

Mitsui Mining & Smelting (TAKEHARA) LBMA Responsible Gold Guidance and LBMA Responsible Silver Guidance Compliance Report



Refiner's details

Refiner's name	Mitsui Mining & Smelting Co., Ltd. (TAKEHARA)
Location	1-5-1,Shiomachi,TAKEHARA-Shi,Hirosima 725-0022 Japan
Reporting year-end	31 March 2023
Date of Report	29 June 2023
Supply chain officer responsible for this report	Nobuyuki Nakamoto, General Manager, Lead Unit, Lead & Zinc Division, Metals Sector

A handwritten signature in black ink, appearing to read "N. Nakamoto".

The LBMA Responsible Gold Guidance and LBMA Responsible Silver Guidance have been established for Good Delivery refiners to combat systematic or widespread abuses of human rights, avoid contributing to conflict, comply with high standards of anti-money laundering, combat terrorist financing practice, and to address environmental and sustainability responsibilities.

This report summarizes how Mitsui Mining & Smelting (TAKEHARA) has implemented the LBMA Responsible Gold Guidance and LBMA Responsible Silver Guidance.

Evaluation of Mitsui Mining & Smelting Co., Ltd. (TAKEHARA).

Table 1: SUMMARY OF ACTIVITIES TO DEMONSTRATE COMPLIANCE

Step 1: COMPANY MANAGEMENT SYSTEMS

We have fully complied with Step 1: Company management systems.

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

We have adopted a policy regarding due diligence for supply chains of gold and silver metal, which is consistent with the model set out in the Annex II of the OECD Due Diligence Guidance. This sets out our commitment to respect human rights, to avoid contributing to conflict over our supply chain, to support efforts to contribute to the effective elimination of money laundering and to address Environment and Sustainability responsibilities.

The policy is reviewed annually and updated as and when circumstances require. During the reporting year, it was first revised to incorporate new requirements in the LBMA Responsible Gold Guidance Version 9 with an approval of the Compliance officer in January 2023.

In order to promote initiatives related to human rights, labor, safety and health, the environment, and ethics, we then merged our Mitsui Kinzoku Group Policy into our Responsible Sourcing Policy for Mineral Raw Materials and renamed it the "Responsible Procurement Policy for Mineral raw material" in March 2023 with an approval from the Compliance Officer.

It was then communicated to all relevant staff through training.

The revised Responsible Procurement Policy for Mineral raw material is available on our website.

https://www.mitsui-kinzoku.com/en/seihin/metals/s_meta_supply.html

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

An internal management system was set up and has been implemented since December 2012 to define the governance, roles and responsibilities, internal audit, communication and senior management review as per the adopted policy.

In January 2022, we added a system manager and a board-appointed committee to our internal control system to implement, continuously improve, and promote our supply chain due diligence program. The board is trained in supply chain management to effectively oversee responsible sourcing practices.

The compliance officer develops the due diligence organization control strategy, approves new high-risk suppliers, and makes the final decision to terminate transactions. The compliance officer is a board member, familiar with the due diligence program, and has the authority to develop the management strategy of the due diligence organization.

Regarding the division of roles among management of the due diligence team, the supply chain officer has the authority to formulate the Responsible Procurement Policy for Mineral raw material and to approve our manual and related regulations. The supply chain officer is also responsible for deciding whether to initiate or continue a business relationship with a particular supplier if high risk is identified and reporting it to the Compliance Officer for approval. The system manager, who has a direct line of reporting to the supply chain officer, is assigned to manage the due diligence process. Skilled employees are assigned to the due diligence team, and we work in cooperation with other relevant departments such as Lead and Zinc raw materials divisions and group companies such as Mitsui Kinzoku Recycle Co., Ltd. to implement and monitor the due diligence process.

Forty-six relevant employees were trained on supply chain due diligence matters during the reporting period. The topics of the training included our revised supply chain policy and due diligence process in line with the Responsible Gold Guidance.

The internal audit conducted during the reporting year found four major violations, which were all for accepting materials from new suppliers before the completion of due diligence process.

In order to prevent a recurrence, we investigated the cause of the problem with related parties and had Mitsui Mining Smelting (TAKEHARA) submit a corrective action report. The root cause of this incident was the lack of information sharing among the parties involved and the unclear division of roles. The people involved gathered in TAKEHARA and reconfirmed their roles.

The progress of recurrence prevention measures shall be monitored by the system manager.

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?

We send the MMS policy and a KYC questionnaire to new suppliers, receive their responses and conduct evaluations before we start purchasing materials from them.

The KYC questionnaire includes company information, business details, beneficiaries, presence or absence of beneficiaries, directors, financial information, laws and regulations, tax payment, sources, transportation methods and routes, human rights and environmental initiatives, and AML-CFT measures.

We conduct evaluations based on information such as trading partner, country of origin, raw material weight, transportation method, etc. from the KYC questionnaires, raw material invoices, packing lists, and B/L.

Mitsui Mining & Smelting (KAMIOKA) and Mitsui KUSHIKINO Mining are group companies that process materials containing gold and silver, from which Mitsui Mining & Smelting (TAKEHARA) receives materials. They too have adopted the similar process as above.

Due diligence procedures for suppliers and raw materials are carried out in accordance with the Due Diligence Manual and Due Diligence Implementation Regulation.

No high-risk supplier and high-risk origin of materials assessments were detected in this process during the reporting period.

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?

Mitsui Mining & Smelting (TAKEHARA) sends our supply chain policy and a KYC questionnaire, which has been prepared based on the LBMA KYC questionnaire, to new suppliers prior to the commencement of business relationship and to existing suppliers when they have undergone a significant change or when our policy is revised. We have received commits to our supply chain policy from our new and existing suppliers.

Considering a lack of the knowledge of small- and middle-sized suppliers about the OECD Due Diligence Guidance, the Responsible Gold Guidance, and the Responsible Silver Guidance, we sent guidance materials to sixteen suppliers during the reporting period to help their understanding.

The purpose is to have our suppliers understand the OECD Due Diligence Guidance, Responsible Gold Guidance, Responsible Silver Guidance, and our policies, and to cooperate with requests such as KYC questionnaires.

Our KYC Questionnaire sets up a question as to whether the mine is located in an EITI member country and complies with EITI reporting requirements.

Mitsui Mining & Smelting (TAKEHARA) did not purchase precious metals from state-owned enterprises in EITI member countries during the reporting period.

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

Building upon our existing internal reporting system, we developed and have been maintaining a mechanism allowing employees and external stakeholders to anonymously voice concerns

over gold and silver supply chain risk.

We have also set up the Compliance Consult Report Desk, a hot line for external stakeholders, which is accessible on our website. The number of complaints in 2022 was zero and there was no unaddressed complaints received as of the end of the reporting year.

The Compliance Consult Report Desk is available on our website.

<https://www.mitsui-kinzoku.com/en/contact/form/?frmid=57>

Step 2: RISK IDENTIFICATION AND ASSESSMENT

Mitsui Mining & Smelting (TAKEHARA) have partially complied with Step 2: Risk identification and assessment.

2.1 Does the Refiner have a due diligence process to identify risks in the supply chain?

We collect supplier information by sending a KYC questionnaire to new suppliers before starting a business relationship.

We sign a purchase contract with a new supplier only after we are satisfied that risk is low based on information on raw materials, a collected KYC questionnaire, and third party information.

Third party information is an effective tool for obtaining information on suppliers and their shareholders. We investigate whether a supplier or any of its UBOs are on a major sanction list based on information obtained from the SDN list, Japanese Ministry of Finance, and EU Financial Sanctions list. When identification and verification of UBOs using photo identity documents was difficult, the existence and identity of UBOs were verified through an in-person meeting/interview with the identified UBOs or conducting other means.

Mitsui Mining & Smelting (TAKEHARA), along with Mitsui Mining & Smelting (KAMIOKA) and Mitsui KUSHIKINO Mining, identified and assessed supply chain risks by obtaining full KYC questionnaires from gold/silver suppliers and conducting desk top research using D & B Onboard. This process is a formal requirement before entering any business relationship with a supplier of gold and/or a supplier of materials containing 15% or more of silver by weight.

We carry out a risk assessment on materials containing less than 15% of silver by obtaining a letter of consent from suppliers to our Responsible Procurement Policy for Mineral raw material. We evaluate suppliers based on company name, location, upstream company information, major shareholders, directors, financial information, financial criminal record, high-risk corruption record, AML-CFT policy and AML-CFT responsible person information.

We also collect information on a supplier's corporate social responsibility policy, serious breaches of applicable sustainability-related laws, administrative sanctions based on legal requirements, and whether or not it has ISO14001 certification. We also use information provided by a compliance information company to evaluate suppliers.

The system manager examines the results of the supply chain DD reported by the raw material purchasing manager, and if there are any discrepancies with the information recognized regarding the supply chain, asks the raw material purchasing manager to reconfirm. If it is suspected that the raw material is purchased as a raw material that violates the policy or is

derived from a CAHRA, the system manager reports it to the supply chain officer, instructs the raw material management manager to stop processing the raw material, and instructs the raw material purchasing manager to conduct a site visit.

The system manager is required to report the results of this enhanced due diligence, including the results of the site visit, to the supply chain officer to ask for a determination on whether to proceed with the transaction. The supply chain officer decides whether to proceed with the transaction, issues appropriate instructions to the system manager, and reports to the compliance officer. The compliance officer then shares information in the board of directors on potential negative impacts from trading with the supplier.

We assess whether relevant parties, including the system manager, are properly performing their duties in accordance with the manual and related regulations, and take corrective actions if there are any deviations. To ensure thorough compliance, we conduct internal audits at least once a year. The internal auditor communicates any deviations and findings in writing to the auditee and reports the results of the internal audit to the supply chain officer.

The auditee shall promptly take corrective action for any deviations found in the internal audit and report the details of the corrective actions to the system manager. Based on the results of internal audits, etc., the system manager reports to the supply chain officer on an annual basis about the operation results of the supply chain DD. The supply chain officer provides clear written instructions to the system manager.

Our "Gold and silver supply chain due diligence manual" and "Gold and silver supply chain DD implementation regulation" stipulate that supply chain due diligence should be performed before the start of trade for all gold and silver raw materials purchased.

However, in some transactions, we did not comply with this regulation and gold and silver raw materials were accepted and used without implementing supply chain due diligence.

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

We define the location-based high risks, supplier-based high risks, and material-based high risks in the Gold and silver supply chain DD implementation regulation as follows.

Mined gold/silver

Mined gold/silver is high risk, if it:

- Originates from, has transited or has been transported via a Conflict-Affected and High-Risk Area of human rights abuses (CAHRA).
- Is claimed to originate from a country through which gold from CAHRAs is known, or reasonably suspected, to transit.
- Is claimed to have originated from a country that has limited known reserves.

A supplier is high risk, if it:

- Has shareholders, or UBOs, or other gold supplying interests in one of the location-based high-risk criteria.
- Has UBOs that are Politically Exposed Persons (PEPs).
- Has activities in a higher-risk business activity such as arms, gaming and casino industry,

antiques and art, and sects and their leaders.

- Has been known to have sourced gold from a high-risk country in the last 12 months.
- Has material discrepancies/inconsistencies in the documentation provided or has refused to provide requested documentation.

A material is high risk, if it:

- Is sourced from ASM.
- Is produced with the use of mercury.
- Is contributing to catastrophic harm or highly adverse ESG factors, to the extent that we are able to identify (e.g., a record in the public domain or in our due diligence file).

Recycled gold/silver

Recycled gold/silver is high risk, if it:

- Originates from, has transited or has been transported via a CAHRA.
- Is claimed to originate from a country through which gold from CAHRAs is known, or reasonably suspected, to transit, and/or is unjustifiably claimed to have originated from a country that has limited exports of gold.

A supplier is high risk, if it:

- Operates in a money laundering high-risk country.
- Has shareholders, or UBOs, or other gold-supplying interests in one of the location-based high-risk criteria.
- Has UBOs who are Politically Exposed Persons (PEPs).
- Has activities in a higher-risk business activity such as arms, gaming and casino industry, antiques and art, and sects and their leaders.
- Has been known to have sourced gold from a high-risk country in the last 12 months.
- Has significant unexplained geographic routing from their supplier or counterparty in the supply chain.

A material is high risk, if it:

- Is from an Intermediate Refinery or trader with high risk supply chain or a trading counterparty sourcing from an Intermediate Refinery with a high risk supply chain.

We treat a supply chain that meets any of the following criteria as a zero-tolerance supply chain:

- The Mined Gold is known to originate from areas designated as World Heritage Sites.
- The Mined or Recycled Gold is known to be sourced in breach of international sanctions (including but not limited to those of the UN, EU, UK and US).
- The Mined or Recycled Gold supplying counterparty, other known upstream companies or their UBOs are known money launderers, fraudsters or terrorists, or have been implicit in serious.

CAHRAs identification is as follows.

We updated the Conflict Affected High Risk Areas (CAHRA) list in April and October 2022.

In identifying location-based risk, we used information from the US Dodd-Frank Act, EU CAHRA List, EITI, FATF, OFAC, US Department of Labor, NGOs, the Heidelberg Conflict Barometer and Fragile States Index. The Heidelberg Conflict Barometer and Fragile States Index were added

as sources in 2022.

We used World Mineral Production data to prevent misrepresentation of mining countries.

We rely on information sources mentioned earlier to rate every country by multiple criteria and determine if a particular country is a CAHRA or not based on the aggregate score. There are currently 30 countries specified as CAHRAs (end of March 2023).

We require ourselves to conduct enhanced due diligence, which accompanies a site visit, when we identify a Red Flag in our supply chain.

We conduct scrutiny and monitoring of transactions undertaken through the course of the relationship following a risk-oriented approach.

Mitsui Mining & Smelting (TAKEHARA) conducted a risk assessment according to the above mentioned high-risk criteria.

We have made it clear to internal personnel that we will not continue or conclude new contracts with countries subject to international sanctions.

No enhanced due diligence was conducted during the reporting year since no zero-tolerance and high-risk suppliers were found.

2.3 Has the Refiner undertaken EDD measures for identified high-risk supply chains?

If it is determined that the content of the collected KYC questionnaire deviates from the policy, the raw material purchasing manager, who is familiar with the supplier, and the system manager, is familiar with the internal control system and how enhanced due diligence (EDD) should be conducted, or independent third-party consultants must conduct a site visit within three months from the time the deviation is discovered.

Our EDD:

- Is aimed at substantiating the documented KYC information.
- Is focused on investigating threat financing risks and specific supply chain due diligence findings.
- Shall be implemented within 3 months before the transaction occurs, if the possibility of violation of our policy is recognized.
- Shall be conducted by the raw material purchasing manager and the system manager or independent third-party consultants, who are free of any conflict of interest with the supplier. Everyone conducting a site visit must commit to reporting truthfully and accurately. Shall be conducted in consultation with relevant internal and external stakeholders (for example, local or central authorities, upstream companies, international or civil society organisations, or affected third parties), where applicable.
- Shall use the site visit report template included in the Refiners Toolkit when preparing a site visit report.
- Shall be followed up, depending on the number and severity of issues identified.
- When we conduct EDD for an intermediate refiner, we:
 - ✧ Shall ensure, when requesting the Intermediate Refiner to seek independent assurance on a comply or explain basis, that:

- ✧ the assurance report includes conformance with an OECD aligned responsible sourcing scheme
- ✧ it is commissioned by the Intermediate Refiner
- ✧ it is completed before the start of a new business relationship or within a reasonable timeframe.
- Shall identify the UBOs of the Intermediate Refiner.
- For recycled gold, shall check relevant government watch lists for companies (including transporters) involved in the supply chain from the counterparty to the refinery.
- Interview select management and site personnel to determine and corroborate the supply chain due diligence practices, purchasing, and anti-money laundering and counter terrorist financing procedures.
- Assess the counterparty's competence and capacity for supply chain due diligence proportionate to risk.
- Assess the appropriateness of the counterparty's risk classification methodology.
- Assess the counterparty's due diligence records.

We confirm if there are any changes in the countries of origin, type of material or supplier attributes for each existing supply chain once a year, and if there is any change, we renew the assessment.

STEP 3: RISK MANAGEMENT

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 have devised a strategy for risk management of the identified risks.

We terminate contracts with suppliers that are found to have committed serious human rights violations or supported non-state armed groups.

If an Appendix II risk other than serious human rights violations or support for non-state armed groups is recognized, we must suspend transactions and continue transactions on the condition that we continue the investigation or implement an improvement plan.

The content of the KYC questionnaire sent by the supplier must be checked by the raw material purchasing manager. The system manager then re-evaluates the content of the KYC questionnaire using third-party information regarding location and supplier risk.

If the system manager determines that a supply chain is high risk, the raw material purchasing manager and the system manager should conduct a site visit.

The system manager reports the results of the site visit to the supply chain officer. Upon receiving the report, the supply chain officer decides whether to initiate or continue a business relationship and/or what actions or measures should be taken.

The DD team reports decisions to the Compliance Officer, who makes the final decision and shares information with the Board of Directors.

The system manager requests suppliers to formulate and implement improvement plans, and monitors the progress of improvement plans. The system manager evaluates the results of the supplier's implementation of the improvement plan and reports the evaluation results to the supply chain officer.

Based on the improvement report prepared by the supplier, the supply chain officer must decide whether to suspend, continue, or resume the transaction.

The supply chain officer reports the decision results to the compliance officer, who makes the final decision and shares the information with the board of directors.

In FY2022, Mitsui Mining & Smelting (TAKEHARA) did not identify risks (i) mitigating risks while continuing to trade, (ii) mitigating risks while stopping traders, and (iii) disengagement from the risk.

There were therefore no counterparties to which mitigation measures were applied and no instances where we decided to disengage with counterparties during the reporting year. No steps were taken to strengthen chain of custody or traceability systems for supply chains under risk mitigation instances, either.

In FY 2022, there were no cases of reporting to national / local governments / LBMA in connection with suspicious transactions.

STEP 4: INDEPENDENT THIRD-PARTY ASSURANCE

We have fully complied with Step 4: Independent third-party audit.

Mitsui Mining & Smelting (TAKEHARA) engaged KPMG AZSA Sustainability Co., Ltd. as a third party assurance provider.

The main reason for selecting KPMG AZSA Sustainability was that it was the only assurance provider based in Japan that was included in the list of approved assurance providers.

The assurance engagement agreement between Mitsui Mining & Smelting and KPMG AZSA Sustainability requires that both parties confirm that there is no relationship that threatens the assurance provider's independence prior to the signing of the agreement. The supply chain officer confirmed that there was no such relationship and signed the agreement, but the board-appointed committee was not directly involved in this.

Mitsui Mining & Smelting (TAKEHARA) has no high/medium risk unfinished risks identified during the previous audit process.

Mitsui Mining & Smelting (TAKEHARA) found a medium risk non-conformance in this audit.

Our "Gold and silver supply chain due diligence manual" and "Gold and silver supply chain DD implementation regulation" stipulate that supply chain due diligence should be performed before the start of trade for all gold and silver raw materials purchased. However, in some transactions, we did not comply with this regulation and gold and silver raw materials were accepted and used without implementing supply chain due diligence.

Mitsui Mining & Smelting (TAKEHARA) has engaged the services of the assurance provider KPMG AZSA Sustainability Co., Ltd, and their independent limited assurance report is attached.

The Independence Assurance Report is available on our website.

https://www.mitsui-kinzoku.com/en/seihin/metals/s_meta_supply.html

Table 2: MANAGEMENT CONCLUSION

In conclusion, the Company implemented effective management systems, procedures, processes and practices to conform to the requirements of the LBMA Responsible Gold Guidance and the LBMA Responsible Silver Guidance as explained above in Table 1, for the reporting year ended 31 March 2023, except for the following:

Step 2 - We accepted gold and silver raw materials without implementing supply chain due diligence in some transactions; and

Step 4 - Our board-appointed committee was not directly involved in the confirmation of the assurance provider's independence.

This compliance report and our Responsible Procurement Policy for Mineral raw material are available on our website.

https://www.mitsui-kinzoku.com/en/seihin/metals/s_meta_supply.html

For an overall picture of the business, strategies, plans for creating corporate value of the Mitsui Mining & Smelting Group, please refer to our Integrated Report.

https://www.mitsui-kinzoku.com/en/toushi/lib/integrated_report/