

APPROVED by

the decision of the Board of Directors of UMP JSC
dated June 30, 2020
Minutes of Meeting No. 8

VALIDATED by

Decision of the Executive Board of UMP JSC
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REGULATION
on Internal Control System

DEVELOPED by

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1. Purpose

This Regulation on the internal control system of Ulba Metallurgical Plant JSC (hereinafter referred to as the Regulation) defines the concept, goals and aims of the internal control system, principles of operation, key areas and main components of the internal control system, internal control procedures in Ulba Metallurgical Plant JSC activities (hereinafter referred to as the Company), competencies and responsibilities of internal control entities for implementation of internal control procedures and assessment of the internal control system in the Company.

2. Scope

The Regulation applies to officials and employees of all levels of management and activities of the Company, structural divisions, as well as other participants in internal control and interested parties.

3. General Provisions

1) The Regulation is an internal document of the Company developed in accordance with the Rules of the Internal Control System of NAC Kazatomprom JSC, approved by the decision of the Board of Directors of NAC Kazatomprom JSC No. 4/17 dated June 28, 2017, the Corporate Management Code of Ulba Metallurgical Plant JSC, approved by the decision of the Sole Shareholder of UMP JSC No. 414 dated September 09, 2015, the concept of the Integrated COSO Model (hereinafter referred to as COSO), and the legislation of the Republic of Kazakhstan .

2) The Regulation defines internal control as a process carried out by participants in the internal control system with the aim of achieving the set objectives in three key areas:

- operational activities;
- preparation of financial statements;
- compliance with the legislation of the Republic of Kazakhstan and internal documents of the Company.

3) The internal control system (hereinafter referred to as ICS) is an integral part of the corporate governance system and covers all levels of management, all internal processes and operations of the Company.

4) ICS organization provides for the construction by the Company of a management system capable of quickly responding to process risks, exercising control over the main and auxiliary processes and daily operations of the Company.

5) Reliable and effective functioning of the internal control system requires involvement and constant interaction within the framework of internal control of officials and employees at all levels of the Company.

6) Issues not regulated by the Regulation are governed by the legislation of the Republic of Kazakhstan, the Corporate Management Code of Ulba Metallurgical Plant JSC and the documents of the Company.

4. Terms and Definitions

Block diagram of the process	A graphical representation of a process with a brief description that provides an overview of the key elements of the process, risks and control procedures
Process owner	The head of the structural subdivision responsible for the process implementation and formation of the required result in the end of the process
Control action/procedure	Action/procedure carried out by the Board of Directors, Executive Board, heads of departments/subdivisions and other employees of the Company, aimed at eliminating/reducing risks to ensure reasonable guarantees of achieving the Company's goals
Risk and process control matrix	Table containing description of process risks and control procedures
Process	A set of interdependencies of resources and actions that transform input data into a result; a logical series of related operations that transform input data into a result/output data
Process risk	Risk that prevents achieving process goal
Internal Control System (ICS)	Combination of control actions/procedures carried out by the Board of Directors, collegial bodies, structural subdivisions and all employees of the Company in performance of their duties, and aimed at ensuring that the Company achieves its goals
Testing	Evaluation of the design effectiveness or operational efficiency of actions/control procedures
Process participant	Head of a structural unit responsible for implementation of a certain part of overall process and formation of the required intermediate result

5. Aims and Goals of Internal Control System

1) ICS goal is to improve the processes of organizing the Company's activities through the prompt identification and prevention of process risks in order to provide reasonable confidence to the Board of Directors and the Executive Board in the achievement of the Company's strategic and operational goals.

2) The main ICS aims are:

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

- ensure safeguarding of assets and the efficient use of resources;
- improve efficiency of operational activities;
- ensure completeness, reliability and accuracy 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 process risks and the size of possible losses;
- control over the effective functioning of the main and auxiliary processes;
- assistance in creation of optimal organizational structure.

2.2) informing the relevant management level of any significant deficiencies for ICS improvement.

6. ICS Components and Basic Principles

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

Table 1

No.	Component	No.	Principles
1	The control environment is a set of standards, processes and structure that provides the basis for the implementation of internal controls throughout the Company.	1	The Board of Directors, the Executive Board, and the heads of the Company's departments and divisions demonstrate by their own example their commitment to honesty and ethical values.
		2	The Board of Directors demonstrates independence from the Executive Board of the Company and oversees the development and effectiveness of the internal control system.
		3	The Executive Board of the Company develops the organizational structure, lines of accountability, and adequately distributes the relevant powers and responsibilities to achieve the goals of the Company.
		4	The Company demonstrates a commitment to attracting, developing and retaining qualified personnel in accordance with the goals of the Company.
		5	The Executive Board of the Company officially distributes responsibility for the functioning of the internal control system among all interested parties.
2	Risk assessment is a dynamic, continuous process of identifying and assessing risks that impede the Company's goals achievement.	6	The Company sets clear goals with sufficient clarity to enable identification and assessment of risks that may impede the achievement of the established objectives.
		7	The Company identifies risks that impede the goals achievement for all significant processes/projects of the Company, analyzes and develops methods for managing identified risks
		8	When analyzing risks, the Company identifies opportunities for fraud
		9	When analyzing risks, the Company takes into account the latest internal and external changes that affect the goals achievement.
3	Control actions/procedures are the actions built into daily activities and aimed	10	The Company develops (design) control actions/procedures aimed at reducing risks to an acceptable level

No.	Component	No.	Principles
	at reducing identified and assessed risks to an acceptable level that ensures the Company's goals achievement.	1 1	The Company develops (design) general information technology/information security controls to ensure the achievement of the Company's goals
		1 2	The company implements control actions/procedures through regulatory internal documents, organizational and administrative documents
4	Information and communications are a continuous process of collecting, exchanging, and providing the necessary information to achieve the Company's goals.	1 3	The company generates 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 objectives and responsibilities for internal controls.
		15	The company carries out external communication necessary for the functioning of the internal control system.
5	Monitoring is a continuous, integrated into daily activities or separate assessment of the existence or functioning of components of the internal control system.	1 6	The Company carries out continuous or separate assessment of the existence and functioning of all components of the internal control system.
		17	The Company evaluates and promptly informs concerned parties responsible for developing corrective actions, including the Executive Board and the Board of Directors of the Company, about deficiencies in internal controls.

7. Organization of the Internal Control System

7.1. Control Environment

1) The Board of Directors, together with the Company's Management Board, ensures the creation of a control environment that expresses and demonstrates the significance, importance, and necessity of internal control and compliance with ethical standards at all levels of the Company's activities to its employees.

2) The control environment sets the tone for the organization by influencing the control consciousness of its employees. It is the foundation for all components of the Internal Control System and provides a clear structure and discipline among officials and participants in the Internal Control System. The control environment includes:

- organizational structure;
- integrity and ethical standards;
- management philosophy and style;
- recruitment policy;
- employee competence.

3) Competence, integrity, transparency, and awareness of social responsibility are key values and the foundation of the Company's business ethics.

- 4) The Company's corporate values are its highest values, reflecting its mission and vision and establishing the philosophy and principles of relationships both within the Company and with partners, the state, and society as a whole.
- 5) The Company's recruitment policy is aimed at securing and retaining highly qualified and motivated employee.
- 6) Employee competence reflects the knowledge and skills necessary to perform assigned tasks and is the basis for the successful implementation of the Company's strategic goals.

7.2. Risk Identification and Assessment

- 1) Process Owners, together with process Participants, conduct process risk identification and subsequent expert assessment based on process flowcharts.
- 2) The structural unit responsible for organizing the functioning of the Internal Control System in the Company provides methodological support in the process of identifying and documenting process risks and exercises quality control over the information provided.

7.3. Control Activities/Procedures

- 1) Internal control procedures are a documented system of measures and actions to ensure effective internal control over the implementation of the Company's goals, objectives, and plans, the identification and execution of non-standard transactions, as well as the prevention, limitation, and avoidance of process risks and possible unlawful actions on the part of the Company's officers and employees.
- 2) Control procedures are carried out at all hierarchical levels of the Company and are aimed at:
 - reducing the likelihood of potential risks;
 - preventing errors from occurring and/or identifying errors after they have occurred;
 - identifying and eliminating duplicate and redundant operations;
 - identifying gaps and opportunities for improvement;
 - ensuring compliance with the legislation of the Republic of Kazakhstan and the Company's internal documents;
 - further improving the Internal Control System.
- 3) Control procedures should address the following questions: who performs them, for what purpose, when/how often, and what exactly is done, which document regulates the control, and what evidence or documents confirm the performance of the control.
- 4) Process Owners and Participants ensure interaction with the structural unit responsible for organizing the functioning of the Internal Control System in the Company, which provides them with methodological support. As part of this interaction, process Owners, together with process Participants, develop/update process flowcharts for the processes they supervise, indicating process-level risks and control procedures, Risk and Process Control Matrices, support effective internal control procedures, and, if necessary, form an action plan for further improvement of the Internal Control System.

7.4. Information and its Transfer

- 1) Information and its transfer represent the process of identifying, documenting, and timely reporting necessary and relevant information to managers.
- 2) Information support and exchange systems include the following:

- organizing the system for collecting, processing, and transmitting information, including the preparation of reports and communications containing information on all material aspects of the Company's activities;
 - organizing effective communication channels and means ensuring vertical and horizontal communication within the Company, as well as with subsidiaries, affiliates, and third parties;
 - ensuring access to and preservation of information obtained from internal and external sources in accordance with established procedures;
 - informing employees of current documents used in the Company.
- 3) The information support system within the Internal Control System consists of the following:
- the Regulation;
 - Methodologies and Instructions on Specific Aspects of the Internal Control System;
 - Process Flowcharts;
 - Risk and Process Control Matrices;
 - Controls (Instructions) for the most significant process risks;
 - Internal Control System Assessment Reports;
 - Plans for improving the Internal Control System (if necessary).
- 4) The structural unit responsible for organizing the functioning of the Internal Control System in the Company provides Company employees with access to internal control system documents.

7.5. Monitoring the Internal Control System

- 1) The Internal Control System is monitored by:
- the Management Board, managers, and employees of the Company's departments and divisions on an ongoing basis;
 - the structural unit responsible for organizing the functioning of the Internal Control System in the Company by testing measures/control procedures in processes;
 - the Internal Audit Department through inspections in accordance with the annual audit plan or as a separate assessment.
- 2) Participants of all three lines of defense of the Internal Control System, process owners/heads of structural units shall initiate amendments to the Company's internal documents in case of detection of deficiencies in the Internal Control System, deficiencies in the Company's internal documents that do not ensure the effectiveness of internal control procedures.
- 3) Deficiencies in internal control identified at all levels of defense lines shall be promptly communicated to the heads of structural units and eliminated. Significant deficiencies in internal control shall be reported to the responsible unit for risk assessment and dissemination to the Management Board/Board of Directors of the Company.

8. Roles and Responsibilities of Internal Control System Participants

The Company assigns roles and responsibilities to all participants in accordance with Table 2 for the creation and operation of the Internal Control System.

Table 2

Participant	Responsibility	Accountability
Board of Directors	Supervision of the Internal Control System.	Sole shareholder

Participant	Responsibility	Accountability
	Organization, monitoring, and evaluation of the effectiveness of the Company's Internal Control System using a risk-based approach.	
Management (Functional Manager)	Development and implementation of policies (regulations, rules) on the Internal Control System approved by the Board of Directors. Reliable and effective functioning of the Internal Control System. Implementation of internal control procedures by employees with relevant professional qualifications and experience in the field of risk and internal control, improvement of internal control processes and procedures. Ensuring monitoring of the internal control system.	Board of Directors
First line of defense		
Process owners	<ol style="list-style-type: none"> 1. Identification and assessment of risks specific to processes/projects, development (design) of internal controls to reduce identified risks, taking into account the assessment. 2. Continuous monitoring of the implementation of controls by their employees. 3. High-quality performance of controls assigned to them through job descriptions or internal regulatory documents. 4. Sharing information with second line of defense unit. 	Immediate supervisor
Employees	<ol style="list-style-type: none"> 1. High-quality performance of controls assigned to them through job descriptions or internal regulatory documents. 2. Sharing information with second line of defense unit. 	Immediate supervisor
Second line of defense		
Internal Control System Operations Department	<ol style="list-style-type: none"> 1. Development of a unified methodology for identifying and assessing process risks. 2. Sharing information with the third line of defense unit. 3. Development of a unified methodology for internal control. 4. Testing the effectiveness of the design or operational effectiveness of measures/control procedures. 5. Recommendations for improving measures/control procedures. 	Immediate supervisor

Participant	Responsibility	Accountability
	6. Monitoring the Internal Control System and informing management. 7. Providing training (familiarization) to the Company's employees on the basics of the Internal Control System.	
Third line of defense		
Internal Audit Department	1. Conducting an independent assessment of the Internal Control System using the results of audits or in the form of a separate assessment of the effectiveness of the Internal Control System. 2. Sharing risk/control information with second line of defense unit.	Board of Directors

9. The Basis for the Effectiveness and Limitations of the Internal Control System

1) The Board of Directors, the Management Board and other stakeholders can be reasonably confident that the Company will achieve its goals if there is an effective Internal Control System.

2) Effective internal control is achieved by establishing an appropriate control environment. The Internal Control System is effective when:

- all five components and related principles exist and function;
- all five components are interrelated, complementary, and function to reduce risks that prevent the Company from achieving its goals.

3) The Company acknowledges that there are a number of limitations to the Internal Control System despite the existence of the bases for its effectiveness, such as:

- erroneous professional judgment;
- wrong decisions;
- external negative factors beyond the Company's control;
- setting initially unattainable goals;
- human factor;
- possibility to avoid performing controls for the Company's employees;
- possibility of exceeding the powers of the Company's management;
- possibility of collusion among employees.

4) The existence of limitations in the Internal Control System means that the Internal Control System does not provide an absolute guarantee that the Company's goals will be achieved. However, the Company takes these limitations into account when designing its internal controls.