

# Supply Chain Management

## Fundamental Procurement Policies

Canon is enhancing its cooperative relationships with suppliers through implementation of the EQCD concept\*<sup>1</sup>, 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\*<sup>2</sup> 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 (→P70).

## 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 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 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.

### 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/wwcc/WWCCD800.aspx?PRM\\_CF\\_LANGUAGE=0](https://proposal.in.canon.co.jp/wwcc/WWCCD800.aspx?PRM_CF_LANGUAGE=0)

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### 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

### Socially Responsible Procurement

We formulated the Canon Supplier CSR Guidelines to promote socially responsible procurement across the Canon Group, and we have published the guideline on our corporate website and in other formats to make it widely available to stakeholders. Based on this guideline, we work together with suppliers to engage in procurement activities that take into account human rights, labor, health and safety, compliance and the environment to promote sustainable procurement across the entire global 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, and so forth) and global environmental conservation. Only suppliers who meet these standards are registered on our supplier list, along with existing procurement partners.

We also 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.

With regard to “human rights and labor,” especially, 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.

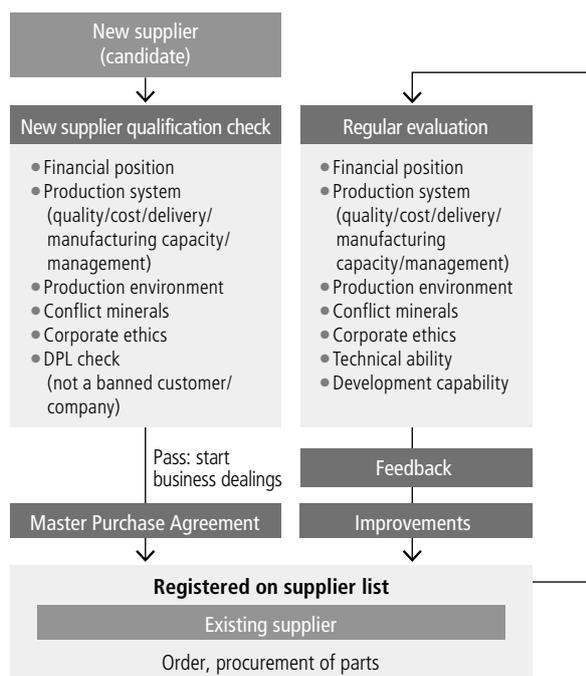
Canon also requires that its suppliers ask the same of their upstream suppliers (second-tier suppliers for Canon).

■ 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/procedure.html>  
 Reference: Green Procurement  
<https://global.canon/en/procurement/green.html>

### Supplier Evaluation System



### 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. In other initiatives, in 2018 we held the Procurement Policy Explanation Seminar for directly communicating Canon’s procurement policy and reporting on its activities to our major suppliers. In explaining our policy, the Group Executive in charge of Procurement Headquarters explained how we are strengthening our links with suppliers.

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: Basic Approach of the Canon Group Regarding Conflict Minerals  
<https://global.canon/en/csr/conflict/policy.html>  
 Reference: Conflict Minerals Report  
[https://global.canon/en/ir/library/form\\_sd.html](https://global.canon/en/ir/library/form_sd.html)

### Due Diligence

Canon investigates the countries of origin of conflict minerals and exercises due diligence, following the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance) published by the Organisation for Economic Co-operation and Development (OECD).

Canon identifies any products that could contain any of four minerals and surveys its suppliers to trace the origin of the minerals back to its upstream supply chain regarding the parts

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and materials of the identified products. Then, Canon exercises due diligence to identify any risk 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 2018, 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 and materials contributed to funding armed groups. However, recognizing the innate difficulties involved in identifying smelters being utilized and mineral country of origin, or lack of clarity in many responses due to its complicated supply chain, Canon is making efforts to improve the accuracy and efficiency of the surveys. As of March 2019, 322 smelters were identified in the 2018 survey, of which 258 were conformant to the Responsible Minerals Assurance Process, the audit program of the RMI, including those with procedures in progress.

\* Responsible Minerals Initiative (RMI): 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, as a member of the Responsible Minerals Trade Working Group (RMTWG) of the Japan Electronics and Information Technology Industries Association (JEITA), Canon supports the activities of JEITA by conducting 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 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.

### Initiatives to Reduce Risk

To identify places of origin of conflict minerals and smelters using them, it is vital to have cooperation from suppliers. Canon held a briefing for its major first-tier suppliers in November 2018, and requested their understanding of Canon's initiatives.

Furthermore, Canon established a page entitled "Procedure for the Submission of Concerns Regarding Conflict Mineral Risk" on its official website in 2015, following OECD Guidance to provide a grievance mechanism as an early-warning risk-awareness system for conflict minerals. 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) can contact Canon through this page.

Reference: Procedure for the Submission of Concerns Regarding Conflict Mineral Risk

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

### Compliance with UK Modern Slavery Act

The Modern Slavery Act 2015 enacted in the United Kingdom in 2015 mandates that enterprises of a certain scale operating in UK 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/636674236184334302TH.pdf>

Reference: CMSC Slavery and Human Trafficking Statement

[https://global.medical.canon/about/corporate/Slavery\\_and\\_Human\\_Trafficking\\_Statement](https://global.medical.canon/about/corporate/Slavery_and_Human_Trafficking_Statement)

Reference: Axis Modern Slavery Act Transparency Statement 2018

[https://www.axis.com/files/manuals/gd\\_axis\\_modern\\_slavery\\_act\\_72899\\_en\\_1901\\_hi.pdf](https://www.axis.com/files/manuals/gd_axis_modern_slavery_act_72899_en_1901_hi.pdf)

## Canon's Supply Chain and the Fulfillment of its Social Responsibility

In recent years, the environment, human rights and labor issues have been topics of increasing attention, giving rise to questions from various stakeholders about Canon's social responsibility initiatives throughout its supply chain.

According to media reports, concerns about manufacturers with respect to social responsibility stem from large numbers of manufacturing companies in such industries as sports, apparel and electronic products outsourcing their sewing, assembly and manufacturing operations to outside factories. Furthermore, the social responsibility expected of manufacturers has expanded in scope to encompass large-, medium- and small-size suppliers that provide parts and materials to factories.

Canon places great importance on manufacturing, engaging in product assembly as well as the production of certain components, parts and materials at its own plants, factories and Canon Group manufacturing companies that bear the Canon name and are owned by Canon Inc. directly or indirectly. Manufacturing companies in the Canon Group\*<sup>1</sup> are located in such countries and regions as Japan, China, Taiwan, Malaysia, Thailand, the Philippines, Vietnam, the United States and Europe, and supply Canon products to Canon Inc. and companies including Canon Group marketing subsidiaries and affiliates. These manufacturing companies directly employ considerable numbers of employees and are administrated by Canon Inc., which acts as the head of the Canon Group.

Canon Group manufacturing companies conduct business while adhering to Group policies regarding such matters as human rights, labor, the environment, legal compliance, procurement and security, including the Canon Group CSR Basic Statement, the Canon Group Code of Conduct and the Canon Group Environmental Charter. When necessary, Headquarters divisions, products operations, and audit divisions at Canon Inc. verify the situation at Group companies as a whole, be they in Japan or overseas, from the standpoints of internal controls and risk management.

Canon Group offices, plants and manufacturing companies are engaged in partnerships with several thousand suppliers unaffiliated with the Canon Group, from whom they purchase considerable numbers of such components as electronic parts, mechanical parts, units and materials. Procurement divisions at Canon Inc. headquarters and Group manufacturing companies periodically review and evaluate the social responsibility of these suppliers. In particular, Canon may choose to terminate business with suppliers if they fail to abide by laws and ordinances covering such areas as human rights and labor. In 2018, Canon established the Canon Supplier CSR Guidelines\*<sup>2</sup> to clarify the social responsibility standards suppliers must adhere to. Canon also requires that these companies urge their own upstream suppliers to do the same.

Among aspects of social responsibility, child labor and forced labor in particular are areas of growing concern. Within the scope of our 2018 survey of Canon Group companies and suppliers, no problems were found with respect to child labor or forced labor.

\*1 Manufacturing Subsidiaries and Affiliates in the Canon Group  
<https://global.canon/en/corporate/information/group/gr01.html>

\*2 Canon Supplier CSR Guidelines  
<https://global.canon/en/procurement/social.html>

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