

## LPPM Responsible Platinum and Palladium Guidance Compliance Report

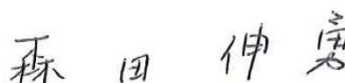
The LPPM Responsible Platinum and Palladium Guidance has been established for Good Delivery Refiners to adopt high standards of due diligence in order to combat systematic or widespread abuses of human rights, to avoid contributing to conflict, to comply with high standards of anti-money laundering,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

This report summarizes how Nihon Material Co., Ltd. (hereinafter the "Company") has complied with the requirements of LPPM Responsible Platinum and Palladium Guidance Version 4.

### **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 2023 to 31 March 2024
Date of Report	28 June 2024
Senior Management responsible for this report:	

Nobutake Morita, President



### **TABLE 2: Summary of Activities to Demonstrate Compliance**

#### **STEP1: Company Management System**

Compliance Statement with Requirement:

We have fully complied with STEP1: Company Management System.

#### **1.1 Has the Refiner adopted a supply chain policy regarding due diligence for supply chains of platinum and palladium?**

The Company adopts the Responsible Precious Materials Management Policy (hereafter the "Policy"), which is consistent with the Model Policy outlined in Annex II of the OECD Due Diligence Guidance for Responsible Supply Chains of Materials from Conflict-affected and High-Risk Areas. In the Policy, we state that we procure raw materials in accordance with the policy. We review the Policy at least once a year and revise it as necessary with approval by senior management. The latest Policy is consistent with the LPPM Responsible Platinum and Palladium Guidance Version 4 (hereafter "RPPG4"). We not only make the Policy available on our website in both Japanese and English so that anyone can refer to it but also communicate the Policy, orally or in writing, to our platinum and/or palladium suppliers before the start of the transaction.

#### **Link to the Policy:**

<https://www.material.co.jp/eng/policy.php> (ENG)

<https://www.material.co.jp/funsou.php> (JP)

## **1.2 Has the Refiner set up an internal management structure to support supply chain due diligence?**

In order to effectively conduct supply chain due diligence, the Board of Directors has delegated the authority of the Board of Directors to the "Organization for Supply Chain Due Diligence" to manage and develop the organizational structure. We have established 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 following individuals have been appointed who have responsibility and authority over the operation and management process.

### **Supply Chain Officer**

The Supply Chain Officer is responsible for establishing the Company's precious metals procurement policy and related manuals, determining whether or not to do business with high-risk supply chains, conducting management reviews, approving the annual compliance reports on supply chain due diligence (DD) prepared by the Compliance Officer and communicating with the Board of Directors regarding supply chain due diligence.

### **Compliance Officer**

The Compliance Officer is appointed by the Supply Chain Officer and is responsible for establishing the management system for supply chain DD. This role includes identifying and assessing high-risk areas, implementing appropriate measures for high-risk supply chains, planning and conducting education and training on supply chain DD, and monitoring and evaluating the operation of the management system. In addition, the Compliance Officer is responsible for establishing a secretariat to assist the Compliance Officer in his/her duties stated above, and depending on circumstances the Compliance Officer has the authority to report directly to the Board of Directors.

### **Purchasing Manager of Precious Metal Raw Materials**

The Purchasing Manager, appointed by the Supply Chain Officer, is responsible for purchasing precious metal raw materials in accordance with the Supply Chain Due Diligence Regulations and Manual, conducting supply chain DD, and reporting the results to the Compliance Officer.

### **Material Control Manager**

The Material Control Manager is appointed by the Supply Chain Officer and is responsible for checking the physical precious metals and documents received and for record keeping.

With respect to information sharing with employees, we provide education and training on relevant standards, laws, and company regulations for all employees of the head office, branches, and departments who are involved in the precious metal supply chain. The details of this training activity are recorded with appropriate monitoring of attendance. As part of this comprehensive training, 133 employees received supply chain DD training. This training focused on reminding them of the various conditions that permit cash payments in transactions involving the purchase of precious metals. This specifically includes scenarios where the purchase amount is below 1 million yen and when prior approval from the Compliance Officer or a manager with delegated authority is required.

All employees who participated in the training were administered an exam to assess their understanding, and their results were recorded. We continue to maintain a cash payment policy and record-keeping policy for any exceptions based on reasonable judgment from the requirements of Step 1.2.

Annual internal audits are conducted at the head office, branches, and divisions involved in the precious metals supply chain to confirm that there are no deviations from relevant standards, laws, and internal regulations. For the reporting period of FY2023, we conducted the audits as scheduled and found no deviations.

### **1.3 Has the Refiner established a traceability system over platinum/palladium supply chains, including chain of custody mapping and identification of supply chain actors?**

In order to identify risks and ensure transparency in raw material procurement, we have established and operated an internal system for conducting DD as stipulated in our DD Regulations and DD Implementation Manual. This system is designed to properly evaluate precious metal raw materials and suppliers.

We receive KYC documents from suppliers, such as an LPPM Questionnaire, a copy of a driver's license, a health insurance card, and/or a certificate of registered matters, prior to transactions. We then conduct risk assessments based on our DD Manual, performing background checks on suppliers using reliable third-party information sources to determine the feasibility of transactions.

The country of origin of platinum/palladium bullion is identified based on supplier risk assessment records and import documents, such as packing lists received from supplier companies.

When a supplier offers platinum/palladium, a transaction code is assigned to each supplier and is linked to the supplier information (supplier name, transaction date, transaction record, and other information) obtained for each transaction and stored in our supplier database. The purchased platinum/palladium bullion can be traced back to individual suppliers and the details of each transaction, with the amount of platinum/palladium shipped and received from each lot available for reference in the database.

Since all materials purchased by the Company are unprocessed recyclable platinum/palladium, we identify the Country of Origin of the purchased materials based on the point in the platinum/palladium supply chain where the platinum/palladium is delivered to the Company.

In FY2023, we conducted a risk assessment of all suppliers and the country of origin of raw materials using a risk assessment checklist based on the information provided in the "Identification and Transaction Record" for all suppliers, and no suppliers were determined to be high risk. In addition, there were no cash transactions exceeding 1 million Japanese Yen.

### **1.4 Has the Refiner strengthened company engagement with platinum/palladium supplying counterparties, and, where possible, assisted platinum/palladium supplying counterparties in building due diligence capabilities?**

We communicate, orally or in writing, to our platinum/palladium suppliers the Policy, which defines the

purchasing of precious metals that originate from conflict-affected or human rights abuse high-risk areas and/or are suspected of having any connections with money laundering, direct or indirect support to illegitimate non-state armed groups or public or private security forces, bribery and fraudulent misrepresentation of the origin of platinum/palladium, non-compliance with taxes, fees, and royalties due to governments related to mineral extraction, trade, and export, terrorist financing, and anti-social acts as high-risk transactions, and states that we will implement appropriate DD in order to avoid our involvement in such areas of activity.

We require our suppliers to submit KYC documents, such as official certificates and Responsible Precious Metal Procurement Questionnaires, prior to transactions to determine our business engagements. In addition, to ensure the integrity of the platinum/palladium supply and address issues like conflict, terrorist financing, human rights abuses, money laundering, tax evasion, anti-social behavior, or non-compliance with environmental and sustainability legal requirements, we mandate that all our suppliers in the In-store and Mail Section sign a transaction record for each transaction. However, suppliers in the Bullion Section are required to sign once a year, prior to their first transaction of the year.

To maintain the highest standards of supply chain integrity, we annually evaluate our suppliers and require them to submit their KYC documents again.

#### **1.5 Has the Refiner established a company-wide confidential grievance mechanism?**

We have a whistleblower system in place for internal and external stakeholders to bring potential issues or concerns related to the platinum/palladium supply chain to the attention of the compliance officer or senior management, as appropriate. Upon receipt of the whistleblower's report, which can be submitted through our company website, we promptly consider the necessity of an investigation and report the results of such consideration to the whistleblower, except if the whistleblower is anonymous.

Once we initiate an investigation, we first communicate to the whistleblower that an investigation has been initiated regarding the matter raised. The whistleblower is then informed of the results of the initial investigation, whether or not an additional investigation will be conducted, and if not, the reasons for not conducting an additional investigation. If an additional investigation is to be conducted, we also indicate to the whistleblower the expected length of the investigation. Upon completion of the additional investigation, the whistleblower is notified of the results of the investigation and the corrective actions to be taken.

In order for internal and external stakeholders to be aware of the existence of the whistle-blowing system, we disclose information on our website and make it known to all employees during annual education and training sessions. There were no whistleblower reports in FY 2023.

#### **Link to the reporting channels:**

[https://www.material.co.jp/eng/conflict\\_mail\\_eng.php](https://www.material.co.jp/eng/conflict_mail_eng.php) (ENG)

[https://www.material.co.jp/conflict\\_mail.php](https://www.material.co.jp/conflict_mail.php) (JP)

## **STEP2: Risk Identification and Assessment**

Compliance Statement with Requirement:

We have fully complied with STEP 2: Risk Identification and Assessment.

### **1. Does the Refiner have a due diligence process to identify risks in the supply chain?**

We purchase platinum/palladium primarily over the counter and through our buyers from individual sellers, trading companies, and refiners. We conduct a risk assessment of all suppliers through due diligence (DD) in accordance with the LPPM RPPG4 before the start of any transaction. Based on the risk assessment results, the Compliance Officer approves the transactions to be commenced. Additionally, individuals delegated by the Compliance Officer, such as store managers or those in equivalent positions, are also authorized to approve transactions.

All suppliers are required to submit KYC documents, including the counterparty's name, physical address, corporate registration, and license information, in accordance with our Supply Chain Due Diligence Implementation Manual and Store Operation Manual. In the case of individual clients, instead of a complete set of KYC documents, they are required to submit identification documents based on our manuals, and DD will be conducted based on that information. In addition, based on information collected from external sources such as Criminal Searches and the UN sanctions list, we evaluate the risk of precious metal raw materials and suppliers and determine whether or not to conduct transactions.

We shall not accept any platinum or palladium bullion if it originates from or passes through conflict-affected and high-risk areas (CAHRAs) or if there is reasonable suspicion of involvement in money laundering, tax evasion, terrorist financing, antisocial behavior, or non-compliance with environmental and sustainability laws. When purchasing platinum or palladium bars from trading companies and refineries, we only buy good delivery bars from suppliers approved by a compliance officer (senior management) with appropriate experience, following the LPPM RPPG4 guidelines.

### **2. How does the Refiner classify identified risks in light of the standards of its due diligence system?**

Our compliance officer identifies Conflict Areas or High-Risk Areas (CAHRAs), which are reviewed periodically, once a year, and changed as necessary. We assess supply chain risk using a risk-based approach based on KYC questionnaires collected from suppliers and reliable market information. We specifically assess risks from perspectives of location, supplier, and type of material as the following.

#### Location Risk

- Mined or recycled precious metals originating from or passing through CAHRAs.
- Precious metals claimed to have originated from countries with limited known reserves or expected production.
- Precious metals originating from countries where platinum/palladium from CAHRA is known or reasonably suspected to pass through.
- Precious metals procured from suppliers and/or suppliers' counterparties through unaccountable purchasing channels.

## Supplier Risk

- Precious metals counterparties or other known upstream companies that are located in a country representing a high risk for money laundering.
- Precious metals counterparties, other known upstream companies, or their Beneficial Owners with significant influence over the precious metals suppliers are PEPs.
- Precious metals counterparties or other known upstream companies that are active in a higher-risk business activity such as arms, gaming and casino industry, antiques, and art, sects, and their leaders.
- Precious metals counterparties or other known upstream companies that are in serious violation of environmental and sustainability laws and regulations.
- Precious metals that were distributed through illegal channels.
- Precious metals with ESG devastating impacts.

## Type of Material Risk

- Mined or recycled precious metals with fraudulent misrepresentation of the origin.
- Precious metals sourced from high-risk countries in the past year.
- Mined precious metals that are derived from ASM.
- Mined or Recycled precious metals that use mercury in production.
- Precious metals from intermediate processors or trading companies with high-risk supply chains or from counterparties that procure from intermediate processors that include high-risk supply chains.

On top of this, we assess risk in terms of whether a supplier meets any of the zero-tolerance criteria as shown below.

## Zero Tolerance Criteria

- Precious metals originating from areas designated as World Heritage Sites.
- Precious metals originating from the countries subject to international sanctions.
- Precious metals counterparty or other known upstream companies or their UBOs that are known money launders, fraudsters, or terrorists or have been implicit in serious human rights abuses or direct/indirect support to illegitimate non-state armed groups.
- Precious metals originating in or passing through Russia.

We determine whether the country of origin is a CAHRA based on the CAHRAs List. The CAHRAs List has been prepared based on the following information sources and shall be reviewed annually and updated as needed.

- Sanction lists (US, UK, EU, and other relevant sanction lists)
- Dodd Frank section 1502
- EU CAHRAs list
- Heidelberg Barometer
- Fragile States Index or equivalent
- UN Human Rights Office of the High Commissioner or equivalent
- Reports, including relevant country reports, by the Financial Action Task Force (FATF)

- Credible market intelligence on high-risk platinum/palladium centers/transit hubs in countries where there is a high risk of money laundering.
- the Democratic Republic of the Congo and neighboring countries, as defined by the Dodd-Frank Act.
- Indicative, non-exhaustive list of Conflict-Affected and High-Risk Areas under Regulation(EU)

The list of CAHRAs is kept up-to-date and accessible to those responsible for purchasing precious metals raw materials and others involved in DD of the precious metals supply chain to clarify whether the country is considered "high risk," and to assess risks in the supply chain.

We do not accept any platinum/palladium if we have a reasonable suspicion, based on the above risk assessment, that the platinum/palladium originates from or passes through CAHRA, World Heritage Site, or a country of origin subject to international sanctions, or has any connection to money laundering, tax evasion, terrorist financing, armed groups, anti-social behavior, or non-compliance with legal requirements regarding the environment and sustainability. We also closely scrutinize and monitor transactions conducted in relation to the platinum/palladium supply chain outside of the CAHRA region. For example, we identify raw materials originating from countries such as Russia, which are sanctioned due to war, as 'Zero Tolerance' and do not accept any platinum/palladium bullion.

In FY2023 we conducted a risk assessment of all suppliers based on the information collected in accordance with our supply chain due diligence system, and as a result, no suppliers were determined to be not only high risk but also Zero-tolerance.

### **3. Has the Refiner undertaken EDD measures for identified high-risk supply chains?**

The supply chain assessment procedure is carried out with regard to location, supplier, and type of material. In FY2023, there were no instances in which we decided to sever our relationship with a supplier as a result of our supply chain risk assessment. We conduct a risk assessment for every transaction with In-store and Mail Section suppliers, and once a year for Bullion Section suppliers. As a result of these procedures, if any supply chains fail to meet the criteria and are assessed as 'high-risk,' Enhanced Due Diligence (EDD) should be conducted with the following procedures:

1. We review government watchlist information for each company (including transportation companies) involved in the supply chain, from companies or trading partners located in high-risk areas to the Company.
2. We assess the appropriateness of conducting due diligence (DD) and risk classification according to their risk.
3. We evaluate their DD records to ensure that procedures are being followed in accordance with their supply chain DD policy.
4. We evaluate the method of on-site investigation for the counterparty's high-risk supply chains. For those supply chains assessed as 'high-risk,' an on-site investigation should be conducted. Ideally, this investigation should take place prior to the start of transactions or at least within six months of the start. Any necessary additional investigations should be conducted until a decision can be made regarding whether or not to proceed with the transactions.

The Compliance Officer shall report to the Supply Chain Officer the results of the risk assessment when a

high-risk transaction is identified. The Supply Chain Officer has the responsibility to suspend or terminate the business relationship with concerned suppliers based on reports from the Compliance Officer.

In FY2023, no on-site investigations were conducted with high-risk suppliers for the purpose of risk assessment. Additionally, we did not purchase any platinum/palladium materials from intermediate processors in high-risk supply chains in FY2023.

### **STEP 3: Risk Management**

Compliance Statement with Requirement:

We have fully complied with STEP 3: Risk Management.

#### **1. Does the Refiner have a process to respond to the identified risks by either (i) mitigating the risk while continuing to trade, (ii) mitigating the risk while suspending trade, or (iii) disengagement from the risk?**

We determine suppliers' transactions based on the supply chain DD results in accordance with our Manual.

**High-Risk:** Any transaction with a supplier that is found to be involved in money laundering, financing of terrorism, promotion of conflict, human rights violations, fraudulent misrepresentation of origin, direct or indirect support for illegal non-state armed groups, and negative ESG impacts shall be stopped immediately.

**Likely High-Risk:** Any transaction with a supplier that is suspected to be involved in specified activities shall be suspended until accurate additional information is acquired through the enhanced DD (EDD) accompanying on-site investigation.

**Potentially High-Risk:** Any transaction with a supplier that does not satisfy all specified conditions but is making good-faith efforts, aims for a goal, and endeavors to improve its practices within a reasonable time frame shall be continued.

As risk mitigation measures, we should conduct enhanced due diligence before entering into a transaction, or at least within 6 months until we can decide whether or not to do business with the supplier. On-site investigation shall be conducted by an external expert and/or internal staff with skills and experience sufficient to conduct the on-site investigation.

In the event that we are unable to conduct on-site investigation, the transaction shall be suspended. We require the supplier to develop and implement an improvement plan with clear, documented performance objectives within a reasonable timeframe if the on-site investigation reveals risks that must be mitigated. The improvement plan must include clear performance objectives with qualitative and/or quantitative indicators to measure the extent of improvement. The transaction shall be suspended without measurable improvement within six months of implementing the improvement plan.

The Board of Directors convenes every month. If any suppliers are identified as high-risk during the supplier risk assessment, the supplier's profile, the results of the risk assessment, and the evaluation of their supply chain are reported and evaluated by the Board. In addition to these monthly meetings, the year-end Board meeting includes a report on the risk assessment records based on the results of the annual internal audit.



The internal audit for FY2023 did not find any nonconformities or transactions requiring mitigation measures.

#### **STEP 4: Independent Third-Party Assurance**

Compliance Statement with Requirement:

We have fully complied with STEP 4: Independent Third-Party Assurance.

Comments and Demonstration of Compliance:

The Company engaged the service of the assurance provider, KPMG AZSA Sustainability Co., Ltd., and their independent limited assurance report is attached hereto.

[https://www.material.co.jp/images/lppm/NMC2024\\_IndependentAssuranceReport\\_LPPM\\_Limited.pdf](https://www.material.co.jp/images/lppm/NMC2024_IndependentAssuranceReport_LPPM_Limited.pdf)

The process for selecting an assurance provider entails initial candidate nominations by internal auditors, followed by formal approval within the Board of Directors.

We confirm that KPMG is not involved in any of the Company's management functions prior to the signing of the contract so that the independence of KPMG is secured. We also confirmed that KPMG does not provide any advisory services to us that compromise the independence of KPMG's assurance services.

#### **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 and this report are available on our website-

<https://www.material.co.jp/eng/policy.php>

#### **TABLE 3: Management Conclusion**

**Is the Refiner in compliance with the requirements of the LPPM Responsible Platinum/Palladium 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 LPPM Responsible Platinum/Palladium Guidance, as explained above in Table 2, for the reporting period from 1 April 2023 to 31 March 2024,

#### **TABLE 4: 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)