Responding to the Issue of Conflict Minerals

In recent years, social issues such as human rights and environmental problems are attracting global attention. Corporations, too, are expected by stakeholders to respond to these issues. Especially the problem of conflict minerals in the Democratic Republic of the Congo (DRC) and its adjoining countries has become one of the most serious social issues the world faces. According to article 1502 of the US Dodd-Frank Wall Street Reform and Consumer Protection Act, companies listed on US stock exchanges are required to conduct and disclose investigations into the subject. The law went into effect in January 2013. Moreover, in April 2017, the European Union enacted its own Conflict Minerals Regulation, and detailed by-laws that are not limited to the Democratic Republic of the Congo and its adjoining countries but also cover conflict-affected and high-risk areas around the globe are under preparation for the enforcement in 2021. There are also moves to add cobalt and other substances to the existing list of four affected minerals, and companies are expected to handle the problem not as just a matter of conflict minerals, but rather as a broader human rights issue. The Nikon Group has established a policy of not using conflict minerals mined or intermediated by armed groups violating human rights in the area, and has been conducting surveys on our supply chain as well as due diligence based on the results of these surveys since 2011. It is important to collaborate with NGOs and other stakeholders in conducting such surveys, but it is also important to have cooperative relationships with procurement partners in our supply chain who agree with the Nikon Group’s policy on this issue. The Nikon Group will continue to practice responsible procurement, regardless of country, region, or type of mineral, and, taking into account the threat this issue poses to the day-to-day activities of law-abiding businesses and individuals in the affected countries, will carry out the due diligence necessary to resolve it.

https://www.nikon.com/about/corporate/procurement/
Design of Response to Conflict Minerals

The Nikon Group’s response to conflict minerals has been designed based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, Third Edition[^1^]. This guidance helps to respect human rights and avoid mineral procurement attributed to conflict as an optimal guidebook for handling conflict minerals. The Nikon Group’s minerals reports are structured based on a five-step framework for due diligence according to risk in the mineral supply chain defined in Annex I of this guidance. Note also that because the Nikon Group is downstream in the supply chain and does not directly purchase from smelters, the results in this report are based on plausible information provided by our primary procurement partners.


Implementation of Due Diligence

**STEP 2**
IDENTIFY AND ASSESS
Identify and assess risks in the supply chain

**STEP 3**
DESIGN AND IMPLEMENT
Design and implement a strategy to respond to identified risks

**STEP 4**
CARRY OUT AUDIT
Carry out independent third-party audit of smelter/refiner’s due diligence practices

**STEP 5**
REPORT
Report on supply chain due diligence

STEP 1
ESTABLISH
Establish strong company management systems
1. Establish strong company management systems

**CSR Procurement Standards**

Through the Nikon Group Code of Conduct (revised January 1, 2018; effective as of April 1), the Nikon Group has made a commitment to all stakeholders about the social responsibilities of the Nikon Group both internally and externally. At the same time, we ask our procurement partners to comply with the Nikon Group CSR Procurement Standards, which we formulated in August 2015 based on the "Social Responsibility in the Supply Chain" section in the Nikon Group Code of Conduct, to promote the Nikon Group’s approach toward CSR in the supply chain. These standards comply with the code of conduct of the RBA*2, a global standard in the electronics industry, and we ask that our procurement partners comply with them not only in respect to conflict minerals but as basic standards for all CSR activities.

RBA*2: In October 2017, the former Electronics Industry Citizenship Coalition (EICC) was renamed the Responsible Business Alliance (RBA). The RBA is an industry organization that includes not only the electronics industry but also other industries that purchase electronic components, such as automobiles, toys, and aerospace.

**Nikon Group CSR Procurement Standards**

[https://www.nikon.com/about/corporate/procurement/pdf/csr-procurement1_2_e.pdf](https://www.nikon.com/about/corporate/procurement/pdf/csr-procurement1_2_e.pdf)

- In September 2018, we explained the content of these standards, along with the background to their creation, and requested compliance from employees involved in procurement as well as procurement partners themselves both in and out of Japan.
- In October 2018, we conducted surveys on compliance status with respect to these standards.
- From January through March 2019, we selected certain procurement partners based on these survey results along with their size and the value of their business with us, and then audited their operations and requested that they submit plans for improvement.
- To proceed with this step further, we requested that relevant key procurement partners conclude the Nikon Group CSR Procurement Standards Agreement and encouraged them to pursue compliance
Policy on Conflict Minerals

With the goal of not using "conflict minerals" that either directly or indirectly finance armed groups in the Democratic Republic of the Congo and its adjoining countries, the Nikon Group is promoting awareness of the issue among procurement partners as well as conducting surveys and related due diligence. This policy can be viewed on the Nikon Group's website.

Policy on Conflict Minerals

https://www.nikon.com/about/corporate/procurement/conflict_minerals/

In addition, aiming to more effectively realize conflict-free products, we request key procurement partners to conclude the Agreement on Conflict Minerals, which calls for the elimination of mineral procurement encouraging human rights violations, the formulation of a conflict minerals policy that is in line with the OECD Due Diligence Guidance, and cooperation on due diligence matters identified in survey results. As of May 31, 2019, the conclusion rate of this agreement is 97.1%.
Internal promotion framework

Based on our Policy on Conflict Minerals, in January 2013 we formed a cross-departmental project team led by a company director. Since 2014, we have also maintained a Supply Chain Subcommittee to deliberate concerns involving the whole supply chain and decide actions from a cross-organizational standpoint. Decision-making and approval authority rests with this Subcommittee, which is chaired by the executive in charge of the procurement department and includes department managers or higher in related departments as its members. Subcommittee meetings were held five times in 2018. For significant matters, after deliberation is complete and a decision has been made, approval is granted by an Executive Committee that includes the CEO. Additionally, in order to advance deliberation and decision-making on matters covered by the Supply Chain Subcommittee's brief, a CSR Procurement Promotion Committee of section managers from related departments was formed. This Committee will act as a task force promoting all aspects of CSR procurement, including conflict mineral response.

Organizational Chart for Conflict Minerals Response
Clarification and Documentation of Roles, Responsibilities, and Operations

The Nikon Group created the Basic Conflict Minerals Rules as a basic policy for the purpose of clarifying the roles, responsibilities, and operations of related members, and the Conflict Minerals Response Manual that includes more detailed information on continuous conflict minerals response activities. The Rules and Manual have been applied since the 2016 survey to ensure appropriate responses to related matters.

In 2018, the Rules and Manual were revised to reflect the latest internal systems.

Establishment of Conflict Minerals Hotline

The Nikon Group has established a Conflict Minerals Hotline to which all stakeholders can report any acts contrary to or concerns about the Nikon Group Policy on Conflict Minerals. We properly investigate the information obtained through the Hotline, and take corrective actions as necessary so that we can appropriately respond to our conflict minerals related risks in our supply chain. We have also established a web page for inquiries about procurement, enabling stakeholders to make inquiries about any aspect of CSR.

Conflict Minerals Hotline

Inquiries (Procurement, CSR procurement, Green procurement)
https://www.nikon.com/contact/index.htm
2. Identify and assess risks in the supply chain

Almost all Nikon Group products have electronic components and circuits, which probably contain tantalum, tin, tungsten, or gold. The target of surveys is expanding year by year. It ranges from the products handled by the Imaging Business Unit (examples of typical products: cameras, interchangeable lenses), which are Nikon's main products, to the products intended for the SEC registered companies and products handled by the Semiconductor Lithography Business Unit (example of typical product: lithography equipment). Since 2017 the scope has further expanded to the products shipped to the EU in order to conform to the EU Conflict Minerals Regulation, which is due to come into force in 2021. We have surveyed the procurement partners who supply the parts of these products to the Nikon Group, and identified and assessed risks.

Awareness of Survey Policy and Methods

In September 2018, we held meetings not only for large corporations but also for staff at our 516 small-to medium-sized Japanese and overseas procurement partners (683 participants), where we explained our expectations of procurement partners with respect to the conflict minerals issue, including an explanation of Nikon Group policies, asked for cooperation with our policies, and provided instruction on filling out the RMI conflict minerals report template\(^3\) (RMI template) using the supply chain transparency system. In addition, even after starting surveys we provided explanations about the importance of the conflict minerals survey and details on how to answer.

Template\(^3\): “Conflict Minerals Reporting Template (CMRT)”. A survey template announced by the Responsible Minerals Initiative (RMI), an initiative of the Responsible Business Alliance (RBA).

http://www.conflictfreesourcing.org/conflict-minerals-reporting-template/
Reasonable Country of Origin Inquiry

Survey outline
- In order to conduct the survey efficiently and ensure reliability of the responses, since 2017 the survey has been conducted using the RMI template on the supply chain transparency system.
- In order to facilitate prompt responses from our procurement partners, we created a manual for the supply chain transparency system and provided it to them.
- Regarding the smelter information described in the RMI templates received from our procurement partners, we collated the latest versions of the standard smelter list and RMAP conformant smelter\(^4\) list released by the Responsible Minerals Assurance Process (RMAP)\(^5\), and other smelter information disclosed by the U.S. Department of Commerce, identified the standard/RMAP conformant smelters, and then conducted due diligence.
- In 2017, we began confirming the usage status of cobalt included in products and started surveys.

\(^4\) RMAP: Auditing program for smelters/refineries introduced by the RMI
\(^5\) Standard smelter list and RMAP conformant smelter list: Lists of the standard smelters (smelters listed by RMI) and the RMAP-conformant smelters (smelters certified as conforming with RMAP audit standards)
Survey results

We conducted a survey at 713 primary procurement partners and had an 86% response rate. Many of the companies who did not respond were unable to respond due to a lack of resources, so we will consider a survey method that minimizes the burden on them, and for procurement partners who do not cooperate over a long period, we will reexamine our relationships with them, including whether or not to continue business with them.

- From the collected templates, we confirmed details on whether 3TG are used, whether policies are established, the information collection status of secondary procurement partners, the smelters, and other relevant information.
- Since the 2017 survey, the automatic error check feature of the supply chain transparency system has made it possible to collect only templates with complete responses from procurement partners, improving both efficiency and the reliability of responses. Additionally, we conducted automated aggregation of analysis data for more efficient aggregation operations. The aggregated results were converted to database format and will be stored for five years.

Risk Assessment

We met directly with procurement partners who did not respond and prompted them to do so. Based on the survey results, we found 313 standard smelters, of which 254 were RMAP conformant smelters. In addition, as a result of reviewing the smelter information, we confirmed risks such as smelter entry fields being left blank or undisclosed, the location of the mine being in the DRC or adjoining countries and the smelter being a non-RMAP conformant smelter, information not applicable to standard smelters, or the location of the mine not being in the DRC or adjoining countries and the smelters not being a non-RMAP conformant smelter. We conducted due diligence based on this result.

List of RMAP conformant smelters in the Nikon Group supply chain

3. Design and implement a strategy to respond to identified risks

Response to risks identified in 2018 survey

Identified risks were addressed based on their priority. And, strategies decided were reported to the Executive Committee and approved.

1. Reminders and response requests to companies that have not responded
- We contacted procurement partners who did not respond by the deadline by email and phone to remind them. In addition, we visited 18 target procurement partners to check the reason they had not responded and to prompt them to respond as early as possible.

2. A smelter entry field is left blank or undisclosed
- We proactively worked with applicable procurement partners by visit, email and phone to encourage them to disclose information.

3. The location of the mine is DRC or adjoining countries and the smelter is a non-RMAP conformant smelter.
- We confirmed 115 cases, of which six smelters were non-RMAP conformant smelters, describing the location of the mine as DRC or adjoining countries. We understand that these smelters include those which are undergoing or considering to undergo a third-party audit, or could not be confirmed as being conflict-free, and through the procurement partners, we requested confirmation of the source of the descriptions, and requested an RMAP audit of the applicable smelter for the described procurement partner. We also sent a letter directly to the applicable smelter to request an RMAP audit.

4. Information not applicable to standard smelters
Regarding the 11,248 applicable cases, we have requested confirmation and correction of information through procurement partners if needed.
5. The location of the mine is not DRC or adjoining countries and the smelter is a non-RMAP conformant smelter.

As a member of the smelter support team for the "Responsible Minerals Trade Working Group" of the Japan Electronics and Information Technology Industries Association (JEITA), the Nikon Group is encouraging non-RMAP conformant smelters to undergo an RMAP audit. As part of this activity, we sent a letter encouraging 17 smelters to participate in RMAP. Furthermore, we inquired five smelters with Annex II risks in the OECD Due Diligence Guidance*6 about the content of the negative information, released the corresponding information on our website, and sent letters to prompt them to undertake RMAP audits.

Annex II risks in the OECD Due Diligence Guidance*6: Risks listed in Annex II of the OECD Guidance that companies should be alert to in relation to the procurement of minerals (examples: support for armed groups, child labor, forced labor, bribery, falsification of the origin of minerals, money laundering).

6. Confirming the establishment of procurement partner policy and due diligence implementation programs

- We performed a CSR procurement audit for four procurement partners, and requested in writing that four companies make improvements.

Regarding the non-RMAP conformant smelters that were identified in the company's supply chain, we not only obtained information through the described procurement partners, but also linked directly with individual companies, other companies, and industry bodies (JEITA, RMI, etc.), and encouraged them to undergo a third-party audit by RMAP, while collecting even more highly accurate smelter information in cooperation with procurement partners in the future as well.
Results of Due Diligence

- As in the past, this year we were able to confirm that smelters used for Glass Division products were all RMAP conformant smelters.
- Regarding tantalum, it has been confirmed that the smelters for all investigated products are RMAP conformant smelters.
- The percentage of standard smelters to RMAP conformant smelters decreased from 71.8% in 2015, to 71.4% in 2016 and 64.5% in 2017, but it rose to 81.2% in 2018, indicating that the use of conflict-free minerals has progressed. When the results are examined separately by mineral, the percentage of standard smelters to RMAP conformant smelters is now 100% (tantalum), 90.2% (tin), 92.9% (tungsten), and 67.8% (gold), indicating that the use of conflict-free minerals has progressed significantly.
Conclusion

- With there being responses that have not yet been collected, smelter entry fields left blank or non-disclosed, and information that there were non-standard smelters, it cannot be said that sufficient information has been provided by our procurement partners. Within the scope of the 2018 survey, we could not conclude that the minerals used in products targeted by the survey did not finance armed conflict directly or indirectly.

Future measures to reduce risks

- We are encouraging procurement partners to submit responses that have not yet been collected.

- The information obtained from the procurement partners contains a lot of blank smelter entry fields, undisclosed responses, and smelters that are not standard smelters; however, we will continue to prompt procurement partners to disclose information and make smelter information even more transparent.

- Regarding non-RMAP conformant smelters, we will continue to encourage RMAP audits through our support for individual companies, JEITA activities, and RMI.
4. Carry out independent third-party audit of smelter/refiner's due diligence practices

The Nikon Group is tackling this issue in cooperation with industry organizations and others. In November 2012, we participated in the study group “Responsible Minerals Trade Working Group” established by the Japan Electronics and Information Technology Industries Association (JEITA) to collect more information, and we continue to engage in industry group activities. As part of the activities of this organization, we exchanged views on the definition of CAHRA*7 as defined by the OECD and EU Conflict minerals Regulations and trends in minerals related to human rights other than 3TG, such as cobalt, and we also broadly exchanged views on human rights issues.

CAHRA*7: Abbreviation of Conflict Affected High Risk Area. CAHRA refers to conflict areas and high risk areas (areas where there is political unrest or the domestic infrastructure has collapsed). In these areas, there are widespread violations of human rights and domestic and international laws.

One of the essential steps in promoting conflict-free products is to increase the number of smelters around the world that are confirmed as having no connection with armed groups. To actualize this, we joined the Responsible Minerals Initiative (RMI) in April 2014.

In 2018, the Nikon Group joined the Responsible Business Alliance (RBA), an industry association formed from companies in the electronics and electrical machinery industry in the U.S. and Europe. Through this, we aim to further promote issues relating to CSR in general including conflict minerals, and cooperate with member companies in progressing with activities toward resolving these issues.
Japan Electronics and Information Technology Industries Association | Responsible Minerals Trade Working Group

http://home.jeita.or.jp/mineral/eng/index_e.html

RMI

http://www.responsiblemineralsinitiative.org/
5. Report on supply chain due diligence

The contents of this report are available on our website.
Activities contributing to the DRC and adjoining countries

The Nikon Group is aiming to improve the living conditions of areas suffering from starvation including the DRC and adjoining countries. To achieve this goal, we made a donation worth 40,000 meals to the school lunch program called “Red Cup Campaign” initiated by Japan Association for the World Food Programme who is a certified NPO for the United Nations World Food Programme (WFP), which is fighting hunger worldwide.

Compliance with the UK Modern Slavery Act

Link to Nikon Group Slavery and Human Trafficking Statement