

## LBMA Responsible Gold Guidance Compliance Report

The LBMA Responsible Gold Guidance has been established for Good Delivery Refiners to adopt high standards of due diligence in order to combat systematic or widespread abuses of human rights, to avoid contributing to conflict, to comply with high standards of anti-money laundering, and to combat terrorist financing practice.

This report summarizes how Nihon Material Co.,Ltd (hereinafter the "Company") has complied with the requirements of the LBMA Responsible Gold Guidance.

### **Table 1: Refiner's detail**

Refiner's name	Nihon Material Co.,Ltd
Location	5-3-2 Sotokanda Chiyoda-ku Tokyo 101-0021 Japan
Reporting period	From 1 April 2020 to 31 March 2021
Date of Report	28 May 2021
Senior Management responsible for this report	Nobutake Morita, Managing Director

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### **Table 2: Summary of activities undertaken to demonstrate compliance**

Step 1: Establish strong company management systems

Compliance Statement with Requirement:

We have fully complied with Step 1: Establish strong management system.

#### **1. Adopt a company policy regarding due diligence for supply chains of gold**

The Company adopts the Responsible Precious Materials Management Policy (hereafter the "Policy"), which is consistent with the Model Policy set forth in Annex II of the OECD Due Diligence Guidance for Responsible Supply Chains of Materials from Conflict-affected and High-Risk Areas.

This sets out our responsibility to avoid contributing to conflict, terrorist financing, human rights abuses, money laundering and tax evasion, addressing environmental and sustainability responsibilities in the procurement of gold bearing materials (hereinafter "gold").

#### **2. Set up an internal management structure to support supply chain due diligence**

We have set up an internal management system to support supply chain due diligence, which defines our governance, roles and responsibilities, communication and senior management, review as per the adopted Policy. The compliance officer, who has a direct line of reporting to the senior management has been assigned to manage the process. The compliance officer evaluates the effectiveness and performance of the supply chain due diligence.

#### **3. Established a strong internal system of due diligence, controls and transparency over gold supply chain, including traceability and identification of other supply chain actors**

The Company implements its internal system for the due diligence of suppliers to identify the risks.

The compliance officer assumes authority and responsibility to conduct due diligence stipulated in the due diligence provision and control manual which were revised in fiscal 2020. The objective of the revision was to broaden the definition of conflict-affected or high-risk areas (CAHRAs) and more clearly define the sources to which we should refer when we regularly review a list of CAHRAs so that purchased gold does not originate nor transit via a CAHRA according to the latest definition.

Our supply chain due diligence system is set up to ensure the transparency of our transactions. When suppliers provide gold, each transaction is allocated a transaction code and linked with the supplier information (e.g. supplier name, date of transaction and other information) acquired and stored in our supplier data base. Each of the purchased gold is traceable to individual supplier using the transaction code.

#### **4. Strengthened company engagement with gold-supplying counterparties and, where possible, assist gold-supplying counterparties in building due diligence capacities**

We communicate our Responsible Precious Materials Management Policy, verbally or in writing, to our gold suppliers to obtain their understanding of, and consent to, the Policy. We explain to our suppliers why we need to collect KYC information from them and request them to sign transaction tickets to confirm that the gold they supply has no connection with conflict, terrorist financing, human rights abuses, money laundering, tax evasion, anti-social acts and non-compliance with environmental and sustainability legal requirements.

#### **5. Established a company-wide communication mechanism**

We have a whistleblower system to let the compliance officer and the senior management, when necessary, know any potential issues or concerns relevant to the gold supply chain. Based on the results of an investigation conducted by the internal audit division to which every report is communicated, the compliance officer takes corrective and preventive measures. This system establishes the appropriate measures to allow anonymous communications with our internal and external stakeholders, and is managed to protect whistleblowers, who report in good faith suspected issues of compliance, from discriminatory and retaliatory actions.

#### **Step 2: Identify and assess risk in the supply chain**

Compliance Statement with Requirement:

We have fully complied with Step 2: Identify and assess risks in the supply chain.

##### **1. Identify risks in the gold supply chain**

We purchase gold mainly over the counter at our shops and through our buyers. When we purchase gold, we request every supplier to submit their information and document according to our criteria. We identify risks of gold and suppliers. We do not accept any gold when we find that a supplier has provided us with false information and/or when we become aware of the possibility that the acceptance of gold is likely to contribute to conflict, terrorist financing, human rights abuses, tax evasion, money laundering, and/or non-compliance with environmental and sustainability legal requirements. When we purchase gold bars from trading companies or refiners, we check that we purchase Good Delivery bars from reliable suppliers.

##### **2. Assess risks in light of the standards of our supply chain due diligence system**

The company assesses risks in the supply chain through our due diligence system comprising all measures

required by the LBMA Responsible Gold Guidance before entering a business relationship with any gold supplying counterparty. We shall perform enhanced due diligence when there is sufficient doubt that gold originates from or transit via a conflict affected high-risk area (CAHRA), or has any connection with money laundering, tax evasion, terrorist financing, and/ or anti-social acts, and/or non-compliance with environmental and sustainability legal requirements. We require ourselves to regularly review, and update as necessary, the list of CAHRAs, which include countries covered by the US Dodd-Frank Act, those included in the indicative, non-exhaustive list published by the EU, and those via which minerals from CAHRAs are suspected to transit. In addition, we conduct scrutiny and monitoring of transactions undertaken through the course of the relationship with gold supply chain.

### **3. Report risk assessment to designated senior management**

The compliance officer reports to the senior management the results of risk assessment when a high-risk transaction is identified. The senior management has the responsibility to suspend or terminate the business relationship with concerned suppliers based on reports from the compliance officer.

#### **Step 3: Design and implement a management system to respond to identified risks**

Compliance Statement with Requirement:

We have fully complied with Step 3: Design and implement a management system to respond to identified risks.

#### **1. Devised a strategy for risk management of an identified risk by either ( I )mitigation of the risk with continuing to trade, ( II)mitigation of the risk while suspending trade or (III)disengagement from the risk.**

We shall immediately suspend or terminate the transaction of any materials where risk is identified, as a result of our evaluation of materials and suppliers, that the acceptance of gold is likely to contribute to conflict, terrorist financing, human rights abuses, money laundering, tax evasion, anti-social acts, and/or non-compliance with environmental and sustainability legal requirements.

#### **2. Where a management strategy of risk mitigation is undertaken, it should include measurable steps to be taken and achieved, monitoring of performance, periodic reassessment of risk and regular reporting to designated senior management.**

We have not been aware, as result of our evaluation of materials and suppliers, of any such possibility that we purchased any materials that had any connection with conflict, terrorist financing and human rights abuses, money laundering, tax evasion, anti-social acts and/or non-compliance with environmental and sustainability legal requirements, during the reporting period.

#### **Step 4: Arrange for an independent third-party audit of the supply due diligence**

Compliance Statement with Requirement:

We have fully complied with Step 4: Arrange for an independent third-party audit of the supply chain due diligence.

Comments and Demonstration of Compliance:

The Company engaged the service of the assurance provider, KPMG AZSA Sustainability Co., Ltd.,

and their independent reasonable reason report is attached hereto.

[https://www.material.co.jp/eng/images/NMC2020\\_IndependentAssuranceReport\\_LBMA\\_Reasonable.pdf](https://www.material.co.jp/eng/images/NMC2020_IndependentAssuranceReport_LBMA_Reasonable.pdf)

**Step 5: Report on supply chain due diligence**

Compliance Statement with Requirement:

We have fully complied with Step 5: Report on supply chain due diligence.

The Company's Responsible Precious Materials Management Policy is available on our website as well as our Gold Guidance Compliance Report referring to the fiscal year 2020.

<http://www.material.co.jp/eng/conflict.php>

**Table3: Management conclusion**

**Is the Refiner in compliance with the requirements of the LBMA Responsible Gold Guidance for the reporting period?**

YES,

In conclusion, the Company implemented effective management systems, procedures, processes and practices to conform to the requirements of the LBMA Responsible Gold Guidance, as explained above in Table 2, for the reporting period from 1 April 2020 to 31 March 2021

**Table4: Other report comments**

If users of the report want to provide any feedback to the Company with respect to this report, they can contact corporate relations on

[conflict@material.co.jp](mailto:conflict@material.co.jp)