

Joint Stock Company Krastsvetmet

**Independent Reasonable Assurance Report
(ISAE (revised) 3000 engagements)
on the Refiner's Compliance Report
for the year ended 31 December 2020**



Independent Reasonable Assurance Report

To the management of Joint-Stock Company Krastsvetmet:

Introduction

We were engaged by the Management of Joint-Stock Company Krastsvetmet (hereinafter – the “Company”) to provide reasonable assurance on its Refiner’s Compliance Report for the year ended 31 December 2020 (hereinafter – the “Refiner’s Compliance Report”).

Description of the subject matter and applicable criteria

The Refiner’s Compliance Report prepared in accordance with the London Bullion Market Association (LBMA) Responsible Gold Guidance (Version 8) and Responsible Silver Guidance (Version 1) (together – “the LBMA Guidance”) by the Management of the Company is the subject matter of our engagement for the purposes of preparing our reasonable assurance report. We were engaged to express an opinion as to whether the Refiner’s Compliance Report describes fairly the activities undertaken during the year to demonstrate compliance and that management’s overall conclusion contained therein is in accordance with the LBMA Guidance.

Responsibility of the Management of the Company

The Management of the Company is responsible for the preparation and presentation of the Refiner’s Compliance Report in accordance with the LBMA Guidance. This responsibility includes establishing and maintaining appropriate risk management and internal controls from which the reported information is derived. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant to the preparation of the Refiner’s Compliance Report that is free from material misstatement, whether due to fraud or error. The information in relation to the activities described within the Refiner’s Compliance Report is determined by the Management of the Company as appropriate and relevant to validate the degree of compliance with the LBMA Guidance.

Our responsibility and applicable professional standards

Our responsibility is:

- to plan and perform our engagement to obtain reasonable assurance as to whether the Refiner’s Compliance Report describes fairly the activities undertaken during the year to demonstrate compliance and that management’s overall conclusion contained therein is in accordance with the LBMA Guidance;
- to perform our engagement following the relevant guidance set out in the LBMA Responsible Sourcing Programme – Third Party Audit Guidance (version 1) (“the Audit Guidance”);
- to express an opinion based on our work performed; and
- to provide our opinion to the Management of the Company.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements other than Audits or Reviews of Historical Financial Information” issued by the International Auditing and Assurance Standards Board.

This report, including our opinion, has been prepared solely for the Management of the Company for assisting management in determining whether the Company has complied with the LBMA Guidance and



for no other purpose. We permit this report to be disclosed in the Refiner's Compliance Report, to assist the management in responding to their governance responsibilities by obtaining an independent reasonable assurance report in connection with the Refiner's Compliance Report¹. Our reasonable assurance report is made solely to the Company in accordance with the terms of our reasonable assurance engagement. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company for our work performed and this report.

Our independence, quality control and competency statement

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, and the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our reasonable assurance engagement in respect of the Refiner's Compliance Report in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

Summary of work performed

Our reasonable assurance engagement included the following procedures regarding the subject matter:

- inquiry of management to gain an understanding of the Company's processes and risk management procedures in place in relation to the gold and silver supply chain;
- inquiry of the relevant staff responsible for the preparation of the Refiner's Compliance Report;
- walkthrough of the Company's due diligence process to gain an understanding of implemented policies and procedures;
- assessment of the suitability of the policies, procedures and internal controls that the Company has in place to conform to the requirements of the LBMA Guidance;
- testing, on a sample basis, of the Company's account opening procedures and due diligence conducted before engaging with a potential precious metal supplying counterparty;
- testing, on a sample basis, of transactions to evaluate whether due diligence processes are being followed;
- testing a selection of the underlying processes and controls that support the information in the Refiner's Compliance Report; and
- review of the statements made by the management in the Refiner's Compliance Report as compared to the findings arising from the above procedures performed.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 (the Refiner's Compliance Report) or Reporting Criteria (the LBMA Guidance) when presented on the Company's website.

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 different refiners to comply with the LBMA Guidance may differ.

It is important to read the Company's gold and other precious metals supply chain policy issued on 28 November 2013 (as amended on 25 October 2019), that are available on the Company's website in accordance with the LBMA Guidance requirements.

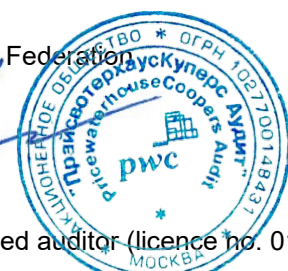
Our opinion

In our opinion, the Refiner's Compliance Report of the Company for the year ended 31 December 2020, 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 Guidance.

AO PricewaterhouseCoopers Audit

16 April 2021

Moscow, Russian Federation

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

Audited entity: Joint-Stock Company "Krastsvetmet"

Record made in the Unified State Register of Legal Entities
on 1 August 2002 under State Registration Number 1022402056324

Taxpayer Identification Number 2451000818

660027, Russian Federation, Krasnoyarsk, Transportny Proezd, 1.

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on
28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on
22 August 2002 under State Registration Number 1027700148431

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association
«Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and
Audit Organizations – 12006020338

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	JSC Krastsvetmet
Location	Russian Federation, Krasnoyarsk
Reporting year-end	31 December 2020
Date of Report	16 April 2021
Senior management responsible for this report	Sukachev Sergey Sergeevich, Deputy General Director

Table 2 – Summary of activities undertaken to demonstrate compliance
Step 1: Establish strong company management systems
Compliance statement with requirement: JSC Krastsvetmet ("the Company" / "the Refiner") fully complied with Step 1: "Establish strong company management systems". For more details, please refer below.
Has the Refiner adopted a Company policy regarding due diligence for supply chains of gold and silver? Yes. The refiner has adopted a Company policy regarding due diligence for supply chains of gold and silver. Comments and demonstration of compliance: 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 and the LBMA Responsible Silver Guidance ("the LBMA Guidance") regarding due diligence of supply chains of gold and silver.
Has the Refiner set up an internal management structure to support supply chain due diligence? Yes. The Refiner has set up an internal management structure to support supply chain due diligence. Comments and demonstration of compliance: 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.
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. The Refiner has 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. Comments and demonstration of compliance: 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 2020.
Has the Refiner strengthened company engagement with gold-supplying and silver-supplying counterparties and, where possible, assisted gold-supplying and silver-supplying counterparties in building due diligence capabilities? Yes. The Refiner has strengthened engagement with the counterparties in the gold and silver supply chain, and where possible, assisted those counterparties in building their due diligence capabilities. JSC Krastsvetmet assists suppliers in complying with their environmental and sustainability responsibilities, encourages to minimise adverse impact on biodiversity and compliance with the International Cyanide Management Code (when applicable). Comments and Demonstration of Compliance: JSC 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.
Has the Refiner established a company-wide communication mechanism to promote broad employee participation and risk identification to management? Yes. The Refiner 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 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 dmcc@krastsvetmet.ru, 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 making.

Step 2: Identify and assess risk in the supply chain

Compliance statement with requirement:

We have fully complied with Step 2: Identify and assess risk in the supply chain.

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

Yes. The Refiner has process to identify risks in the gold and silver supply chain.

Comments and demonstration of compliance:

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 and silver supply chain.

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

Yes. The Refiner assesses risks in light of the standards of their supply chain due diligence system.

Comments and demonstration of compliance:

Prior to engaging with any supplier in the gold and silver supply chain, the Company performs supplier due diligence activities, including all activities required by the LBMA Guidance. JSC Krastsvetmet analyzes the information from the sanction lists (based on special information systems) for the presence of suppliers in it and, also, carries out procedures to ensure that gold and silver suppliers comply with applicable legislation, including labour and environmental laws. 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 2020.

Does the Refiner report risk assessment to the designated manager?

Yes. The Company reports on the results of the risk assessment to the responsible person – member of executive management responsible for supply chain management.

Comments and demonstration of compliance:

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 silver supply chain.

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

Compliance statement with requirement:

We have 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?

Yes.

Comments and Demonstration of compliance:

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.

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.

Comments and demonstration of compliance:

The respective procedures are in place and where and when necessary appropriately applied. The Company maintains and updates profiles for each of the suppliers 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.

In 2020 the Refiner received melted bars (recycled precious metals) from the supplier from UAE (the “Supplier”). In order to comply with step 2.1.2 of the LBMA Guidance for identification of the origin of the precious metals, the following procedures were done by the Refiner:

1. Received a letter from the Supplier, confirming that the melted bars are not related to conflict regions and have been sourced in accordance with the sourcing practices as required by DMCC, LBMA and OECD.
2. Obtained detailed breakdown of the sources of precious metals received by the Supplier. This breakdown revealed that the precious metals have been received either from a UAE-based refinery (the “Third Party Refiner”, accredited with DMCC, but not with LBMA) or from one of the four UAE-based companies (the “Third Party Suppliers”). Further analysis revealed that the Third Party Refiner also sourced precious metals from the Third Party Suppliers, so they were determined as ultimate source of precious metals. The Third Party Suppliers have been identified as the legal entities registered in UAE and holding relevant permissions and licenses and operated for a long time. The Third Party Suppliers and their ultimate beneficial owners are not included in sanction lists and publicly available list of money launderers, fraudsters and terrorists.

Despite the fact that the Refiner failed to trace the source of metal up to specific individuals who provided precious metals to the Third Party Suppliers, the Refiner analyzed physical form and assay of the precious metals received (where possible) and validated that it matches the declared sources (jewelry waste, coins, etc.)

For assessment of risk in a supply chain from the Third Party Suppliers, the following was done by the Refiner:

1. Third-party know-your-client checklists were received in relation to the Supplier and the Third Party Suppliers;
2. Beneficial owners of the Supplier and the Third Party Suppliers were identified. They are not included in sanction lists and publicly available lists of money launderers, fraudsters or terrorists;
3. LBMA Toolkit checklists were received in relation to the Third Party Suppliers;
4. The Refiner visited the Supplier’s site in 2019 as the part of due diligence process before starting any operations with it.

For assessment of risk in the supply chain from the Third Party Refiner, the following was done by Refiner:

1. Know-your-client checklist with regard to the Third Party Refiner was received;
2. Beneficial owners of the Third Party Refiner were identified. They are not included in sanction lists and publicly available list of money launderers, fraudsters and terrorists;
3. The Refiner visited the Third Party Refiner’s site in 2018 as the part of due diligence process before starting any operations with it.

Following the investigation performed the Refiner came to the conclusion that the risk associated with the Supplier has been mitigated to the acceptable level.

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

Compliance statement with requirement:

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

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

Step 5: Report on 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 and silver supply chain policy, which is available on our company website 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 and silver supply chain, which was in place during the whole 2020 year.
Step 3 Design and implement a management strategy to respond to identified risks	Fully compliant	Management strategy to respond identified risks was adopted and was in place during the whole 2020 year. For one Supplier sourcing precious metals from UAE the Company was unable to trace the sources up to specific

		individuals who sold precious metals scrap and jewelry to the Third Party Suppliers. However, following the due diligence performed, the Company believes that it has obtained sufficient understanding of its supply chain as described in Step 3 above and mitigated the risk to the acceptable level.
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, JSC Krastsvetmet implemented effective management systems, procedures, processes and practices to fully conform to the requirements of the LBMA Guidance, as explained in Table above, for the whole reporting year ended 31 December 2020. JSC 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 JSC Krastsvetmet with respect to this report, they can contact us through email on info@krastvetmet.ru

Deputy General Director



S. S. Sukachev