



APPROVED BY
by the decision of the general meeting
of shareholders of JSC "Xazorasp paxta tozalash"
June 24th 2016

**REGULATIONS
ON INNER CONTROL OF THE
JOINT-STOCK COMPANY "XAZORASP PAXTA TOZALASH"**

2016 year

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I. GENERAL PROVISIONS

1. This Regulation on Internal Control (hereinafter - Regulations) of “Xazorasp paxta tozalash” Joint-Stock Company (hereinafter – Company) was developed in accordance with the current legislation of the Republic of Uzbekistan, the Charter of the Company, the Code of Corporate Governance, and approved by the minutes of the Commission meeting on increasing the efficiency of joint-stock companies and improving system of corporate management of 31.12.2015. No. 9 and internal documents of the Company.

2. This Regulation determines the goals and objectives of the internal control system, the principles of its operation, as well as the bodies of the Company and those, who responsible for internal control.

II. DEFINITION AND OBJECTIVES OF THE INTERNAL CONTROL SYSTEM

3. Internal control is a continuous process that is based on the Company's activities and aimed at improving the efficiency of risk management, control and corporate governance processes in order to obtain reasonable and sufficient confirmation of the Company's objectives in the following areas:

- Efficiency and productivity of the activities, including the degree of efficiency, profit and asset protection;
- Reliability and accuracy of financial statements;
- Compliance with legislation and legal norms that regulate the activities of the Company.

4. Internal control system is a set of organizational structure, controlling measures, procedures and internal control methods, regulated by internal documents, organized and conducted in the Company by Revision Commission, the Internal Audit Service, the Supervisory Board, the executive body and other employees at all levels (hereinafter - subjects of internal control) and for all functions. Qualifications of the members of the internal control bodies can be established at the Regulations on their activities.

5. Internal control procedures are a set of measures carried out by Audit Commission of the Company, Supervisory Board of the Company, Internal Audit Service (and, in its absence, the Supervisory Board of Audit Committee), the Company's executive body, as well as the Company's divisions authorized to carry out the internal control further subdivisions of the Company), and aimed at revealing violations of the legislation and the internal documents at financial and economic activities, and at evaluation of the effectiveness on achieving these goals, as well as the interaction between the internal control subjects at the process of implementing internal control procedures.

6. The main purpose of internal control is to ensure the protecting the rights and legitimate interests of all shareholders, including minority shareholders.

7. Internal control is designed to ensure at operational regime:
safety of assets, efficient use of the resources;

Compliance with the requirements of the current legislation and internal documents of the Company;

Implementing the Company's development strategy for the medium and long term periods, business plans of the Company;

Completeness and reliability of accounting documents, financial statements and management information of the Company;

Detecting, identification and assessment of risks on time of occurrence at the activities of the Company;

Planning and risk management in the Company's activities, including on time and adequate risk management decisions;

Establishing and maintaining good reputation in business circles and consumers;

Adequacy, transparency and fairness at bonus payments and compensations to members of the executive body, the supervisory board and the audit commission, including their amounts.

III. FUNCTIONING PRINCIPLES OF AN INTERNAL CONTROL SYSTEM

8. Internal control system in the Company is based on the following principles:

uninterrupted operation - the permanent and proper functioning of the internal control system allows the Company to promptly identify any deviations from the norm and prevent their occurrence in future;

accountability of all control system participants - performance quality of control functions done by person is controlled by another participant of internal control system (horizontal and vertical control);

share of duties - the Company seeks to avoid duplication of control functions, and these functions should be distributed among employees in such a way that the same person does not unite functions associated with approving transactions with certain assets, taking into account operations, ensuring the safety of assets and carrying out their inventory;

Appropriate support and approval of operations - The Company seeks to establish the procedure for approving all financial and economic transactions by authorized persons within their respective authorities;

ensuring organizational exclusion of Company's subdivision, which performs daily internal control, and its functional accountability directly to Supervisory Board via Audit Committee;

Responsibility of all internal control subjects that are working in the Company for making the proper performance of control functions;

implementation of internal control based on a clear interaction of all divisions of the Company;

continuous development and improvement - the Company must provide flexibility at internal control system so that the system reacts quickly and easily adapts to new conditions and methods of control;

timeliness on transmitting reports of deviations - Company has established the shortest possible time for transferring relevant information to persons authorized to take decisions for eliminating deviations;

identifying priority areas of the activity of the Company in where control is established - the strategic directions covered by the internal control system are highlighted, even if the effectiveness of functioning (cost-benefit ratio) is difficult to measure.

IV. COMPONENTS OF INTERNAL CONTROL SYSTEM

9. Internal control system includes the following interrelated components:

a control environment that includes the ethical values and competence of the Company's employees, management policy, the way in which management assigns authority and responsibility, organizational structure and improvement of staff skills, and administration and management from the side of supervisory board;

risk analysis, which is the detection, identification and assessment of the relevant risks on achieving certain tasks, which are interrelated at different levels and coherent;

monitoring activities, summarizing policies and procedures that help to ensure that management decisions are being executed, and includes a variety of activities, such as: issuing approvals, sanctions, confirmations, inspections, monitoring current activities, ensuring security of assets and sharing responsibility;

information support and information exchange activities aimed at the timely and effective data identification, their registration and exchange, including creation of effective channels for information exchange in order to form an understanding among all internal control subjects on internal control policies and procedures, which are adopted by the Company and on their execution. The Company takes measures to protect against unauthorized access to information;

Monitoring is a process that includes management and oversight functions, which the quality of the system's performance is assessed over time. Evaluation of internal control system is conducted to determine the probability of errors affecting the reliability of financial statements, to clarify materiality of these errors and determine the ability of the internal control system to do assigned tasks. An independent professional organization, a consultant, might be engaged to assess the effectiveness of the internal control system in the Company but by a decision of the general meeting of shareholders and based on the proposal of the Supervisory Board.

V. BODIES AND PERSONS RESPONSIBLE FOR INTERNAL CONTROL

10. Internal control is carried out by Revision Commission, Supervisory Board of the Company, Internal Audit Service, the Head of Executive Body, as well as other employees of the Company at all levels, and everyone is responsible for internal control in accordance with the established procedure. In the Company, where there is no internal audit service, an audit committee is created under supervisory board, which also exercises internal control. The Committee is created from the members of supervisory board, the executive body, the Company's staff and attracted experts (specialists with the relevant profile, teaching staff of specialized higher education institutions and others). The goals, tasks and powers of the audit committee are established in the Regulations on the Audit Committee of the Company's Supervisory Board.

11. Functions, rights, duties and responsibilities of operating divisions of the Company are mentioned at the internal documents. These documents, as well as other documents that directly or indirectly affect the issues of internal control can not contradict this regulation. The procedure of calculating bonuses and remunerations paid to persons dealing with internal control is established by internal documents of the Company.

12. In order to ensure systemic control over the Company's financial and business operations, the internal control procedures are carried out by authorized division of the Company - the internal audit service, if such service does not exist, Audit Committee under supervisory board should be established, and the revision commission of the Company, undertakes in cooperation with other bodies and divisions of the company.

13. The Supervisory Board functions are as follows:

Determining direction of development and supporting certain operations and strategies of the internal control system;

annual report at the general meeting of shareholders considering results of analysis and reliability assessment and effectiveness of the internal control system based on data of regular reports of the head of the executive body, internal and external audits, revision committee, information from other sources and his own observations in all aspects of internal control, including: financial control, operational control, control over compliance with legislation, control of internal policies and procedures;

determination of the structure and composition of divisions responsible for internal control;

continuous improvement of internal control procedures.

14. The responsibility for organizing control over reliability and completeness of financial statements, credibility and effectiveness of internal control system is assigned to internal audit service (or Audit Committee of Supervisory Board).

15. The responsibility for creating conditions for functioning internal control system, in accordance with the policy approved by supervisory board, is vested in the head of executive body

The Head of Internal Audit Service (or Audit Committee of Supervisory Board) implements the procedures of internal control system and ensures its effective functioning; keep the supervisory board informed of all risks of the Company, significant drawbacks of internal control system, as well as plans and results of eliminating measures.

16. Employees (including managers) of departments of any level within their competence participate directly in detailed development of control strategies and procedures.

Their responsibility is to solve problems as they arise, within the scope of their authority. On significant issues or arising on a particular transaction risks, employees report to the higher-level management of the Company.

17. The responsibility for controlling over the financial and economic activities of the Company and its separate subdivisions is vested in the permanently operating body of

internal control - the Revision Committee, whose goals, tasks and powers are specified in Regulations of Revision Committee.

18. Responsibility for regular control over performing internal control procedures, namely, the compliance of the financial and business operations with legislation of the Republic of Uzbekistan and the Company's Charter as a whole, its separate subdivisions, and the completeness and reliability of accounting and financial reporting lies on the internal audit, whose goals, tasks and powers are specified in the Regulation on Internal Audit Service.

The Regulations on Internal Audit Service are approved by Supervisory Board of the Company.

19. The Internal Audit Service of the Company reports to Supervisory Board on results of effective functioning of internal control system.

20. The following persons are not entitled to hold positions in Internal Audit Service of the Company:

- persons who have an existing sentence for crimes in the sphere of the economy or for crimes against the discipline;
- persons who are the head or members of executive body of the Company;
- persons who are founders (shareholders, participants), the head or members of the another executive body or employees of another legal entity that is considered as a competitor to the Company;

Supervisory Board may also establish other requirements for persons who are member of internal audit service.

21. The proper functioning of internal control system also depends on the professionalism of the staff. The Company makes efforts that the system of recruiting, hiring, training and promotion of employees ensures their high qualification and a compliance with high ethical standards.

VI. PROCEDURES AND METHODS OF INTERNAL CONTROL

22. Internal control procedures include:

determination of interrelated and consistent goals and objectives in various levels of the management of the company;

identification and analysis of potential and existing operational, financial, strategic and other risks that may slow down the achievements of the business activity;

assessment of essential components of internal control;

assessment of effectiveness of internal control system in business processes;

determination of criteria and effectiveness evaluation of activities of structural units, officials and other employees of the Company;

review of financial and other information by comparing it for prior periods or with expected activity results;

use of adequate ways of event recording, operation and transaction accounting;

checking safety of assets;

proper documentation of internal control procedures;

regular assessments of internal control system quality;

informing all employees of the Company about their responsibilities in the field of internal control;

distribution of key responsibilities between the Company's employees (including duties for approving and adopting operations, accounting operations, issuing, storing and receiving resources, analyzing and verifying transactions);

approval and implementation of transactions only by those persons who are vested with appropriate powers;

other procedures necessary to achieve goals on the internal control.

23. When conducting internal control procedures, methods of inspection, observation, confirmation, recounting, as well as other methods necessary for the implementation of internal control procedures are applied.

VII. FINAL PROVISIONS

24. This Regulation, as well as amendments and supplements shall be approved by the decision of the General Meeting of shareholders.

25. Amendments and supplements to this Regulation shall be made upon the proposal of the members of Supervisory Board, external auditor of the Company, revision commission of the company, internal Audit Service of the Company, the head of the executive body of the company.

26. If there are changes in legislation and regulations of the Republic of Uzbekistan and certain articles of these Regulations conflict with them, these articles become invalid, and the Company is guided by the legislation and regulatory acts of the Republic of Uzbekistan until introducing amendments to the Regulations.