

Refiner's compliance report

Table 1 – Refiner's details	
Refiner's name	Open Joint Stock Company Prioksky Non-Ferrous Metals Plant ("PZCM")
Location	Kasimov, Prioksky District, Ryazan region, 391303, Russia
Reporting year end	31 December 2014
Date of report	30 April 2015
Senior management responsible for this report	Commercial Director, M.A. Timofeev

Table 2 – Summary of activities undertaken to demonstrate compliance
Step 1: Establish strong company management systems
<p>Compliance statement with requirement: OJSC Prioksky Non-Ferrous Metals Plant (hereinafter – “the Company”/“Refiner”) has complied with Step 1: “Establish strong company management systems”.</p>
<p>Has the Refiner adopted a Company policy regarding due diligence for supply chains of gold?</p> <p>Comments and demonstration of compliance: In July 2013 the Company implemented Responsible Gold Policy developed consistently with the London Bullion Market Association (hereinafter – “LBMA”) Responsible Gold Guidance (hereinafter – “the LBMA Guidance”). Building up and Managing Responsible Gold System in OJSC Prioksky Non-Ferrous Metals Plant Guidance (hereinafter - “the PZCM Guidance”), implemented on 30 July 2013, covered major areas of Responsible Gold, including due diligence in supply chain, risk assessment and risk mitigation / avoidance strategy.</p>
<p>Has the Refiner set up an internal management structure to support supply chain due diligence?</p> <p>Comments and demonstration of compliance: Throughout 2014 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 the whole year of 2014 in the framework of compliance with the PZCM Guidance.</p> <p>According to the Order #253 issued on 25 June 2012 a person responsible for compliance with the PZCM Guidance and reporting directly to Director General was assigned.</p>
<p>Has the Refiner established a strong internal system of due diligence, controls and transparency over gold supply chains, including traceability and identification of other supply chain actors?</p> <p>Comments and demonstration of compliance: We have a reliable raw materials and secondary precious metals acceptance process. In accordance with the process we receive all required documents and register the details of the transaction before processing gold bearing raw materials. Special control procedures in accordance with internal policies and regulations related to raw materials received are executed before the refining. This control procedure was in operation and adhered to during 2014.</p>

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

Comments and demonstration of compliance:

In 2014 the Company followed the defined supplier identification process which included preliminary scrutiny of suppliers. All suppliers submitted written confirmations of their compliance with the LBMA requirements including confirmation that they were not involved in any money laundering, financing terrorism and human rights abuse activities. Starting from 2015 all newly concluded contracts included a paragraph about supplier's compliance with LBMA requirements, including confirmation of non-involvement in any money laundering, financing terrorism and human rights abuse activities.

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 has been installed in the office of the Company and all incoming complaints related to compliance with the PZCM Guidance are reviewed by responsible person, assigned by the Order #253 dated 25 June 2012.

Step 2: Identify and assess risk in the supply chain

Compliance statement with requirement:

We have partially complied with Step 2: Identify and assess risk in the supply chain.

Has the Refiner identified risks in the gold supply chain?

Comments and demonstration of compliance:

In accordance with approved the PZCM Guidance, which was developed in the spirit of LBMA requirements, we identify and assess risks in gold supply chain. For each supplier we created a profile and defined a risk rating according to our criteria of risk ratings. Now this process is a mandatory requirement before engaging in any business relationships with gold 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 supplier. In addition, the Company conducts appropriate scrutiny of suppliers' documents and monitoring of all transactions carried out through the course of business relationships. However, beneficial owner identification procedure was not executed to full extent in accordance with LBMA requirements due to specifics of the Russian legislation which gives companies the right not to disclose information about beneficial owners.

In April 2015 the beneficial owner identification procedure was finalized and included in the new edition of the PZCM Guidance approved in April 2015. The Company performed a retrospective analysis of gold supply chains for the whole year of 2014, including beneficial owners identification and check that the counterparty and their beneficial owners were not named on any government lists for wanted money launderers, known fraudsters or terrorists. All necessary procedures for gold origin identification were carried out according to reasonable and good faith efforts and it was confirmed that all gold was mined in Russian Federation and no imported raw materials were processed in 2014.

As a result of retrospective analysis performed we came to conclusion that there were no transactions with high or medium risk and no gold from Conflict-Affected areas was identified. Therefore, policies and procedures that existed in 2014 were sufficient to protect the Company from interaction with high-risk suppliers.

Does the Refiner report the results of risk assessment to designated Senior Management?

Comments and demonstration of compliance:

The responsible person, assigned by the Order #253, dated 25 June 2012 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 gold and precious metals supply chain.

Step 3: Design and implement a management strategy to respond to identified risks

Compliance statement with requirement:

We have 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 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 on 30 July 2013. There were no high risk suppliers identified in 2014.

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

Compliance statement with requirement:

The Company has partially 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 2015. The Company entered into a contract with ZAO PricewaterhouseCoopers Audit on 20 March 2015. Since the Refiner's Compliance Report was not timely issued, ZAO PricewaterhouseCoopers Audit informed PZCM that it was not possible to complete the audit by 31 March 2015. The Company requested LBMA to extend the deadline till 30 April 2015. LBMA considered the request and extended the deadline for issuing the reports mentioned above till 30 April 2015. The Independent third party reasonable assurance report will be published on www.zvetmet.ru upon completion.

Step 5: Report on supply chain due diligence

Compliance statement with requirement:

The Company has partially 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 with delay and therefore the Company was missing the deadline established by LBMA. However, request to LBMA to extend the deadline till 30 April 2015 was timely sent by Management of the Company to LBMA. LBMA considered the request and postponed the deadline for issuing of the Refiner's Compliance Report and Independent reasonable assurance report to 30 April 2015.

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.

Table 3 – Management assessment of all 5 steps of the LBMA Guidance

Step of Framework	Rating	Comments
Step 1 Establish strong company management systems	Compliant	During 2014 the Company acted in accordance with the PZCM Guidance adopted on 30 July 2013 which included formalized approach to management of gold and precious metals supply chains in accordance with LBMA requirements.
Step 2 Identify and assess risk in the supply chain	Compliant with low risk deviations	We identify and assess the risks in supply chain in accordance with the PZCM Guidance, which was developed according to LBMA requirements. For each supplier we created a profile and defined a risk rating according to our criteria of risk ratings. In 2014 the beneficial owners were identified not for all suppliers. In April 2015 the beneficial owners identification procedure was improved and included in the new version of the PZCM Guidance adopted in April 2015. As a result of a retrospective analysis performed, which included beneficial owners identification and check that counterparties and their beneficial owners were not named on any government lists for wanted money launderers, known fraudsters or terrorists, it was confirmed that there were no high risk suppliers identified and no gold from Conflict-Affected areas identified in 2014.
Step 3 Design and implement a management strategy to respond to identified risks	Compliant	The Company has a system of risk assessment for each supplier and risk mitigation actions were developed. There were no moderate or high risk suppliers identified in 2014.
Step 4 Arrange for an independent third-party audit of the supply chain due diligence	Compliant with low risk deviations	The Company engaged the services of the assurance provider ZAO PricewaterhouseCoopers Audit.
Step 5 Report on responsible supply chain due diligence	Compliant with low risk deviations	All required reports were issued with delay.

Table 4 – Management conclusion	
Is the Refiner in compliance with the requirements of the LBMA Guidance for the reporting period?	
Compliant with low risk deviations	<p>During the year ending 31 December 2014 the Company was using the PZCM Guidance adopted on 30 July 2013.</p> <p>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.</p> <p>In the course of independent audit it was identified that the PZCM Guidance did not cover all the areas described in the LBMA Responsible Gold Guidance in full details. A review of the existing system of gold supply chain management was performed and detailed procedures, processes and practices to fully conform to the requirements of the LBMA Responsible Gold Guidance were developed and added to the new version of the PZCM Guidance adopted in April 2015.</p> <p>After the PZCM Guidance was adopted the Company conducted retrospective analysis of the gold supply chain for 2014 and concluded that there were no transactions with high risk.</p> <p>Hence, policies and procedures that existed in 2014 were sufficient to protect the Company from interaction with high-risk suppliers.</p> <p>Therefore aforementioned exceptions are considered to be purely documentary, and therefore low risk in accordance with LBMA classification.</p> <p>PZCM is committed to continuous improvement and all corrective actions required will be monitored internally on a regular basis.</p>

Table 5 – 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 .

Commercial Director

M.A. Timofeev

General Director

V.S. Sonkin



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