
***Joint Stock Company Moscow Special
Alloys Processing Plant***

Independent Reasonable Assurance Report
(ISAE 3000 (revised) 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 Moscow Special Alloys Processing Plant:

We were engaged by Joint-Stock Company Moscow Special Alloys Processing Plant (“MZSS” / “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 (“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 (“the Audit Guidance”).

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

Restriction of use

Our reasonable assurance report is made solely to MZSS in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than MZSS 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 supply chain in place;
- Inquiries of the relevant staff responsible for the preparation of the MZSS 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 MZSS 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 MZSS Refiner's Compliance Report; and
- Reviewing the presentation of the MZSS 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 Gold Supply chain management guidance in Federal State Unitary Enterprise Moscow Special Alloys Processing Plant adopted on 8 April 2015¹.

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 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.

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 MZSS 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.

AO PricewaterhouseCoopers Audit
28 March 2019
Moscow, Russian Federation



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

Audited entity: Joint-Stock Company Moscow Special Alloys Processing Plant

Certificate of inclusion in the Unified State Register of Legal Entities issued on 29 March 2018 under registration № 1187746360141

117246, Moscow, ulitsa Obrucheva, 31

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

Table 1 – Refiner's details	
Refiner's name	Joint Stock Company Moscow Special Alloys Processing Plant ("MZSS")
Location	31 Ul. Obrucheva, Moscow 117246, Russia
Reporting year-end	31 December 2018
Date of report	28 March 2019
Senior management responsible for this report	Sergo Gabuchia, Senior technologist

Table 2 – Summary of activities undertaken to demonstrate compliance
Step 1: Establish strong company management systems
<p>Compliance statement with requirement:</p> <p>MZSS (hereinafter – “the Company” or “Refiner”) has fully complied with Step 1: “Establish strong company management systems”. For more detail see below.</p>
<p>Has the Refiner adopted a Company policy regarding due diligence for supply chains of gold?</p> <p>The Company has adopted a Responsible Gold system regulation regarding due diligence for supply chains of precious metal.</p> <p>Comments and demonstration of compliance:</p> <p>In order to bring the gold supply chain management to full compliance with the London Bullion Market Association (hereinafter – “LBMA”) Responsible Gold Guidance (hereinafter – “the LBMA Guidance”), the Company developed and adopted the Gold supply chain management guidance (hereinafter - “the MZSS Guidance”) on 8 April 2015. The MZSS Guidance is aimed at providing reliable selection and evaluation of suppliers in order to minimize risks of direct or indirect contribution to conflict or other forms of human rights abuse. The MZSS Guidance covers all items required by the LBMA Guidance requirements, i.e.:</p> <ol style="list-style-type: none"> a. Scope; b. Organization and responsibilities; c. Criteria for high-risk gold supply chain; d. Supply chain due diligence, inclusive of the Know Your Customer process; e. Monitoring of transactions; f. Maintaining records; g. Training
<p>Has the Refiner set up an internal management structure to support supply chain due diligence?</p> <p>The Company has set up the internal management structure together with implementation of the Responsible Gold system regulation to support supply chain due diligence.</p> <p>Comments and demonstration of compliance:</p> <p>LBMA internal management structure requirements to support supply chain due diligence, including</p>

governance, roles and responsibilities, communication and senior manager review, were confirmed in the MZSS Guidance. A person responsible with the necessary competence, knowledge and experience to oversee the supply chain due diligence process and reporting directly to the representative of gold supply chain management was assigned by the order N206 on 8 April 2015.

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?

The Company has established a strong internal system of due diligence, controls and transparency over gold supply chains, including traceability and identification of other supply chain actors.

Comments and demonstration of compliance:

The Company has a robust raw materials supply management system. Prior to assaying and processing gold bearing materials, the Company's responsible employees obtain supporting documentation and enter data into the electronic data management system. Special control procedures, in accordance with internal policies and regulations related to raw materials received, are executed before their refining. Also heads of the relevant departments conduct trainings for new employees. Existing employees take the training once in three years, depending on the risk level and the nature of work. The Compliance officer, responsible for all matters regarding the gold supply chain, has been formally assigned. These control procedures were in operation and adhered to during 2018.

In April 2015 the Company issued the MZSS Guidance. In accordance with the MZSS Guidance, the following documents are to be additionally included into the supplier's profile:

- confirmations in writing of gold supplier's compliance with LBMA requirements, including confirmation of non-involvement in any money-laundering, terrorism financing and/or human rights abuse activities, for all suppliers;
- KYC questionnaire using the form recommended by LBMA.

Due to collection of KYC questionnaires in 2018 client identification process became as effective as planned and contributed to the quality of due diligence process.

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

The Company has strengthened engagement with the counterparties in the gold supply chain, and where possible, assisted those counterparties in building their due diligence capacities.

Comments and Demonstration of Compliance:

In 2018 the Company followed the defined supplier identification process which included due diligence of gold supply chain. The Company sends KYC questionnaire using LBMA recommended pro-forma and collects replies in writing from gold suppliers about their compliance with LBMA requirements, including confirmation of non-involvement in activities related to money-laundering, financing terrorism and/or human rights abuse.

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

The Company has established a company-wide communication mechanism to promote broad-based employee participation and risk identification to management.

Comments and demonstration of compliance:

The Company has internal communication system designed to allow employees to voice their concerns

about gold supply chain or relevant risks. This system of internal communication was refined through the implementation of MZSS Guidance. The special working mailbox has been installed in the office of the Company and all incoming messages regarding compliance with MZSS Guidance are reviewed by responsible person – Compliance officer.

Step 2: Identify and assess risks in the supply chain

Compliance statement with requirement:

The Company has fully complied with Step 2: “Identify and assess risk in the supply chain”.

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

MZSS has a process to identify risks in the supply chain.

Comments and demonstration of compliance:

The process of risk identification and assessment in regards to gold supply chain is described in the MZSS Guidance. This process is now a formal requirement before entering any business relationships with a gold supplying counterparty.

For every supplier the Company creates a client file, adds required documents and allocates a risk profile according to the risk assessment criteria determined in the MZSS Guidance. In the process of counterparties’ assessment, the responsible employees take into account geographical location of suppliers, information from public sources (mass media, internet). The employees of the responsible department carry out a research of potential suppliers, the activities of which can be associated with risk factors.

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

MZSS assesses risks in light of the standards of its Gold Supply Chain Guidance.

Comments and demonstration of compliance:

Supply chain due diligence comprising measures required by the LBMA Guidance is performed before entering into a business relationship with any gold supplying counterparty. Due diligence and supplier identification processes defined in the MZSS Guidance were carried out each time the Company was engaging in business relationships with new 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. The Company performed procedures as part of gold supply chains due diligence process in order to identify beneficial owners and check that the counterparty and their beneficial owners were not named on any government lists for wanted money launders, known fraudsters or terrorists. All necessary procedures for gold origin identification were carried out according to reasonable and good faith efforts to ensure that all gold was mined or produced in Russian Federation and no imported raw materials were processed in 2018. As a result of procedures performed, the Company came to a conclusion that there were no transactions with high or medium risk and no gold from conflict-affected areas was identified.

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

The Company reports risk assessment to the risk manager.

Comments and demonstration of compliance:

Compliance officer submits annual report with commentary to the member of executive management responsible for supply chain management (Commercial director). The report contains information regarding supply chain’s compliance with the applicable provisions of the LBMA Guidance 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:

The Company has fully 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?

The Company has 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:

A Risk Management Plan for the Company has been prepared and put into practice. The plan lists risk factors as well as appropriate procedures to address them.

The MZSS Guidance includes segregation of all suppliers by the risk and control mechanism in the following way:

Level of risk	Strategy
Low	Commencement or continuation of cooperation
Moderate	Commencement or continuation of cooperation after mitigating the potential impact of the identified risks
High	Suspension of cooperation while mitigating the identified risks by obtaining additional information or termination of cooperation

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.

MZSS takes measurable steps in its management strategy, which include monitoring of performance, periodic reassessment of risk and regular reporting to the senior management.

Comments and demonstration of compliance:

The robust strategy for risk management and mitigation was implemented together with the adoption of the MZSS Guidance on 8 April 2015. There were no high and medium 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 fully 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 MZSS is to issue Refiner's Compliance Report and 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. The Independent third party reasonable assurance report will be published on www.mzss.ru.

Step 5: Report on supply chain due diligence

Compliance statement with requirement:

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

Comments and demonstration of compliance:

MZSS Compliance Report was prepared on time meeting requirement of LBMA.

Further information and specific details on how MZSS's systems, procedures, processes and controls have been implemented to align to the specific requirements in the LBMA Guidance have been set out in our MZSS Guidance, which is available on our website www.mzss.ru.

Table 3 – Management conclusion

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

Compliant with low-risk deviations

Comments

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 described above.

MZSS is committed to continuous improvement and all corrective actions required will be monitored internally on a regular basis.

Table 4 – Other reports comments

If users of this report wish to provide any feedback to MZSS with respect to this report, they can contact us through email at info@mzss.ru

Commercial director

S. Kovgan

Senior technologist

S. Gabuchia

