

**«APPROVED» BY**  
**No.10 Resolution of the Sole Shareholder**  
**JSC «Uzbekiston Temir Yullari »,**  
**dated « 30 » September 2016**

**JSC "Uzbekiston Temir Yollari"**  
**REGULATION**  
**Regarding the Internal Control**

**I. GENERAL PROVISIONS**

1. This Regulation regarding the internal control of the Joint-Stock Company "Uzbekistan Temir Yollari" (hereinafter - the Company) has been developed in accordance with the current legislation of the Republic of Uzbekistan, the Company's Articles of Association, Code of Corporate Governance, approved by No 9 Minutes of Meeting of the Committee for increasing the efficiency of Joint-Stock Companies and improving the corporate governance system dated 31.12..2015 and internal documents of the Company.

2. This Regulation determines the aims and objectives of the Company's internal control system, principles of its operation, as well as on the management bodies and persons responsible for internal control in the Company.

**II. DEFINITIONS AND OBJECTIVES OF THE INTERNAL CONTROL SYSTEM**

3. Internal control is an ongoing process aimed at improving the effectiveness of risk management and corporate governance in order to obtain reasonable and sufficient evidence of achievement of the Company's objectives in the following areas:

- efficiency and productivity of the Company's activities, including the degree of efficiency of operations, profit generation and asset protection;
- reliability and accuracy of the Company's financial statements;
- compliance with legislation and norms of law.

4. The system of internal control is a set of organizational structure, regulating measures, procedures and methods of internal control, specified by internal documents, maintained and carried out by the Supervisory Board, Audit Committee, Internal Audit Service and the Company's Executive Board, other employees at all levels (hereinafter referred to as entities of the internal control) and for all functions.

5. Internal control procedures are a set of measures implemented by the Supervisory Board, Executive Board, Audit Committee, Internal Audit Service and the Company's subdivisions authorized to perform internal control and aimed at identifying violations of the legislation and internal documents of the Company in the conduct of financial and economic activities, for evaluation of the Company's efficiency on the achievement of set goals, as well as the interaction of the internal control entities between themselves in the process of implementing procedures of internal control.

6. The main purpose of internal control is to ensure protection of the rights and legitimate interests of the Company's sole shareholder.

7. Internal control is designed to ensure on an on-going basis:

- safety of assets, economical and efficient use of the Company's resources;
- compliance with the requirements of the current legislation and internal documents of the Company;

- implementation of the Company's development strategy for the medium and long term, business plans of the Company;
- completeness and reliability of accounting documents, financial statements and management information of the Company;
- identification, determination and analysis of risks at the time of its occurrence in the activities of the Company;
- planning and risk management in the Company's activities, including timely and adequate risk management decisions;
- establishment and maintenance of good reputation of the Company in business circles and among consumers;
- adequacy, transparency and objectivity of payment of remuneration and compensation, including its size, to the members of the Supervisory Board, Executive Board and Audit Committee of the Company.

### **III. PRINCIPLES OF THE INTERNAL CONTROL SYSTEM OPERATION**

8. The system of internal control in the Company is based on the following principles:

- uninterrupted operation - continued and proper functioning of the internal control system allows the Company to promptly identify any deviations from the standards and prevent its occurrence in the future;
- accountability of all members of the internal control system - the quality of performance of the control functions by each person is controlled by another member in the Company's internal control system;
- distribution 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 the approval of transactions with certain assets, taking into account operations, ensuring the safekeeping of assets and carrying out its inventory;
- appropriate acceptance and approval of operations - the Company seeks to establish the procedure for approving all financial and economic transactions by authorized persons within their respective powers and authorities;
- ensuring the organizational disintegration of the Company's divisions that carry out daily internal control, and their functional accountability directly to the Company's Executive Board;
- responsibility of all entities of the internal control working in the Company for the proper performance of control functions;
- implementation of internal control based on a clear interaction of all divisions of the Company;
- constant development and improvement - the Company shall seek 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 tasks, expand and improve the system itself;
- timeliness of the transmission of reports on deviations - the Company has established the shortest possible time for the transfer of relevant information to persons authorized to take decisions on eliminating deviations;
- prioritization of the Company's areas of activity in which control is established - the strategic directions covered by the internal control system to be identified, even if the effectiveness of its functioning (cost-benefit ratio) is difficult to measure.

#### **IV. COMPONENTS OF THE INTERNAL CONTROL SYSTEM**

9. The internal control system shall include the following interrelated components:

- a control environment that includes ethical values and competence of the Company's employees, management policy, the way in which the management distribute authorities and responsibilities, organizational structure and staff development, as well as operation and management by the Company's Executive Board;

- risk assessment - which is the identification and analysis of the relevant risks when certain tasks are achieved by the Company, connected at different levels and internally consistent;

- monitoring activities, summarizing policies and procedures that help to ensure that management decisions are being executed, and include a variety of activities, such as: issuing approvals, sanctions, confirmations, inspections, monitoring the ongoing operations, ensuring the security of assets and distribution of powers and authorities;

- information support and information exchange activities aimed at the timely and effective identification of data, its record and exchange, including, among other things, the establishment of effective information exchange channels in order to create an understanding among all entities of the internal control on the internal control policies and procedures adopted by the Company and ensuring its execution. The Company shall take measures to protect against unauthorized access to information;

Monitoring is a process that includes management and oversight functions, during which the quality of the system's performance is assessed over time. Evaluation of the internal control system shall be conducted to determine the probability of errors that affect the reliability of financial statements, clarify the materiality of these errors and determine the ability of the internal control system to ensure the fulfillment of the assigned tasks. An independent professional organization, a consultant, may be engaged to assess the effectiveness of the internal control system in the Company by the resolution of the sole shareholder of the Company on the basis of a proposal from the Company's Executive Board.

#### **V. BODIES AND PERSONS RESPONSIBLE FOR INTERNAL CONTROL**

10. Internal control shall be exercised by the Executive Board, the Chairman of the Executive Board, the Audit Committee, the Internal Audit Service, as well as by other employees of the Company at all levels, and everyone shall be responsible for internal control in accordance with the established procedure.

11. Functions, rights and obligations, responsibility, procedure for calculating compensation and remunerations to be paid to the divisions operating in the Company are provided for by internal documents of the Company.

12. In order to ensure the systemic nature of control over the Company's financial and economic activities, the internal control procedures shall be carried out by the authorized departments of the Company - the Audit Committee and the Internal Audit Service in cooperation with other bodies and divisions of the Company.

13. Powers of the Supervisory Board of the Company shall include:

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

- annual hearing of the reports of the Chairman of the Company's Executive Board on the results of analysis and assessment of the reliability and effectiveness of the Company's internal control system based on the data of regular reports of internal and external audits, the Audit Committee, 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 of the Company; continuous improvement of the Company's internal control procedures.

14. Responsibility for organizing control over the reliability and completeness of financial reporting, reliability and effectiveness of the Company's internal control system shall be assigned to the Company's Executive Board.

15. Responsibility for the Company's activities in the field of internal control shall be vested in the Chairman of the Executive Board of the Company. The Chairman of the Executive Board of the Company shall introduce the procedures of the internal control system and ensure its effective functioning, timely informing the Company's Supervisory Board of all risks of the Company, significant shortcomings of the internal control system, as well as plans and results of measures to eliminate them.

16. Employees (including managers) of departments of any level of the Company, within their competence, shall directly participate in the detailed development of control strategies and procedures. Their responsibility shall include dealing with non-standard situations and problems as they arise. Employees shall report to the senior management of the Company on significant issues or risks arising under specific transaction.

17. Responsibility for exercising control over the financial and economic activities of the Company and its separate subdivisions shall be vested in the permanent internal control body, the Audit Committee of the Company.

18. Responsibility for regular monitoring of the implementation of internal control procedures, namely, compliance of the financial and business operations of the Company with the legislation of the Republic of Uzbekistan and the Articles of the Company as a whole, its separate subdivisions, as well as completeness and reliability of the accounting and financial statements, shall be assigned to the Audit Committee of the Company.

19. The Internal Audit Service of the Company shall subordinate and report to the Supervisory Board of the Company on the results of the internal audit, internal control system of the Company.

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

- persons who have an outstanding conviction for crimes in the sphere of the economy or for crimes against the order;
- persons who are founders (shareholders, participants), managers or members of the Executive Board of the Company, or employees of another legal entity that is a competitor to the Company.

21. Proper functioning of the internal control system also depends on the professional competence of the Company's employees. The Company makes efforts to ensure that the system of recruiting, hiring, training, re-training and promotion of employees ensures their high qualification and compliance with high ethical standards.

## **VI. PROCEDURES AND METHODS OF INTERNAL CONTROL**

22. Internal control procedures of the Company shall include:

- determination of interrelated and consistent aims and objectives at various levels of the Company's management;
- identification and analysis of potential and existing operational, financial, strategic and other risks that may hinder the achievement of the Company's business objectives;

- assessment of significant components of the Company's internal control;
- assessment of the effectiveness of the internal control system of the Company's business processes;
- determination of criteria and evaluation of the effectiveness of the structural units performance, officials and other employees of the Company;
- consideration of financial and other information in comparison with comparable information for previous periods or with the expected results of the Company's activities;
- use of adequate ways of accounting for events, transactions and transactions in the Company;
- verification of the Company's assets safety;
- proper documentation of the internal control procedures;
- regular assessment of the quality of the internal control system;
- communication to all employees of the Company of their responsibilities in the field of internal control;
- distribution of key responsibilities between the Company's employees;
- approval and execution of transactions only by those persons who are vested with the appropriate authorities.

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

## **VII. FINAL PROVISIONS**

24. This Regulation, as well as amendments and additions thereto, shall be approved by the decision of the sole shareholder of the Company.

25. Amendments and changes to this Regulation shall be made upon the proposal of the members of the Supervisory Board, Chairman of the Executive Board, external auditor, Audit Committee and / or the Internal Audit Service of the Company.

26. If, as a result of changes in legislation and statutory regulations of the Republic of Uzbekistan, certain clauses of this Regulation conflict with them, these clauses become invalid and, until appropriate changes are made to this Regulation, the Company shall be guided by the legislation and statutory regulations of the Republic of Uzbekistan.