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**Internal control system of NAC Kazatomprom JSC**

**Rules**

1. **Aim**

These Rules "Internal Control System of NAC Kazatomprom JSC" (hereinafter - the Rules) define the concept, goals and objectives of the internal control system, the principles of operation, key areas and key components of the internal control system, internal control procedures for the activities of NAC Kazatomprom JSC (hereinafter - the Company), the competence and responsibility of the subjects of internal control on the implementation of internal control procedures and evaluation of the internal control system in the Company.

**2. Scope**

These Rules apply to officials and employees of all levels of management and the activities of the Company, structural units, as well as to other participants in internal control and interested parties.

On the basis of these Regulations, the Company's subsidiaries, affiliates and jointly controlled entities (hereinafter - the Company's enterprises) are recommended to develop their own Rules for the internal control system, taking into account the specifics of the activities of the Company's entities.

1. **General provisions**
2. These Rules are internal document of the Company and developed in accordance with the legislation of the Republic of Kazakhstan, the concept of the "Integrated COSO Model" (hereinafter referred - COSO) and the Code of Corporate Governance of Samruk-Kazyna JSC.
3. These Rules define internal control as process carried out by the participants of the internal control system with the aim of achieving tasks set in three key areas:
* operating activities;
* preparation of financial statements;
* compliance with regulatory legal requirements.
1. The internal control system (hereinafter - ICS) is integral part of the corporate governance system, covering all levels of management, all internal processes and operations of the Company.
2. The organization of ICS envisages the construction of a management system by the Company that is able to react quickly to process risks, to control over the main and auxiliary processes and daily operations of the Company.
3. Reliable and effective functioning of the ICS requires involvement and constant interaction within the internal control of officials and employees of all levels of the Company.
4. Issues not regulated by the Rules are regulated by the legislation of the Republic of Kazakhstan, the Code of Corporate Governance of Samruk-Kazyna JSC and the Company's documents.

## **Terms and Definitions**

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| **Flow diagram of the process** | Graphic representation of the process with a brief description that gives an idea of ​​the key elements of the process, risks and control procedures |
| Process owner | The head of the structural unit responsible for the execution of the process and the formation of the required result at the output of the process |
| **Control activity/procedure** | The activity/procedure carried out by the Board of Directors, management and other employees of the organization, aimed at eliminating/reducing risks to ensure reasonable guarantees of the organization's achievement of the goals. |
| **Risk and Process Control Matrix** | Table describing process risks and control procedures |
| **Process**  | Number of interdependencies of resources and actions that convert raw data into a result; a logical series of interrelated operations that transforms the original data into a result/output data |
| **Process Risk** | The risk that prevents the achievement of the goal of the process |
| **Internal Control System (ICS)** | Set of control activities/procedures carried out by the Board of Directors, collegial bodies, structural subdivisions and all employees of the Company in the performance of their duties, and aimed at ensuring the Company's goals |
| **Testing** | Evaluation of design effectiveness or operational efficiency of activities/control procedures |
| Process participant | The head of the structural unit responsible for the implementation of a certain part of the overall process and the formation of the necessary intermediate result. |

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## **Aims and objectives of ICS**

1. The purpose of the ICS is to improve the processes of business organization by promptly identifying and preventing process risks in order to provide reasonable confidence to management in achieving the Company's strategic and operational goals.
2. The main tasks of the JMC are:

2.1) control over process risks and daily operations of the Company for:

* ensuring the safety of assets and the efficient use of resources;
* increasing the efficiency of operations;
* ensuring the completeness, reliability of financial and management reporting;
* compliance with the requirements of the legislation of the Republic of Kazakhstan and internal regulatory documents;
* reducing the likelihood of occurrence of process risks and the amount of possible losses;
* control over the effective functioning of the main and auxiliary processes;
* assistance in building the optimal organizational structure.
	1. informing the heads of the appropriate level of any significant shortcomings for improvement in ICS.
1. **Components and basic principles of ICS**

ICS of the Company consists of five interrelated components, taking into account the recommended 17 COSO principles (Table 1).

Table 1

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| **No.** | **Component** | **№** | **Principles** |
| 1 | Control environment is set of standards, processes and structures that provide the basis for the implementation of internal controls throughout the Company.  | 1 | The Board of Directors, the Executive Board, the management of the Company by their own example demonstrate a commitment to honesty and ethical values. |
| 2 | The Board of Directors demonstrates independence from the Company's Executive Board and oversees the development and effectiveness of the internal control system. |
| 3 | The Executive Board of the Company develops organizational structure, lines of accountability, adequately allocates appropriate powers and responsibilities to achieve the Company's goals. |
| 4 | The Company demonstrates its commitment to attracting, developing and retaining qualified personnel in accordance with the goals of the Company. |
| 5 | The Executive Board of the Company formally allocates responsibility for the functioning of the internal control system among all interested parties.  |
| 2 | Risk assessment is dynamic, continuous process of identifying and assessing risks that hinder the achievement of the Company's goals. | 6 | The Company sets clear goals with sufficient clarity to identify and assess risks that hinder the attainment of set goals. |
| 7 | The Company identifies risks that impede the achievement of goals for all significant processes/projects of the Company, analyzes and develops methods for managing identified risks. |
| 8 | When analyzing risks, the Company identifies the possibility of fraud. |
| 9 | When analyzing risks, the Company takes into account the latest internal and external changes affecting the achievement of goals. |
| 3 | Control activities/procedures are activities built into everyday activities and aimed at reducing identified, assessed risks to acceptable level ensuring achievement of the Company's goals. | 10 | The Company develops (design) control activities / procedures aimed at reducing risks to an acceptable level. |
| 11 | The Company develops (design) general information technology/information security controls that ensure the achievement of the Company's goals. |
| 12 | The Company implements control measures/procedures through regulatory internal documents, organizational and administrative documents. |
| 4 | Information and communication is a continuous process of collecting, exchanging, providing the necessary information to achieve the goals of the Company. | 13 | The Company creates and uses reliable, high-quality information for the functioning of the internal control system. |
| 14 | The Company carries out effective internal communication, including communication about the purposes and responsibility for internal controls.  |
| 15 | The Company carries out external communication necessary for the functioning of the internal control system. |
| 5 | Monitoring is continuous, integrated into daily activities or a separate assessment of existence or functioning of the internal control system components. | 16 | The Company carries out continuous or separate assessment of existence and functioning of all components of the internal control system. |
| 17 | The Company evaluates and timely informs the parties concerned responsible for the development of corrective measures, including the Board and the Board of Directors of the Company, about the shortcomings of internal controls. |

1. **ICS Organization**

# Control environment

The Board of Directors together with the Executive Board of the Company shall provide the control environment demonstrating to the Company’s employees the essentiality, importance and necessity of internal control and compliance with the ethic standards at all levels of business.

Control environment sets environment in the organization, influencing the control consciousness of its personnel. It is a basis for all the components of internal control system and shall ensure a well-defined structure and discipline among the officials and participants of the internal control system. Control environment includes:

* + organizational structure;
	+ honesty and ethic standards;
	+ philosophy and style of management;
	+ HR policy;
	+ employees’ competence.

Competence, honesty, transparency and understanding of social responsibility are the key values and basis of the Company’s business ethics.

Corporate values of the Company are its highest values reflecting the mission and vision of the Company and setting a philosophy and principles of relations inside the Company and with the partners, state and the community in whole.

HR policy is aimed at supporting highly skilled and motivated employees.

1. The employees’ competence reflects the knowledge and skills required for the performance of the set tasks and is the basis for successful implementation of the strategic aims of the Company.

# Risk identification and assessment

1. Process owners, together with Process Participants, basing on process flow diagrams, identify process risks and their subsequent expert appraisal.
2. The structural unit responsible for the organization of the work of ICS in the Company provides methodological support in the process of identifying and documenting process risks and carries out quality control of the information provided.

# Control activities / procedures

1. Internal control procedures are documented system of measures and actions to ensure effective internal control over the implementation of the Company's goals, objectives and plans, to identify and perform unusual operations, and prevent, limit and prevent process risks and possible misconduct by officials and employees of the Company.
2. Control procedures are carried out at all hierarchical levels of the Company and are aimed at:
	* reducing the likelihood of possible risks;
	* prevention of errors and / or determination of errors after they have been made;
	* identification and elimination of duplicate and surplus operations;
	* identification of shortcomings and areas for improvement;
	* ensuring compliance with the legislation of the Republic of Kazakhstan and internal documents of the Company;
	* further improvement of the internal control system.
3. Control procedures should answer questions: who, for what purpose, when/how often and what does, what document regulates control, what evidence or documents confirming the execution of control.
4. Process owners and Process participants ensure interaction with the structural unit responsible for organizing the work of ICS in the Company, which provides them with methodological support. As part of this interaction, Process owners work with Process participants to develop/update process flow diagrams with process-level risks and control procedures, Risk and Process Control Matrices, support effective internal control procedures, and, if necessary, formulate action plan for further improvement of ICS.

# Information and its transfer

1. Information and its transfer is the process of identification, recording and timely making the required and appropriate information available to the management.
2. The systems of informational support and information exchange include the following:
* accumulation, processing and transfer of information, including the formation of reports and messages containing information on all material aspects on the Company’s activity;
* organization of effective channels and means of communication, providing vertical and horizontal communications inside the Company, as well as with the subsidiary and affiliated organizations and third parties;
* in the prescribed manner, the access and integrity of information received from internal and external sources;
* making the Company’s applicable documents available to the employees.
1. System of informational support within the ICS is represented by the following instruments:
* these Rules
* procedures and instructions on separate aspects of ISC
* block-schemes of processes
* risks and controls matrix
* controls (instructions) on the most significant process risks
* reports on internal control system assessment
* ICS improvement plan (if required).
1. The structural unit responsible for ICS organization shall ensure the access for the Company’s employees to the documents of the ICS.

# ICS Monitoring

1. Monitoring of ICS is carried out:
* Management (Executive Board and Managing Directors), managers and employees of structural units on ongoing basis;
* Responsible unit through testing of activities/control procedures in the processes;
* Internal audit by means of audits in accordance with the annual audit plan or as separate evaluation.
1. Participants in all three lines of protection of the internal control system - business owners of the processes/heads of departments in case of detection of shortcomings in ICS, shortcomings in internal documents of the Company that do not ensure the effectiveness of internal control procedures, should initiate making amendments to the internal documents of the Company.
2. Lack of internal control, identified at all levels of protection lines, should be reported to the heads of structural units in timely manner and promptly eliminated. Significant shortcomings in internal control should be reported to the Responsible Office for assessing risks and communicating with the Executive Board / Board of Directors of the Company.

**8. Roles and responsibilities of ICS participants**

To create and operate ICS, the Company assigns the roles and responsibilities of all participants according to Table 2.

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Table 2

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| **Participant** | **Responsibility** | **Accountability** |
| Board of Directors | Supervision of the state of the internal control system.Organization, monitoring and evaluation of the effectiveness of the Company's internal control system using a risk-based approach.. | Sole Shareholder |
| Internal Audit Committee | Ensuring the reliability and effectiveness of the internal control system and formulate recommendations for its further improvement | Board of Directors |
| Management (Executive Board and Managing Directors) | Development and implementation of the policy (regulations, rules) approved by the Board of Directors on the internal control system, reliable and effective functioning of the internal control system, improvement of internal control processes and procedures and ensuring its monitoring. | Board of Directors |
| **First line of protection** |
| Process owners | 1. Identification and assessment of risks inherent in processes/projects, development (design) of internal controls to reduce identified risks, taking into account the assessment.
2. Continuous monitoring of the performance of controls by their employees.
3. Qualitative execution of controls imputed to their duties through job descriptions or internal regulatory documents.
4. Exchange of information with the units of the second line of protection.
 | Supervisor/ Management |
| Employees  | 1. Qualitative execution of controls imputed to their duties through job descriptions or internal regulatory documents
2. Exchange of information with the units of the second line of protection.
 | Direct supervisor |
| **Second line of protection** |
| Risk management and internal control unit | 1. Development of unified methodology for assessing all types of risks (quantitative, qualitative), recommendations for responding to all types of risks, methods for determining the acceptable level of risks (quantitative, qualitative).
2. Collecting, consolidating the results of risk assessments.
3. Critical analysis of the results of risk assessments by the first line of protection.
4. Exchange of information with the division of the third line of protection.
5. Development of unified methodology for internal control.
6. Testing the design effectiveness or operational effectiveness of the activities/control procedures.
7. Recommendations for improvement of activities / control procedures.
8. Monitoring of ICS and informing management.
9. Training of the Company's personnel
 | Supervisor/ Management |
| **Third line of protection** |
| Internal Audit Unit | 1. Implementation of independent evaluation of the internal control system using audit results or as separate evaluation of the effectiveness of the internal control system.
2. Exchange of information on risks / controls with a unit of the second line of protection.
 | Board of Directors |

1. **The basis for the effectiveness and limitations of ICS**
2. If there is effective ICS, the Board of Directors, management and other interested parties can be reasonably confident that the Company will achieve its goals.
3. Effective internal control is provided by the formation of appropriate control environment. ICS is effective when:
* All five components and related principles exist and function.
* All five components are interrelated, complementary and function to reduce risks that hinder the achievement of the Company's goals.
1. Despite the existence of the basis for the effectiveness of ICS, the Company recognizes that there are number of limitations of the internal control system, such as:
* erroneous professional judgment
* mistaken decisions;
* external negative factors not controlled by the Company;
* establishment of initially unattainable goals;
* human factor;
* opportunity for the Company's personnel to avoid the implementation of controls;
* the possibility of the Company's management to exceed authority;
* the possibility of staff collusion.
1. The existence of limitations of ICS means that ICS does not provide an absolute guarantee for the achievement of the Company's goals, while the Company takes into account the existing limitations when developing the design of internal controls.