

Supply Chain Management

Supply Chain and the Fulfillment of its Social Responsibility

Canon's Supply Chain

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. Manufactures are expected to exercise social responsibility especially in the areas of raw material procurement and product manufacture.

Many manufacturers have outsourced assembly operations or other production processes to outside contractors; however, Canon places great importance on manufacturing, and besides product assembly, Canon manufactures certain components, parts and materials in house, at Canon Inc. production facilities or at Group manufacturing companies (collectively, "Canon production sites"). Manufacturing subsidiaries and affiliates within the Canon Group are spread across Japan, China, Taiwan, Malaysia, Thailand, the Philippines, Vietnam, the United States and Europe. They supply Canon products to Canon Inc. as well as Group marketing subsidiaries and affiliates. As the head of the Canon Group, Canon Inc. supervises Group manufacturing companies that directly employ large numbers of people.

Canon production sites 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.

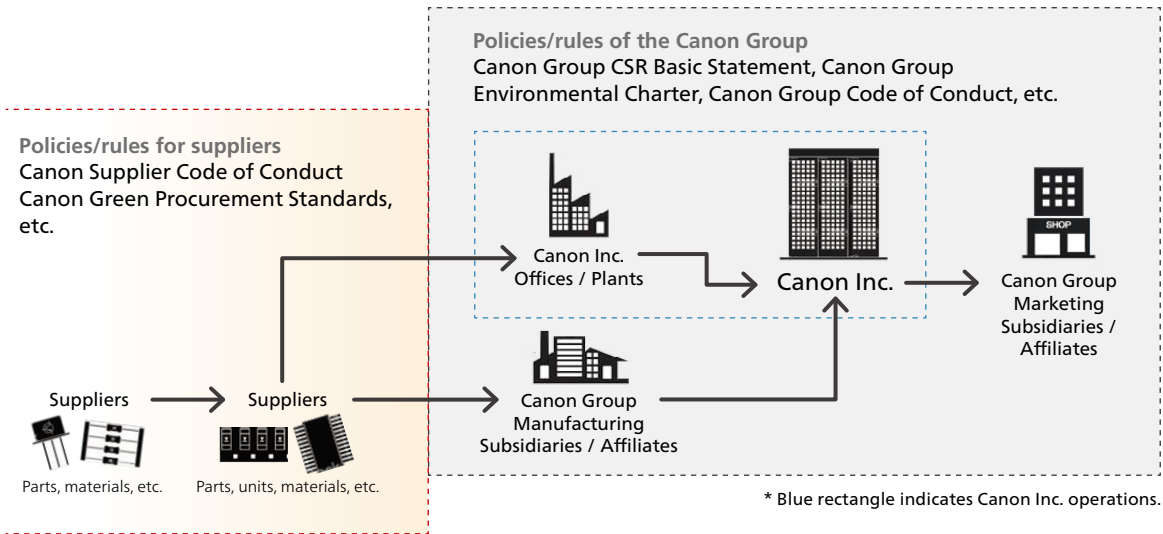
Supply Chain-related Policies

All Canon production sites are required to adhere to various Canon Group policies covering matters such as human rights, labor, the environment, legal compliance, procurement and security. These policies include the Canon Group Code of Conduct, the Canon Group CSR Basic Statement and the Canon Group Environmental Charter. In addition, in December 2019, Canon joined the Responsible Business Alliance (RBA), a coalition of companies that promotes socially responsible global supply chains and works to ensure compliance with the RBA Code of Conduct.

In alignment with the UN Guiding Principles on Business and Human Rights, the provisions in the RBA Code of Conduct are derived from and respect internationally recognized standards including the ILO Declaration on Fundamental Principles and Rights at Work and the UN Universal Declaration of Human Rights. The Code is currently available in 27 languages, including English, Chinese, Japanese, Thai, Vietnamese and Malay.

Canon established the Procurement Policy as its basic stance toward procurement, and seeks the understanding and cooperation of our suppliers. Moreover, we have formulated the Canon Supplier Code of Conduct, which is based on the RBA Code of Conduct, as the basis for ensuring socially responsible procurement activities. We are working with suppliers to develop a socially responsible global Canon supply chain on issues such as labor, occupational health and safety, the environment, business ethics and management systems. We also request our second-

Canon's Supply Chain



tier suppliers for the understanding and implementing 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.

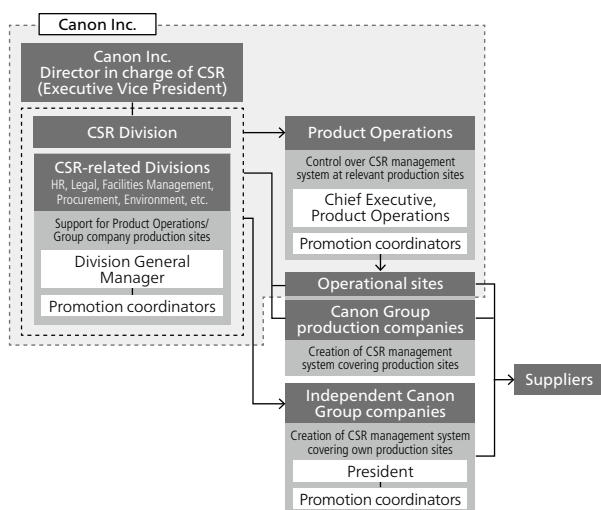
Reference: Canon Group CSR Basic Statement
<https://global.canon/en/csr/policy/pdf/statement-e.pdf>
 Reference: Procurement Policy
<https://global.canon/en/procurement/policy.html>
 Reference: Canon Supplier Code of Conduct
<https://global.canon/en/procurement/pdf/coc-e.pdf>

Supply Chain Initiatives

■ Canon Group initiatives

As the headquarters of the Canon Group, the headquarters divisions, product operations and auditing divisions at Canon Inc. verify the situation at Group companies around the world from the standpoints of internal controls and risk management. In addition, Canon production sites conduct self-assessments on CSR (labor, health and safety, environment, ethics, management systems, etc.) using the RBA Self-Assessment Questionnaire (SAQ). In 2020, we conducted SAQ at 37 production sites in our main business, and there were no major CSR risks. However, we recognized issues to be improved such as development of policies, which is required by the RBA, documentation of management procedures, requests to labor agencies and service providers for compliance with the RBA Code of Conduct and monitoring of their compliance. We also conducted independent third-party audits at two Group companies in Asia, and found no major issues.

Organizational Structure for Promoting CSR within Supply Chain



■ Initiatives with Suppliers

Before starting a business with a new supplier, Canon conducts an assessment based on the Canon Supplier Code of Conduct and other reference standards, 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).

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.

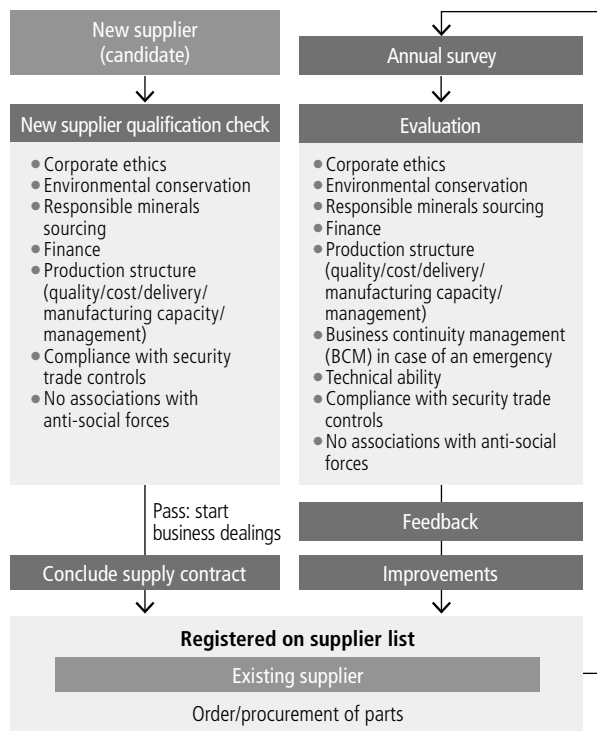
Requirements of the Canon Green Procurement Standards

	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 - No use of prohibited substances - Reduction in the 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

Legend: Evaluation of supplier (A-C) (light grey), Evaluation of parts and materials (D) (dark grey)

Only those suppliers who meet these criteria will be registered in the Supplier List. Canon conducts an annual survey on these suppliers to comprehensively evaluate them based on the results of the survey and the transaction performance. The results are then reflected in the supplier list, enabling us to preferentially

Supplier Evaluation System

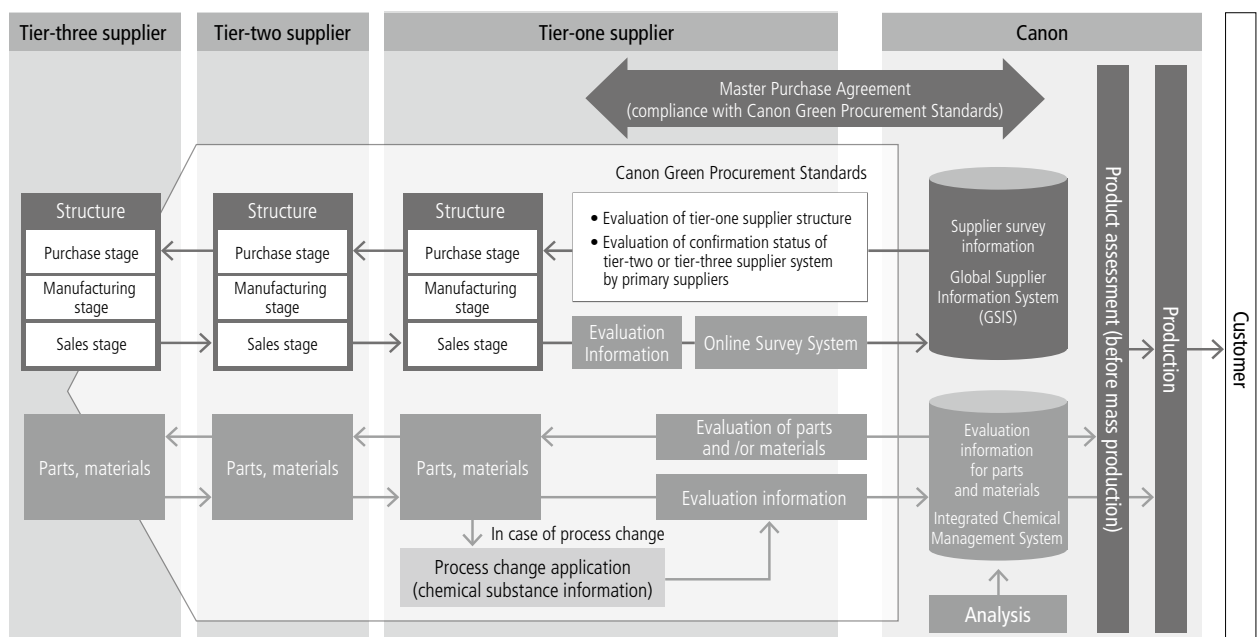


deal with suppliers with high evaluations. We also conduct on-site audits of suppliers with low evaluations, and provide guidance and education for improvement. In particular, Canon may choose to terminate business with suppliers if they are not complying with laws and social agreements covering areas such as human rights, labor, and the environment.

With the aim of improving CSR in the supply chain, Canon requests suppliers of our main business (“major suppliers”) to sign a letter of agreement of the RBA Code of Conduct. In 2020, we sent out requests to 271 major suppliers and received agreements from 257 firms (a 95% response rate). At the same time, we are working to identify CSR risks using the RBA Self-Assessment Questionnaire (SAQ). In 2020, we conducted a survey of 271 major suppliers using the SAQ and received responses from 249 suppliers (392 sites). No ‘High Risk’ businesses were identified among these suppliers, however, we are planning to provide relevant guidance to those suppliers who need improvement in future. In 2020, we provided feedback on the results of labor, health and safety, the environment and ethics to our major suppliers and requested them to recognize their weaknesses and use them for future improvement.

It was already Canon practice to check suppliers regarding the organization and environmental performance of their business activities and any corrective measures taken. Now, it has further strengthened its risk management to help prevent pollution in its supply chain. For example, in order to ensure compliance with strengthened regulation of operating sites, 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

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.



Meeting with IPE personnel

Canon Recognized as "Five-Star Green Supply Chain" Company in China

The Canon Group has been certified as a "Five-Star Green Supply Chain" company by the China Environmental United Certification Center* (CEC), an influential body that assesses companies' activities based on the Ministry of Environmental Protection of the People's Republic of China (currently the Ministry of Ecology and Environment of the People's Republic of China)'s policy of "promoting green supply chain management through green procurement and production." In addition to practicing green procurement, the CEC recognizes our efforts to build trust with suppliers as part of establishing a green supply chain satisfying the highest compliance standards.



Five-star Certificate of Green Supply Chain Assessment

* The China Environmental United Certification Center is the only organization approved by China's Ministry of Ecology and Environment as its representative to certify product ecolabels. The Center is also China's first third-party organization to perform green supply chain rating certifications.

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

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 that pollution is prevented in advance.

CSR-related Risks Hotline

Canon has set up a hotline to allow anyone inside or outside the company to freely contact Canon regarding CSR concerns. 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 described and publicized through the Canon Supplier Code of Conduct as part of our measures to further strengthen supply chain management.

Reference: Inquiries about CSR Activities
<https://global.canon/en/contact/csr/csr-form-e.html>

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.

Canon holds 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. Procurement Policy Explanation Seminars are also held to communicate directly to major suppliers while reporting on related activities, including a presentation by the Group Executive in charge of Procurement Headquarters at Canon Inc. on efforts to strengthen links with suppliers.

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

* 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.

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 Group controls have been set up within procurement divisions 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 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 (in website section on materials procurement)
<https://global.canon/en/contact/suppliers/suppliers-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 cited to contain elements of armed group involvement, serious human rights violations or environmental

destruction. Corporations are therefore being called upon to exercise part of their social responsibility by ascertaining such 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 and reporting system, 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 minerals and, human rights and environmental risks in conflict and high-risk areas around the world. The surveys utilize the Conflict Minerals Reporting Template (CMRT) Revision 6.01 published by the Responsible Minerals Initiative (RMI*), which has been updated to allow assessment of the abovementioned risk. 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)

The Democratic Republic of the Congo (DRC) and adjoining countries in Africa are some of the most notable conflict-affected and high-risk areas due to the production in this region of minerals such as tantalum, tin, gold, and tungsten. Trade in some of these minerals has been cited as funding armed groups in the DRC region that are alleged by the UN and other authorities as being responsible for serious human-rights violations, environmental destruction, and illegal mining. This is generally referred to as the "conflict minerals issue."

In response, the United States enacted legislation, which took effect from January 2013, requiring listed companies to confirm if minerals contained in the products could fund these armed groups in their supply chains, and to provide related public disclosures.

As a listed company in the United States, Canon is required to submit a Conflict Minerals Report annually 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 2020, Canon sent CMRT-based surveys to roughly 3,100 suppliers with a response rate of about 94% (as of April 9, 2021).

Within the scope of the responses, there was nothing to clearly suggest that the Group's purchasing of parts and materials contributed to funding of armed groups in the DRC region. However, recognizing the innate difficulties involved in identifying smelters being

utilized, or lack of clarity in many responses due to its complicated supply chain, Canon is working for further identification of risk and improvement. Smelters identified in the survey are disclosed through a Conflict Minerals Report submitted to the U.S. Securities and Exchange Commission (SEC) annually.

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

Independent Assurance Report

Canon undergoes audits by independent private sector experts to gain independent assurance on whether the Group's initiatives on mineral survey 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 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 the 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.a.bigcontent.io/v1/static/modern-slavery-statement-2019.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
https://www.axis.com/files/manuals/gd_axis_modern_slavery_act_en_2103_lo.pdf