

Internal Control of TVEL FC

The Internal Control System (ICS) of the Fuel Company is an interconnected integral complex of organizational structures, processes and procedures, rules for their implementation, management system characteristics that continuously or from time to time performs the function of internal control and ensures the achievement of the objectives of internal control.

Special Department for Internal Control (SDIC) is a division of the Fuel Company that is solely engaged in internal control activities with respect to various spheres of business.

SDIC of TVEL JSC (competence of the Internal Control and Audit Division) comprises of Control and Audit Administration, Internal Audit Department and Competitive Policy Control Department, and acts in accordance with regulatory legal acts of the Russian Federation, local regulations of ROSATOM State Corporation and TVEL JSC, and Provisions on the said structural divisions.

Purpose of the ICS in accordance with ROSATOM State Corporation Internal Control Development Concept is to improve assurance in achievement of the strategic goals of TVEL FC and contribute to corporate governance improvement in TVEL JSC and the companies within the control loop of the Fuel Company in accordance with applicable laws of the Russian Federation, regulatory government authorities and international standards.

The purpose of ICS development is to maintain corporate governance mechanisms (primarily, those related to supervisory functions) in adequate condition to changing external and internal situation.

Priority task of the Internal Control and Audit Division is to maintain governance of ICS functioning and development processes.

Main subjects of the internal control system in the Fuel Company: President of TVEL JSC, the Board of Directors of TVEL JSC, management of TVEL JSC, Internal Control and Audit Division of TVEL JSC (ICAD of TVEL JSC), as well as corporate bodies and the SDIC of SA of TVEL JSC.

Objects of control: TVEL JSC, its SA and their structural divisions and the activities they conduct.

Results of 2013

In pursuance of the objectives set for the year of 2013, the Internal Control and Audit Division of TVEL JSC carried out:

- audits of business (management) processes to assess the risk of defaulting on the operations goals; following the audit, the ICS efficiency was assessed and recommendations were made as to the improvement of efficiency and performance of these processes;
- audit arrangements to assess the efficiency of financial and business performance of TVEL JSC and SA of the Fuel Company; based on the results, the auditors drafted the remedial actions plan with respect to violations detected in the course of the audit.

Table 10. Number of Control Activities Conducted by Professionals of the Internal Control and Audit Division of TVEL JSC in 2011-2013

Indicator	Unit of measurement	20 11	20 12	20 13	2013/2012 %
Number of control arrangements carried out in accordance with the plan, including:	ea.	33	38	51	34
in Audit Committees	ea.	23	25	27	8
audit of financial and business activities, including procurement and HR administration	ea.	10	8	16	100
internal audit	ea.	0	5	8	60

All of the audits scheduled in the Consolidated Plan of control measures are implemented.

The ICAD conducts follow-up monitoring of remedial actions with respect to violations detected in the course of the audit.

Tasks for the Period up to 2015

The following actions are taken for the purpose of development of the internal control system in accordance with Internal control Policy of ROSATOM State Corporation and its enterprises for the period up to 2015:

- integration of adequate control procedures in the processes and assignment of duties and responsibilities to the participants for the efficiency of internal control;
- development of mechanisms to encourage of vital stakeholders to take part in internal control activities;
- continuous monitoring of the ICS reliability and efficiency by introduction of various methods to promote continuous control and regular assessment of the internal control system;
- development of the SDIC competencies and potential.

Procurement Activities

Basic documents of TVEL JSC and its SA that regulate procurement activities and set the supplier and contractor selection criteria are:

- Unified Industrial Procurement Standard of ROSATOM State Corporation ("the UIPS");
- TVEL JSC Corporate Standard Procurement Process.

Procurement procedures are implemented using the following electronic platforms: EETP JSC, Fabrikant LLC and A-K-D LLC. This approach to procurement management promotes its openness and transparency, and saves labor and financial resources.

Procurement procedures based on free competition saved TVEL FC in 2013 approx. RUB 2,534.2 mln.

Dynamics of key indicators of efficiency of TVEL FC procurement activities is shown in Table 11 below.

Table 11

Indicator	Unit of measurement	2011	2012	2013
Share of procurement through public competitive procedures under the UIPS	%	90.1	96.2	95.22
Total amount of procurement by TVEL FC	mln RUB	98,152.6	133,386.7	161,199.8
Total amount saved by TVEL FC from procurement through public competitive procedures	mln RUB	1,994.6	2,051.0	2,534.2

Over 90% of competitive procurement procedures are carried out at electronic trading platforms.

Dynamics seen in the Table above indicates the enhanced efficiency of procurement management and transparency of procedures. Efficient interaction with suppliers reduces the risk of corruption, fraud and purchase of substandard quality products.

GRI G3.1: EC6

Pursuant to TVEL JSC Procurement Standards, the Company may not provide any preferences to the suppliers on a territorial basis. Local suppliers participate in competitive procedures on a common basis and are subject to no special approach of any kind. The exception is only envisaged for outsourcing companies founded during the restructuring of the Fuel Company (TVEL FC guarantees certain volumes of orders over a period of five years). To this effect, 75% of orders in 2013 were guaranteed to enterprises comprising TVEL FC and 25% to open tenders; starting in 2014, the proportion will change from 60%-40% to 50%-50% and to 25%-75% every year.

GRI G3.1: HR1 HR2

Some of the key suppliers and contractors of TVEL FC enjoy monopolist position on the

market'. Under the TVEL JSC Procurement Standards, procurement procedures with such contractors are implemented without announcement of any tender (for entities representing natural monopolies) and through the "Procurement from Sole Supplier" procedure.

TVEL FC supports, respects and protects basic human rights and builds its external business relationship on the principles of honesty, integrity and openness.

At the discretion of the suppliers, the competitive procedures may have no provisions that are potentially detrimental to human rights. The Company also keeps any such provisions from its contracts and agreements. Since there are no regulatory requirements, the suppliers and contractors are subject to no assessment for their respect of human rights

* Analytical capacity of the system is not sufficient for estimates.

but all contracts are checked for compliance with applicable laws of the Russian Federation which implies human rights compliance check. All enterprises comprising the Fuel Company have the all obligatory organizational structure and resources for performance of procurement in accordance with the c UIPS.

Since 2013, all enterprises comprising the Fuel Company place their competitive bids by means of an integrated solution of the centralized procurement system EOS-Zakupki Rosatom (SAP SRM), online trade platforms and the official Website of ROSATOM State Corporation <http://zakupki.rosatom.ru/>.

Over the year of report, Commercial Center JSC (CC JSC)* upgraded its Website by adding a function that allows the potential participants, subject to their prior registration, to receive personal invitations to participate in procurement procedures involving the lots of their interest.

Enterprises covered by Federal Law No. 223-FZ "On Procurement of Goods, Works and Services by Certain Legal Entities" are required to publish the procurement information in the integrated information system of the Russian Federation <http://zakupki.gov.ru/>.

In September 2012, TVEL JSC appointed an arbitration committee that is competent to study complaints against actions (or omission thereof) of the customer, competent authority, procurement manager and/or procurement commission during the implementation of procurement procedures in the interest of organizations governed by TVEL FC.

Over the period of report, 156 complaints were submitted to the arbitration committee with respect to procurement procedures to the amount of RUB 2,274.28 m, of which: 39.8% were found to be without merit; 13.1% – valid; 7.8% – partially valid; 19.6% – revoked by the petitioner; and 19.7% tabled by reason of wrong jurisdiction and other technicalities (wrong procedure, form and terms of filing).

On January 1, 2013, acting in compliance with procurement procedure decentralization policy, TVEL FC set specific limits: subsidiaries and affiliates may engage in procurements to the amount up to RUB 5 mln.; CC JSC shall be responsible for procurement within the range of RUB 5 mln. to RUB 100 mln.; whereas procurement to the amount exceeding RUB 100 mln. shall be within the competence of Atomkomplekt JSC**.

To streamline the decentralized procurement, a number of measures were taken, including:

- personnel recruitment and training;
- setting the structure of supervisory bodies;
- enhancement of asset protection; and
- integration of information systems.

In furtherance of the roadmap "Streamlined Admittance of Small and Mid-sized Businesses to Procurements by Infrastructural Monopolies and Government-linked Companies", approved by Decree of the Government of the Russian Federation No. 867-r dated on May 29, 2013, TVEL JSC developed a plan to facilitate participation of small and mid-sized businesses in competitive procedures of TVEL FC. Implementation of the plan will commence following the approval of regulatory legal acts applicable the roadmap.

Project "FC Logistics Management System Optimization" started late in 2013.

* CC JSC is an SA of TVEL JSC specifically assigned to implement procurement procedures.

** Atomkomplekt JSC is one of the SA of ROSATOM State Corporation.

Purpose of a project:

- introduction of category management* in TVEL FC;
- reduction of stock at the warehouses of companies comprising the Fuel Company (optimization of uncalled stock and reduction of their level at the enterprises);
- optimization of warehouse infrastructure and material flows (optimization of material flows both in the internal logistics scheme of the enterprises, between the enterprises comprising TVEL FC and between enterprises of various divisions of ROSATOM State Corporation).

Implementation of the project will continue until 2016.

Information Technologies

Seeking to improve its performance and to optimize business processes, TVEL FC uses the latest information technologies and solutions.

In 2013, the IT Department continued:

- project activities for further development and introduction of modern information systems in accordance with Information Technologies Transformation Program of ROSATOM State Corporation, and the needs of TVEL JSC management with due account for the development plans of the Fuel Company;
- coordination of IT activities of TVEL FC enterprises;
- securing smooth operation of employees.

Key Results of 2013

- Successful completion of the project for replication of Standard Solution for Resource Management System of the Fuel Company on the basis of SAP ERP at KMP OJSC, JSC CMP, JSC PA ECP, JSC NNCP, and JSC AECC.
- Q3-Q4 of 2013 – Uniform Industry-specific System of Electronic Document Management of ROSATOM State Corporation put online at six more enterprises comprising the Fuel Company (Uralpribor Ltd., NRDC LLC, Centrotech-SPb, EDB-Nizhniy Novgorod, CPTI OJSC and JSC MZP).
- Successful completion of project “Replication of Extended Master System for HR Management at Manufacturing Facilities of the Second Line” at JSC PA ECP, JSC CMP and KMP OJSC.
The system contributed to total automation of HR records, organization structure management, time-keeping, salary accounting, performance management and labor protection records. Consequently, all enterprises covered by the SAP ERP of the Fuel Company also operate the Uniform Centralized HR Management System SAP HCM of ROSATOM State Corporation.
- Successful completion of the project “Development of Automated Control System for Design Engineering Pre-production” (ACS DEP) within Fabrication Division. Extended functionality launched into commercial operation at MSZ JSC, JSC CMP, JSC NNCP and TVEL JSC.
- Project “Replication and Development of the ACS DEP” is successfully underway within Gas centrifuges Division. Extended functionality launched into test operation at EDB-Nizhniy Novgorod, KMP OJSC, NRDC LLC., UGCMP LTD., Uralpribor Ltd., Centrotech-SPb – branch of NRDC LLC., and TVEL JSC.

* Category management as it pertains to procurement means the operations plan to promote efficient management of procurement, supplies, stock and interaction with suppliers of each specific category of purchased products. By introducing the category management, TVEL FC intends to minimize involvement of go-between companies and to enter into long-term contracts directly with manufacturers.

Development of the ACS DEP in the course of the abovementioned projects will:

- 1) reduce the cost of design and technological preparation of production through the use of more efficient ways of activity management by 10%;
- 2) expedite coordination of technical documentation with enterprises by 10% through automated interaction with the said enterprises;
- 3) expedite the design and production start-up of products by 20% by coordination of interaction between divisions of the companies and by using standard design solutions and know-how accumulated in the System.

- President of TVEL JSC approved the Agreement for Online Interaction and Use of Digital Signatures in the Course of Design and Engineering Documentation Management at the Enterprises Comprising the Fuel Company.
- NRDC LLC. completed the project “Replication of the Unified Corporate Resource Management System 1C ERP: Rosatom”. The System is put into commercial operation.
- Project “Creation of Centralized Corporate Fund of Normative and Technical Documentation (CFNTD) for Procurement and Documentation of Integrated Management System for Quality, Environment and Safety of the Fuel Company” completed.

IT projects planned for 2013 completed in full.

Pursuant to Rosatom Information Transformation Technology Program, the following projects are planned for 2014 (subject to availability of funding):

- Pilot Implementation of Lifecycle Element Management Subsystems of the Product in Gas centrifuge Division;
- Replication of ACS DEP in Fission and Sublimation Complex (JSC UEIP, JSC PA ECP, JSC SGChE and JSC AECC);
- Development of Operating Activity Automation Concept for JSC VNIINM;
- Development of Concept for Integrated Design Management System at CPTI OJSC;
- Extension of Functionality of Corporate Data Storage and a number of other projects.

Legal Scope of Activity of TVEL FC

TVEL JSC takes part in legislative initiatives of ROSATOM State Corporation in accordance with the plan of law-making activities and within its own competence. The working group prepares suggestions, analyzes draft documents of federal executive authorities, and drafts bills. The suggestions considered by the working group affect the regulation of the activities of TVEL FC and other organizations of the nuclear power industry.

For example, in 2013 TVEL FC professionals participated in drafting of the following regulations:

- regulatory legal acts necessary for implementation of Federal Law No. 190-FZ dated on July 11, 2011 – “On Nuclear Waste Handling and on Amendments to Certain Legislative Acts of the Russian Federation”;
- Draft Federal Law “On Amendments to Federal Law No. 170-FZ dated 21.11.1995 “On the Use of Nuclear Energy” (in the working group of ROSATOM State Corporation).