

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 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 Procurement Compliance Initiatives

2007	Set up specialized internal controls sections within procurement divisions
2013	Upgraded existing procurement code of conduct and formulated Canon Group Procurement Code of Conduct for Executives and Employees in Charge of Procurement
2014	Established detailed procurement operation rules for entire Canon Group

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
https://proposal.in.canon.co.jp/wwcc/WWCCD800.aspx?PRM_CF_LANGUAGE=0

Message from Management	Canon Group Business Operations	CSR Management	Growth Strategy and Sustainability	Activity Highlights
Relationship with SDGs	CSR Reporting	Management Structure	GRI Guideline Implementation	Third-Party Opinion / Assurance

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 these initiatives, a page entitled Requests to Suppliers on our website outlines suppliers' responsibilities in regard to the environment, human rights, labor, safety and health, compliance, and other matters.

We have set up a channel for feedback from suppliers to Canon. On our CSR website suppliers can submit opinions and requests by sending a message on a page titled "We welcome your comments on our CSR Activities."

Reference: We welcome your comments on our CSR Activities
https://secure1.canon.com/ssl-form/csr_form-e.html

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 CO₂ 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.

Supplier evaluation and continuous survey incorporating environmental and social perspectives

At the time of commencing trading with a new supplier, we review whether suppliers meet the criteria established independently by Canon from the standpoint of finance, management system (quality / cost / delivery date / manufacturing capacity), corporate ethics (legal compliance, product safety, management of confidential information, human rights, labor, occupational health and safety, and intellectual property rights protection etc.) and global environmental conservation etc. We have registered suppliers in the "supplier list" that satisfy the standards.

Regarding the aspects of "human rights and labor", which stakeholders are highly interested in recent years, survey items are set with reference to the International Labor Organization (ILO) standards and the guidance of the Electronic Industry CSR Alliance (EICC). We are confirmed whether appropriate consideration is given to items such as child labor, forced labor including trafficking in person, discrimination, minimum wage, working hours, dialogue with employees. In addition to this, in the field of the environment, we are pursuing green procurement of parts and materials used in products on the condition that the "Canon Green Procurement Standard" is satisfied.

To ensure thoroughly supply chain management to existing suppliers registered in the supplier list, we carry out annual online surveys once a year to confirm the diversified efforts including environmental and social aspects. We comprehensively evaluate the suppliers based on the results of the survey and transaction performance and reflect the results on the supplier list so that we can preferentially trade with highly evaluated suppliers. In addition, we provide guidance and education for improvement for suppliers with low evaluation.

In accordance with these efforts, 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 etc.)

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

Supplier Evaluation System



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.

Canon has been conducting full-scale inquiries targeting products produced at manufacturing bases across the entire Canon Group. As of May 31, 2017, within the scope of the responses collected, no specific parts or materials have been found to have contributed to funding armed groups in conflict regions as defined by U.S. legislation.

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. For the reporting year 2016, an independent assurance report made by an independent auditor was included with the Company's conflict minerals report, which confirmed that the Canon Group's activities were compliant with certain international standards. The report is also made available on Canon's website.

Canon is a member of the ConflictFree Sourcing Initiative (CFSI), that plays the leading role in response to the conflict minerals, and continues to support industry activities.

Reference: Responding to the issue of conflict minerals
<http://www.canon.com/csr/conflict/index.html>

Partnership with Suppliers

Canon holds "business trends briefings" for suppliers at each business site and each production group company and asks for understanding of cooperation and procurement policies for business plans.

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