Joint Stock Company Novosibirsk Refinery

Independent Reasonable Assurance Report (ISAE 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 Novosibirsk Refinery:

We were engaged by Joint-Stock Company Novosibirsk Refinery ("Novosibirsk Refinery" / "the Company") to provide reasonable assurance on its Refiner’s Compliance Report for the year ended 31 December 2018.

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.

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 Novosibirsk Refinery for assisting management in determining whether Novosibirsk Refinery has complied with the LBMA Guidance and for no other purpose.

Restriction of use

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

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 Novosibirsk Refinery 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;

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Performing a walkthrough of the Novosibirsk Refinery 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 Novosibirsk Refinery Refiner's Compliance Report; and

Reviewing the presentation of the Novosibirsk Refinery 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.

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 Novosibirsk Refinery's Precious metal supply chain policy issued on 25 September 2012 (as amended on 12 January 2018)\(^1\).

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 behaviour, 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 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.

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\(^1\) 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.
Opinion

In our opinion, the 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.

29 March 2019
Moscow, Russian Federation

Yuri Muravlev, certified auditor (licence no. 01-000055), AO PricewaterhouseCoopers Audit

Audited entity: JSC Novosibirsk Refinery

Certificate of state registration issued by Federal tax Inspections in Oktiabersky District on 11 April 2003 under registration № 54 003121904

Certificate of inclusion in the Unified State Register of Legal Entities issued on 6 August 2010 under registration № 71054708479629
630008, Novosibirsk, Kirova street, 103

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 № 1027790148431

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

GRNZ 11603905047 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

Table 1 — Refiner’s details

<table>
<thead>
<tr>
<th>Refiner’s name</th>
<th>Joint Stock Company Novosibirsk Refinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Novosibirsk, Russia</td>
</tr>
<tr>
<td>Reporting year-end</td>
<td>31 December 2018</td>
</tr>
<tr>
<td>Date of Report</td>
<td>29 March 2018</td>
</tr>
<tr>
<td>Senior management responsible for this report</td>
<td>Ergin Andrey Valerievich, General Director</td>
</tr>
</tbody>
</table>

Table 2 — Summary of activities undertaken to demonstrate compliance

Stage 1: Establish strong company management systems

Compliance statement with requirement:
Joint Stock Company Novosibirsk Refinery (hereinafter, JSC Novosibirsk Refinery, “the Company”, “the Refiner”) fully complies with the requirement to put in place a reliable supply chain management system.

Has the Refiner adopted a Company policy regarding due diligence for supply chains of gold and silver?

Yes, it has. In September 2012, JSC Novosibirsk Refinery adopted and has, ever since, been in compliance with Gold Supply Chain Policy that meets the requirements for monitoring and verifying gold supply chain compliance. The Responsible Practices Policy of Precious Metals Shipments was developed in accordance with LBMA requirements on January 12th, 2018 because of the release of LBMA Responsible Silver Guidance.

Comments and demonstration of compliance:

Has the Refiner set up an internal management structure to support supply chain due diligence?

Yes, it has. JSC Novosibirsk Refinery has been maintaining a duly approved internal management structure that ensures a Responsible Practices Policy of Precious Metals Shipments (hereinafter, “the System”), which defines the competencies, duties and responsibilities of JSC Novosibirsk Refinery personnel in regards to control and monitoring of precious metals supply. The before mentioned structure was approved by the Company's General Director in the “Regulation on the System for Precious Metals Supply Chain” (hereinafter, "the Regulation").

Comments and demonstration of compliance:
An organisational structure for monitoring and control the supply chain has been established and was in use during the reporting period. An authorised management representative was assigned to manage the process for maintaining and monitoring precious metals supply chain compliance.

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?

Yes, it has. JSC Novosibirsk Refinery has, in accordance with both the LBMA Guidance and JSC Novosibirsk Refinery’s Responsible Practices Policy of Precious Metals Shipments, developed and put into effect a Regulation that supports the before mentioned System. This Regulation defines and governs JSC Novosibirsk Refinery employees’ activities to conduct requisite inspections and review both the contracting parties supplying materials containing gold and silver, and specific batches of the supplies.

Comments and demonstration of compliance:
JSC Novosibirsk Refinery has put in place a requisite process for managing raw material supplies. For the purposes of assaying and processing precious metal containing materials, JSC Novosibirsk Refinery subdivisions’ personnel receives forwarding documents and inputs counterparty data into the supplier questionnaire. They also perform special control and monitoring procedures according to internal
regulations with respect to materials received prior to processing. Such procedures were in place and complied with throughout 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?**

Yes, it has. The contract with suppliers of gold and silver for provision of refining services includes a clause on the System. If the before mentioned clause is not included in the contract, JSC Novosibirsk Refinery shall receive a written confirmation from the supplier, whereby they confirm their consent to both the principles of JSC Novosibirsk Refinery’s Responsible Practices Policy of Precious Metals Shipments and principles set forth in the LBMA Responsible Gold and Silver Guidance.

Raw materials are only accepted for refining if the supplier of precious metals fully complies the Company’s Responsible Practices Policy of Precious Metals Shipments and explicitly express their consent to the before mentioned Policy. During the reporting period, JSC Novosibirsk Refinery provided (wherever applicable) their suppliers with assistance in performing expert appraisal of gold and silver bearing materials supply chains.

**Comments and demonstration of compliance:**

JSC Novosibirsk’s contracts with suppliers include a clause, whereby suppliers must confirm that they are not involved in any activities associated with money laundering, financing of terrorism or human rights violations.

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

Yes, it has. JSC Novosibirsk Refinery maintains a procedure supporting the functioning of the System, which defines its employees involvement in its operation and includes the following elements:

- raw materials acceptance procedure;
- a procedure for assigning a risk level in regards to each batch of raw materials supplied;
- activities aimed at reducing risk levels;
- communicating their findings to a manager in charge;
- introducing proposals in regards to the structure, documentation and operation of the System.

**Comments and demonstration of compliance:**

To support the full involvement of employees and communicating their findings on identified risks to management, they can directly call personnel from Sales Department (phone numbers are placed on the official website of JSC Novosibirsk Refinery at http://affinaz.ru/). In addition, a list of in-house phone numbers of the General Director’s reception, Chief Accountant and Sales Department is available at the gatekeeper’s office of the Company. Any person can use the phone, including persons without access to JSC Novosibirsk Refinery’s premises.

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

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

Yes, it does. According to the Regulation, JSC Novosibirsk Refinery has put in place a classification of risk levels in precious metal supply chains.

**Comments and demonstration of compliance:**

The Company performs identification and assessment of risks in the supply chain. Each supplier is assigned a risk level as per the Regulation. A level of risk is assigned for each supply batch.

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

Yes, it does. According to the accepted risk classification, JSC Novosibirsk Refinery performs risk assessment of both gold and silver bearing materials suppliers and each batch of supplies.

**Comments and demonstration of compliance:**

Prior to entering into business relations with any contracting party within gold and silver supply chains, JSC Novosibirsk Refinery verifies whether the contracting party in question is compliant with the LBMA...
Guidance. Given that one of the requirements in the LBMA Guidance is identifying ultimate beneficiaries, JSC Novosibirsk Refinery performs requisite procedures for such identification. In instances where it is impossible to identify an ultimate beneficiary, JSC Novosibirsk Refinery performs additional procedures to make sure that raw materials received from such a supplier are not a result of criminal acts, not connected with a breach of law or violation of human rights. The Company also thoroughly analyses and monitors corresponding transactions when maintaining its supplier relationships. In 2018, JSC Novosibirsk Refinery had no transactions with contracting parties categorised as exposed to a high risk. This said, every single batch of supplies is separately assigned a risk level. No supply batch is released to production if it is assigned a level of risk other than a low risk.

**Does the Refiner report risk assessment to designated manager?**

Yes, it does. The Company performs, on an annual basis, verification of the system based on which a corresponding report is produced. This report is subject to approval by the General Director of JSC Novosibirsk Refinery.

**Comments and demonstration of compliance:**

The before mentioned report includes information as to whether the system complies with the LBMA Guidance requirements and the management’s response to this. Senior management ultimately exercises control and bears responsibility for the gold and silver supply chain.

**Stage 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?**

Yes, it has. If an elevated or high risk is identified in the supply chain, JSC Novosibirsk Refinery will undertake steps to mitigate the risk. All operations involving receipt of raw materials from a supplier at risk are to be suspended until the level of risk is mitigated.

If a risk remains elevated or high, the material in question is returned to the supplier.

**Comments and demonstration of compliance:**

A detailed risk assessment and management policy according to the LBMA Guidance was pursued throughout the entire reporting period. It contains a methodology for supplier classification according to level of risk and corresponding risk management tools (i.e., exiting from an area of risk by means of collecting additional information in order to confirm or deny a prospect of adverse implications of a risk, or discontinuing relations with suppliers bearing risk factors and/or sources of risk).

**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.**

During the reporting year, management performed a review of gold and silver supplies with the levels of risk initially identified as other than remote, and no irregularities in the submitted risk mitigation documents were identified, so that the final risk assessment was done as remote risk.

**Comments and demonstration of compliance:**

Corresponding procedures were implemented in accordance with the detailed risk assessment and management policy, and such procedures have been applied in a proper way, where applicable. JSC Novosibirsk Refinery does not conduct operations with suppliers whose risk levels were assessed as elevated or high. In regards to suppliers whose risk levels were assessed as elevated, JSC Novosibirsk Refinery performs additional procedures to reduce their risks to a remote level. Summaries of the functioning of the risk assessment system are reported to the manager in charge.

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

JSC Novosibirsk Refinery holds a contract with JSC PricewaterhouseCoopers Audit for performing independent audits.

**Comments and demonstration of compliance:**

The requirement of performing independent audits is in full compliance.
The independent auditor's report will be published on the official website of JSC Novosibirsk Refinery at http://affinaz.ru/.

Stage 5: Report supply chain due diligence

Compliance statement with requirement:
We are in compliance with Stage 5 requirements: “Report supply chain due diligence”. An audit of JSC Novosibirsk Refinery's Responsible Practices Policy of Precious Metals Shipments compliance by an independent party was completed within the deadline recommended by LBMA.

The independent auditor's report will be published on the official website of JSC Novosibirsk Refinery http://affinaz.ru/.

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

<table>
<thead>
<tr>
<th>Step of Framework</th>
<th>Rating</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1 Establish strong company management systems</td>
<td>Fully compliant</td>
<td>JSC Novosibirsk Refinery has implemented Responsible Practices Policy of Precious Metals Shipments. This Policy is shared by all organisations that supply gold and silver bearing materials to JSC Novosibirsk Refinery.</td>
</tr>
<tr>
<td>Step 2 Identify and assess risk in the supply chain</td>
<td>Fully compliant</td>
<td>JSC Novosibirsk Refinery has implemented Regulation. The Regulation defines and governs JSC Novosibirsk Refinery employees' activities to conduct requisite inspection and review in regards to both the contracting parties supplying gold and silver bearing materials and specific batches of the supplies.</td>
</tr>
<tr>
<td>Step 3 Design and implement a management strategy to respond to identified risks</td>
<td>Fully compliant</td>
<td>JSC Novosibirsk Refinery has put in place classification of risk levels in gold and silver bearing materials supply chains.</td>
</tr>
<tr>
<td>Step 4 Arrange for an independent third-party audit of the supply chain due diligence</td>
<td>Fully compliant</td>
<td>JSC Novosibirsk Refinery holds a contract with JSC PricewaterhouseCoopers Audit for performing an independent audit.</td>
</tr>
<tr>
<td>Step 5 Report on responsible supply chain due diligence</td>
<td>Fully compliant</td>
<td>All requisite reports have been prepared.</td>
</tr>
</tbody>
</table>

Is the Refiner in compliance with the requirements of the LBMA Guidance for the reporting period?

JSC Novosibirsk Refinery fully complied with the requirements of the LBMA Guidance during the reporting period.

Conclusion: JSC Novosibirsk Refinery has implemented efficient management systems, procedures and processes to ensure full compliance with the LBMA Guidance for the whole reporting year ended 31 December 2018, as described in Table 3.

JSC Novosibirsk Refinery has been improving its activities on a continuous basis. Implementation of all the required correcting actions will be controlled and monitored directly by JSC Novosibirsk Refinery management on a regular basis.
Table 4 – Other report’s comments

If users of this report are willing to present their feedback or comments for consideration by JSC Novosibirsk Refinery’s management, they can send their feedback or comments electronically to the following address: mail@affinaz.ru.

General Director, JSC Novosibirsk Refinery

A. V. Ergin