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***ОАО Крастsvetmet***

Independent Reasonable Assurance Report  
(ISAE 3000 engagements)  
on the Refiner's Compliance Report  
for the year ended 31 December 2017





## *Independent Reasonable Assurance Report*

To the management of Open Joint Stock Company Krastsvetmet:

We were engaged by Krastsvetmet (“the Company”) to provide reasonable assurance on its Refiner’s Compliance Report for the year ended 31 December 2017.

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### *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 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.

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### *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 “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 Krastsvetmet for assisting management in determining whether Krastsvetmet has complied with the LBMA Guidance and for no other purpose.

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### *Restriction of use*

Our reasonable assurance report is made solely to Krastsvetmet in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than Krastsvetmet 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 Krastsvetmet 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;
- Performing a walkthrough of the Krastsvetmet 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 Krastsvetmet Refiner's Compliance Report; and
- Reviewing the presentation of the Krastsvetmet 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 Krastsvetmet's gold supply chain policy, adopted on 28 November 2013<sup>1</sup>.

### *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, 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 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.

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<sup>1</sup> 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 2017, 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*

31 March 2018  
Moscow, Russian Federation

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



Audited entity: Joint-Stock Company "Kratsvetmet"

State registration certificate №187 issued by the Krasnoyarsk  
Registration Chamber on 27 December 1994

Certificate of inclusion in the Unified State Register of Legal Entities  
issued on 1 August 2002 under registration № 1022402056324

660027, Krasnoyarsk, Transportny Proezd, 1.

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	Open Joint Stock Company Krastsvetmet
Location	Russian Federation, Krasnoyarsk
Reporting year-end	31 December 2017
Date of Report	31 March 2018
Senior management responsible for this report	Belov Sergey Valentinovich, Deputy Director General of refining

Table 2 – Summary of activities undertaken to demonstrate compliance
<b>Step 1: Establish strong company management systems</b>
<p><b>Compliance statement with requirement:</b>            OAO Krastsvetmet (“the Company” or “the Refiner”) fully complied with Step 1: “Establish strong company management systems”. For more details, please refer below.</p>
<p><b>Has the Refiner adopted a Company policy regarding due diligence for supply chains of gold?</b>            Yes. The refiner has adopted a Company policy regarding due diligence for supply chains of gold.</p> <p><b>Comments and demonstration of compliance:</b>            The Company used during the whole reporting period the formal Guidance for management of supply chains of gold and precious metals (“the Krastsvetmet Guidance”) which was created in accordance with the requirements of the London Bullion Market Association (“LBMA”) Responsible Gold Guidance (“the LBMA Guidance”) regarding due diligence of supply chains of gold.</p>
<p><b>Has the Refiner set up an internal management structure to support supply chain due diligence?</b>            Yes. The Refiner has set up an internal management structure to support supply chain due diligence.</p> <p><b>Comments and demonstration of compliance:</b>            Internal management structure was used during the whole reporting period to support supply chain due diligence. Proper resources were assigned and relevant training was provided to staff on regular basis. The compliance officer was assigned to manage the process.</p>
<p><b>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?</b>            Yes. The Refiner 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.</p> <p><b>Comments and demonstration of compliance:</b>            The Company has a robust raw materials supply management system. Prior to the testing and processing of materials containing precious metals, responsible employees of the Company obtain supporting documentation and post data into the electronic data management system of the Company. All information relating to the received materials is subject to special verification and control activities in accordance with the existing policies and procedures, which have to be successfully completed prior to material being admitted for refining. These procedures existed and were adhered to in 2017.</p>
<p><b>Has the Refiner strengthened company engagement with gold-supplying counterparties and, where possible, assisted gold-supplying counterparties in building due diligence capacities?</b>            Yes. The Refiner has strengthened engagement with the counterparties in the gold supply chain, and where possible, assisted those counterparties in building their due diligence capacities.</p> <p><b>Comments and Demonstration of Compliance:</b>            OAO Krastsvetmet developed a comprehensive supplier identification process. The supplier agreements with the Company request that the counterparties confirm that they are not involved in activities related to money laundering, financing terrorism and human rights abuse.</p>
<p><b>Has the Refiner established a company-wide communication mechanism to promote broad employee participation and risk identification to management?</b>            Yes. The Refiner has established a company-wide communication mechanism to promote broad-based employee participation and risk identification to management.</p> <p><b>Comments and demonstration of compliance:</b>            The Company developed internal communication system designed to allow employees to voice their concerns in relation to the gold and precious metals supply chain, or newly identified risk.            Should the employee suspect the non-compliance with the combating terrorism and money laundering policies and procedures, he or she sends this information to the e-mail <a href="mailto:dmcc@krastsvetmet.ru">dmcc@krastsvetmet.ru</a>, which is anonymous, and is monitored by an employee of the security department (assets protection department); this person would double check the information.            Upon confirmation of the facts, the employee of the security department contacts risk officer of the department dealing with the respective counterparty. Further compliance officer informs the management in charge for decision</p>

making.
<b>Step 2: Identify and assess risk in the supply chain</b>
<p><b>Compliance statement with requirement:</b> We have fully complied with Step 2: Identify and assess risk in the supply chain.</p>
<p><b>Does the Refiner have a process to identify risks in the supply chain?</b> Yes. The Refiner has process to identify risks in the gold supply chain.</p> <p><b>Comments and demonstration of compliance:</b> The Company identified and assessed risks in the supply chain. Every supplier is assigned a risk rating in accordance with the risk rating criteria. The Company uses the Krastsvetmet Guidance before entering any business relationship with each counterpart in the gold supply chain.</p>
<p><b>Does the Refiner assess risks in light of the standards of their due diligence system?</b> Yes. The Refiner assesses risks in light of the standards of their supply chain due diligence system.</p> <p><b>Comments and demonstration of compliance:</b> Prior to engaging with any supplier in the gold supply chain, the Company performs supplier due diligence activities, including all activities required by the LBMA Guidance. The Company also conducts appropriate scrutiny and monitoring of transactions undertaken through the course of the relationship. The Company did not enter into any transactions with high-risk suppliers during 2017.</p>
<p><b>Does the Refiner report risk assessment to the designated manager?</b> Yes. The Company reports on the results of the risk assessment to the responsible person – member of executive management responsible for supply chain management.</p> <p><b>Comments and demonstration of compliance:</b> Risk officer submits annual report with commentary to the member of executive management responsible for supply chain management. The report contains information regarding supply chain's compliance with the applicable provisions of the LBMA Guidance and measures taken to address exceptions if any. Senior management retains ultimate control and responsibility for the gold and precious metals supply chain.</p>
<b>Step 3: Design and implement a management strategy to respond to identified risks</b>
<p><b>Compliance statement with requirement:</b> We have fully complied with Step 3: Design and implement a management strategy to respond to identified risks.</p>
<p><b>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?</b> Yes.</p> <p><b>Comments and Demonstration of compliance:</b> A detailed risk assessment and management policy in line with the LBMA Guidance was used during the whole reporting period. It contains methodology of segregation of all suppliers by the risk and control mechanism as follows: (i) mitigation of the risk while continuing trade, (ii) mitigation of the risk while suspending trade or (iii) disengagement from the risk by obtaining additional information/data confirming or refuting the adverse or disengage from the red-flagged company and/or sources of the risk.</p>
<p><b>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.</b></p> <p><b>Comments and demonstration of compliance:</b> The respective procedures are in place and where and when necessary appropriately applied. The Company maintains and updates profiles for each of the supplier and designates risk ratings in accordance with Krastsvetmet Guidance. The Company does not enter into transactions with high-risk suppliers and additional procedures are performed for medium-risk ones. The overall performance of the risk management system is reported to the relevant senior management representative. According to LBMA Guidance, the Refiner must obtains information about ultimate beneficial owners, who holds 25% or more of the share capital in any corporate entity before entering into business relationship. The Refiner did not obtain information about ultimate beneficial owners of some companies directly from them and obtained information about only foreign intermediate owners (holding companies). Thus the Company conducted alternative procedures and identified ultimate beneficial owners using other sources. The Company also checked gold-bearing raw materials and obtained evidence that it is not relating to conflict regions. The Refiner assigned low risk for this deviation in accordance with the risk rating criteria stated in LBMA Guidance.</p>
<b>Step 4: Arrange for an independent third-party audit of the supply chain due diligence</b>
<p><b>Compliance statement with requirement:</b> We have fully complied with Step 4: Arrange for an independent third-party audit of the supply chain due diligence.</p>

**Comments and demonstration of compliance:**

Krastsvetmet engaged the services of the assurance provider AO PricewaterhouseCoopers Audit, and their independent reasonable assurance report can be viewed on [www.krastsvetmet.ru](http://www.krastsvetmet.ru)

**Step 5: Report supply chain due diligence****Compliance statement with requirement:**

We have fully complied with Step 5: Report supply chain due diligence.

Further information and specific details of how Krastsvetmet'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 gold supply chain policy, which is available on our company website [www.krastsvetmet.ru](http://www.krastsvetmet.ru)

**Table 3 – Management conclusion**

Step of Framework	Rating	Comments
Step 1 Establish strong company management systems	Fully compliant	The Company performed procedures for establishing strong company management systems.
Step 2 Identify and assess risk in the supply chain	Fully compliant	The Company developed and implemented the policy for risk identification and assessment in the gold supply chain, which was in place during the whole 2017 year.
Step 3 Design and implement a management strategy to respond to identified risks	Compliant with low risk rating deviation	Management strategy to respond identified risks was adopted and was in place during the whole 2017 year.  The Company identified ultimate beneficial owners of some companies from external sources. It was confirmed that the ultimate beneficial owners are not included in Rosfinmonitoring's list of terrorists; gold-bearing raw materials origin is not related to conflict regions. The Company assigned low risk for this deviation in accordance with the risk rating criteria stated in LBMA Guidance.
Step 4 Arrange for an independent third-party audit of the supply chain due diligence	Fully compliant	The Company engaged the services of the assurance provider AO PricewaterhouseCoopers Audit.
Step 5 Report on responsible supply chain due diligence	Fully compliant	All necessary reports are issued.

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

Fully compliant.

In conclusion, OAO Krastsvetmet implemented effective management systems, procedures, processes and practices to fully confirm to the requirements of the LBMA Guidance, as explained in Table above, for the whole reporting year ended 31 December 2017.

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

**Table 4 – Other reports comments**

If users of this report wish to provide any feedback to OAO Krastsvetmet with respect to this report, they can contact us through email on [info@krastvetmet.ru](mailto:info@krastvetmet.ru)

Deputy Director General of refining



S. V. Belov