

Third-Party Opinion



Co-Lead Research Unit Innovation Labs,
Sustainable Production and
Consumption Division,
Wuppertal Institute for Climate,
Environment and Energy
www.wupperinst.org

Dr. Justus von Geibler

Investors' Interest in Sustainability Reporting

Business, investors and other stakeholders increasingly recognize sustainability as both a desirable outcome for society and a powerful framework for delivering economic long-term value. For example, in the last ten years, the interest in responsible investment has grown strongly, a trend which coincides with more global assets managed according to ESG (Environmental, Social and Governance) criteria and the increasing support of shareholders for ESG-related resolutions. Consequently, investors and other stakeholders are increasingly turning their attention to the sustainability reporting of global companies.

Canon has responded to this trend and is shifting towards more integrated reporting, which potentially gives a more coherent representation of the company's performance in terms of both financial and other value-relevant information. This shift can be recognised in this report, not only in the report's subtitle or in the editing policy (→P1). Compared to last year's sustainability report, I see two important related changes: First, more information on the business strategy in the report; and second, a stronger interconnectedness between ESG factors and the business strategy. I focus my commentary on these two main changes and highlight why this information should be relevant for all interested stakeholders, not only for responsible investors.

More Information on Business Strategy

This year's report shows an increased emphasis on financial aspects and business strategy, most prominently in the CEO's Message with a more detailed elaboration of the progress in Phase V of the Excellent Global Corporation Plan and the business portfolio transformation (→P4-5). Other examples can be found in the financial highlights with an overview of key financial performance indicators (→P13) or the section on the strategies in the business units (→P19-22).

I greatly welcome this development, since information on the business strategy and portfolio evolution helps the reader to get a better understanding of the core business and the specific decision-making context of Canon. At the same time, I see that information on business strategy is strongly focused on the past periods or near future. In future reports, I would appreciate seeing more details on medium- to long-term goals and targets across economic, social and environmental topics. Canon managed to condense reporting content and reduce the length compared to last year's report. References to detailed information provided separately could further support the consolidation in future reports.

Stronger Interconnectedness of Information

Companies integrating and connecting financial, economic, social and environmental aspects into their core businesses are likely to become more innovative and competitive and recognize new business opportunities. I highly appreciate Canon's stronger presentation of such connections in this year's report, for example, in the illustration of the value creation process at Canon (→P15-16) or the clearer illustration of Canon's relationship to the Sustainable Development Goals (→P17-18). I would like to see even stronger prioritization and more graphical illustrations of the rationale for selection of material topics – such as the materiality matrix in the environmental section (→P62) – as not all material topics are of equal importance. This would also include more information on the strategy and management approach to Canon's research and development activities to further advance its innovation capacity to contribute to both value creation and sustainability goals, such as climate protection or circular economy.

I am very grateful for the opportunity to be involved in the development process of Canon's Sustainability Report. This year's dialogue has been more interactive, involving Canon's investor relations department for the first time, which I highly welcome. Based on my engagement and review of the report draft, I congratulate Canon and its reporting team for having again managed to significantly enhance the quality and relevance of its sustainability report, not only for investors. I look forward to Canon's continued advancements towards increased corporate transparency and contributions towards sustainability.

Third-Party Opinion

About Dr. Justus von Geibler

Dr. Justus von Geibler works at the Wuppertal Institute, a leading international sustainability research organization. He co-leads the research unit Innovation Labs in the Sustainable Production and Consumption Division. Based on more than 20 years of professional experience in sustainable assessment and innovation, his research focuses on sustainability standards, sustainability innovations in value chains, stakeholder engagement and open innovation in companies and living labs. He is the author of several books and more than 100 scientific publications.

Third-Party Review Process

Introduction

Over the many years that Canon has been providing sustainability reports to its stakeholders, the company has worked to develop its approach to reporting and its relationship with stakeholders. Since 2003, Canon has invited various external experts to review and comment on its sustainability report. This process aims to provide meaningful, credible external feedback, and aspires to meet international good practice standards.

Dr. Justus von Geibler has provided comment to Canon's reporting every year since 2008. Via a series of video conferences and written comments, he provided input at several points during Canon's report preparation process. The dialogues provide the basis for a degree of stakeholder engagement with Canon – on reporting, on the company's performance, and on Canon's relationships with stakeholders.

Basis for the Commentator's Opinions

Canon has used the Global Reporting Initiative (GRI) to inform its report development for many years. Since 2018, Canon has incorporated the GRI Sustainability Reporting Standards (2016). This third-party commentary process is once again based on a portion of the GRI's four Reporting Principles relating to Defining Report Content*:

* A more complete description and guidance is available at <https://www.globalreporting.org/standards/gri-standards-download-center/gri-101-foundation/>

- **Materiality.** Does the Canon report reflect the company's significant economic, environmental and social issues?
- **Stakeholder Inclusiveness.** Does the report explain how Canon has responded to the reasonable expectations and interests of their stakeholders?
- **Sustainability Context.** Does the report present Canon's performance in the wider context of sustainability issues and impacts?
- **Completeness.** Is the report's coverage sufficient to reflect the company's sustainability impacts and enable readers to assess Canon's performance?

Using these principles as a guideline, Justus von Geibler assessed the extent to which the Canon report meets his expectations in terms of:

- The appropriateness of the content selected for the Canon Sustainability Report 2019
- The quality of the treatment of individual topics in the report
- The overall quality, balance and relevance of the report as a whole

Canon is additionally working to develop its reporting in the future using the Integrated Reporting framework, which seeks to incorporate financial and non-financial information to encourage long-term thinking and management.

Sancroft International and its chief executive, Judy Kuszewski, provided advice and support to Canon by defining terms of reference for the third-party opinions, facilitating relationships with Justus von Geibler and assisting Canon in presenting the results in its sustainability report. Readers should be advised that neither Sancroft nor Justus von Geibler functions as an assurance provider, but as well-informed, independent sustainability professionals with a keen interest in engaging with Canon and supporting the transparency and accountability of its reporting.

What Canon and the Commentator Discussed

Through the video conference process and written submissions, Dr. von Geibler and Canon staff discussed reporting expectations, key areas of interest and impressions of the draft Canon report.

The main topics of discussion included the following, with Canon participants' responses and views shown alongside:

Topics	Third-Party Comment	Canon Views
Integrating sustainability into long-term value creation	The move toward integrated reporting encourages and enables a strengthening of Canon's views on value creation. This will be further strengthened by a deeper presentation of Canon's decision-making to achieve financial, economic, social and environmental outcomes. Canon's discussion of the value creation process is a positive move in this direction, which can be strengthened in the future by continued reference to the Excellent Global Corporation Plan and other aspects of business strategy, along with more engagement with investors on sustainability and related goals and targets.	Through close communication with stakeholders, including this dialogue, Canon is working to ensure disclosures are aligned with the needs of stakeholders. Alongside internal reviews, we utilize surveys to gauge stakeholder interest in designing the Integrated Report's framework. This year featured new sections such as "Canon's Value Creation Process" and "A History of Value Creation at Canon."
Validating and refining the material topics around which the Canon report is framed	Canon has made helpful improvements in the characterization of its materiality themes. Not all material issues are of the same importance, and Canon can improve the meaningfulness of the material topics by improving their specificity and determining their priority, linked to the company's business activities. In moving to integrated reporting, the business relevance of materiality themes should be more evident.	We review our materiality themes, taking account of a range of factors, including Canon's past activities, the business direction as in the medium-term business plan, and society's position on relevant issues. We disclose our process in "Identifying and Reviewing Materiality" (→P43). In addition to this, we have created a diagram to illustrate the connections between materiality themes and our business activities from a value-creation perspective in "Canon's Value Creation Process."
Linking to the Sustainable Development Goals (SDGs)	Canon continues to highlight its contributions to the SDGs as the key global reference for sustainability. Canon should be encouraged to continue to consult its stakeholders about its role in helping to deliver the SDGs over the short-medium- and long-term – in collaboration with governments, civil society and peers in business. There is no single answer to understand the role of a commercial organization in delivering on the SDGs, but Canon would do well to share its thinking with stakeholders from an early stage.	In line with changes in our activities, we review annually the connection between the environmental and social impacts of our business activities and the SDGs. For example, technical development involves not only joint projects with educational and research institutions possessing the latest technology, but also us collaborating with other firms in joint development projects. So we consider SDG 17 "Partnerships for the Goals" to be of the highest relevance to Canon's activities. We also have updated the design of the report to aid identification of those SDGs where our activities have the greatest impact. Moreover, we have introduced the SDGs with links to materiality themes and those where our stakeholders expect Canon to make a meaningful contribution.
Increasing depth and detail of description of management approach	The sections describing Canon's management approach are helped by the inclusion of discussion of relevant risks for each of the specific areas. All sections on management approach should be specified in more detail with regard to goals and targets, specific resources and responsibilities, the means of evaluating performance – across economic, social and environmental topics.	Whereas previous reports limited the discussion to environment-related risks and opportunities, this year we give a more comprehensive view of materiality themes at Canon. We will try to make further improvements based on the feedback we receive from this dialogue.

In addition, there was extensive discussion of the relevance of integrated reporting for Canon and how to uphold the principles of integrated thinking, management and performance, together with a

long-term view of value creation.

Dr. von Geibler's full statement can be found in "Third-Party Opinions" (→P126).

About Sancroft

Sancroft is a sustainability consultancy that works with the world's biggest brands to improve their environmental and social performance. Sancroft advises on sustainability strategy, resource management, ethical trade, human rights, sustainability reporting and stakeholder engagement. Judy Kuszewski is Sancroft's chief executive. She is also chair of the Global Sustainability Standards Board, the independent governance committee of the Global Reporting Initiative responsible for GRI's Sustainability Reporting Standards.