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. This guidance helps companies 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 information provided by our primary procurement partners.

1 "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" Third Edition

Implementation of Due Diligence

**STEP 1**
Establish strong company management systems

**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
1. Establish strong company management systems

**Strengthening Supply Chain Management**

In 2019 we introduced database systems to strengthen supply chain management in the whole Nikon Group. This system made it possible to manage second-tier and third-tier suppliers.

**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.

*2 The Responsible Business Alliance. The RBA is an industry organization that includes not only the electronics industry but also other industries that purchase electronic components, such as the automobile, toy, and aerospace industries. The RBA Code of Conduct establishes standards to ensure that working conditions in the supply chains of these industries are safe, that workers are treated with respect and dignity, and that business operations are environmentally responsible and conducted ethically.

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 to October 2019, 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.

- We requested relevant key procurement partners to conclude the Nikon Group CSR Procurement
Standards Agreement in order for them to further pursue compliance with these standards.

- Based on the criteria established by the RBA for high risk companies, we set a 65% or more rate of compliance with the CSR Procurement Standards into the new procurement partner selection process and started selection on this basis in April 2019.

- Over the three years from the fiscal year ended March 2017 to the fiscal year ended March 2019, we completed CSR surveys of approximately 600 critical procurement partners that account for about 80% of our transaction volume.

- Based on the results of the CSR surveys, from October 2019 we selected target companies from our critical procurement partners who did not achieve a 65% rate of compliance for which we will implement audits and improvement plans from January 2020.

**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, we are aiming to realize conflict-free products in the Nikon Group. To make it more effectively, we have requested 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. Furthermore, we have carried out a clear policy of continuously doing business with procurement partners who agree on the Nikon Policy on Conflict Minerals and pledge to cooperate with our surveys. As of May 29, 2020, 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 three times in 2019. For significant matters, after deliberation is complete and a decision has been made, approval is granted by the CSR 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 has put in place 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.

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)
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. With the US Dodd-Frank Wall Street Reform and Consumer Protection Act in mind, we started with surveys of our main business units who manufacture products shipped to the U.S. (typical examples: cameras and interchangeable lenses, and semiconductor lithography equipment) and then expanded the number of business units targeted for the surveys year by year. In order to prepare a survey framework for all products shipped to the EU by the time its Conflict Minerals Regulation comes into force in 2021, in 2019 we conducted a survey of all the business units who use conflict minerals.

Awareness of Survey Policy and Methods

In September to October 2019, we held explanatory sessions for 965 companies (1,212 participants), not only large corporations but also small- to medium-sized Japanese and overseas procurement partners, to which we explained the background and significance of the conflict minerals survey, asked for cooperation with the Nikon Group Policies on Conflict Minerals, and expressed our intention to continuously do business with procurement partners who have pledged cooperation with the policies. We also provided an explanation on how to use the supply chain transparency system with which the procurement partners respond to the surveys. Even after starting surveys we provided a detailed explanation on the system to procurement partners.
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\textsuperscript{3} template (Conflict Minerals Reporting 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 RMI reference smelter list\textsuperscript{4} and the RMAP conformant smelter list\textsuperscript{5} released by the RMI, identified the RMI reference smelters and RMAP conformant smelters, and then conducted due diligence.
- In 2017, we began confirming the usage status of cobalt included in products and started surveys.

\textsuperscript{3} RMI: Responsible Minerals Initiative. Founded in 2008 by members of the Responsible Business Alliance and the Global
Sustainability Initiative, the RMI is one of the most utilized and respected resources for companies from a range of industries addressing responsible mineral sourcing issues in their supply chains.

*4 A list of smelters identified by the RMI, called “3TG Smelter Reference List” on the RMI website.

*5 A list of smelters which are conformant with the Responsible Minerals Assurance Process (RMAP), auditing program for smelters/refineries introduced by the RMI.

Survey results
- We conducted a survey of 773 primary procurement partners and had an 86% collection rate. In 2019, we for the first time conducted a survey of all the business units who use conflict minerals. Some business units experienced their first conflict minerals survey, and others designated all products as the survey targets for the first time. Before the survey, there was a concern for a decline of the collection rate because many procurement partners would also experience this survey for the first time. So we sincerely responded to questions from procurement partners while improving the manuals for procurement partners to solve questions and problems beginners have or tend to have trouble with. Consequently the collection rate was maintained at the same level as in 2018.
- 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, to increase time for due diligence, we developed a robotic process automation (RPA) system to streamline time-consuming tasks, such as data entry to the database and delivery of survey request and reminder emails to our procurement partners.
Risk Assessment

Based on the survey results, we found 299 RMI reference smelters, of which 235 were RMAP conformant smelters. In addition, as a result of reviewing the collected smelter information, we identified the following risks.

- The smelter name or mine location is unknown or left blank.
- The location of a mine is not in the DRC but in an adjoining country, and the smelter is an RMI reference smelter but is not an RMAP conformant smelter.
- The location of a mine is not in the DRC or an adjoining country, but the smelter is not an RMI reference smelter.
- The location of a mine is not in the DRC or an adjoining country, and the smelter is an RMI reference smelter but is not RMAP conformant smelter.

We conducted due diligence based on these results.

List of RMAP Conformant Smelters Resulting from the 2019 Nikon Conflict Minerals Survey

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

Response to risks identified in the 2019 survey

The following identified risks were addressed based on their priority. And, the strategies decided were reported to the Executive Committee.

1. No response

We contacted procurement partners who did not respond by the deadline by email and phone to remind them to respond as early as possible.

2. The smelter name or mine location is unknown or left blank

We asked applicable procurement partners to identify the smelter.

3. The location of the mine is not in the DRC but in an adjoining country and the smelter is an RMI reference smelter but is not an RMAP conformant smelter

Our procurement partners found no smelters whose mines are in the DRC, but found two smelters whose mines are in an adjoining country, namely Rwanda. They are both RMI reference smelters. One smelter is an RMAP conformant smelter. In their reports, they said that they are working with their suppliers to completely eliminate supply from smelters in the DRC and adjoining countries. However, we think that eliminating supply from an area could lead to human rights abuse in the area, so we informed them that it would be preferable to ask the smelters to have an RMAP audit instead because we welcome procurement from areas with RMAP conformant smelters.

4. The location of the mine is not in the DRC or an adjoining country, but the smelter is not an RMI reference smelter

Of the 132,148 cases of smelter information, 83%, that is 109,079 cases, were information about RMI reference smelters and 17%, that is 23,069 cases, were information not about RMI reference smelters. The mine locations of them were not in the DRC or adjoining countries. We requested procurement partners
to make investigation on information clearly not corresponding to a smelter by tracing the supply chain so that the smelter is identified.

5. The location of the mine is not in the DRC or an adjoining country and the smelter is an RMI reference smelter but is not RMAP conformant smelter

We requested procurement partners to ask smelters to have an RMAP audit.

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

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

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

The change in percentage of RMAP conformant smelters to RMI reference smelters is as follows: 71% in 2016, 65% in 2017, 81% in 2018, and 79% in 2019. Examining the results from 2018 to 2019 separately by mineral, the percentage of RMAP conformant smelters decreased from 90% to 81% for tin and from 93% to 88% for tungsten, but it remained unchanged at 100% for tantalum and was almost unchanged for gold (68% to 69%).

We confirmed that all the procurement partners supplying conflict minerals used for all glass-business products targeted by the survey procure from RMAP conformant smelters, the same as in 2018.
Conclusion

- With there being responses that have not yet been collected, smelter entry fields left blank or non-disclosed, and information not listed in the RMI reference smelter list, it cannot be said that sufficient information has been provided by our procurement partners. Within the scope of the 2019 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 RMI reference 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. In 2018, as part of the activities of this organization, we exchanged views with OECD on the definition of CAHRA\(^6\) as defined by EU Conflict Minerals Regulations and trends in minerals related to human rights other than 3TG, such as cobalt, with concerns of child labor and we also broadly exchanged views on human rights issues. In 2019, we, together with 19 JEITA member companies, participated in an activity of sending a letter to encourage 26 cobalt smelters in China, Russia, and other countries to have an RMAP audit.

\(^6\) 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 about 40,000 meals, including 5,700 meals through charity activities by employees, 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 Corporation Slavery and Human Trafficking Statement