

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

**Compliance Report for the  
London Bullion Market  
Association’s Responsible Gold  
Guidance for the year ended  
31 December 2018**

**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 year ended 31 December 2018.**

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 year ended 31 December 2018 (the "Compliance Report").

### **Scope and Subject Matter Information**

Our engagement was performed with the objective of providing a conclusion on whether the assertions made by management, in their Compliance Report for the year ended 31 December 2018 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.

### **Management's Responsibilities for the Subject Matter**

The management of AMMC is responsible for the preparation and presentation of the Compliance Report for the year ended 31 December 2018 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. The criteria identified by the management as relevant for demonstrating compliance with the Guidance are the activities described within the Refiner's Compliance Report

### **Auditor's Responsibility**

Our responsibility is to carry out a reasonable assurance engagement in order to express a conclusion based on the work performed on the assertions made by management in the Compliance Report for the year ended 31 December 2018 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* 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). 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.

## **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 absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques that can result in materially different measurements and can impact comparability. The methods used by refiners to comply with the Guidance may differ. It is important to read AMMC's gold supply chain policy available AMMC's website [www.agmk.uz](http://www.agmk.uz).

## **Independence and competency statement**

The firm applies International Standard on Quality Control (ISQC) 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.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

In conducting our engagement, we confirm that we satisfy the criteria for assurance providers as set out in out in the Audit Guidance to carry out the assurance engagement

## **Conclusion**

In our opinion, AMMC's Refiner's Compliance Report for the year ended 31 December 2018, 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.

## **Restriction on Use**

This report has been prepared for AMMC for the purpose of assisting the management in determining whether AMMC has complied with the Responsible Gold Guidance and for no other purpose. Our assurance report is made solely to AMMC in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than AMMC for our work, or for the conclusions we have reached in the assurance report.

**Refiner's detail:**

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

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

**Reporting year-end:** for the year ended 31 December 2018

**Date of report:** 13 February 2020

**Senior management:** Chairman of the Board – Mr. Khursanov A.Kh.

**Step 1: Establish strong company management systems**

**Compliance Statement with Requirement:**

During the reporting year, we have fully complied with Step 1: Establish strong management systems, as we 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").

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

"Almalyk Mining Metallurgical Complex" ("AMMC", the "Company") is a joint-stock company, which is 98% government owned with the remaining 2% owned by the employees of the AMMC. AMMC is an integrated copper producer with considerable gold and silver credits.

We operate under direct monitoring of the Agency for Precious Metals under the Central Bank of Uzbekistan (the "Agency") and the State Security Service of Uzbekistan (the "SSS"). Both of these organisations are government structures, where the SSS 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, the Republic of 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 of the Republic of Uzbekistan, 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 AMMC during the reporting period.

For the year ended 31 December 2018, we have established a separate gold supply chain due diligence policy and also 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.

For the year ended 31 December 2018, we have assigned Compliance officer in order to comply with the LBMA Responsible Gold Guidance and to report to the Board on on-going supply chain due diligence measures and risk management.

**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 gold supply chain, including traceability and identification of other supply chain participants. 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 the 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 SSS.

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 the 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 has a company-wide communication mechanism, including hot-line and/or established whistle-blowing policy. In addition, we have "Virtual Reception" of General Director, communication mechanism which enables whistle-blowing in all levels. Also, 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, in 2018 99.91% of gold bearing material supplies to the refinery were from mines which are 100% owned by the AMMC. The remaining of 0.09% of supplies were from third parties, which are also government owned companies within the Republic of Uzbekistan, including state banks, government authorities e.g. Ministry of Defense, Uzbek Railways 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 another refined gold is Uzbekistan. The gold bearing materials are supplied in accordance with contract signed between the AMMC and the third party. The external suppliers are paid by the AMMC 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 the Republic of Uzbekistan. According to Heidelberg Barometer, Uzbekistan has a medium risk rating as the political and economic 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 the 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 – Almatyk Mining Metallurgical Complex and 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:** AMMC 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 the 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 the AMMC business, during the reporting year, the AMMC’s supply chain was rated by the AMMC as low risk as there were only fully government owned companies located on the territory of the Republic of Uzbekistan, which supplied only on average 0.011% 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?**

AMMC has enabled the compliance responsible person and each employee to inform the designated manager of the risk assessment results. In addition, the SSS 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 year no such cases were reported to the SSS.

**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 2018, AMMC had a low risk gold 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**

For the year ended 31 December 2018, we have established a separate gold supply chain due diligence policy and in addition relied upon the number of existing policies and instructions.

Further information and specific details of the systems, procedures, processes and controls being implemented by the AMMC to align to the specific requirements in the LBMA Responsible Gold Guidance 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 Responsible Gold Guidance.

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

As at 31 December 2018, AMMC has a separate gold supply chain due diligence policy in accordance with the LBMA Responsible Gold Guidance. Although, the non-compliances existed for the past four years the management of AMMC is committed to take corrective actions subsequent to the reporting date to be in line with the *Guidance's* requirements.

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

A. Kh. Khursanov  
Chairman of the Board of Joint Stock Company "Aimalyk Mining-Metallurgical Complex"

