

## **Conflict Minerals: Frequently Asked Questions**

Huntington Ingalls Industries, Inc. (HII), through its subsidiaries, is required under federal law to annually report the presence and source of Conflict Minerals (presently designated as gold, tantalum, tin and tungsten) in the products it manufactures. If Conflict Minerals are present in HII products – and they are – HII is then required to conduct a Reasonable Country of Origin Inquiry (RCOI) in an effort to determine whether these minerals may have originated in the Democratic Republic of the Congo (DRC) or one of nine adjoining countries. If there are indications that Conflict Minerals present in HII products may have originated from the DRC or any of the nine adjoining countries, then HII must conduct due diligence to seek to determine the mine and smelter of these minerals, and whether the cost expended went to support armed conflict in the region. HII must query its suppliers – both publicly and privately held – in order to determine the presence and source of Conflict Minerals in the products sold to HII.

In an effort to improve the content, accuracy, and volume of responses, HII has developed the following “frequently asked questions” derived from various authoritative sources.

### **What are Conflict Minerals?**

“Conflict Minerals” is the term used to describe the following minerals: gold, wolframite, cassiterite, columbite-tantalite and their derivative metals, which include tin, tungsten and tantalum – no matter where they are mined or smelted (e.g., gold mined in Canada is technically considered a “Conflict Mineral” under federal law).

### **What laws and rules govern Conflict Minerals in the United States?**

On July 16, 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). Section 1502 of this new law directed the U.S. Securities and Exchange Commission (SEC) to establish rules requiring public companies that file quarterly and annual financial statements with the SEC to provide an annual disclosure as to the origin and source of “Conflict Minerals” in the products they assemble, manufacture and/or sell.

### **What is the purpose of the Dodd-Frank Act and related SEC Rules?**

Congress included this provision in the Dodd-Frank Act in an effort to further the humanitarian goal of ending violent conflict in the DRC and the nine adjoining countries, which include Angola, Burundi, Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia.

Congress chose to use the U.S. securities laws’ disclosure requirements to promote the understanding and, where required, the exercise of due diligence on the origin and source of Conflict Minerals in supply chains, and to persuade companies to procure Conflict Minerals from sources that do not finance or benefit armed groups in the covered countries.

### **Are there special rules for government contractors?**

There are no special rules for any industry delineated in the final rule. As a current or future supplier to an HII company, however, you will be contractually obligated to assist HII in determining the presence and source of Conflict Minerals in the products sold to HII that are included in HII’s finished products.

**We are not a public company and do not file reports with the SEC. Is my company affected by the Conflict Minerals rules?**

Yes. Even if your company is private and/or does not file reports with the SEC, as long as you are a direct or indirect supplier to a company that files certain reports with the SEC, you will be asked to provide information regarding the uses and sources of Conflict Minerals in your products. As a supplier to a publicly-traded company – HII – you are contractually obligated to provide information to HII identifying the presence and source of Conflict Minerals in the products you sell to HII.

For HII to make accurate disclosures in its SEC annual report, it needs information from suppliers of materials and/or components. HII requires its suppliers to provide it with a completed Conflict Minerals Reporting Template (CMRT), published and made available free of charge by the Responsible Minerals Initiative (RMI) at:

<http://www.responsiblemineralsinitiative.org/reporting-templates/cmrt/>.

**Why did the SEC identify gold, tin, tungsten and tantalum as Conflict Minerals? Are they considered dangerous or subject to contamination?**

These four minerals were selected not because of their physical characteristics, but because of where they are mined. Financial proceeds from the mining of these minerals in the DRC and adjoining countries are believed to be used by armed groups who are subjecting workers and indigenous people to serious human rights abuses. It has nothing to do with toxicity or danger.

**Is it illegal to procure Conflict Minerals from the DRC region?**

No, it is not illegal. In fact, the rule is not intended to discourage the purchase of Conflict Minerals from the DRC or adjoining countries. It is meant to provide transparency to stakeholders regarding whether (i) the products they purchase are conflict-free or (ii) the purchase may have gone to support armed conflict in the DRC region.

**What is the acronym 3TG?**

The three T's are the derivative elements known as Tin, Tantalum and Tungsten. "G" stands for the element Gold.

**What are the common uses of 3TGs?**

<b>Metal</b>	<b>Common Uses</b>
Tin	<ul style="list-style-type: none"><li>• Solders for joining pipes and circuits</li><li>• Tin plating of steel</li><li>• Alloys (bronze, brass, pewter)</li><li>• PVC's</li></ul>
Tantalum	<ul style="list-style-type: none"><li>• Capacitors (in most electronics)</li><li>• Carbide tools</li><li>• Jet engine components</li></ul>
Tungsten	<ul style="list-style-type: none"><li>• Metal wires, electrodes, electrical contacts</li><li>• Heating and welding applications</li></ul>
Gold	<ul style="list-style-type: none"><li>• Jewelry</li><li>• Electric plating and IC wiring</li><li>• Circuit boards</li></ul>

**Is the filing by public companies of an annual report about any Conflict Minerals used in their products only for one year or is it an on-going requirement?**

This is an on-going requirement each year.

**Are there alternative sources of these minerals besides the DRC?**

Yes. The percentages of the global supply of the 3TGs coming from the DRC region is relatively small, generally from one percent to 12 percent. Major alternative sources of origin for these minerals include:

- **Tin:** China, Indonesia, Peru, Bolivia, Brazil
- **Tantalum:** Australia, Brazil, Canada
- **Tungsten:** China, Russia, Canada
- **Gold:** South Africa, Australia, the United States, China

The rule does not call for a ban or boycott of minerals sourced from the DRC region; it instead encourages conflict-free mineral supplies from the DRC region through the development of tracing and auditing practices.

**Our company assembles products from components manufactured by third parties. Does assembly of a product constitute “manufacturing” for purposes of the Conflict Minerals rules?**

Yes, the manufacture of products through assembly are subject to the Conflict Minerals rules.

**What is a “reasonable country of origin inquiry” (RCOI)?**

While the Conflict Minerals rules do not prescribe what steps are necessary to satisfy the RCOI requirement, they do provide general standards to be used or considered for the RCOI. The inquiry must be reasonably designed to determine whether the company’s Conflict Minerals either:

- Did originate in the covered countries (DRC region), or
- Did come from recycled or scrap sources.

Further, the inquiry must be performed in good faith. As part of their “good faith” inquiry process, companies should apply reasonable skepticism and judgment when assessing statements from suppliers and be aware of any red flags that could be counter-indicative to the suppliers’ statements, such as the pricing of materials, location of the supplier, purity/quality of materials used for products, markings suggesting the products originated in the DRC region, etc.

**Is there a de minimis exception for small quantity or low dollar value minerals?**

No, there is no exception based on any quantity, percentage or dollar value. The presence of any Conflict Minerals in HII products, no matter where they are mined or smelted or the amount, must be reported by HII, and thus disclosed to HII by its suppliers.

**Are recycled metals exempt?**

Yes. Fully recycled metals are exempt and would represent a reasonable outcome of an RCOI.

## **What is considered acceptable due diligence?**

At a minimum, public companies such as HII must develop and document due diligence procedures customized to their particular facts and circumstances in order to make an assertion that is capable of being audited. The Organization for Economic Cooperation and Development (OECD) [Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#), which HII has chosen to follow, recommends five key steps to establish a due diligence program regarding sourcing of Conflict Minerals.

- Establish strong company management systems
- Identify and assess risk in the supplier chain
- Design and implement a strategy to respond to identified risk
- Carry out an independent third party audit of the supply chain
- Report on supply chain due diligence internally to management

## **Why do some articles talk about metals and not minerals?**

Tin, tantalum and tungsten are often referred to in their mineral ore form before they are processed by a smelter or refiner into metals.

- Tin ore = cassiterite
- Tantalum ore = coltan or columbite-tantalite
- Tungsten ore = wolframite

The mineral ores are what make up the metals tin, tantalum and tungsten. The name changes once they are smelted and/or chemically processed by refining companies. To be consistent we refer to them as Conflict Minerals.

## **Do similar rules exist in other countries?**

Improving transparency and reducing the risk of contributing to human rights abuses and conflicts are issues that have gained traction globally over the past few years, and other countries are taking steps to address concerns about Conflict Minerals. Recently the European Union adopted a Conflict Minerals Regulation, which will go into effect on January 1, 2021. While it is different in scope from the SEC rule, the EU Regulation will require importers of 3TGs into the European Union to establish management systems to support due diligence, conduct due diligence and make disclosures concerning the 3TG that they import.

## **What is the penalty for non-compliance with the SEC rules?**

It is against the law for public companies to knowingly provide false or misleading statements with regard to material facts or otherwise not act in good faith with respect to their public filings with the SEC. Additionally, implications of not complying include issuers facing pressure from human rights activists, non-governmental organizations, consumer or other market forces to prove their products are conflict free. HII includes contractual terms and conditions requiring its suppliers to report the presence and source of Conflict Minerals in the goods sold to HII. Failure to accurately report to HII could result in breach and termination for default of the applicable purchase order.

**Should we expect the scope or types of Conflict Minerals to be expanded in the future?**

The Conflict Minerals and covered countries in the rule align with those identified by the U.S. State Department. While there are no changes expected at this time, if the State Department modifies its list of Conflict Minerals or covered countries, the SEC rule automatically follows suit.

**ADDITIONAL RESOURCES:**

<http://www.sec.gov/rules/final/2012/34-67716.pdf>

<http://www.sec.gov/News/Article/Detail/Article/1365171562058>

<http://www.responsiblemineralsinitiative.org/>

<https://www.oecd.org/corporate/mne/GuidanceEdition2.pdf>