



JSC "Almalyk Mining and Metallurgy Complex"

LBMA Responsible Gold & Silver Guidance Compliance
Report to management

For the year ended 31 December 2019
14 April 2020

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1. Introduction

1.1. Overview

The mining sector has seen a significant amount of movement in the last few years with respect to the extraction, refining and retail and consumption of conflict minerals. A number of voluntary standards have been released to manage the inclusion of conflict gold in the minerals value chain.

The London Bullion Market Association ("LBMA") released its Responsible Gold Guidance ("RGG") at the end of 2011 and its Responsible Silver Guidance ("RSG") at the end of 2017, which require all refiners on the LBMA "good delivery" list to obtain independent, external assurance on their compliance with the RGG & RSG for financial reporting periods beginning on or after 1 January 2012 for RGG and 1 January 2018 for RSG, respectively.

It is against this requirement that JSC "Almalyk Mining and Metallurgy Complex" ("AMMC" or the "Refiner") has engaged "Deloitte and Touche" Audit Organisation LLC ("Deloitte") to perform a limited level of independent external assurance on compliance against the LBMA RGG & RSG for the year ended 31 December 2019.

1.2. Objectives and Scope

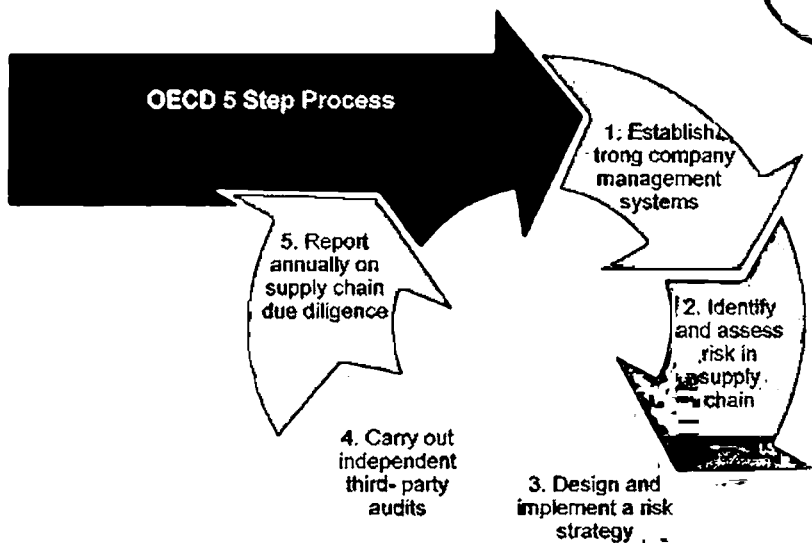
AMMC has measured and reported its level of compliance with the LBMA RGG & RSG in its Compliance Report for the year ended 31 December 2019, (the "Report"). The subject matter of our external assurance engagement was the statements made by AMMC in its Reports relating to the activities undertaken to demonstrate the level of compliance with the LBMA RGG & RSG. The LBMA RGG & RSG presented the criteria we used for the purposes of evaluating AMMC's statements.

As indicated in our Agreement # AU UZB 19/46 dated 18 December 2019, the objective of this engagement was to provide a conclusion on whether the statements made by AMMC, in the Report, with respect to the activities undertaken to demonstrate compliance with the LBMA RGG & RSG, are correct in all material respects.

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 engagement to obtain sufficient appropriate evidence on which to base our conclusion.

1.3. Approach

An assessment was undertaken of the underlying policies and procedures developed by AMMC during the reporting period to ensure compliance against the LBMA RGG & RSG. Deloitte's approach to assessing the design and implementation of a responsible gold and silver frameworks aligns and conforms to the LBMA RGG & RSG and the Organisation for Economic Co-operation and Development Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance). This framework, outlined below, is the approach taken by Deloitte to evaluate the effectiveness of AMMC's supplier due diligence policies and procedures against the requirements of the LBMA RGG and RSG.



- Develop policies and procedures
- Set up committees and reporting lines
- Introduce a supply chain traceability system
- Maintain records
- Conduct training
- Appoint a Compliance Officer
- Strengthen company engagement
- Establish a communication mechanism

- Conduct supplier due diligence process including:
 - Country assessment
 - Company assessment
 - Commodity assessment
- Risk Rate Suppliers (High Risk or Low Risk)
- Conduct Enhanced due diligence for High Risk customers including:
 - Premises Inspections
 - Verification of information provided
 - Assessment of contractors & service providers involved in the chain of custody

- Develop mitigation strategies based on organisational risk tolerance:
 - Continue relationship by approving supplier risk mitigation strategy
 - Suspend relationship until enhanced due diligence complete
 - Abandon relationship

- Monitor existing supplier base frequently:
 - Identify and assess changes to supplier information
 - Monitor implementation of risk mitigation strategies
 - Periodic assessment of risk
 - Regular reporting to senior management

- Compile Compliance Report on an annual basis
- Obtain external independent assurance: Reasonable assurance in the 1st year and every 3 years, Limited assurance is acceptable otherwise.

1.4. Limitations of scope

The scope of our work was limited to an assessment of AMMC internal policies and management processes, systems and controls to manage your gold supply chain only. Engagement with stakeholders in AMMC's supply chain was not undertaken.

In accordance with the LBMA RGG & RSG, immaterial gold and silver by-product resulting from the processing of copper sulphide and oxide ores was excluded from the scope of supply chain due diligence assurance.

This report includes the key findings from the external assurance phase and provides recommendations for management on further improvements to the supplier due diligence framework.

2. Positive Observations

AMMC is a leading world producer and one of the largest producers in Uzbekistan, with its production capacity being based on the reserves of a group of copper-molybdenum, lead-zinc, and gold-silver deposits on the territories of Uzbekistan's Tashkent, Dzhizzak, Namangan, and Surkhandarya regions.

Today AMMC, by its mining and treatment of noble and non-ferrous metals ore, is a multiple industrial complex, which consists seven open mines, four underground gold mines, five concentration plants, two metallurgical plants, sulphuric acid production facilities, repair-mechanical and limestone works, motor transport board with its six motor pools; railway service, heat station, industrial water supply, electrical network board, explosive material plant, board of specialised repair work, trust of 'Olmalikmetallurgkurilish', consumer's production facilities, - with multistage technological and management structures, as well as more than twenty auxiliary production and attendant services, with the developed social structure.

The Refiner's raw material base, beside the reserves of the deposits which are being mined, includes also non-traditional resources such as mines' dumps, concentration tails, and metallurgical waste. The raw material reserves, concentrated in the anthropogenic mineral objects, come to hundreds millions tons, and can be used as an additional source for obtaining metals and other products.

The area's deposits are characterised by high complexity. Currently, the mineral list includes 179 names. About 60 of them apply to ore minerals. The following so called 'Through minerals' characterise all deposits: native gold, molybdenite, pyrrhotine, pyrite, bornite, sphalerite, chalcopyrite, galenete, hematite - them being actually bearers of noble metals, as well as of rare and trace elements.

The gold and silver mining and treatment facilities are represented by the "Kauldy" mine, Angren ore management, "Chadak" ore management, Angren and Chadak gold extraction plants, whose products go to Copper smelter for further treatment.

All ore mining and treatment processes are highly mechanised. The Refiner's mines and plants use hundreds of units of various mining and metallurgical equipment.

AMMC is a company exposed to minimum risk in the gold and silver supply chain, as during the reporting period on average 96.60% of gold bearing and 98.12% of silver bearing material supplies to the refinery were from mines which are 100% owned by the Company. Of the remaining gold of 3.40% of supplies were 3.28% was from external third parties and 0.12% from government owned companies within the Republic of Uzbekistan, including state banks, government authorities e.g. Ministry of Defense, Uzbek Railways, etc, whereas the remaining silver of 1.88% of supplies were 1.43% and 0.45%, respectively.

The gold and silver 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 the AMMC and the third party. Prior to the contract is signed, the Technical Controls Department and the Legal Department review the contract for compliance with the legislation of the Republic of Uzbekistan.

The external suppliers are paid by the Refiner on the basis of price set in the contract, which in turn is established in line with the requirements of the LBMA.

2.1. ISO certification

The following currently exists to demonstrate AMMC's commitment to compliance with LMBA RGG:

- AMMC is 97.53% government owned and operates strictly in compliance with the legislation of the Republic of Uzbekistan, specifically Constitution. 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);
- 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. Also Uzbekistan has law about "Counteraction to legalisation of proceeds derived from criminal activity, and financing of terrorism"
- AMMC is under direct control of the government, which is performed by the State Security Service of the Republic of Uzbekistan ("SSS"). The SSS has internally developed highly confidential instructions which prescribe procedures to deal with a number of risks, identification of illegal transactions and fraud;
- Internal Labour regulations are also based on local legislation and labour code, which include and cover all aspects from Anti-money laundering ("AML") to prohibition of child labour;
- AMMC has internally developed "Health and Safety" rules and "Learning center" policy;
- Instructions on storage, accounting and transportation/delivery of precious metals are also developed in the Refiner.

3. Areas for Improvement

3.1. Training

Observation

There has been no specific training provided to employees with respect to the requirements of the LBMA RGG & RSG and conflict minerals.

Issue

Whilst AMMC has no risk of supply chain with respect to conflict minerals, we recommend that appropriate awareness raising and training is developed and deployed throughout the organisation so that employees are vigilant for any cases of non-compliance and their responsibilities to report these.

Risk Rating

Low

Recommendation

It is recommended that management review the supplier evaluation criteria in the operations manual and ensure that all aspects of the LBMA are covered.

4. Appendix 1

Key deviations from the LBMA RGG

The deviations have been rated in accordance with the rating scale provided in the LBMA third party audit guidance as follows:

Rating Definitions	
Rating	Description
1	<p>This is a material finding and if not resolved immediately will impact the assurance process and opinion.</p> <ul style="list-style-type: none"> • Total absence of implementation, a systemic failure of or complete lack of control over required gold supply chain systems, policies, procedures, processes and practices; • Failure to assess risks in the Refiner’s gold supply chain, to regularly review the risk assessment or to report the results of the risk assessment to senior management; • Failure to identify conflict-affected or high-risk areas in the Refiner’s gold supply chain or lack of implementation of the Refiner’s risk mitigation strategy; • Failure to systematically request and obtain appropriate due diligence documentation for all gold supplying counterparty files; • Failure to systematically request and obtain appropriate transactional documentation for transactions; or • Insufficient key documentation that affects any transaction from high-risk supply chains (such as no transaction records, transactions records not in official counterparty name, etc.).

Rating Definitions	
Rating	Description
Medium	<p>This is a finding which should be resolved in the current year. Should the recommendation not be implemented it could result in differences or further differences that in aggregate may be material to the assurance process and opinion.</p> <ul style="list-style-type: none"> • Multiple aspects of the Refiner’s gold supply chain systems, policies, procedures, processes and practices are not in compliance with one requirement: • Multiple problems related to the performance of the Refiner’s gold supply chain systems, policies, procedures, processes and practices are related to the same root cause: • Recurrent failure to request and obtain appropriate due diligence documentation required in order to perform a proper assessment of the supply chain for all reviewed gold supplying counterparty files; • A problem related to the Refiner’s internal material control mechanism: • Recurrent failure to request and obtain appropriate transactional documentation for the sample of transactions; • Recurrent failure to adequately address low-risk non-compliance or low-risk deviations from conformance by the Refiner may result in the issue becoming a medium-risk non-compliance.
Low	<p>This is a housekeeping finding that if not resolved in the current period will not affect the assurance opinion. The implementation of the recommendation will make management’s control process more robust.</p> <ul style="list-style-type: none"> • An occasional or isolated problem related to the performance of the Refiner’s systems, policies, procedures, processes and practices; • A lack of formalisation of policies or procedures; • Occasional failure to request and obtain appropriate due diligence documentation required in order to perform an appropriate assessment of the supply chain for all reviewed gold supplying counterparty files; • Occasional failure to request and obtain appropriate transactional documentation for counterparties assessed as low-risk; or

Rating Definitions	
Rating	Description
	<ul style="list-style-type: none">• An issue that presents a low risk to the integrity of the LBMA system.• Minor or administrative inconsistencies with the LBMA Responsible Gold Guidance that may be dealt with promptly by the Refiner may not necessarily be recorded as a low-risk non-compliance or low-risk deviation from conformance.

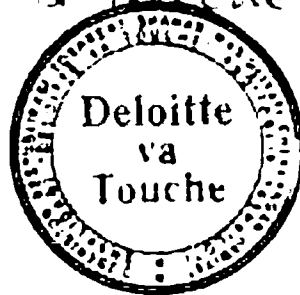
5. Statement of Responsibility

We take responsibility for this management letter, which is prepared on the basis of the limitations set out below. This management letter and the work connected therewith are subject to the Terms and Conditions of the Agreement # AU UZB 19/46 dated 18 December 2019 between JSC "Almalyk Mining and Metallurgy Complex" and "Deloitte & Touche" Audit organization LLC.

The management letter is intended solely for the information of, and use by, the Board of Directors, executive management and others within AMMC and is not intended to be, and should not be, used by anyone other than these specified parties. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties or its contents should not be quoted or referred to in whole or in part without our prior written consent. The matters contained in the management letter are only those which came to our attention during our work and are not necessarily a comprehensive record of all the errors or weaknesses that exist, or improvements made by management.

- HD "Deloitte & Touche" LLC

14 April 2020
Tashkent, Uzbekistan



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