

# 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.

Accordingly, 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 eco-friendly green procurement\*2 practices.

### \*1 The 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.

### Procurement Policy

Following its corporate philosophy of *kyosei*, Canon aims, as a truly global company, to contribute to the prosperity and well-being 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 outlines 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 Canon Group companies both inside and outside Japan.

To ensure consistency and uniformity across the company, special internal controls sections have been set up within procurement divisions to maintain the rules, monitor compliance, and provide training for employees.

### Main Efforts for Procurement Compliance

2007	Set up special internal controls sections within procurement divisions
2013	Renewed the existing procurement code of conduct and formulate to the Canon Group Procurement Code of Conduct for Executives and Employees in Charge of Procurement
2014	Established detailed common procurement operation rules for the entire Canon Group

### Promoting Open Procurement

As stated in our Procurement Policy, we open our doors equally to suppliers worldwide and conduct business in a fair and impartial manner, and we have instituted an Open Procurement policy to make a broad appeal to 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.

## Socially Responsible Procurement

Canon strives to ensure that suppliers understand its procurement standards in order to be certain that social responsibilities are not only being fulfilled by Canon itself, but also throughout the supply chain. As part of this effort, we have posted a page entitled Requests to Suppliers on our website that outlines suppliers' responsibilities in regard to the environment, human rights, labor, compliance, and other matters.

### Requests to Suppliers

1. Comply with all applicable laws and regulations. (human rights, labor, safety and health, etc.)
2. Contribute to the growth of society as a "good corporate citizen."
3. Promote fair, honest and highly transparent business, along with the implementation of corporate ethics by prohibiting the activity against corporate social responsibility such as abuse of dominant position and eliminating antisocial forces.
4. Construct a production system considering environmental conservation by observing Canon Green Procurement Standards and promoting the activity to reduce CO<sub>2</sub> emissions, etc.
5. Secure the personal and customer information, and strictly manage the information obtained through business.
6. Promote persistent improvement in order to maintain a strong financial standing for continuous business and a high level in terms of quality, cost, delivery and technical aspects

### Online Surveys for Existing Suppliers

Canon conducts online surveys of suppliers that provide production materials and production related items to Canon as part of its thorough approach to supply chain management. The results of these surveys are used in supplier evaluations. Online surveys are conducted regularly once every year to monitor a wide range of social and environmental measures employed by suppliers.

To match rising stakeholder interest in human rights and labor observed in recent years, survey items about these issues have been established based on International Labour Organization (ILO) standards and guidance from the Electronic Industry Citizenship Coalition (EICC). The survey is used to check whether a supplier pays due consideration to human rights and labor issues such as forced labor that includes child labor and human

trafficking, discrimination, minimum wage, work hours and labor union activities.

Canon also requires that its suppliers urge their own upstream suppliers (tier two suppliers for Canon) to do the same.

### Main Items Surveyed

- Financial condition
- Business continuity management (BCM) in case of an emergency
- Environmental-conservation activities
- Compliance with conflict minerals issues
- Corporate ethics (legal compliance, product safety, management of confidential information, human rights, labor, occupational health and safety, and intellectual property rights protection)

### Supplier Evaluations Incorporating Social and Environmental Perspectives

Before initiating transactions with a new supplier, Canon assesses whether it satisfies the company's independent criteria with respect to such areas as financial position, management systems (quality/cost/delivery; manufacturing), and global environmental protection. Only those suppliers who fulfill the criteria are registered on the supplier list. In the environmental field in particular, satisfying Canon Green Procurement Standards is a condition for doing business, ensuring that green procurement of the parts and materials used in our products is practiced.

Suppliers already on the list are also subject to regular evaluations. These evaluations are comprehensive in nature, based on the results of online surveys and business track record. The results are reflected on our Supplier List, with highly ranked suppliers receiving preferential selection. And, we offer suggestions for improvement and training to suppliers with low scores.

Starting in 2016, we plan to add corporate ethics to the evaluation of existing suppliers, looking at such subjects as human rights, labor, and occupational safety and health, and also to incorporate the perspective of tier two supplier management.

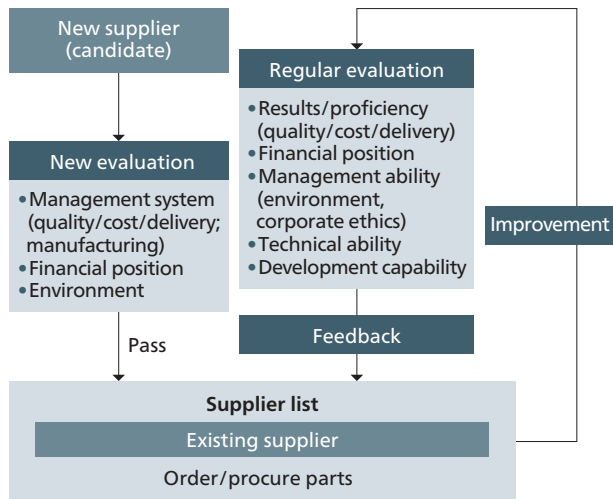
#### Reference: How to become a supplier

<http://www.canon.com/procurement/procedure.html>

#### Reference: Green Procurement

<http://www.canon.com/procurement/green.html>

## Supplier Evaluation Flow



## Addressing the Issue of Conflict Minerals

Seeking to ensure that customers can use Canon products with peace of mind, the Canon Group addresses the issue of conflict minerals.

Specifically, Canon has been conducting full-scale investigations targeting products produced at manufacturing bases across the entire Canon Group.

As of February 29, 2016, there was nothing to clearly suggest that the Canon Group's purchasing of parts and materials contributed to funding armed groups in conflict regions as defined by U.S. legislation within the scope of responses it received.

Canon Inc., a U.S. listed company, files a report at the end of May every year regarding the Company's status on this issue with the U.S. Securities and Exchange Commission.

In 2016, Canon received an audit of this report from a third party. This report is also made available on Canon's website.

In 2015, Canon joined the Conflict Free Sourcing Initiative (CFSI), an international program that plays the leading role in response to the conflict minerals, and continues to support industry activities.

## Partnership with Suppliers

Canon holds regular briefings for suppliers at its operational sites and Group manufacturing companies to gain their understanding of the company's business plans and procurement policies. Communicating in this way allows us to share information with suppliers, strengthen cooperation and grow our businesses together.



Improving communication and strengthening ties with suppliers