

Third-Party Opinion



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In 2020, the COVID-19 pandemic has caused massive disruptions in society and demonstrated the value of human and social capital. In times of unexpected change and challenging business circumstances, companies depend more than ever on their ability to align the corporate strategy with internal and external resources to drive performance and impact. Against this background, I am grateful for the opportunity to be involved in the commentary process aiming for a high-quality and meaningful reporting of Canon. Based on my review of the draft report and discussions with the reporting team, I would like to focus on three key changes I observed, compared to last year's report.

The New Phase of the Excellent Global Corporation Plan

Phase VI of Canon's five-year planning is prominently presented and integrated in the report. I highly appreciate the clear and concise explanation of the new plan with its overall aims, key strategies, and underlying rationale (→P6-9) as well as its roots in a long history and culture of medium-term strategic planning (→P11-12). I welcome the results of the review of Phase V which are illustrated for example in the sections "Message from the CEO" and "Business strategy". The review provides various contextual insights with valuable information on societal trends, risks, and opportunities, both at company and business group level, supporting a better understanding of the context of Canon. Furthermore, the new plan highlights new management targets for 2025 and presents the new business structure, which reflects a strong future-oriented thinking. For upcoming reports, I suggest Canon should also refer to past management targets, e.g., original targets set at the beginning of the previous period, and to additional quantified non-financial management targets to support a better understanding of the progress against the Excellent Global Corporation Plan.

COVID's Influence on the Business

The COVID-19 pandemic is a significant topic in this year's report. Canon has managed to illustrate the interrelatedness and dependencies of the pandemic with other factors that affect the ability of Canon to create value over time. I welcome the extra feature on COVID responses (→P23-24) with illustrations of Canon's short-term reactions and expectations for mid-term trends for the new business groups, their products, and selected UN Sustainable Development Goals (SDGs). In this way, the effects of the pandemic which include the acceleration of trends towards digital transformation in some areas of Canon's competence are presented as both risk and opportunity for Canon. I appreciate that the report provides more detailed information on Canon's supply chain management initiatives (→P91-96), since this topic has become globally more relevant in the light of pandemic-related interruptions in supply chains and upcoming regulatory initiatives on supply chain transparency.

New Structure of the Report

With this integrated report, Canon has once again managed to further improve the structure and hereby increase the readability of the report. The sections "Value creation" and "CSR Reporting" gather key disclosures in a clearer manner and are easier to understand. The page "Businesses (At a Glance)" (→P13-14) illustrates Canon's business groups in a concise way. The report benefits from numerous links to supplementary materials. I am convinced that some elements in the report could be shifted to other existing disclosures to make the report even more concise without losing essential content.

Canon's continued efforts to enhance the quality and meaningfulness of the integrated report in harsh business circumstances is most worthy of recognition. I congratulate Canon and its reporting team for their great achievements in this report and their contributions to continuously drive the accountability of Canon.

Third-Party Opinion



Sancroft International Ltd.
Chief Executive
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Chair

Judy Kuszewski

Canon, like virtually all business organisations worldwide, faced an immediate and potentially catastrophic shock to the system when the COVID-19 pandemic struck, causing billions to abandon their offices, schools, shops and social spaces in an effort to contain the worst effects of the rampaging virus. Far too many people have already been lost to the disease, and although the global outlook is still far from certain, there has been a decisive – if perhaps unexpected – consequence of this tragic event, which we must recognise: it has shown business the path to a different future and provided real impetus to get there faster.

Canon – built on its corporate philosophy *kyosei*, which means ‘living and working together for the common good’, is perhaps, therefore, already well-attuned to a sustainable society as the natural partner for long-term business value. And so we have seen in this year’s Canon sustainability report a hopeful tone, brought to life with reference to the ‘green recovery’ in which the rebuilding of our economies goes hand in hand with more sustainable choices that support long-term resilience.

If the pandemic has taught us anything as a society, it is that we are all interdependent – and that the ties that bind us to one another, through our formal institutions, cultural and family ties, and our economic and business structures, are vulnerable. It has opened our eyes to the nature of systemic risk, and in many cases, strengthened our resolve to address the sources of this risk.

In many ways, the global climate crisis we face is the clearest example of systemic risk, well understood by science, but as yet unresolved by society. However, the most exciting aspect is the opportunity that the climate revolution can have in transforming our businesses and societies in favour of cleaner, cheaper, more equitable and more resilient solutions that will benefit the whole planet. This opportunity thinking is what a great sustainability report can do particularly well – it links together a company’s fundamental business strategy with both the risks and the

opportunities ahead linked to a changing planet and people. I commend Canon’s continued integrated reporting efforts for the progress achieved already, but also for showing readers what a future business that responds to society and the environment might look like.

Canon has strengthened the elements of its integrated report significantly this year with in-depth explanation of its business strategy across all of its major business lines, tied to the evolution in markets that reflects societal change, as well as the opportunities for Canon to support the Sustainable Development Goals through the products it makes. The next challenge is for the discussion of business strategy to reflect more explicitly the risks and opportunities contained within it. The recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) seek to encourage business and investors to illuminate these risks and opportunities so that they can be formally factored into business strategy, and thus contribute to a lowering of systemic risk faced due to climate change. Many thousands of businesses and investors have expressed their support for the TCFD recommendations and are beginning their efforts to implement them in their internal business assessment, planning and reporting. I look forward to seeing Canon’s future efforts in this regard, as a leadership contribution to their sector.

The concept of integrated reporting especially encourages a stronger connection between environmental, social and governance issues with the potential for value creation in the business. Nevertheless, it is essential to maintain focus on the impacts of the company’s activities on the environment and society, regardless of any link to value creation. I am happy to see that Canon continues to build on a strong base here, with solid management processes and performance data on core sustainability impacts, including supply chain responsibility, product environmental performance, and resource use and waste reduction.

In the years ahead, Canon, like other businesses, will likely need to do more with less while we rebuild. Even so, the expectations have in some respects never been greater for Canon to improve people’s lives, create fair and responsible jobs, radically reduce environmental impacts, and strengthen the ties that bind us. This integrated report gives us a window into what that future might hold.

Third-Party Review Process

Introduction

As part of Canon's ongoing efforts to improve its sustainability reporting for stakeholders, Canon seeks the advice of external experts to review and comment on its sustainability report. This process aims to:

- Provide a means both to advance Canon's commitment to sustainable development and to check expectations and perceptions of progress with respected external experts
- Support the achievement of accountability through the sustainability report
- Help foster dialogue between Canon and its stakeholders while supporting good accountability practice.

Judy Kuszewski and Dr. Justus von Geibler have supported Canon's reporting every year for over a decade, through dialogue with Canon leadership and detailed, challenging review of concepts and draft contents as they are developed, as well as written commentary which is published in this report.

Basis for the Commentator's Opinions

Using the Global Reporting Initiative (GRI) Sustainability Reporting Standards, the Integrated Reporting framework of the International Integrated Reporting Council and the UN Sustainable Development Goals (SDGs) as background, the commentators challenged Canon on:

- **Materiality**—The topics of greatest importance to Canon's business and to its stakeholders.
- **Integration into business**—Demonstrating that Canon's sustainability priorities are fully embedded into the business operations.
- **Risk identification and management**—Canon's sustainability report should demonstrate its understanding of potential risk to the business from key sustainability trends, and the strategic steps taken to address these risks.
- **Value creation**—Canon's sustainability report should demonstrate the role that sustainability thinking and action play in opening up new pathways to add value to the business and its customers.

Judy Kuszewski and Dr. Justus von Geibler are well-informed, independent sustainability professionals with a keen interest in engaging with Canon and supporting the transparency and accountability of its reporting. They are not auditors or assurance providers.

What Canon and the Commentators Discussed

Through the video conference process and written submissions, the commentators 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
Canon's role in sustainable change and societal transformation	The integrated report presents an opportunity to review the impact of and response to the COVID-19 pandemic and consider long-term changes in business, society, markets and environmental trends that present opportunities for Canon, in particular with reference to the notion of a 'green recovery' that Canon can serve and potentially help drive.	We report on the impact of the COVID-19 on Canon and our response. Based on its Corporate Philosophy of "kyosei," in consideration of the global environment, Canon creates value in various ways through its technologies, products, and solution services that respond to changing social trends, and contributes to the realization of a society where people can live in "peace of mind" "safety" "comfort" and "affluence."
Taking stock of progress toward sustainability and long-term value creation	The Canon Excellent Global Corporation Plan has provided the means to assess the company's progress over time, and is revised in five-year increments. 2020 saw the end of one such increment, which would be a very useful time for Canon to review in more detail what was achieved and could not be achieved in the foregoing five years. While certain goals have likely been heavily influenced by the pandemic, such a review is a valuable part of the learning process and very informative for readers as well. As the next management plan period begins in 2021, readers will be able to see the company's future path from that point.	In 2021, we launched a new medium- to long-term management plan called "Phase VI of the Excellent Global Corporation Plan". We deliver the results of Phase V and the key strategies and objectives of Phase VI in "CEO message" (→P6-9). In addition, this year we enhanced our coverage of how Canon contributes to solving social issues through business activities in "Business strategy" (→P15-22).
Validating and refining the material topics and relationship to the SDGs	Canon's approach to identifying and describing material topics continues to evolve. This could potentially be improved with a move to greater specificity, beyond the broad categories of 'materiality themes' Canon develops. Participants in the dialogue discussed the ongoing relevance of the SDGs to Canon's business and core activities. Canon's stakeholder survey reflected changes in stakeholder awareness related to the global coronavirus pandemic, which in turn influenced Canon's assessment of the SDGs in the report. There was particular emphasis on what is most appropriate in relation to SDG17 given its different nature compared to others. Commentators expressed a view to see this better reflected in the future. Canon should be mindful of the need to be transparent about impacts that may be negative, and which may affect their performance against the SDGs.	We will continue to look into more specific topics for each materiality theme. With the advent of the COVID-19, society is undergoing a major transformation, and we believe it is more important than ever to confirm the expectations of stakeholders. Canon believes Goal 17 of the SDGs is involved in all our activities. Referring to comments from commentators, we improved our explanation on the goal (→P30). Considering the comments on the negative impact of Canon's business activities on the SDGs, we will make further efforts to improve information disclosure.
Canon's response to the COVID-19 crisis	Canon's efforts to clarify and describe what the COVID-19 crisis has meant to the company and its employees – and how they have worked to use their skills as a business to respond effectively – are appreciated. Canon's focus not only on the short-term but also the long-term perspective can help readers understand Canon's stance in respect of this crisis. This theme links well to the overall understanding of the SDGs as a compass and guide for organisations, especially in unexpected times, and the progress toward a 'new normal' that could produce a better future for society.	From the beginning of production, we discussed how we present our approach to COVID-19 infections with commentators. As a result, in addition to the short-term measures we have taken so far, such as support for medical facilities and donations and fundraising activities, we have added concrete explanations of our efforts from a long-term perspective, such as what kind of value Canon will generate in the new normal era, and how we will contribute to the realization of a sustainable and resilient society advocated by the SDGs (→P23-24).