

JSC NC “KazMunayGas” Internal Control System Policy

1. GENERAL PROVISIONS

1.1 This Internal Control System Policy (hereinafter the Policy) is an internal document of JSC NC “KazMunayGas” (hereinafter KMG) and has been developed in compliance with the Charter, the regulations on KMG’s bodies and business units, KMG’s Corporate Governance Code and other internal regulations of Samruk-Kazyna JSC and KMG, as well as the provisions of the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

1.2 This Policy establishes the purposes, operational principles and components of the internal control system (hereinafter the ICS).

1.3 The ICS is the key component of KMG’s Corporate Governance Code and can be defined as a complex of processes and procedures, standards of conduct and actions facilitating the effective and efficient activity and aimed at achievement of KMG’s operational targets and minimization of process-level risks.

1.4 This Policy defines internal control as a process performed by KMG’s Board of Directors, Management Board and employees (hereinafter collectively referred to as the ICS subjects), which is aimed at ensuring reasonable assurance in achievement of KMG’s goals in three key areas:

- 1) improvement of operational efficiency;
- 2) preparation of full and reliable financial statements;
- 3) compliance with the laws of the Republic of Kazakhstan and KMG’s internal regulations.

At this, there are ICS specific limitations that impact the possibility of achievement of goals in the specified areas. The limitations are driven by the following factors:

- 1) judgement — when the ICS subjects make decisions, their subjective judgements may be incorrect;
- 2) external events — impacts of external events that are beyond KMG’s control;
- 3) failures — caused by an employee due to a mistake resulting from inattentiveness or the need to pay attention to a large scope of assignments;
- 4) intentional circumvention of controls — the will and ability to circumvent internal control by voluntary cancellation of the established policies and procedures with the intent to gain some personal benefits or improve one’s performance;
- 5) conspiracy — actions of two or more persons for collective commitment

and concealment of unlawful acts.

1.5 To manage these limitations and prevent misconduct by the ICS subjects, KMG should develop an Unethical Conduct Risk Management Policy.

1.6 The KMG Group should implement uniform approaches for structuring the ICS, including shared goals, principles and methodology. Process-level risk management within the frame of this Policy is a basis for ICS functioning at KMG and its subsidiaries and affiliates (hereinafter the S&A).

2. SCOPE OF APPLICATION

2.1 This Policy applies to all levels of governance, all internal processes and operations of KMG, and is mandatory for reading, understanding and applying by all ICS subjects of KMG.

2.2 The S&A develop their own internal control policies without breaching the provisions hereof, but with due regard to the specifics of their operations, regulatory environment and internal factors like:

- 1) the size and stage of development;
- 2) nature of the operational management model;
- 3) dependency on technologies;
- 4) competency and staff number;
- 5) the presence of process-level risks in terms of possible interruption or incorrect execution of a business process.

3. MAIN OBJECTIVES OF ICS

3.1 The main objectives of ICS are as follows:

- 1) improved efficiency of operations in accordance with KMG's Development Strategy;
- 2) preservation of assets and information, and effective use and distribution of resources;
- 3) ensuring completeness and reliability of financial and management statements, as well as reliability of the system for preparation of such statements;
- 4) compliance with the requirements of the laws and technical regulations of the Republic of Kazakhstan and KMG's internal documents;
- 5) mitigation of process-level risks and reduction of possible losses by introducing effective control procedures, creation of a reliable information basis for managerial decision-making;
- 6) control over effective functioning of business processes and analysis of KMG's performance;
- 7) facilitation to building an optimal organisational structure of KMG;
- 8) identification of areas for improvement and further enhancement of the ICS.

4. MAIN PRINCIPLES OF ICS

4.1 This Policy is based on the following ICS design principles:

1) continued operation — the ongoing and proper functioning of ICS enables KMG to timely identify any non-conformities that have negative impact on KMG's operations and prevent such non-conformities in the future;

2) accountability of the ICS subjects — proper and timely fulfilment of tasks and obligations by each involved ICS subject is monitored by another (superior) ICS subject;

3) segregation of duties — KMG strives to prevent any doubling of control functions, and such functions should be distributed between KMG's officials and employees in a manner ensuring that one and the same person would not perform the functions of approving operations with certain assets, accounting operations, ensuring asset security and taking an asset inventory;

4) proper verification and approval of operations — KMG strives to establish a procedure for approving all financial and business transactions by KMG's bodies and employees within their respective authorities by specifying such procedure in the corresponding internal documents;

5) responsibility of all ICS subjects for proper fulfilment of the control functions that are set out in KMG's internal documents and have been communicated to all ICS subjects;

6) internal control on the basis of seamless cooperation between all KMG's bodies and business units;

7) continuous development and improvement — the ICS must be designed in a manner ensuring its adaptation to changes in the internal and external environment of KMG operation as well as any new challenges;

8) prompt communication of any major control defects and weaknesses — KMG should establish the shortest possible timelines for communication of the corresponding information to the bodies and/or employees authorised to make decisions regarding elimination of major non-conformities;

9) uniformity of the methodological basis — a uniform approach to the application of policies, regulations and procedures in the field of internal control for the KMG Group.

5. ICS COMPONENTS

5.1 In accordance with the COSO model, KMG's ICS comprises the following five interrelated components:

1) control environment;

2) risk assessment;

3) control procedures;

4) information and communication;

5) monitoring procedures.

5.2 The control environment ensures effective functioning of all ICS components and includes the following elements:

- 1) adherence to the principle of integrity and ethics;
- 2) KMG's Board of Directors independence from KMG's Management Board and supervision over the development and functioning of internal controls;
- 3) establishment of an organisational structure providing for three lines of protection:
 - first line of protection (business functions): managers and employees of business units responsible for risk assessment and risk management, as well as for ensuring effective ICS;
 - second line of protection (monitoring functions): managers and employees of business units responsible for ensuring and monitoring the implementation of effective risk management practices, internal control, compliance with the laws, internal documents and investigation of cases of KMG employees' misconduct;
 - third line of protection (independent function): internal audit service that confirms to KMG's Board of Directors and KMG's Management Board that the management and operational systems of the first and second lines of protection are effective.

KMG's Internal Audit Service develops and approves the Assurance Map that specifies the responsibilities and obligations associated with effective functioning of KMG's business processes, risk management and internal control between the three lines of protection.

- 4) dedication to engaging, developing and retaining competent employees in accordance with KMG's goals;
- 5) distribution of responsibilities of the ICS subjects for fulfilment of their obligations in the field of internal control in the process of achieving KMG's goals.

5.3 Risk assessment is performed in compliance with the ICS internal documents and is aimed at ensuring identification, assessment and analysis of risks that might have a negative impact on achievement of KMG's operational goals. Risk assessment includes the following:

- 1) establishing clear goals to ensure that risks can be identified and assessed;
- 2) identifying and analysing risks that impact the achievement of KMG's goals;
- 3) taking into consideration the possibility of unethical acts by KMG subjects during risk assessment;
- 4) identifying and assessing changes (in the external environment, business model, management) that may have a significant impact on the ICS.

5.4 The control procedures are the policies and procedures that ensure effective internal control over fulfilment of KMG's goals, objectives and plans. The control procedures include the following elements:

- 1) developing control procedures that mitigate risks to an acceptable level;
- 2) developing general controls over information technologies to achieve the

goals;

3) implementing the control procedures through policies for obtaining expected results and procedures applied.

5.5 KMG's information and communication system provides complete and adequate information about events and conditions that may influence decisions. The system includes the following elements:

1) receiving, preparing and using quality information for maintaining the internal control;

2) internal communication, including exchange of information about goals and obligations in the field of internal control that is required for the functioning of internal control;

3) communication with external parties regarding issues that impact the functioning of internal control.

KMG takes measures to ensure the functioning of effective information registration and exchange channels, including both vertical and horizontal relations, to facilitate understanding of, and compliance with, KMG's internal control policies and procedures by all ICS subjects. KMG takes measures to establish sufficient controls to protect its applications and systems from unauthorised access and use of information. The effectiveness of such controls is regularly and independently verified (for instance, through information security analysis and penetration tests).

5.6 The ICS monitoring procedures may be implemented as either continuous monitoring or single-time assessment, or as a combination of both, and include the following elements:

1) continuous and/or periodic assessment of the ICS components to provide reasonable assurance that all internal control components are in place and function effectively;

2) timely assessment and communication of ICS faults to the ICS subjects that are responsible for applying corrective measures, including the Management Board and the Board of Directors.

6. FINAL PROVISIONS

6.1 The mechanism for implementation of this Policy (the organisational structure of the ICS, distribution of authorities and responsibilities between the ICS subjects, as well as the internal control procedures) is set forth in KMG's internal documents in the field of ICS.

6.2 This Policy and all amendments thereto are approved by KMG's Board of Directors.

6.3 Any issues not covered by this Policy should be governed by the laws of the Republic of Kazakhstan, KMG's Charter and other internal documents.