

Supply Chain Management

Basic Approach

Guided by its philosophy of *kyosei*, Canon sets out its basic approach to procurement in its Procurement Policy, which promotes the fair and equitable conduct of business with due consideration for corporate ethics, environmental conservation, and other key concerns.

Additionally, in 2019 Canon joined the Responsible Business Alliance (RBA), a coalition of companies that promotes socially responsible global supply chains. Canon works through the alliance to further ensure that its procurement activity considers the needs of the global environment, people, and society.

Reference: Procurement Policy
<https://global.canon/en/procurement/policy.html>

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, we established the Canon Group Procurement Code of Conduct for Executives and Employees in Charge of Procurement, which 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 of 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 company-wide consistency and uniformity, a department in charge of internal Group controls was set up in the procurement division 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 set up the Suppliers Proposal Site within its corporate website with the purpose of collecting information, including product proposals and information related to production outsourcing (excluding intellectual property such as designs, ideas and inventions), from companies worldwide. Products proposed on this site are now being used in Canon products.

We will continue to duly consider all future proposals based on established rules.

Reference: Suppliers Proposal Site (on Procurement Information page under About Canon tab)
<https://global.canon/en/contact/suppliers/suppliers-form-e.html>

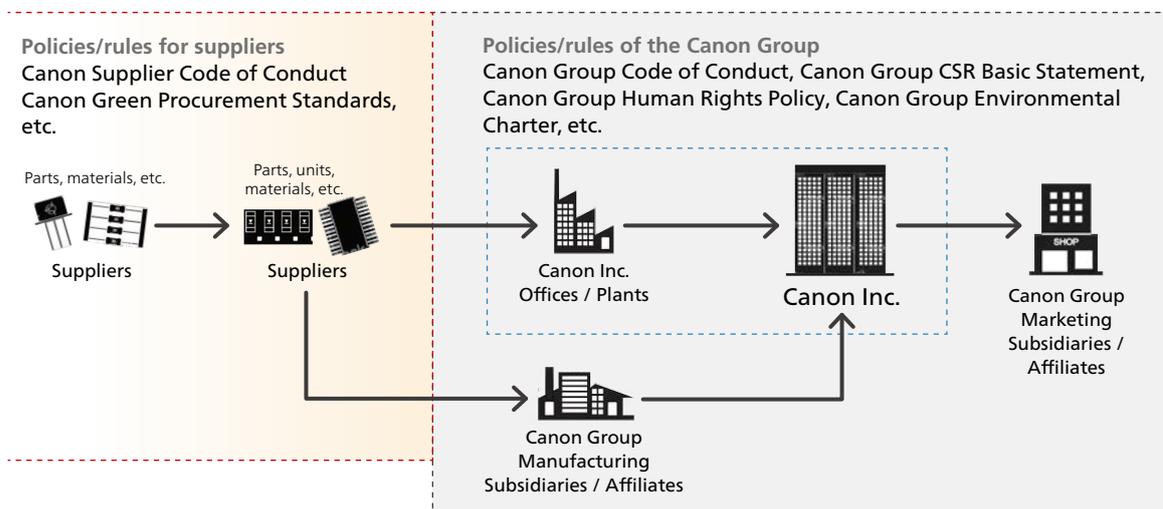
Fulfillment of Social Responsibility in the Supply Chain

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

Many manufacturers outsource assembly operations or other production processes to outside contractors; however, due to the strong focus and importance Canon places on manufacturing, we not only carry out product assembly but also manufacture certain

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* Blue rectangle indicates Canon Inc. operations.

components, parts and materials in house at Canon Inc. operational sites or at Group manufacturing companies (hereinafter "Canon production sites"). Group manufacturing companies located in Japan, China, Taiwan, Malaysia, Thailand, the Philippines, Vietnam, the United States, and Europe are responsible for supplying 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 also 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

Canon has established the Canon Group Code of Conduct as the set of standards which executives and employees of the Canon Group are required to observe in the conduct of their duties. Based on the Code of Conduct, the Group has formulated a range of policies, covering matters such as human rights, labor, the environment, legal compliance, procurement, and security, to govern its business activities. These policies include the Canon Group CSR Basic Statement, the Canon Group Environmental Charter, and the Canon Group Human Rights Policy.

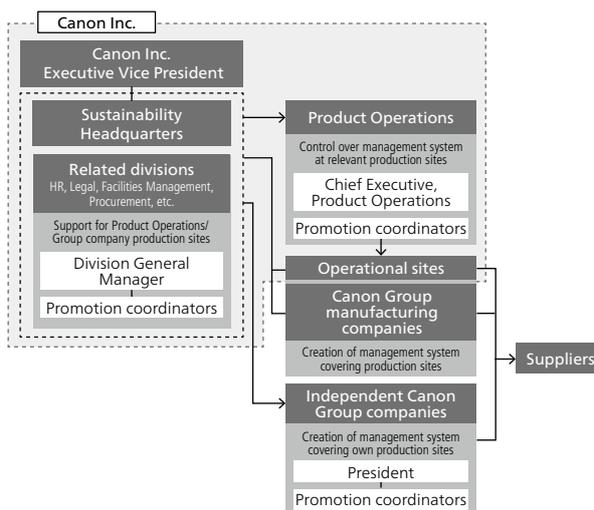
Meanwhile, our Procurement Policy sets out the Canon Group's basic approach to procurement. We request all suppliers to ensure that they understand and cooperate with the policy. We have also formulated the Canon Supplier Code of Conduct, based on the RBA Code of Conduct, as the basis for fulfilling social responsibilities in the supply chain. We are working with suppliers to develop a socially responsible global supply chain on issues such as labor, occupational health and safety, the environment, corporate ethics and management systems. We also request from second-tier suppliers understanding and adherence to 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: Canon Group Human Rights Policy
<https://global.canon/en/csr/people-and-society/pdf/hr-policy-e.pdf>
 Reference: Canon Supplier Code of Conduct
<https://global.canon/en/procurement/pdf/coc-e.pdf>

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 relating to labor, health and safety, environment, ethics, management systems, etc., using the RBA Self-Assessment Questionnaire (SAQ). In 2021, we conducted SAQ at 54 production sites of our core businesses. No major risks were identified; however, we recognized some issues for improvement, including policy development, which is required by the RBA, documentation of management procedures, and requests to labor agencies and service providers for compliance with the RBA Code of Conduct and monitoring of their compliance.

Organizational Structure



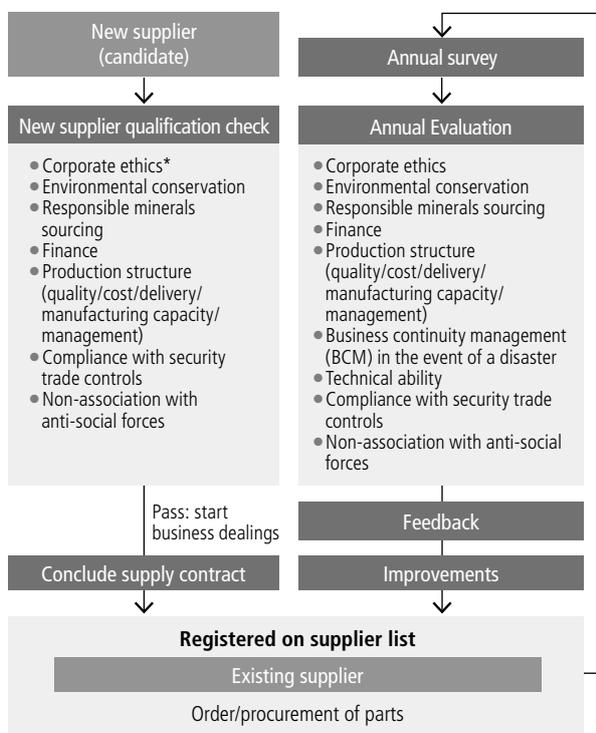
Initiatives with Suppliers

Before starting business dealings with a new supplier, Canon conducts an assessment based on the Canon Supplier Code of Conduct and other reference standards of 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). (See "Supplier Evaluation System" on P121.)

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Only those suppliers who meet these criteria are accepted onto the Supplier List. Canon conducts an annual survey of suppliers registered on the list (see figure below, Supplier Evaluation System) and makes a comprehensive evaluation based on the survey results, performance as a supplier, and other factors. The results are then reflected in the supplier list, enabling us to preferentially deal with suppliers with high evaluations. We conduct on-site audits of suppliers with low evaluations and provide guidance and instruction for improvement. In particular, Canon may choose to terminate business with suppliers if they are not complying with laws and social norms covering areas such as human rights, labor, and the environment.

Supplier Evaluation System



* Corporate ethics covers areas including legal compliance, product safety, management of confidential information, human rights, labor, health and safety, and intellectual property right protection.

Canon is also working to identify risks using the RBA SAQ. In 2021, we sent out the questionnaire to 346 suppliers related to major business operations (“major suppliers”) and received responses from 330 companies (representing 491 sites). No High Risk businesses were identified among these suppliers, but we provided feedback on the results of labor, health and safety, the environment and ethics to our major suppliers and requested that they identify weaknesses and improve on them. We also request major suppliers to sign an agreement concerning the RBA Code of Conduct. Out of 346 requests, consent was obtained from 326 (94.2%) major suppliers.

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.

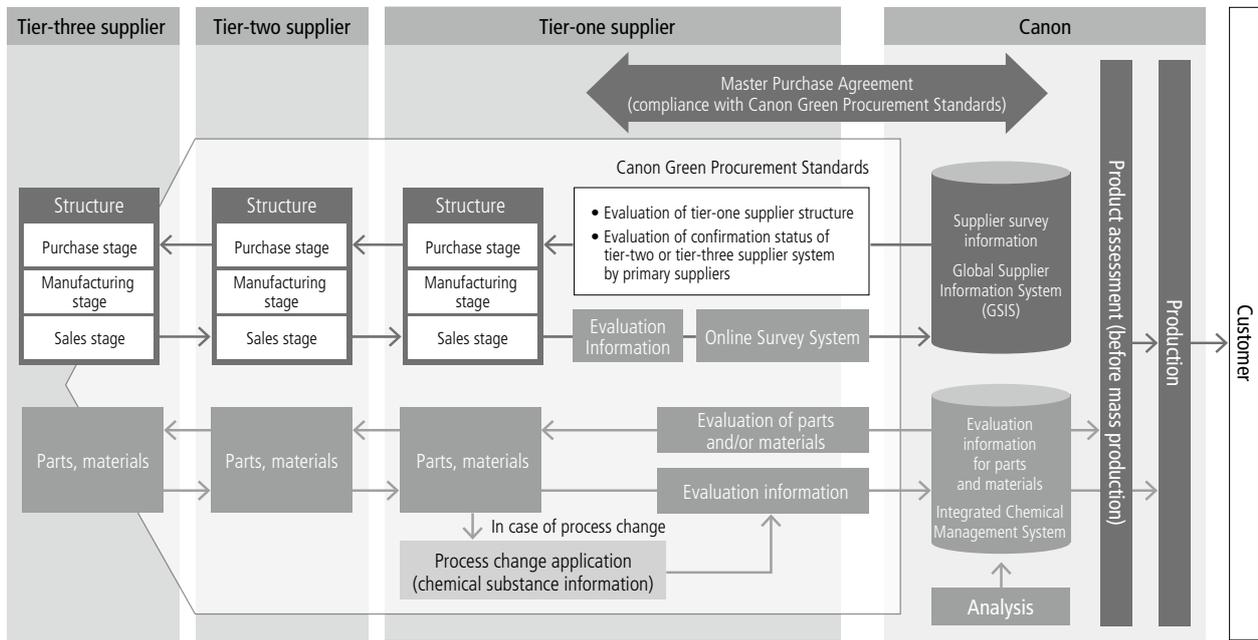
Requirements of the Canon Green Procurement Standards

	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 - Non-use of prohibited substances - Reduced 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) Evaluation of parts and materials (D)

It was already Canon’s practice to check the organization and environmental performance of a supplier’s business activities and any corrective measures taken. Now, we have further strengthened our risk management to help prevent pollution in our supply chain. For example, in order to ensure compliance with stricter regulations, 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 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 pollution prevention.

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

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

Supply Chain Management

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.

We hold 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. The Group Executive in charge of Procurement Headquarters at Canon Inc. also requests major suppliers worldwide to comply with the Canon Supplier Code of Conduct, which includes items related to the environment and human rights. Procurement annual meeting, which explains procurement policies and reports on activities, are also held 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.

Hotline for Risks in the Supply Chain

Canon has set up a hotline to allow anyone inside or outside the company to freely report any concerns about the supply chain. 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 detailed in the Canon Supplier Code of Conduct and publicized.

Reference: Inquiries about CSR Activities
<https://global.canon/en/contact/csr/csr-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 shown to have links to armed groups, serious human rights violations or environmental destruction. Corporations are therefore being called upon to exercise their social responsibility by identifying 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 reporting system, Canon identifies products that could contain certain metals or minerals and then conducts investigations of the parts and materials in question, tracing up the supply chain to determine places of origin. Canon exercises due diligence to identify any risk of funding armed groups along with human rights and environmental risks in conflict and high-risk areas around the world. The surveys utilize the Conflict Minerals Reporting Template (CMRT) Revision 6.1 published by the Responsible Minerals Initiative (RMI*), which has been updated to allow assessment of the abovementioned risks. 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)

Tin, tantalum, tungsten and gold (3TG) produced in conflict-affected and high-risk areas are said by the United Nations and other authorities to have been used in some cases to provide funding for armed groups allegedly responsible for serious human rights violations, environmental destruction, illegal mining, and other issues. This is generally referred to as the “conflict minerals issue.”

In response, the United States introduced the Dodd-Frank Act in January 2013, which requires listed companies to investigate and disclose whether minerals and metals from the Democratic Republic of the Congo (DRC) and neighboring countries contained in their products could have been used to fund armed groups.

As a listed company in the United States, Canon is required to submit a Conflict Minerals Report each year 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 2021, Canon sent CMRT-based surveys to roughly 3,200 suppliers with a response rate of about 93%.

Recognizing the innate difficulties involved in identifying smelters being utilized, or lack of clarity in many responses due to its complicated supply chain, Canon was unable to determine whether the Group's purchasing of parts and materials financed or benefitted armed group in the DRC region. Canon is working for further identification of risk and improvement. Smelters investigated in the survey are disclosed through a Conflict Minerals Report submitted to the U.S. Securities and Exchange Commission (SEC) annually.

In Europe, meanwhile, April 2021 saw the enactment of the EU's Conflict Minerals Regulation, whose scope is not limited to the DRC and neighboring countries. Canon is not affected by this regulation, but it has carried out a risk assessment of the other countries involved.

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

Response to Expanding Risk

Recent years have seen heightened worldwide attention given to the procurement risk associated also with non-3TG mineral substances. Specifically, cobalt — in growing demand for its use in lithium-ion batteries and other applications — is the focus of concern over potential human rights violations, including child labor, at mining locations. From 2021, Canon began providing all suppliers subject to survey with a copy of the industry standard cobalt regulations (Cobalt Reporting Template of the Responsible Minerals Initiative) in order to investigate the status of cobalt use in Canon products and conduct related risk analysis. We will continue responding to this risk in collaboration with suppliers and industry associations.

Independent Assurance Report

Canon undergoes audits by independent private sector experts to gain independent assurance on whether the Group's initiatives on conflict minerals investigation 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. In 2018, Australia enacted a Modern Slavery Act, under which companies above a certain size operating in Australia are required to evaluate the risk of forced labor and other issues in the supply chain and in their own business activities and to disclose measures taken to reduce the risk.

Annual statements are published by 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 and Axis in compliance with this legislation.

Reference: Canon Europa N.V., Canon Europe Ltd., and Canon (UK) Ltd. Modern Slavery Act Statement
https://canon.a.bigcontent.io/v1/static/2020_modern_slavery_statement
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/dam/public/94/b1/05/axis-modern-slavery-act--transparency-statement-2021-en-US-360048.pdf>