

## LBMA Responsible Silver Guidance Compliance Report

The LBMA Responsible Silver 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 combating terrorist financing practice.

This report summarizes what Toho Zinc did in the fiscal year 2022 in relation to the LBMA Responsible Silver Guidance.

### Table 1: Refiner's details

Refiner's name	Toho Zinc Co., Ltd.
Location	8-2, Marunouchi 1-Chome, Chiyoda-ku, Tokyo 100-8207, Japan
Reporting year-end	31 March 2023
Date of Report	30 June 2023
Senior management responsible for this report	Yoshikazu Sato Executive Officer, Metal & Recycling Business Division



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### Toho Zinc's evaluation

#### 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 company management systems.

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##### Has the Refiner adopted a company policy regarding due diligence for supply chains of silver?

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##### Comments and Demonstration of Compliance:

We have established a silver supply chain policy which is consistent with the model set out in the Annex II of the OECD Due Diligence Guidance. This sets out our responsibility to avoid contributing to conflict, corruption, terrorist-financing, human rights abuses and money laundering. We review the policy at least annually and update as necessary. When it is revised, it must be approved by the senior management.

The policy was revised in March 2022 with an approval by the senior management to extend to lead and zinc concentrates so that we would be prepared for the LME responsible sourcing requirements, which became in effect in 2022.

Our policy can be accessed via the following URL:

<https://www.toho-zinc.co.jp/eng/sustainability/principle/rmpp.html>

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

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**Comments and Demonstration of Compliance:**

Toho board approved as of 20 April 2020 the establishment of the governance structure with defined roles and responsibilities for supply chains of silver, by appointing a senior management and two compliance officers in accordance with our policy.

The compliance officers have the responsibility and authority including the following items:

- 1) Establishing and maintaining management systems for responsible mineral sourcing.
- 2) Management of the person responsible for silver raw material procurement along with responsible mineral sourcing
- 3) Planning and provision of education and training related to the supply-chain due diligence.
- 4) Collection of internal and external information on responsible mineral sourcing.
- 5) Confirmation and review for an appropriate implementation of responsible mineral sourcing.
- 6) Implementation of appropriate measures against the high-risk silver material procurement.
- 7) Reporting to the senior management on responsible mineral sourcing.
- 8) Preparation of the LBMA RSG compliance report.
- 9) Submission of the compliance report, the audit report, and the management report issued by an auditor to LBMA.

Senior management has been assigned to have the responsibility and authority for the following items:

- 1) Formulating the silver raw material supply-chain policy, the manual and related regulations.
- 2) Identification and review of the CAHRAs.
- 3) Review of the decision whether to continue the high-risk silver raw material procurement.
- 4) Conduct of the management review for the report from the compliance officer.
- 5) Approval of the LBMA RSG compliance report.

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**Has the Refiner established a strong internal system of due diligence, controls and transparency over silver supply chain, including traceability and identification of other supply chain actors?**

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**Comments and Demonstration of Compliance:**

We have established an internal system of due diligence over silver supply chains and assigned the responsibility for supply chains of silver to the compliance officers. The compliance officers appointed by Toho board are managers of the Mineral Resources Business Division and Metals & Recycling Business Division (hereinafter referred to as Procurement team) respectively at our headquarters. The compliance officers are responsible for all of silver raw materials procurement for our refinery.

The compliance officers report the results of the implementation of the supply chain management system

during a fiscal year to the senior manager. The report includes how the De minimis Threshold has been applied, the implementation and results of training, and any issues reported through the company-wide communication mechanism. If there have been any supply chain risks or issues during the period, it should be mentioned with mitigation measures in the report.

The compliance officers are tasked with maintaining supply chain traceability, maintaining records, and ensuring receipt of payment through official banking channels, among others. Raw material is inspected from the viewpoint of consistency with information obtained in advance of its receipt on a lot-by-lot basis. Information on received material encompassing kind of material, weight, assays, arrival date, and supplier's name, is then entered into our primary enterprise system.

During the reporting year, 30 employees who were involved in responsible mineral sourcing were trained on our policy and the LBMA Responsible Silver Guidance.

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

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Comments and Demonstration of Compliance:

In April 2020, Toho Zinc established an internal system to inform our company policy to silver supplying counterparties.

Since then, Toho Zinc has requested them to understand, and cooperate with us in, our responsible sourcing efforts to prevent human rights abuses, avoid conflict and anti-money laundering, prevent, terrorist financing to silver supplying counterparties.

In addition, we do not currently procure raw materials from state-owned companies operating in EITI member countries.

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Has the Refiner established a company-wide communication mechanism to promote broad-based employee participation and risk identification to management?

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Comments and Demonstration of Compliance:

We have developed a mechanism allowing employees to voice concerns over any internal issues, which include but are not specific to those related to the silver supply chain. The mechanism is anonymous and confidential, and reports shall be reviewed only by one of the compliance officers. We also developed a functional mailbox which ensures anonymity to obtain concerns regarding supply chains of silver from outside of our company with the following URL on 21 April 2020. No concern was raised either by employees or external stakeholders in the reporting period.

<https://www.toho-zinc.co.jp/eng/sustainability/principle/inquiry/index.html>

When information is received from outside the Company regarding concerns about the silver supply

chain, the Compliance Officer shall investigate the authenticity of the information received and respond appropriately, in consultation with senior management as necessary, according to the nature and significance of the information received.

Information received from outside the company and the response to it shall be recorded and made readily retrievable, either in electromagnetic, paper, or other media, in a manner that is easily retrievable and prevents damage, deterioration, or loss. Information received from outside the company and the responses to such information must be kept for a period of five years from the time of receipt of the information or the time of response, whichever is the later.

## Step 2: Identify and assess risks in the supply chain

### Compliance Statement with Requirement:

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

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### Does the Refiner have a process to identify risks in the supply chain?

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#### Comments and Demonstration of Compliance:

We have a process to identify risks in the supply chain through Toho internal rules which was established as of 20 April 2020. Procurement team collects and analyzes information obtained with KYC toolkit and from external sources available before entering any business relationship with a new silver supplying counterparty. We revised the list of Conflict-Affected and High-Risk Areas (CAHRAs) in March 2022 based on information available from FATF's High-risk and other monitored jurisdictions, Japan Export Trade Control Order Appendix 3.2, UNSC sanctions list, Heidelberg Institute Conflict Barometer (list of level 5 countries), and other external sources. We shall review the list at least once a year and revise it as necessary.

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### Does the Refiner assess risks in light of the standards of their due diligence system?

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#### Comments and Demonstration of Compliance:

We have assessed risks in light of Toho internal rules, taking into account the De Minimis Threshold defined in the LBMA Responsible Silver Guidance. Toho Zinc considers the procurement of materials containing silver that definitely or highly probably originate in a country included in the CAHRAs, as determined by Toho Zinc, as high risk.

In the case of high risk purchase, we make it a practice to perform enhanced due diligence as follows. For individual companies (including mining companies, intermediaries, traders, and transporters) involved in the supply chains of silver concentrates, mining by-products and recycled raw materials, which supply us from a high risk area for human rights violations, we shall verify company information using information from reliable and neutral sources and compare this with lists prepared by national governments.

A toolkit provided by the LBMA will be used as the report template for on-site investigations conducted in enhanced due diligence.

The compliance officer shall conduct on-site investigations of suppliers suspected of being high-risk suppliers prior to, or at least within one year of, commencing business with them.

As a result of internal risk assessment, we have concluded that among silver bearing materials we procured during FY 2022 there was not any material that exceeded the De Minimis Threshold. Since no suppliers were determined as zero-tolerance or high-risk, no enhanced due diligence or risk mitigation measures were conducted during the reporting period.

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Does the Refiner report risk assessment to the senior management.

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**Comments and Demonstration of Compliance:**

The compliance officer shall evaluate whether the persons responsible for purchasing and managing raw materials are appropriately performing their duties in accordance with the supply chain policy.

If any deviation is found in the process, the compliance officer shall, in order to ensure that corrective measures are taken, check the status of the execution of the duties of the person responsible for purchasing raw materials and the person responsible for managing raw materials at least once a year, and provide the senior management with an annual compliance report. The senior management evaluates and approves the effectiveness and actual status of the supply chain survey procedures based on the compliance report by the compliance officer. Under the internal management system, the compliance officer at the Metal & Recycling Business Division reported in June 2023 the results of the implementation of our management system to the senior management. The senior management retains the ultimate control and responsibility for the silver supply chain.

**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.

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Has the Refiner devised a strategy for risk management of an identified risk by either (i) mitigation of the risk while continuing to trade, (ii) mitigation of the risk while suspending trade or (iii) disengagement from the risk?

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**Comments and Demonstration of Compliance:**

We have a strategy for risk management of an identified risk to minimize risks in relation to procuring silver bearing materials from higher risk suppliers, and to suspend or cease the transaction based on the degree of risk. If any material risk is identified in risk assessment, efforts shall be made to mitigate the risk. If the possibility of us being involved in or contributing to money laundering, terrorist financing, serious human rights abuses, direct or indirect support to illegitimate non-state armed group, or fraudulent misrepresentation of the origin of minerals is deemed very high, that trade shall immediately

be suspended. If a high-risk trade is to be resumed, we need to undertake risk mitigation measures, conduct detailed risk evaluation involving a site visit, monitor the supplier's performance, and report the results to the senior management who has the authority to resume the trade. Senior management shall suspend the transaction if there is no improvement within six months of the introduction of the counterparty's improvement plan. If the results of the risk mitigation measures set forth by the Company do not appear within six months, the Company shall also consider terminating the transaction.

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

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**Comments and Demonstration of Compliance:**

As a result of internal risk assessment, we have concluded that among silver bearing materials we procured during FY 2022, there was not any material that exceeded the De Minimis Threshold, and that there was no silver-bearing material supplier involved in conflicts, human rights abuses or money laundering.

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**Step 4: Arrange for an independent third-party audit of the supply chain 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:**

While we do not have specific written policies or procedures in place to ensure assurance provider independence, we take this responsibility seriously and have not encountered any issues with independence in our assurance provider relationships. We carefully evaluate our providers based on their expertise, reputation, and track record, and we require them to disclose any potential conflicts of interest. We maintain appropriate distance from our assurance providers to ensure their independence and objectivity in their work. We work closely with our providers to ensure they understand our business operations and objectives and have access to relevant information and personnel. We have engaged the services of the assurance provider KPMG AZSA Sustainability Co., Ltd., and their independent reasonable assurance report is attached hereto.

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**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.

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Comments and Demonstration of Compliance:

Our Responsible Minerals Procurement Policy and this compliance report are available on our website below:

<https://www.toho-zinc.co.jp/eng/sustainability/principle/rmpp.html>

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Toho Zinc's overall conclusion

**Table 3: Management conclusion**

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Is the Refiner in compliant with the requirements of the LBMA Responsible Silver Guidance for the reporting period?

Yes

[Comments]

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In conclusion, Toho Zinc implemented effective management systems, procedures, processes and practice to conform to the requirements of the LBMA Responsible Silver Guidance, as explained above in Table 2, for the reporting year ended 31 March 2023.

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**Table 4: Other report comments**

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[Comments]

If users of this report wish to provide any feedback to Toho Zinc with respect to this report, they can send an email to the following email address:

<https://www.toho-zinc.co.jp/eng/inquiry/>

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## Independent Assurance Report

To the Management of Toho Zinc Co., Ltd.

We were engaged by Toho Zinc Co., Ltd. (the “Company”) to undertake a reasonable assurance engagement of its LBMA Responsible Silver Guidance Compliance Report (the “Compliance Report”) for the year ended 31 March 2023. The assurance scope consists of the Company’s Compliance Report.

### **The Company’s responsibility**

The management of the Company is responsible for the preparation and fair presentation of its Compliance Report in accordance with the requirements of the LBMA Responsible Silver Guidance (the “Guidance”). This responsibility includes establishing appropriate risk management and internal controls from which the reported information is derived. The criteria identified by the management as relevant for demonstrating compliance with the Guidance are the activities described within the Company’s Compliance Report.

### **Our responsibility**

Our responsibility is to carry out a reasonable assurance engagement in order to express a conclusion based on the work performed. We conducted our assurance engagement in accordance with the ‘International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information’ issued by the International Auditing and Assurance Standards Board and the guidance set out in the LBMA Responsible Sourcing Programme - Third Party Audit Guidance (the “Audit Guidance”).

This report has been prepared for the Company for the purpose of assisting the management in determining whether the Company has complied with the Guidance and for no other purpose. Our assurance report is made solely to the Company in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than the Company for our work, or for the conclusions we have reached in the assurance report.

### **Inherent limitations**

Non-financial information, such as that included in the Company’s Compliance Report, is subject to more inherent limitations than financial information, given the more qualitative characteristics of the subject matter and the methods used for determining such information. The methods used by Refiners to comply with the Guidance may differ. It is important to read the Company’s Responsible Minerals Procurement Policy available on the Company’s website: <https://www.toho-zinc.co.jp/eng/sustainability/principle/rmpp.html>.

### **Conclusion**

In our opinion, the Company’s Compliance Report for the year ended 31 March 2023, in all material respects, describes fairly the activities undertaken during the year to demonstrate compliance, and management’s overall conclusion contained therein is in accordance with the requirements of the Guidance.

### **Independence, quality management and competency statement**

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Management 1, we design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

In conducting our engagement, we confirm that we satisfy the criteria for assurance providers as set out in the Audit Guidance to carry out the assurance engagement.

Kazuhiko Saito, Partner, Representative Director  
KPMG AZSA Sustainability Co., Ltd.  
Tokyo, Japan  
30 June 2023