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***Joint Stock Company Prioksky Plant  
of Non-ferrous Metals***

**Independent Reasonable Assurance Report  
(ISAE (revised) 3000 engagements)  
on the Refiner's Compliance Report  
for the year ended 31 December 2018**





## *Independent Reasonable Assurance Report*

To the management of Joint-Stock Company Prioksky Plant of Non-ferrous Metals:

We were engaged by Joint-Stock Company Prioksky Plant of Non-ferrous Metals (“PZCM” / “the Company”) to provide reasonable assurance on its Refiner’s Compliance Report for the year ended 31 December 2018.

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### *Management’s Responsibility*

The management of the Company is responsible for the preparation and presentation of the Refiner’s Compliance Report in accordance with the London Bullion Market Association (“LBMA”) Responsible Gold Guidance and the LBMA Responsible Silver Guidance (“the LBMA 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 LBMA Guidance are the activities described within the Refiner’s Compliance Report.

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### *Our Responsibility*

Our responsibility is to carry out a reasonable assurance engagement in order to express an opinion as to whether the Refiner’s Compliance Report, in all material respects, describes fairly the activities undertaken during the year to demonstrate compliance, and that management’s overall conclusion contained therein is in accordance with the requirements of the LBMA Guidance. We conducted our engagement in accordance with the International Standard on Assurance Engagements (“ISAE”) 3000 (revised) “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 Gold Programme – “Third Party Audit Guidance” for ISAE 3000 Auditors and in the LBMA Responsible Silver Programme – “Third Party Audit Guidance” for ISAE 3000 Auditors (together “the Audit Guidance”).

This report has been prepared for PZCM for assisting management in determining whether PZCM has complied with the LBMA Guidance and for no other purpose.

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### *Restriction of use*

Our reasonable assurance report is made solely to PZCM in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than PZCM for our work, or for the conclusions we have reached in the reasonable assurance report.



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### *Summary of work performed*

The assurance scope consists of the Refiner's Compliance Report.

Our reasonable assurance engagement included the following:

- Inquiring of management to gain an understanding of the Company's processes and risk management procedures in relation to the gold and silver supply chain in place;
- Inquiries of the relevant staff responsible for the preparation of the PZCM Refiner's Compliance Report;
- Assessing the suitability of the policies, procedures and internal controls that the Company has in place to conform to the requirements of the LBMA Guidance;
- Reviewing a selection of the supporting documentation, including gold supplier counterparty due diligence questionnaires;
- Performing a walkthrough of the PZCM due diligence process to gain an understanding of implemented policies and procedures;
- Testing a selection of the underlying processes and controls that support the information in the PZCM Refiner's Compliance Report; and
- Reviewing the presentation of the PZCM Refiner's Compliance Report to ensure consistency with our findings.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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### *Inherent limitations*

Non-financial information, such as that included in the Refiner'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 LBMA Guidance may differ. It is important to read Building up and Managing Responsible Gold System in JSC "Prioksky Plant of Non-ferrous Metals" Guidance adopted on 20 April 2015 and Building up and Managing Responsible Silver System in JSC "Prioksky Plant of Non-ferrous Metals" Guidance adopted on 2 November 2017<sup>1</sup>.

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### *Our Independence, Quality Control and Competency statement*

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior, together with the ethical requirements of the Code of Professional Ethics of Auditors and the Rules of Independence of Auditors and Audit Organizations applicable to our audit procedures and other assurance tasks with respect to the Subject of Verification in the Russian Federation and we have met other ethical responsibilities in accordance with these requirements and the Code of IESBA.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a

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<sup>1</sup> The maintenance and integrity of the Company's website is the responsibility of management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Subject matter or Reporting Criteria when presented on the Company's website.



comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

### Opinion

In our opinion, the PZCM Refiner's Compliance Report for the year ended 31 December 2018, 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 LBMA Responsible Gold Guidance and the LBMA Responsible Silver Guidance.

*AO PricewaterhouseCoopers Audit*

12 March 2019  
Moscow, Russian Federation

A.B. Fomin, certified auditor (licence no. 01-000059), AO PricewaterhouseCoopers Audit

Audited entity: Joint-Stock Company "Prioksky plant of non-ferrous metals"

Certificate of inclusion in the Unified State Register of Legal Entities issued on 28 March 2003 under registration № 1036218001841

391303, Ryazan region, Kasimov, Prioksky District

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

AO PricewaterhouseCoopers Audit is included in the list of Approved Service Providers by the London Bullion Market Association (LBMA)

## Refiner's compliance report

<b>Table 1 – Refiner's details</b>	
Refiner's name	Joint Stock Company "Prioksky Plant of Non-ferrous Metals" ("PZCM")
Location	Kasimov, Prioksky District, Ryazan region, 391303, Russia
Reporting year end	31 December 2018
Date of report	12 March 2019
Senior management responsible for this report	Nadezhda Igashova, Head of production and sales department

<b>Table 2 – Summary of activities undertaken to demonstrate compliance</b>
<b>Step 1: Establish strong company management systems</b>
<p><b>Compliance statement with requirement:</b></p> <p>PZCM (hereinafter – "the Company"/"Refiner") has complied with Step 1: "Establish strong company management systems".</p>
<p><b>Has the Refiner adopted a Company policy regarding due diligence for supply chains of gold and silver?</b></p> <p><b>Comments and demonstration of compliance:</b></p> <p>In July 2013 the Company implemented Responsible Gold Policy and Building up and Managing Responsible Gold System guidance (hereinafter - "the PZCM Gold Guidance" or "the PZCM Guidance") developed consistently with the London Bullion Market Association's (hereinafter – "LBMA") Responsible Gold Guidance (hereinafter – "the LBMA Gold Guidance" or "the LBMA Guidance").</p> <p>During 2015 the Company revised the PZCM Guidance fully addressing recommendation from PwC 2014 audit. The revision resulted in further improvement of the gold supply chain due diligence processes and clarification of the requirements of the LBMA Guidance.</p> <p>In November 2017 the Company implemented Building up and Managing Responsible Silver System guidance (hereinafter - "the PZCM Silver Guidance" or "the PZCM Guidance") developed consistently with the London Bullion Market Association's Responsible Silver Guidance (hereinafter – "the LBMA Silver Guidance" or "the LBMA Guidance").</p> <p>The PZCM Guidance, that was in force in 2018, covered all steps required by the LBMA Guidance, i.e.</p> <ol style="list-style-type: none"> <li>a. Scope;</li> <li>b. Organisation and responsibilities;</li> <li>c. Criteria for high-risk gold and silver supply chain;</li> <li>d. Supply chain due diligence, inclusive of the Know your Customer process;</li> <li>e. Monitoring of transactions;</li> <li>f. Maintaining records,</li> <li>g. Training.</li> </ol>
<p><b>Has the Refiner set up an internal management structure to support supply chain due diligence?</b></p> <p><b>Comments and demonstration of compliance:</b></p> <p>Throughout 2018 the Company used official internal management supporting supply chain due diligence structure. All departments related to supply chain were carrying out their responsibilities in compliance with existing policies and procedures during 2018 in accordance with the PZCM Guidance.</p> <p>On 23 June 2015 according to the Order #354 Aleksandr Shuktuev, Head of Marketing and Sales</p>

department, was assigned a role of Responsible officer and he had remained in this role till January 2019.

Starting 28 January 2019 according to the Order #52 Nadezhda Igashova, Head of Production and Sales department, was assigned the role of Responsible officer.

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

**Comments and demonstration of compliance:**

The Company has a robust raw materials and secondary precious metals acceptance process instruction. Technological instruction for receiving raw materials was officially issued on 28 April 2014. In accordance with this instruction, the Company receives all required documents and registers the details of the transaction before processing gold-bearing or silver-bearing raw materials. Specific control procedures in accordance with internal policies and regulations related to raw materials received are carried out before refining. This control procedure was in operation and adhered to during 2018.

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

**Comments and demonstration of compliance:**

PZCM has strengthened company engagement with gold and silver-supplying counterparties, and where possible, assisted gold and silver-supplying counterparties in building due diligence capacities.

Starting from April 2015 all new contracts include a clause about supplier's compliance with LBMA requirements, including confirmation of non-involvement in any money-laundering, terrorism financing and/or human rights abuse activities. One of the key requirements to engage in business relationships with gold and silver-supplying counterparties is receipt of filled by counterparties KYC questionnaire using the form recommended by LBMA. These actions contributed to perform due diligence process in line with LBMA requirements and ensured collection of all necessary information about suppliers.

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

**Comments and demonstration of compliance:**

The Company developed internal communications system to support comprehensive employee involvement in sharing information on identified risks with management. Established internal communication system allows employees to raise their concerns related to precious metals supply chain or newly identified risk factors.

A dedicated mailbox is installed in the office of the Company and responsible person reviews all incoming complaints related to compliance with the PZCM Guidance.

**Step 2: Identify and assess risk in the supply chain**

**Compliance statement with requirement:**

The Refiner has complied with Step 2: "Identify and assess risk in the supply chain".

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

**Comments and demonstration of compliance:**

In accordance with the PZCM Guidance, which was developed consistently with LBMA requirements, the Company identifies and assesses risks in gold and silver supply chain. For each supplier the Company created a profile and defined a risk rating according to our criteria of risk ratings. This process is a mandatory requirement before engaging in any business relationships with gold and silver suppliers.

**Does the Refiner assess risks in light of the standards of their supply chain due diligence system?**

**Comments and demonstration of compliance:**

Due diligence and supplier identification processes defined in the PZCM Guidance were carried out each time the Company was engaging in business relationships with a gold or a silver supplier. In addition, the Company conducts appropriate scrutiny of suppliers' documents and monitoring of all transactions carried out through the course of business relationships. The Refiner distributes KYC questionnaire using the form recommended by LBMA, which has improved due diligence process and ensured collection of all necessary information about suppliers.

**Does the Refiner report risk assessment to designated manager?****Comments and demonstration of compliance:**

The responsible person monitors compliance with the requirements of the PZCM Guidance and submits annual report to Director General. The report contains information on supply chain management system's compliance with LBMA requirements and measures taken to address exceptions. Senior management retains ultimate control and responsibility for the precious metals supply chain.

**Step 3: Design and implement a management strategy to respond to identified risks****Compliance statement with requirement:**

The Company has complied with Step 3: "Design and implement a management strategy to respond to identified risks".

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

In accordance with LBMA requirements the Company has established the system of risk assessment for each supplier, defined in the PZCM Guidance, which includes detailed risk assessment and management procedures: (i) mitigation of the risk while continuing trade, (ii) mitigation of the risk while suspending trade or (iii) disengagement from the risk by terminating business relationships with high risk suppliers, including immediately stopping refining gold or silver from such suppliers.

**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.****Comments and Demonstration of compliance:**

The robust strategy for risk management and mitigation was implemented together with the adoption of the PZCM Guidance for gold on 30 July 2013 and for silver on 2 November 2017. There were no high risk suppliers identified in 2018.

**Step 4: Arrange for an independent third-party audit of the supply chain due diligence****Compliance statement with requirement:**

The Company has complied with Step 4 "Arrange for an independent third-party audit of the supply chain due diligence".

**Comments and demonstration of compliance:**

According to LBMA requirements the Company was to submit the Independent third-party audit of the supply chain due diligence report by 31 March 2019. The Company entered into a contract with AO PricewaterhouseCoopers Audit on 6 February 2019. The Independent third party reasonable assurance report will be published on [www.zvetmet.ru](http://www.zvetmet.ru) upon completion.

**Step 5: Report on supply chain due diligence****Compliance statement with requirement:**

The Company has complied with Step 5 "Report supply chain due diligence".

**Comments and demonstration of compliance:**

Report on supply chain due diligence (Refiner's Compliance Report) was prepared on time and therefore the Company met the deadline established by LBMA.

Further information and specific details on how PZCM's systems, procedures, processes and controls have been implemented and used to align to the specific requirements in the LBMA Guidance have been set out in the PZCM Guidance which is available on our website [www.zvetmet.ru](http://www.zvetmet.ru).

**Table 3 – Management conclusion****Is the Refiner in compliance with the requirements of the LBMA Guidance for the reporting period?**

Yes	<p>In conclusion, the Company developed and implemented an effective system of supply chain management, including procedures, policies and processes, for the purpose of compliance with the LBMA Guidance, as explained above in the Table 2, for the year ended 31 December 2018. Starting from 2018 the supply chain management of the Company in compliance with the LBMA Guidance covers silver in addition to gold.</p> <p>PZCM is committed to continuous improvement and all corrective actions required are monitored internally on a regular basis.</p>
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**Table 4 – Other reports comments**

If users of this report wish to provide any feedback to PZCM with respect to this report, they can contact us through email at [pzcm@zvetmet.ru](mailto:pzcm@zvetmet.ru).

Head of Production and Sales department



N.V. Igashova

General Director



V.S. Sonkin