

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 (→P43).

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 Group companies worldwide.

To ensure companywide consistency and uniformity, sections charged with internal control 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.

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

Our efforts to ensure socially responsible procurement are based on the Canon Supplier CSR Guidelines, which direct our interaction with suppliers to ensure that our procurement activities throughout the global supply chain take account of human rights, labor, health and safety, compliance, the environment and other relevant issues. Formulated with reference to the standards of the International Labour Organization (ILO) and the guidance of the Responsible Business Alliance (RBA), the guidelines require our suppliers to check that appropriate consideration is given to such issues as child labor, forced labor including human trafficking, discrimination, minimum wage standards, working hours, and employee communication. Canon also requires that its suppliers ask the same of their upstream suppliers (second-tier suppliers for Canon). Canon publishes the guidelines on its corporate website to make them widely available for the information of stakeholders and also makes them known to suppliers at the time of its annual survey.

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

As part of its relations with suppliers, Canon undertakes a review, based on the Canon Supplier CSR Guidelines and other reference standards, of whether the supplier meets standards in such areas as corporate ethics (legal compliance, product safety, management of confidential information, human rights, labor, health and safety, intellectual property rights protection, etc.), environmental conservation, finance, and production structure (quality, cost, delivery, manufacturing capacity, and management).

With regard to the topics of human rights and labor, especially, survey items are set with reference to ILO standards and the guidance of the RBA. 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.

When considering new suppliers, only those who meet the above standards are added to the list of existing registered suppliers, from which procurement partners are selected.

We also conduct an annual survey of all companies registered on our supplier list. The survey results, along with performance as a supplier, form part of an overall evaluation of the business partner, which is recorded in the supplier list, allowing us to give preference to high-scoring suppliers. We also provide guidance and education to low-scoring suppliers to aid improvement.

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 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. Additionally, to directly communicate Canon's procurement policy to our major suppliers and report on related activities, each year since 2018, we have held an annual Procurement Policy Explanation Seminar, at which the Group Executive in charge of Procurement Headquarters explains company policy, including strengthening of 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

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 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 2019, Canon sent CMRT-based surveys to roughly 3,200 suppliers with a response rate of about 94%.

Within the scope of the responses, there was nothing to clearly suggest that the 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. Smelters identified in the survey are disclosed through a Conflict Minerals Report submitted to the U.S. Securities and Exchange Commission (SEC) annually.

* 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 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 2019, 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.

Annual statements are also published by Canon Medical Systems (CMSC) and Axis Communications in compliance with this legislation.

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

<https://canon.ssl.cdn.sdlmedia.com/636976598529590876TU.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 2019

https://www.axis.com/files/manuals/gd_axis_modern_slavery_act_en_2003_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 operational sites and plants and Group manufacturing companies that bear the Canon name and are owned by Canon Inc. directly or indirectly. Manufacturing companies in the Canon Group*¹ 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 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.

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 offices and plants as well as Group manufacturing companies have partnerships with thousands of suppliers unaffiliated with the Canon Group, from whom they purchase considerable numbers of components, such 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*² to clarify the social responsibility standards suppliers must adhere to. Canon also requires that these companies confirm the cooperation of their upstream suppliers.

Among aspects of social responsibility, child labor and forced labor in particular are areas of growing concern. Within the scope of our 2019 survey of Canon Group companies and suppliers, no problems were found with respect to child labor or forced labor. However, with a view to further CSR improvement, we have joined the Responsible Business Alliance (RBA), which promotes social responsibility in the global supply chain.

*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>

Canon's Supply Chain

