

## **JSC Novosibirsk Refinery**

Independent Reasonable Assurance Report  
(ISAE 3000 engagements)  
on the Refiner's Compliance Report  
for the year ended 31 December 2016



## **Independent Reasonable Assurance Report to Joint Stock Company Novosibirsk Refinery ("Novosibirsk Refinery"/the "Company")**

To the management of Joint Stock Company Novosibirsk Refinery:

We were engaged by Novosibirsk Refinery to provide reasonable assurance on its Refiner's Compliance Report for the year ended 31 December 2016.

### *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 LBMA Responsible Gold Guidance (the "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 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 Guidance. We conducted our engagement in accordance with the International Standard on Assurance Engagements ("ISAE") 3000 "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 Novosibirsk Refinery for the purpose of assisting management in determining whether Novosibirsk Refinery has complied with the Guidance and for no other purpose.

### *Restriction of use*

Our reasonable assurance report is made solely to 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.



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*Subject matter*

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

Our reasonable assurance engagement included the following:

- inquiries with management to gain an understanding of the Company's processes and risk management procedures around the gold supply chain in place;
- inquiries with 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 Responsible Gold Guidance;
- 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 Guidance may differ. It is important to read Novosibirsk Refinery's *Gold supply chain policy* amended on 25 September 2012.

*Independence 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, 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 Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our assurance procedures over Subject matter in the Russian Federation.

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.

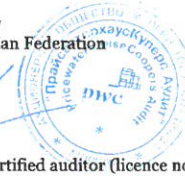


*Opinion*

In our opinion, the Novosibirsk Refinery Refiner's Compliance Report for the year ended 31 December 2016 describes fairly, in all material respects, 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*

29 March 2017  
Moscow, Russian Federation



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

Audited entity: JSC Novosibirsk Refinery

Certificate of inclusion in the Unified State Register of Legal Entities issued on 6 August 2010 under registration № 7105476847029

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 № 1027700143431

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

ORNZ 11603050547 in the register of auditors and audit organizations

## Refiner's Compliance Report

Table 1 – Refiner's details	
Refiner's name	JointStock Company Novosibirsk Refinery
Location	Novosibirsk, Russia
Reporting year-end	31 December 2016
Date of Report	29 March 2017
Senior management responsible for this report	Kobzev Dmitry Vladimirovich, General Director

### 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, "AO NAZ", "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?

Yes, it has. In September 2012, AO NAZ 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 Policy was developed in accordance with LBMA requirements.

##### Comments and demonstration of compliance:

AO NAZ's Gold Supply Chain Policy is presented on the official website of the Company <http://affinaz.ru/>.

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

Yes, it has. AO NAZ has been maintaining a duly approved internal management structure that ensures a System for Gold Supply Chain (hereinafter, "the System"), which defines the competencies, duties and responsibilities of AO NAZ personnel in regards to control and monitoring of gold supply. The aforementioned structure was approved by the Company's General Director in the "Regulation on the System for Gold Supply Chain" (hereinafter, "the Regulation").

##### Comments and demonstration of compliance:

An organisational structure to monitor 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 gold supply chain compliance.

##### 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?

Yes, it has. AO NAZ has, in accordance with both the LBMA Guidance and AO NAZ's Gold Supply Chain Policy, developed and put into effect a Regulation that supports the aforementioned System. This Regulation defines and governs AO NAZ employees' activities to conduct requisite inspections and review both the contracting parties supplying gold-bearing rock and specific batches of the supplies.

##### Comments and demonstration of compliance:

AO NAZ has put in place a requisite process for managing raw material supplies. For the purposes of assaying and processing precious metal-containing materials, AO NAZ 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 2016.

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

Yes, it has. The contract with suppliers of gold for provision of refining services includes a clause on the System. If the aforementioned clause is not included in the contract, AO NAZ shall receive a written confirmation from the supplier, whereby they confirm their consent to both the principles of AO NAZ's policies and the principles set forth in the LBMA Responsible Gold Guidance.

Gold-bearing rock/raw materials are only accepted for refining if the supplier fully complies the Company's Gold Supply Chain Policy on responsible handling of gold and explicitly express their consent to the aforementioned Policy.

During the reporting period, AO NAZ provided (wherever applicable) their suppliers with assistance in performing expert appraisal of gold-bearing rock supply chains.

##### Comments and demonstration of compliance:

AO NAZ'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. AO NAZ 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 the General Director, Chief Accountant or Head of the Raw Material Supplies Department (phone numbers are placed on the official website of AO NAZ at <http://affinaz.ru/>). In addition, a list of in-house phone numbers of the aforementioned managers is available at the gatekeeper's office of the Company. Any person can use the phone, including persons without access to AO NAZ'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, AO NAZ has put in place a classification of risk levels in gold supply chains.

##### Comment 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, AO NAZ performs risk assessment of both gold-bearing rock suppliers and each batch of supplies.

**Comments and demonstration of compliance:**

Prior to entering into business relations with any contracting party within gold supply chains, AO NAZ 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, AO NAZ performs requisite procedures for such identification. In instances where it is impossible to identify an ultimate beneficiary, AO NAZ 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 2016, AO NAZ 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 a quarterly basis, verification of the System based on which, a corresponding report is produced. This report is subject to approval by the General Director of AO NAZ.

**Comments and demonstration of compliance:**

The aforementioned 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 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, AO NAZ 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 gold 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 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. AO NAZ 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, AO NAZ 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**

AO NAZ holds a contract with AO PricewaterhouseCoopers Audit for performing independent audits. Audit is now in process.

**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 AO NAZ at <http://affnaz.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 AO NAZ Gold Supply Chain 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 AO NAZ <http://affnaz.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	Fully compliant	AO NAZ has implemented Gold Supply Chain Policy on responsible handling of gold. This policy is shared by all organisations that supply gold-bearing rock to AO NAZ.
Step 2 Identify and assess risk in the supply chain	Fully compliant	AO NAZ has implemented Regulation. The Regulation defines and governs AO NAZ employees' activities to conduct requisite inspection and review in regards to both the contracting parties supplying gold-bearing rock and specific batches of the supplies.
Step 3 Design and implement a management strategy to respond to identified risks	Fully compliant	AO NAZ has put in place classification of risk levels in gold-bearing rock supply chains.
Step 4 Arrange for an independent third-party audit of the supply chain due diligence	Fully compliant	AO NAZ holds a contract with AO PricewaterhouseCoopers Audit for performing an independent audit.
Step 5 Report on responsible supply chain due diligence	Fully compliant	All requisite reports have been prepared.

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

AO NAZ fully complied with the requirements of the LBMA Guidance during the reporting period.

Conclusion: AO NAZ has implemented efficient management systems, procedures and processes to ensure full compliance with the LBMA Guidance for the whole reporting year ended 31 December 2016, as described in Table 3.

AO NAZ has been improving its activities on a continuous basis. Implementation of all the required correcting actions will be controlled and monitored directly by AO NAZ 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 AO NAZ's management, they can send their feedback or comments electronically to the following address: [mail@affnaz.ru](mailto:mail@affnaz.ru).



General Director, AO NAZ

Dmitry V. Kolzev