

# Joint-Stock Company “Almalyk Mining and Metallurgical Complex”

**Compliance Report for the London Bullion Market Association’s  
Responsible Gold Guidance for the years ended 31 December 2012,  
2013 and 2014.**

**Independent reasonable assurance statement by "Deloitte & Touche" Audit organisation LLC to the management of Joint-Stock Company "Almalyk Mining Metallurgical Complex" on its Compliance Report for the London Bullion Market Association's Responsible Gold Guidance for the years ended 31 December 2012, 2013 and 2014.**

We were engaged by Joint-Stock Company 'Almalyk Mining Metallurgical Complex ("AMMC") to provide reasonable assurance on their Compliance Report for the London Bullion Market Association's Responsible Gold Guidance ("the Responsible Gold Guidance") for the years ended 31 December 2012, 2013 and 2014 ("the Compliance Report").

Our engagement was performed with the objective of providing a conclusion on whether the assertions made by management, in their Compliance Report for the years ended 31 December 2012, 2013 and 2014 with respect to the activities undertaken to demonstrate compliance with the Responsible Gold Guidance, are fairly presented.

The Responsible Gold Guidance comprises the criteria by which AMMC has measured and reported their level of compliance to the Responsible Gold Guidance and this was used for the purposes of evaluating management's assertions.

#### **Inherent limitations**

Non-financial information, such as that included in AMMC'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.

#### **Responsibilities of directors**

The management of AMMC is responsible for the preparation and presentation of the Compliance Report for the years ended 31 December 2012, 2013 and 2014 in accordance with the Responsible Gold 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.

#### **Assurance Providers' responsibilities**

Our responsibility is to express our reasonable assurance conclusion on the assertions made by management in the Compliance Report for the years ended 31 December 2012, 2013 and 2014 with respect to the activities undertaken to demonstrate the level of compliance with the Responsible Gold 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*. 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.

## **Independence and competency statement**

In conducting our engagement, we have complied with the applicable requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. Furthermore, we confirm that we satisfy the criteria for assurance providers as set out in out in the LBMA Third Party Audit Guidance pertaining to ethical conduct, fair presentation, due professional care, independence, integrity, and subject matter expertise to carry out the assurance engagement.

## **Conclusion**

In our opinion, the assertions made by management with respect to the level of compliance with the Responsible Gold Guidance in their Compliance Report for the years ended 31 December 2012, 2013 and 2014 are, in all material respects, fairly described.

## **Emphasis of matter paragraph**

Without modifying our conclusion, we draw attention to the description of the non-compliance as set out on page 1 of the Compliance Report. This relates to the supply chain due diligence procedures that are in the process of being implemented to be in line with the requirements of the Responsible Gold Guidance, but had not been fully implemented as at 31 December 2012, 2013 and 2014.

## **Restriction on liability**

Our work has been undertaken to enable us to express a reasonable assurance conclusion in accordance with the terms of our engagement agreed with the management of AMMC, and for no other purpose. We do not accept or assume liability to any party other than AMMC, for our work, for this report, or for the conclusion we have reached.

*Deloitte & Touche*

31 July 2015  
Tashkent, Uzbekistan

**Refiner's detail:**

**Refiner's name:** Joint-Stock Company "Almalyk Mining Metallurgical Complex"

**Location:** Amir Timur str., 53, Almalyk, Tashkent region, Uzbekistan, 110100

**Reporting year-end:** for the years ended 31 December 2012, 2013 and 2014

**Date of report:** 31 July 2015

**Senior management:** General Director, Chairman of the Board – Mr. Farmanov A.K.

**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 gold supply chain policy, which is in consistence with the model set out in the Annex II of the Organization for Economic Cooperation and Development ("OECD") Due Diligence Guidance and is recommended by the London Bullion Market Association ("LBMA").

We – the Joint-Stock Company "Almalyk Mining and Metallurgical Complex" ("AMMC") are in compliance with other policies and legislation which cover the requirements of LBMA Responsible Gold Guidance ("LBMA RGG").

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

AMMC is a joint-stock company, which is 98% government owned with the remaining 2% owned by the employees of AMMC. AMMC is positioned as an integrated copper producer with considerable gold and silver credits. During the reporting period the volume of gold production comprised 0.0037% of the total volume of precious metals production (copper, gold and silver together).

We operate under direct monitoring of the Agency for Precious Metals under the Central Bank of Uzbekistan ("Agency") and the National Security Service of Uzbekistan ("NSS"). Both of these organisations are government structures, whereas the NSS reports directly to the government and the President of Uzbekistan.

AMMC is governed by the legislation of the Republic of Uzbekistan, specifically Constitution of Uzbekistan and Legislation and Criminal Code. The Constitution is based on the Universal Declaration of Human Rights (1948), International Covenant on Economic, Social and Cultural Rights (1966) and the International Covenant Civil and Political rights (1966). Anti-corruption and anti-money laundering is regulated by the legislation of the Republic of Uzbekistan; internal instructions on storage, accounting and delivery of precious metals to the Agency that were developed by the Company are also regulated directly by the government of the Republic of the Uzbekistan. Furthermore, Uzbekistan has legislation regarding "Counteraction to legalization of proceeds derived from criminal activity and financing of terrorism". Given that AMMC is under strong control of the government, we are therefore required to be strictly in compliance with the abovementioned law.

The legislation of the Republic of Uzbekistan is strict on export of gold and gold containing materials – for example, all companies operating with precious metals shall be included in a special

register of the Ministry of Foreign Economic Relations, Trade and Investment and all export transactions shall include information on the origin of the precious metal. The legislation of the Republic of Uzbekistan is very strict on import of gold and gold containing materials and no such operations were performed by the Refiner during the reporting period.

For the years ended 31 December 2012, 2013 and 2014 we did not establish a separate gold supply chain due diligence policy and instead relied upon the number of existing policies and instructions for example, Internal Labor Regulations, Health & Safety Rules, as well as legislation of the Republic of Uzbekistan to ensure compliance with the requirements of LBMA Responsible Gold Guidance.

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

Our existing governance processes, reporting lines, internal audit communication and management procedures are being used to support the gold supply chain due diligence.

A Compliance officer's has not been assigned in the years ended 31 December 2012, 2013 and 2014 yet. The existing governance structure is used to comply with the LBMA Responsible Gold Guidance. For instance, in accordance with the established procurement procedures, the Technical Control Department together with the Legal Department, oversees compliance of contracts with the legislation of the Republic of Uzbekistan.

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

We have established a strong internal system, controls and transparency over the precious metal supply chain, including traceability and identification of other supply chain actors. All gold production chain is controlled and monitored internally.

The stock controls are set as part of the internal transportation process within the gold supply chain. The overall transportation process is internal and is solely performed by AMMC. The stock controls exist at each of the 3 steps of transportation process: ore delivery, semi-finished product delivery and finished product delivery. Each of these steps involves controls such as weighting, reports and reconciliations at each and in between the delivery points. Furthermore, all transportation process is performed under direct supervision of the representatives of the NSS.

The only customer for gold is the Agency. Every lot to be delivered/transported to the Agency must be supported by the required documentation in accordance with terms and conditions of the contract signed between AMMC and the Agency.

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

We have strengthened our engagement with secondary raw materials supplying counterparties and informed them of the necessity to conform to the LBMA Responsible Gold Guidance. All contracts with secondary raw materials suppliers contain clause that defines formula for the calculation of the price payable to suppliers. This formula is based on the "world price deducted for cost of production". Definition for the world price states that world price is determined on the basis of prices of LBMA (morning fixed).

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

AMMC yet does not have a company-wide communication mechanism, including hot-line and/or established whistle-blowing policy. We have developed internal labor regulations, which include code of conduct and cover all aspects starting from anti-money laundering to prohibition of child labor. Furthermore, we have a special Safety and Security of Labor Division, which is responsible for monitoring any breaches on human rights and labor. The Division performs regular discussions and review of complaints from employees. Also, there is an established procedure for General Director to meet with employees on a weekly basis, when employees can report conflicts, complaints or risks identified directly to the General Director or his immediate representative.

**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.

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

We are exposed to minimum risk in the gold supply chain, as in 2012, 2013 and 2014 on average 99.93% of gold bearing material supplies to the refinery were from mines which are 100% owned by AMMC. The remaining average of 0.07% of supplies was from third parties, which are only government owned companies, including the state banks, government authorities e.g. Ministry of Defense, Uzbek Railways and etc. The gold bearing materials supplied by the abovementioned third parties are the secondary raw materials, such as broken equipment that potentially contains precious metals. The origin of the secondary raw materials and therefore all other refined gold is Uzbekistan. The gold bearing materials are supplied in accordance with contract signed between AMMC and the third party. The external suppliers are paid by the Refinery on the basis of price set in the contract, which in turn is established in line with the requirements of the LBMA.

**Country risk:** AMMC is not exposed to any country risk as all of the gold bearing material supplies are from Uzbekistan. According to Heidelberg Barometer, Uzbekistan has a low risk rating as the political and economical situations in the Republic are stable. Also, Uzbekistan is a member of the Eurasian Group on Combating Money Laundering and Terrorist Financing, one of the FATF Style Regional Bodies and is rated medium to low risk on the Basel AML index.

**Company risk:** There is a minimum company risk, as nearly all gold bearing materials sources, processing and smelting facilities, transportation chain belong to AMMC. The third party suppliers provide only secondary raw materials (details are already provided above) and contracts are reviewed by the Technical Controls Department and Legal Department prior to they are signed.

There are only 2 Refiners which have the priority to obtain gold mining and gold refinery licenses and certificates – JSC “Almalyk Mining Metallurgical Complex” and State Company “Navoi Mining and Metallurgical Combinat” (“NMMC”) and therefore only AMMC and NMMC have permission to carry out gold mining and refinery works. Such licenses and certificates can be only provided by the government, specifically the Agency and the Cabinet of Ministers of the Republic of Uzbekistan.

**Commodity risk:** The Refiner does not have gold supplying counterparties. The suppliers of secondary raw material (broken equipment) are only fully government owned companies, which perform the supply strictly in line with the signed contract, signed between AMMC and the supplier.

As already stated above, contracts are signed on an annual basis and are reviewed by Technical Controls Department and Legal Department prior to they are being signed. All contracts with secondary raw materials suppliers contain clause that defines formula for the calculation of the price payable to suppliers. This formula is based on the "world price deducted for cost of production". Definition for the world price states that world price is determined on the basis of prices of LBMA (morning fixed).

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

Due to the nature of AMMC business, during the reporting years, AMMC's supply chain was rated by AMMC as low risk as there were only fully government owned companies located on the territory of Uzbekistan, which supplied only on average 0.07% of gold bearing material (secondary raw material) as external suppliers. Contracts with external suppliers are signed on an annual basis and are reviewed by Technical Controls Department and Legal Department prior to they are being signed.

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

During the reporting period the Compliance officer has not been assigned. However the NSS can be considered as a body that represents functions of the Compliance officer. The NSS has internally developed highly confidential instructions which prescribe procedures to deal with a number of risks, identification of illegal transactions and fraud. During the reporting years no such cases were reported to the NSS.

**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.

**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?**

In 2012, 2013 and 2014 the Refiner had a low risk supply chain and therefore no mitigation strategies were required with regards to this. The external suppliers of secondary raw materials have low risk as all of these companies are fully government owned companies, located in Uzbekistan.

**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

AMMC has engaged the services of the Deloitte & Touche Audit organization LLC, and its independent reasonable assurance report will be made available on the official corporate web-site: [www.agmk.uz](http://www.agmk.uz)

### **Step 5: Report on supply chain due diligence**

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

Further information and specific details of the systems, procedures, processes and controls being implemented by AMMC to align to the specific requirements in the LBMA RGG set out in our gold supply chain policy are available upon request.

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

Yes

In conclusion, AMMC has implemented effective management systems, procedures, processes and practices to conform to the requirements of the LBMA RGG.

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

In 2015, the Company shall establish a Responsible Gold policy in accordance with the LBMA RGG to further demonstrate our commitment to conflict minerals management and assign a Compliance Officer to report to the Board on on-going supply chain due diligence measures and risk management.

If users of this report wish to provide any feedback to AMMC with respect to this report, they can send an e-mail to: [info@agmk.uz](mailto:info@agmk.uz)

**Farmanov A.K.**

**General Director, Chairman of the Board of Joint-Stock Company “Almalyk Mining-Metallurgical Complex”**