

Translated from Russian into English

APPROVED
By Annual General Meeting of Shareholders
Of JSC “KARBONAT”
Minutes No.2 on June 22, 2016

**REGULATION
ABOUT
INTERNAL CONTROL
OF JOINT STOCK COMPANY
“KARBONAT”**

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1. General Provisions

1.1. This Regulation about internal control of the joint stock company "KARBONAT" (hereinafter referred to as the company) was developed in accordance with the legislation of the Republic of Uzbekistan, the Code of Corporate Governance, approved by the minutes of the meeting of the Commission on improving the efficiency of joint stock companies and improving the corporate governance system dated December 31, 2015 under No. 9, Articles of the company and other internal documents of the company and defines the goals and objectives of the internal control system, the principles of its functioning, as well as the bodies of the company and persons responsible for internal control.

1.2. Internal control is a continuously operating process built into 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 in relation to the achievement of the company's goals in the following areas:

- efficiency and productivity of operations, including degree of operational efficiency, profit making and asset protection;
- reliability and reliability of financial statements;
- compliance with legislation and legal norms that govern the activities of the society.

1.3. The internal control system is a set of organizational structure, control measures, procedures and methods of internal control, regulated by internal documents, organized and implemented in the company by the Audit Commission, the Internal Audit Service, the Supervisory Board, the Management Board and other employees at all levels (hereinafter - entities of internal control) and for all functions. Qualifications of members of the internal control bodies of the company can be established in the regulations on their activities.

1.4. Internal control procedures are a set of measures carried out by the Company's Audit Commission, the Company's Supervisory Board, the Company's Management Board, as well as the company's divisions authorized to exercise internal control (hereinafter referred to as the company's divisions), and aimed at identifying violations of legislation and internal documents of the company in the implementation of financial - economic activities, to assess the effectiveness of the company's achievement of its goals, as well as the interaction of subjects of internal control with each other in the process of implementation of internal control procedures.

1.5. A main purpose of internal control is to ensure the protection of rights and legitimate interests of all shareholders, including minority shareholders.

1.6. Internal control is designed to ensure in an operational mode:

- preservation of assets, economical and efficient use of society's resources;
- compliance with the requirements of legislation and internal documents of the company;
- implementation of the company's development strategy for the medium and long term, the company's business plans;
- completeness and reliability of accounting documents, financial statements and management information of the company;

identification, identification and analysis of risks at the time of their occurrence in the company's activities;

planning and managing risks in the company's activities, including making timely and adequate decisions on risk management;

establishing and maintaining a good public image in business and consumers;

adequacy, transparency and objectivity of the payment of remuneration and compensation, including its size, to the members of the Management Board, the Supervisory Board and the Audit Commission.

2. Principles of functioning of the internal control system

2.1. Internal control system in the company is based on the following principles:

uninterrupted functioning - the constant and proper functioning of the internal control system allows the company to timely identify any deviations from the norm and prevent their occurrence in the future;

accountability of all participants in the internal control system - the quality of performance of control functions by each person is controlled by another participant in the internal control system;

separation of duties - the company seeks to prevent duplication of control functions, and these functions should be distributed among employees in such a way that the same person does not combine functions related to the approval of transactions with certain assets, taking into account operations, ensuring the safety of assets and conducting their inventory;

proper approval and approval of operations - the company seeks to establish a procedure for the approval of all financial and business operations by authorized persons within the limits of their respective powers;

ensuring the organizational isolation of the company's division that carries out daily internal control, and its functional accountability directly to the Supervisory Board;

responsibility of all subjects of internal control working in the company for the proper performance of control functions;

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

constant development and improvement - the company strives to provide conditions for flexible adjustment of the internal control system so that it can be adapted taking into account the need to solve new problems, expand and improve the system itself;

timeliness of transmission of messages on deviations - the company has established the shortest possible time for transferring relevant information to persons authorized to make decisions on eliminating deviations

prioritization of the areas of activity of the company in which control is being established - strategic directions covered by the internal control system are highlighted, even if the efficiency of their functioning (ratio of "costs - economic effect") is difficult to measure.

3. Components of the internal control system

3.1. Internal control system includes the following interrelated components:

control environment, which includes the ethical values and competence of the company's employees, management policy, the way management distributes authority and responsibility,

the structure of the organization and staff development, as well as the leadership and management of the supervisory board;

risk assessment - which is the identification and analysis of the relevant risks in the achievement of certain tasks, interconnected at various levels and internally consistent;

control activities that summarize the policies and procedures that help ensure that management decisions are implemented, and includes a wide variety of activities, such as: approvals, sanctions, confirmations, audits, monitoring of ongoing activities, asset safety assurance and separation of powers;

information support and information exchange activities aimed at the timely and effective identification of data, their registration and exchange, including, among other things, the creation of effective information exchange channels in order to form in all subjects of internal control an understanding of the company's policies and procedures for internal control and their execution. The company takes measures to protect against unauthorized access to information;

monitoring - a process that includes the functions of management and supervision, during which the quality of the system is assessed over time. An assessment of the internal control system is carried out to determine the likelihood of errors that affect the reliability of financial statements, to clarify the materiality of these errors and to determine the ability of the internal control system to ensure the fulfillment of the assigned tasks. To assess the effectiveness of the internal control system in the company by a decision of the General Meeting of Shareholders on the basis of the proposal of the Supervisory Board, an independent professional organization - a consultant may be involved.

4. Bodies and persons responsible for internal control

4.1. Internal control is carried out by the Internal Audit Service, the Supervisory Board, the Audit Commission, the Chairman of the Management Board, as well as other employees of the company at all levels, and each is responsible for internal control in accordance with the established procedure.

4.2. Functions, rights and obligations, responsibility, procedure for calculating compensations and paid remuneration of the divisions functioning in the company are stipulated by the internal documents of the company. These documents, as well as other documents directly or indirectly affecting the issues of internal control, cannot contradict these Regulations.

4.3. Functions of the Supervisory Board include:

determination of the direction of development and approval of certain operations and strategies of the internal control system;

annual report at the annual General Meeting of Shareholders of the company on the results of the analysis and assessment of the reliability and efficiency of the internal control system based on data from regular reports of the Chairman of the Management Board of the company, internal and external audits, the Audit Commission, information from other sources and own observations on 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 the division of the company responsible for internal control;

continuous improvement of internal control procedures.

4.4. Responsibility for exercising regular control over the implementation of internal control procedures, namely, over the compliance of the performed financial and business operations of the Company with the legislation of the Republic of Uzbekistan and the Charter of the company as a whole, its separate divisions, as well as over the completeness and reliability of financial statements lies with the internal audit service, the role, goals, tasks, the powers of which are reflected in the regulation on the internal audit service.

4.5. Company's internal audit service reports to the Supervisory Board on the results of internal audit and internal control systems.

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

- persons with an outstanding conviction for economic crimes or crimes against order;
- persons who are members of the Management Board of the company;
- persons who are founders (shareholders, participants), members of the Management Board, or employees of another legal entity that is a competitor to the company.

4.7. Responsibility for its functioning, in accordance with the policy in the field of internal control of the company approved by the Supervisory Board, rests with the Chairman of the Management Board, who implements the procedures of the internal control system and ensures its effective functioning, promptly informing the Supervisory Board about all risks of the company, significant shortcomings of the internal control system, as well as plans and results of measures to eliminate them.

4.8. Employees (including managers) of departments of any level within their competence are directly involved in the detailed development of strategies and procedures for the implementation of control. Their responsibility is to deal with unusual situations and problems as they arise. On significant issues or risks arising from a specific transaction, employees report to the higher management of the company.

4.9. Responsibility for exercising control over the financial and economic activities of the company and its separate subdivisions is assigned to the permanent internal control body - the Audit Commission, whose role, goals, tasks, the powers of which are reflected in the regulations on the Audit Commission.

4.10. A proper functioning of the internal control system also depends on the professionalism of the employees. The Company makes efforts to ensure that the system of selection, recruitment, education, training and promotion of employees ensures their high qualifications and compliance with high ethical standards.

4.11. Those responsible for internal control must meet the following requirements:

- have a higher education;
- have at least five years of work experience;
- have no convictions for economic crimes or crimes against order;
- not be a participant, member of management bodies and (or) an employee of legal entities that are competitors of the company.

5. Procedures and methods of internal control

5.1. Company's internal control procedures include:

- determination of interrelated and consistent goals and objectives at various levels of society management;
- identification and analysis of potential and existing operational, financial, strategic and other risks that may interfere with the achievement of the goals of the company;
- assessment of the essential components of internal control;
- assessment of the effectiveness of the internal control system of business processes;
- defining criteria and evaluating the effectiveness of the work of structural divisions, officials and other employees of the company;
- consideration of financial and other information in comparison with comparable information for previous periods or with expected results of operations;
- use of adequate methods of recording events, operations and transactions;
- checking the safety of assets;
- proper documentation of internal control procedures;
- regular assessments of the quality of the internal control system;
- communicating to all employees of the company their duties in the field of internal control;
- distribution of key responsibilities between the company's employees (including responsibilities for approving and approving operations, accounting for operations, issuing, storing and receiving resources, analyzing and verifying operations);
- approval and implementation of transactions only by those persons who are endowed with the appropriate powers;
- other procedures necessary to achieve the goals of internal control.

5.2. Upon carrying out internal control there are used procedures, methods of inspection, observation, confirmation, recalculation, as well as other methods necessary for the implementation of internal control procedures.