailing the risk of forced labor, human trafficking and child labor within their own operations and supply chain. Annual statements are published by Europe-based 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.

In compliance with this legislation, annual statements are also published by Canon Medical Systems (CMSC) and Axis Communications.

Reference: Canon Europe Ltd., Canon Europa N.V., and Canon (UK) Ltd. Modern Slavery Act Statement
<https://canon.ssl.cdn.sdlmedia.com/636359670045186850CE.pdf>
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 2017
https://www.axis.com/files/sales/Axis_Modern_Slavery_Act_Transparency_Statement_2017.pdf