Limited Liability Partnership
“Kazakhmys Smelting”

Compliance Report for the London Bullion Market Association’s Responsible Silver Guidance for the year ended 31 December 2018
To the management of Kazakhmys Smelting Limited Liability Partnership


We were engaged by “Kazakhmys Smelting” LLP (hereinafter the – “Refiner”) to provide reasonable assurance on their Compliance Report for the London Bullion Market Association’s Responsible Silver Guidance (the “Responsible Silver Guidance”) for the year ended 31 December 2018 (the “Compliance Report”).

Scope and Subject Matter Information

Our engagement was performed with the objective of providing a conclusion on whether the assertions made by management, in their Compliance Report for the year ended 31 December 2018 with respect to the activities undertaken to demonstrate compliance with the Responsible Silver Guidance, are fairly presented.

The Responsible Silver Guidance comprises the criteria by which “Kazakhmys Smelting” LLP has measured and reported their level of compliance to the Responsible Silver Guidance and this was used for the purposes of evaluating management’s assertions.

Management’s Responsibilities for the Subject Matter

The management of “Kazakhmys Smelting” LLP is responsible for the preparation and presentation of the Compliance Report for the year ended 31 December 2018 in accordance with the Responsible Silver Guidance. This responsibility includes establishing appropriate risk management and internal controls from which the reported information is derived, and for such internal control as the directors determine is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error. The criteria identified by the management as relevant for demonstrating compliance with the Guidance are the activities described within the Refiner’s Compliance Report.

Auditor’s Responsibility

Our responsibility is to carry out a reasonable assurance engagement in order to express a conclusion based on the work performed on the assertions made by management in the Compliance Report for the year ended 31 December 2018 with respect to the activities undertaken to demonstrate the level of compliance with the Responsible Silver Guidance.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other Than Audits or Reviews of Historic Financial Information issued by the International Auditing and Assurance Standards Board and the guidance set out in the LBMA Responsible Silver Programme - Third Party Audit Guidance for ISAE 3000 Auditors (the Audit Guidance). That standard requires us to comply with ethical requirements and to plan and perform our reasonable assurance engagement to obtain sufficient appropriate evidence on which to base our reasonable assurance conclusion.

We believe that our evidence obtained is sufficient and appropriate to provide a basis for our reasonable assurance conclusion.
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 absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques that can result in materially different measurements and can impact comparability. The methods used by refiners to comply with the Guidance may differ.

Independence and competency statement

The firm applies International Standard on Quality Control (ISQC) 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.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

Emphasis of matter

Without modifying our conclusion, we draw attention to the description of the non-compliance contained within the Refiner’s Compliance Report. This relates to the supply chain due diligence policy and nomination of the Compliance Officer that were implemented by the Refiner to be in line with the Guidance’s requirements subsequent to the period end.

Conclusion

In our opinion, “Kazakhmys Smelting” LLP 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 Silver Guidance.

Restriction on Use

This report has been prepared for “Kazakhmys Smelting” LLP for the purpose of assisting the management in determining whether “Kazakhmys Smelting” LLP has complied with the Responsible Silver Guidance and/or no other purpose. Our assurance report is made solely to “Kazakhmys Smelting” LLP in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than “Kazakhmys Smelting” LLP for our work, or for the conclusions we have reached in the assurance report.

Deloitte LLP

30 April 2020
Almaty, Republic of Kazakhstan
Refiner’s details:

Refiner’s name: “Kazakhmys Smelting” Limited Liability Partnership

Location: 1, Lenin Street, Balkhash, Karaganda Oblast, Kazakhstan, 100300

Reporting year: 2018

Date of report: 30 April 2020

Senior management responsible for this report: Abbas Kamirdinov, LBMA compliance officer.

Step 1: Establish strong company management systems

Compliance Statement with Requirement:

During the reporting year, we have partially complied with Step 1: Establish strong management systems, as we did not have in place an appropriate silver supply chain policy, which is consistent with the model, set out in the Annex II of the Organisation for Economic Cooperation and Development (“OECD”) Due Diligence Guidance and is recommended by the London Bullion Market Association («LBMA»).

Has the Refiner adopted a company policy regarding due diligence for supply chains of silver?

The Refiner is governed by its Charter – The Charter of the Limited Liability Partnership “Kazakhmys Smelting”, approved on 4 October 2017. Our industrial and economic activity is directed on maintenance of steady growth of economic potential and social stability of the Republic of Kazakhstan by means of further increase of raw mineral resources efficiency, increase of highly liquid production and intensive development of new methods of manufacture.

Our strategy and key performance are defined and set by the government of the Republic of Kazakhstan on the annual basis. We comply with the legislation of the Republic of Kazakhstan on anti-money laundering, anti-bribery and corruption, terrorism financing, and instructions provided by the government on storage, accounting and delivery of precious metals within territory and outside of the company.

The legislation of the Republic of Kazakhstan is very strict on import/export of silver and silver containing materials – for example, all companies operating with precious metals shall be included in a special register of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan, and all import/export transactions shall include information on the origin of the precious metals.

We did not establish a separate silver supply chain due diligence policy and instead relied upon the number of internally set policies and instructions, as well as legislation of the Republic of Kazakhstan to ensure that our internal operations were in compliance with the requirements of the Guidance pertaining to Anti-Money Laundering, Terrorist Financing and Human Rights violations.

In 2018, Kazakhmys Smelting has also relied on existing policies such as:
- Instructions on storage, accounting and delivery of precious metals;
- Code of anti-corruption;
- Policy of suppliers assessment;
- Policy of risk management

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

We have existing governance processes, reporting lines, organisational structure that are being used to support the Guidance. For the year ended 31 December 2018, we did not appoint a qualified employee for the role of Compliance Officer. Our existing governance processes, reporting lines, internal audit communication and management procedures are being used to support the Guidance. On 27 March 2020, the Refiner appointed Compliance Officer.
The existing governance structure is used to comply with the Guidance. For instance, in accordance with the established procurement procedures, our Legal Department oversees compliance with anti-money laundering laws, by reviewing the contracts for compliance with the legislation of the Republic of Kazakhstan. Unless compliant, no contract is approved.

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

We established a strong internal system, controls and transparency over the precious metal supply chain, including traceability and identification of other supply chain actors. The stock controls are set as part of the internal transportation process within the silver supply chain. The overall transportation process is performed by departments of Kazakhmys Corporation LLP. The stock controls exist at each of the 3 steps of transportation process: ore and concentrations delivery, semi-finished products delivery and finished products delivery. Each of these steps involves controls such as weighting, reports and reconciliations at each and in between the delivery points. Furthermore, the whole transportation process is performed under direct supervision of Kazakhmys Corporation LLP and its representatives.

We have established a reliable procedure of precious metals production. Before any silver-bearing material can be processed, specific documents such as: subsoil use contract for supplied silver containing materials; charter documents; and Value Added Tax residency certificates, must be obtained and all the transaction details, such as: supplier details; information on the type of silver-bearing material; weight, must be documented. Every lot to be delivered must be supported by the required documents in accordance with the contract terms and conditions. Prior to the material processing, special control measures prescribed by internal instructions, such as review of integrity of packaging, weighing of received lots with attraction of independent parties are taken.

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

We have strengthened company engagement with silver supplying counterparties and informed them of the necessity to conform to the LBMA Responsible Silver Guidance. As per typical contractual terms, the Supplier is obliged to support in performance of due diligence for supply chains of silver, as well as provision of supporting documents on origin of supplied silver and delivery route.

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

We have established a company-wide communication mechanism to promote broad-based employee participation and risk identification to management via different sources. We have Department of Complaints, thus allowing employees to report on any breaches of policies, including, but not limited to, human rights, unfair dismissal, potential bribery etc., directly to the General Director.

Also, we have twenty-four hour hot-line service, where employees can report about any risks and incidents, which happened in the company. The reported risks and incidents, depending on the risk level, are assigned to the relevant managers or even senior management to be resolved.

Step 2: Identify and assess risks in the supply chain

We have fully complied with Step 2: Identify and assess risks in the supply chain. We identify and assess risks in the supply chain through the following steps:

- Identify risks in the silver supply chain. Assess the risk assessment policy for silver supply chain.
- Assess risks in light of the standards of their supply chain due diligence system: supply chain due diligence: review "Policy of Suppliers Assessment" to verify if the Refiner collects the required basic information for all business entities
- Risk assessment reporting. Evaluate the risk assessment reporting mechanisms, organisation chart and communication
Does the Refiner have a process to identify risks in the supply chain?
We have processes to identify risks and assess risks in the supply chain is described in the table below.

<table>
<thead>
<tr>
<th>Steps within identification of risks in the supply chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identify risks</td>
</tr>
<tr>
<td>Risk assessments are always made in connection to new suppliers; significant changes in business or circumstances and at any deviations from normal business procedures or standards. Potential suppliers undergo supplier assessment and self-assessment questionnaire screening.</td>
</tr>
<tr>
<td>2. Gain knowledge</td>
</tr>
<tr>
<td>In order to obtain updated knowledge about the performance of the suppliers, we use self-assessment questionnaire in electronic document management system.</td>
</tr>
<tr>
<td>2.1. Check of commercial reliability of the counterparty</td>
</tr>
<tr>
<td>The authorized specialist of the Department of Internal Audit ensures that contractors are checked for exclusion of blocking from the site electronic bidding, due to the presence of negative information, as well as their presence in the register of counterparties of the &quot;risk counterparties&quot; module. Also performs search in official government website for the negative information about the potential supplier, in &quot;ERAF&quot; database for the presence of payables in order to further verify the reasons of their liabilities.</td>
</tr>
<tr>
<td>2.2. Check of business reputation</td>
</tr>
<tr>
<td>The potential supplier in the self-assessment questionnaire lists at least 3 counterparties in order the specialist of the Department of Internal Audit to obtain feedback about the business reputation of potential contractor, through a phone call or email.</td>
</tr>
<tr>
<td>2.3. Check of information</td>
</tr>
<tr>
<td>Perform check on validity and authenticity of the information in the submitted documents by the potential supplier through data of justice authorities, official government websites, licensees and other organisations that issued the relevant document.</td>
</tr>
<tr>
<td>3. Documentation</td>
</tr>
<tr>
<td>All documentation concerning evaluation of suppliers are stored and available internally in the register's module &quot;Verified Counterparties&quot;</td>
</tr>
</tbody>
</table>

The above stated processes are based on an assessment of company and commodity risks, as follows:

**Country risk:** Country risk is minimal as silver bearing materials supplies to the Refinery are from the Republic of Kazakhstan.

**Company risk:** There is a minimum company risk, as all processing and smelting facilities belong to the company, and all sources of silver bearing materials and transportation chain are controlled by Kazakhmys Corporation LLP. Moreover, Kazakhmys Corporation LLP purchases copper concentrates with low level of silver content from which silver is extracted through processing solely by the company.

For a company to obtain a mining license in the Republic of Kazakhstan, background checks are carried out on the company and its directors. Therefore, the company relies on the fact that these checks have been conducted if the non-company silver-bearing material suppliers have valid mining licenses.

**Commodity risk:** During transportation of ore, semi-finished and finished products a number of controls such as special report forms, which are reconciled at each transportation point, ore and goods weighting are introduced. Control over transportation is performed by the Kazakhmys Corporation LLP. At long distances between loading and unloading point of raw materials and finished goods transportation is carried out by a state carrier and is controlled by security officers and security organisations.
Raw materials are uploaded and then delivered to railways for transportation to the Refinery. At each stage of unloading and uploading there are special certified scales, which are subject to certification every 3 years, using which the transported ore is weighted and Special Act is signed. At each stage of transportation, a separate Special Act is signed and weight of ore is reconciled back to the Special Act signed at the previous stage of transportation. The whole process is also controlled by the specialist, who makes sure that no raw materials are left on this storage area at the end of shift.

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

We assess risks based on the existing corporate standards and based on Responsible Silver and Silver Supply Chain Due Diligence Policy.

Supply chain due diligence comprising all measures required by the LBMA Responsible Silver Guidance is performed before entering into a business relationship with any counterpart. On an ongoing basis counterparts are monitored.

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

During the reporting period the Compliance officer has not been assigned. However, in line with the governance structures set up for the Guidance, heads of departments will be made aware of any issues related to the contracting process, supporting documentation or any other processes within the silver chain. Heads of departments report directly to the senior management of the company.

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

We have fully complied with Step 3: Design and implement a management system to respond to identified risks. We implement Policy of suppliers' assessment and document the result of the assessment in the register's module "Verified counteragents".

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

Kazakhmys Smelting LLP has adopted Policy of suppliers' assessment for the screening purposes on identifying risks in the supply chain. The screening allows us to manage risk through rigorous risk assessment of all suppliers. In case of risk identification, the supplier is included into the module “Risky counteragent” after which we mitigate risk by disengagement.

**Where a management strategy of risk mitigation is undertaken, it should include measurable steps to be taken and achieved, monitoring of performance, periodic reassessment of risk and regular reporting to designated senior management.**

Corresponding procedures are in place and are applied accordingly. In case our risk assessment identifies high risk criteria, we actively approach our supplier to receive further information. If we cannot mitigate our risk assessment, the decision of closing the business relationship could be taken.

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

We have fully complied with Step 4: Arrange for an independent third-party audit of the supply chain due diligence.

The company engaged the services of the assurance provider Deloitte LLP, and its independent reasonable assurance report will be published on the official corporate web-site: [www.kazakhmys.kz](http://www.kazakhmys.kz).
Step 5: Report on supply chain due diligence

We have partially complied with Step 5. For the year ended 31 December 2018, we did not establish a separate silver supply chain due diligence policy and instead relied upon the number of existing policies and instructions. On 3 March 2020 the supply chain due diligence policy was approved.

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

Yes

In conclusion, the company has implemented effective management systems, procedures, processes and practices to conform to the requirements of the LBMA Responsible Silver Guidance.

The company is committed to continuous improvement, and any corrective actions identified will be monitored internally on a regular basis.

However, as at 31 December 2018 the company did not approve a silver supply chain due diligence policy and did not appoint Compliance Officer in accordance with the LBMA Responsible Silver Guidance.

The management of the company is taking corrective actions, subsequent to the reporting date to be in line with the Guidance’s requirements. On 3 March 2020 the supply chain due diligence policy was approved. On 27 March 2020 Compliance Officer was appointed in accordance with LBMA Responsible Silver Guidance.

Other report comments

If users of this report wish to provide any feedback to the company with respect to this report, they can send an e-mail to office@kazakhmys.kz

Adilet Nazarbayevich Barmenkulov

General Director,
"Kazakhmys Smelting" LLP