

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 practice.

This report summarizes how Nihon Material Co.,Ltd (hereinafter the "Company") has complied with the requirements of the LPPM Responsible Platinum and Palladium 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 2021 to 31 March 2022
Date of Report	31 May 2022
Senior Management responsible for this report	

Nobutake Morita, Managing Director

森田 伸勇

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 platinum and palladium

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.

We have stated in the Policy that we purchase raw materials appropriately in accordance with the policy.

The following criteria have been established for assessing the high-risk supply chain. By implementing DD, the risk of purchasing precious metals from high risk supply chains that violate these criteria shall be avoided.

- No complicity in conflicts, financing of terrorism, money laundering, bribery, misrepresentation of origin, nor serious violations of environmental and sustainability laws.
- We do not procure precious metals that have originated from, have transited or have been transported via a CAHRA.
- We do not deal in precious metals originating from areas designated as World Heritage sites or precious metals produced using mercury.
- We do not make illegal payments or provide support to illegal organizations or armed groups illegally involved in mining, trading, or brokering.
- We do not have a connection with public dignitaries, OFAC SDN targets, or anti-social forces.
- We put efforts to avoid procuring raw materials or materials via suppliers involved in conflict, terrorist

financing, human rights abuses, money laundering, tax evasion, or other illegal activities so that we can fulfill our responsibility with respect to the environment and sustainability in the procurement of materials containing platinum and/or palladium (hereinafter "platinum/palladium").

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 following individuals have been appointed who have responsibility and authority for 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 and approving the annual compliance reports on supply chain DD prepared by the Compliance Officer.

Compliance Officer

The Compliance Officer is appointed by the Supply Chain Officer and is responsible for establishing a management system for supply chain DD including identifying and reviewing high-risk areas, implementation of appropriate measures for high-risk supply chains, planning and implementation of education and training on the supply chain DD, monitoring and evaluation of the operation of the management system. In addition, the Compliance Officer is responsible for setting up a secretariat to assist the Compliance Officer in his/her duties stated above.

Purchasing Manager of Precious Metal Raw Materials

The Purchasing Manager is appointed by the Supply Chain Officer and is responsible for purchasing precious metal raw materials in accordance with the Supply Chain DD 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.

We communicate the Policy to our suppliers in writing or orally prior to the commencement of transactions. In addition, 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 involve in the precious metal supply chain. The details of this training activity are recorded with appropriate monitoring of attendance.

Annual internal audits are conducted at the head office, branches, and divisions involving precious metals supply chain to confirm that there are no deviations from relevant standards, laws, and internal regulations. For the reporting period of FY2021, we conducted the audits as scheduled and found no deviations.

3. Established a strong internal system of due diligence, controls and transparency over platinum/palladium supply chain, including traceability and identification of other supply chain actors

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

We receive KYC documents (registry and ID) from suppliers prior to transactions, and conduct risk assessments based on our DD Manual through background checks on suppliers using reliable third-party information sources to determine whether transactions are feasible.

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 recycled platinum/palladium, we identify the Country of Origins of the purchased materials based on the point in the platinum/palladium supply chain from which the platinum/palladium is shipped to the Company.

In FY2021, 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.

We plan to eliminate cash transactions in excess of one million JPY by the end of 2022. As a transitional measure to this end, the maximum amount of cash transactions has been set at two million yen since January 2022.

4. Strengthened company engagement with platinum/palladium-supplying counterparties and, where possible, assist platinum/palladium-supplying counterparties in building due diligence capacities

We communicate, orally or in writing, to our platinum/palladium suppliers the Policy, which defines transactions in which precious metals raw materials may originate from conflict zones or high-risk areas for human rights violations, environmental and sustainability responsibilities, as well as transactions that may involve money launderers, terrorist links, anti-social forces, or human rights violations, and clearly state that we will make a decision on whether or not to do business with a supplier based on appropriate DD.

We require our suppliers to submit KYC documents such as official certificates and Responsible Precious Metal Procurement Questionnaires prior to transactions in order to determine whether or not to do business with them, and we require our suppliers to sign a transaction record for each transaction to ensure that the platinum/palladium they supply is safeguarded against conflict, terrorist financing, human rights abuses, money laundering, tax evasion, anti-social behavior, or non-compliance with environmental and sustainability legal requirements.

We require our suppliers to resubmit KYC documents regularly (whenever a major change in the supply chain

has been identified, or once every five years) for reevaluation.

5. Established a company-wide communication 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. 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. Controls are also in place to protect whistleblowers who report suspected compliance problems in good faith from discriminatory or retaliatory action.

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 on FY 2021.

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 platinum/palladium supply chain

We purchase platinum/palladium primarily over the counter and through our buyers.

When purchasing platinum/palladium, all suppliers are required to submit KYC documents including 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 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/palladium bullion if it originates or passes through high-risk areas affected by the conflict (CAHRAs) and if it is reasonably suspected that it has anything to do with money laundering, tax evasion, terrorist financing, antisocial behaviour, non-compliance with environmental and sustainability legal requirements. The list of CAHRAs includes countries covered by the U.S. Dodd-Frank Act, countries included in the non-exhaustive list of indicators published by the EU, and countries through which minerals from CAHRAs are suspected of passing. The company reviews relevant information on a regular basis and updates it as necessary.

As of the end of FY 2021, the company had defined 45 countries as CAHRAs, and there were no precious metals or supply chains supplied from countries or regions that were on our CAHRAs list as a result of supplier risk assessments for FY2021.

When we purchase platinum/palladium 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 LPPM Responsible Platinum/Palladium Guidance before entering a business relationship with any platinum/palladium supplying counterparty.

Risk assessment includes obtaining the agreement to the Policy and KYC information (public ID, annual report, group chart, license, the supplier's conflict minerals management rules, Google Maps, photos, etc.) from the supplier, preparing the supplier's risk assessment report including checking the supplier information by internet search engines, Criminal Searches, or the UN sanction list. The risk assessment is conducted in all branches, sales departments, and headquarters departments involving platinum/palladium supply chain.

All precious metal raw materials procured by our company are recycled raw materials, not mined precious metals. A major potential risk is the possibility that a transaction or a transit country falls under CHARAs.

If, as a result of the risk assessment described above, there is sufficient doubt that the platinum/palladium originates from or passes through a high-risk area (CAHRA) affected by the conflict, and is in any way related to money laundering, tax evasion, terrorist financing, antisocial conduct, and non-compliance with environmental and sustainability legal requirements, we shall perform extended due diligence. We shall not accept any platinum/palladium raw materials from supply chains that are identified as high risk as a result of the EDD. 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 2021 FY, we conducted a risk assessment of all suppliers based on the information provided in accordance with our supply chain due diligence system, and as a result, no suppliers were identified as high risk.

In addition, we conduct scrutiny and monitoring of transactions undertaken through the course of the relationship with platinum/palladium 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.

In FY 2021, as a result of our supply chain DD, there were no cases in which we decided to sever relations with suppliers. There were also no transactions with suppliers or local exporters located in CHARAs.

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 make a decision on whether or not to accept platinum/palladium material originating in any of the CAHRAs or that which is likely to contribute to conflict, terrorist financing, human rights abuses, money laundering, tax evasion, anti-social behavior, or non-compliance with environmental and sustainability legal requirements as a result of our evaluation of the raw materials or suppliers. We shall also determine whether to suspend transactions, temporarily suspend transactions and on-site inspection, or continue transactions and on-site inspection, as per the Supply Chain DD Implementation Manual.

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 limited assurance report is attached hereto.

https://www.material.co.jp/eng/images/NMC2022_IndependentAssuranceReport_LPPM_Limited.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 Platinum/palladium Guidance Compliance Report for the period ended in March 2022.

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

Table3: Management conclusion

Is the Refiner in compliance with the requirements of the LPPM Responsible Platinum/ 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 2021 to 31 March 2022

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