

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 2022 to 31 March 2023
Date of Report	19 July 2023
Senior Management responsible for this report	Nobutake Morita, President

森田 伸勇

TABLE 2: SUMMARY OF ACTIVITIES TO DEMONSTRATE COMPLIANCE

STEP 1: COMPANY MANAGEMENT SYSTEM

Compliance Statement with Requirement:

We have partially complied with STEP 1: COMPANY MANAGEMENT SYSTEM

1.1 Has the Refiner adopted a supply chain policy regarding due diligence for supply chains of gold and/or silver?

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. In response to, the LBMA Responsible Gold Guidance Version 9 (hereafter "RGG9"), We revised the Policy in December 2022 with an approval by senior management so that it became consistent with RGG9. We not only make the Policy available on our website both in Japanese and English so that anyone can refer to it but also communicate the Policy, orally or in writing, to our gold suppliers before the start of transaction.

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

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 and communicate 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 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, 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 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.

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. In addition, supply chain due diligence training was provided to 123 employees on the revision of our Precious Metal Supply Chain DD Regulations. We have also established 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 involving precious metals supply chain to confirm that there are no deviations from relevant standards, laws, and internal regulations. For the reporting period of FY2022, we conducted the audits as scheduled and found no deviations.

Regarding prior approval by the Compliance Officer for cash transactions of 1 million yen or less, multiple cash transactions were actually approved after the fact by the branch manager on each transaction date, and in reality, prior approval of cash transactions was not performed, and approval authority was transferred to a position further down the hierarchy than the Compliance Officer. Prior approval for cash transactions was not given, and approval authority was transferred to a person of a lower rank than the compliance officer. A medium-risk non-compliance related to prior approval by the Compliance Officer for cash transactions below 1 million yen was identified during the external audit this year. We delegate the authority for approval of cash transactions below one million yen to Branch Managers and Chiefs, but it was not explicitly documented in our internal regulations. Furthermore, multiple cash transactions below 1 million yen were retroactively approved by a delegated person.

1.3 Has the Refiner established a traceability system over gold and/or silver 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 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, such as an LBMA Questionnaire, a copy of driver's license, health insurance card and/or certificate of registered matters, 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. The country of origin of gold bullion is identified based on supplier risk assessment records and import documents such as packing lists received from supplier companies.

When a supplier offers gold, 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 gold bullion can be traced back to individual suppliers and the details of each transaction, with the amount of gold shipped and received from each lot available for reference in the database.

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

In FY2022, 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 yen.

1.4 Has the Refiner strengthened company engagement with gold and/or silver supplying counterparties, and, where possible, assisted gold and/or silver supplying counterparties in building due diligence capabilities?

We communicate, orally or in writing, to our gold suppliers the Policy, which defines the purchasing of precious

metals that originate from conflict affected or human rights abuse high-risk area and/or is suspected to have any connection 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 gold, non-compliance with taxes, fees and royalties due to governments related to mineral extraction, trade and export, terrorist financing, anti social acts as a high-risk transaction, and states that we will implement appropriate due-diligence 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 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 gold 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.

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 gold supply chain to the attention of the compliance officer or senior management, as appropriate. Upon receipt of the whistleblower's report, we promptly consider the necessity of an investigation and report the results of such consideration to the whistleblower. However, this does not apply 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 on FY 2022.

STEP 2: 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 gold 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 in accordance with the LBMA RGG before the commencement of any transaction. With the risk assessment results, the Compliance Officer approves the transactions to be commenced. 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 gold bullion if it originates or passes through conflict-affected and high-risk areas (CAHRAs) and if it is reasonably suspected that it has anything to do with money laundering, tax evasion, terrorist financing, antisocial behavior, non-compliance with environmental and sustainability legal requirements. In addition, when purchasing gold bars from trading companies and refineries, the Company purchases good delivery bars from suppliers is approved by a compliance officer (senior management) with appropriate experience in accordance with the LBMA RGG.

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 risk 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 gold 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 are located in a country representing a high risk for money laundering.
- Precious metals counterparties or 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 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 are in serious violation of environmental and sustainability laws and regulations.
- Precious metals which 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 are derived from ASM.
- Mined or Recycled precious metals use mercury in the production.

- Precious metals from intermediary refiners or trading companies with high-risk supply chains or from counterparties that procure from intermediary refiners 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 country of origin for international sanctions.
- Precious metals counterparty or other known upstream companies or their UBOs 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.
- The gold originates from or passes through a Conflict Affected High Risk Area (CAHRA).
- World Heritage Site, or country of origin with respect to international sanctions.

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 gold centers/transit hubs on countries where there is a high risk money laundering. 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 gold if we have a reasonable suspicion, based on the above risk assessment, that the gold originates from or passes through a Conflict Affected High Risk Area (CAHRA), World Heritage Site, or country of origin with respect 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 gold supply chain outside of the CAHARA region. For example, we identify raw materials originating from countries such as Russia, which are sanctioned due to war, as high risk and do not accept any gold bullion.

In FY2022, 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 performed in terms of raw materials, suppliers and locations. As a result of the procedures, supply chains that meet any of the criteria assessed as "high-risk supply chains. Further risk assessment should be conducted for "high-risk supply chains" with the following procedures.

We review government watch list information for each company (including transportation companies) involved in the supply chain from companies or trading partners located in high-risk areas to refining companies. We also assess the appropriateness of conducting supply chain DD and risk classification according to the counterparty's risk. In addition, we evaluate DD records to ensure that procedures are being followed in accordance with the counterparty's supply chain DD policy. Also evaluate the method of on-site investigation to the counterparty's high-risk supply chain. For those supply chains assessed as "high risk," a field survey should be conducted. Ideally, this should be conducted prior to the start of transactions, or at least within 6 months of the start of transactions, and any necessary additional surveys should be conducted until a decision can be made on whether or not to proceed with the transactions. No on-site investigation was made to high-risk suppliers and to the region for the purpose of risk assessment. In addition, no independent assurance reports were obtained from intermediate refiners in the high-risk supply chain.

The compliance officer reports to the Supply Chain Officer the results of 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 FY2022, there were no instances where we decided to sever our relationship with a supplier as a result of our supply chain risk assessment. Nor were there any cases where we were asked to cooperate with national or local authorities in connection with suspicious transactions.

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' transaction 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 an additional investigation before entering into a transaction, or at least within 6 months until we can decide whether or not to do business with the supplier. If an on-site investigation is required, it 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 the 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.

During the reporting period, the head office, branches, and departments are required to conduct education and training on relevant standards, laws and regulations, and internal regulations, and to properly implement the risk management system established by the Company. The internal audit for fiscal year 2022 did not find any nonconformities or transactions to which mitigation measures were applied.

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/lbma/NMC2023_IndependentAssuranceReport_LBMA_Reasonable.pdf

We confirm that KPMG is not involved in any of the Company's management function prior to the signing of the contract so that the independence of KPMG is secured.

The medium-risk non-conformance identified during the current audit cycle and how this is planned to be resolved is outlined in Table 3: Management conclusion.

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 for the period covering FY 2022.

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

Table3: Management conclusion

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

No,

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 2022 to 31 March 2023, except for Step 1: Establish strong company management systems.

A medium-risk non-compliance related to prior approval by the Compliance Officer for cash transactions below 1 million yen was identified during the external audit this year. We delegate the authority for approval of cash transactions below one million yen to Branch Managers and Chiefs, but it was not explicitly documented in our internal regulations. Furthermore, multiple cash transactions below 1 million yen were retroactively approved by a delegated person. We need to revise the process based on the Corrective Action Plan so that cash transactions should always be prior approved by a delegated person.

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