

"APPROVED"
By the General Meeting of
Shareholders of
«UZBEKGEOFIZIKA» JSC
on June 29, 2017

REGULATION
ON INTERNAL CONTROL OF THE
"UZBEKGEOFIZIKA" JOINT-STOCK COMPANY



2017 year

I. GENERAL PROVISIONS

1.1. This Regulation on internal control has been developed in accordance with the law, the Corporate Governance Code, approved by the minutes of the meeting of the Commission for Improving the Efficiency of Joint Stock Companies and Improving the Corporate Governance System dated December 31, 2015. No. 9 (reg. No. 02-02/1-187 dated February 11, 2016) by the charter and internal documents of “UZBEKGEOFIZIKA” JSC (hereinafter-referred to as the company).

1.2. This Regulation determines the goals and objectives of the internal control system, the principles of its operation, as well as the company's bodies and persons responsible for internal control.

1.3. This Regulation is obligatory for observance by the employees of the company, members of its management and control bodies.

II. DEFINITION AND OBJECTIVES OF INTERNAL CONTROL

2.1. Internal control is a continuously operating process built into the activities of the company and aimed at improving the efficiency of risk management, control and corporate governance processes in order to obtain reasonable and sufficient confirmation regarding the achievement of the company's goals in the following areas:

- efficiency and effectiveness of operations, including the degree of operational efficiency, profit generation and asset protection;
- reliability and reliability of financial statements;
- compliance with the legislation and rules of law that regulate the activities of the company.

2.2. Internal control system - 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 and employees (subjects of internal control), for all functions.

2.3. Internal control procedures are a set of measures carried out by subjects of internal control and aimed at identifying violations of the law and internal documents of the company in the course of financial and economic activities, at assessing the effectiveness of achieving the company's goals, as well as the interaction of subjects of internal control with each other in the process of implementing procedures internal control.

2.4. The main goal of organizing internal control is to ensure the protection of the rights and legitimate interests of all shareholders, including minority shareholders.

2.5. Internal control is designed to ensure on-line:

- safety of assets, economical and efficient use of society'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, 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 activities of the company;
- planning and risk management in the company's activities, including the adoption of timely and adequate decisions on risk management;
- the adequacy, transparency and objectivity of the payment of remuneration and compensation, including its amount, to members of the executive body, the supervisory board and the audit commission.

III. FUNCTIONAL PRINCIPLES AND SYSTEM COMPONENTS INTERNAL CONTROL

3.1. The internal control system in the company is based on the following principles:

3.1.1. 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;

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

3.1.3. separation 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 combine functions related to the approval of transactions with certain assets,

taking into account operations, ensuring the safety of assets and conducting their inventory;

3.1.4. proper approval and approval of transactions - the company strives to establish a procedure for the approval of all financial and economic transactions by authorized persons within their respective powers;

3.1.5. ensuring the organizational isolation of the company's subdivision exercising daily internal control, and its functional accountability directly to the Supervisory Board;

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

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

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

3.1.9. timeliness of transmission of notifications of deviations - the company has established the shortest possible deadlines for the transmission of relevant information to persons authorized to make decisions on the elimination of deviations;

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

3.1.11. The internal control system includes the following components:

- control environment;
- risk assessment process;
- the information system, including relevant business processes related to financial reporting and information exchange;
- control actions;
- monitoring of controls.

IV. INTERNAL CONTROL BODIES

4.1. Internal control is carried out by the supervisory board of the company, the internal audit service, the audit commission, the executive body, as well as other employees of the company at all levels, and at the same time everyone is responsible for internal control in the prescribed manner.

4.2. The functions, rights and obligations, responsibility, the procedure for calculating the remuneration paid, the requirements for the composition and qualifications of the divisions operating in the company are provided for by the internal documents of the company. These documents, as well as other documents that directly or indirectly affect issues of internal control, cannot contradict these Regulations.

4.3. The functions of the Supervisory Board include:

- determining the direction of development and approval of certain operations and strategies of the internal control system;
- an annual report at the annual general meeting of shareholders of the company on the results of the analysis and assessment of the reliability and effectiveness of the internal control system, based on data from regular reports of the head of the executive body of the company, internal and external audits, the audit commission, information from other sources and own observations on all aspects internal control, including: financial control, operational control, control over compliance with legislation, control of internal policies and procedures;

- continuous improvement of internal control procedures.

4.4. Responsibility for the implementation of the functions of internal financial, economic and legal control over the activities of the company and its separate divisions is assigned to a permanent internal control body - the audit commission, the tasks and powers of which are reflected in the Regulations on the audit commission.

4.5. Responsibility for the implementation of regular control, namely, for the compliance of the financial and economic operations of the company and its separate divisions with the legislation of the Republic of Uzbekistan, as well as for the completeness and reliability of accounting and financial statements, lies with the internal audit service, the tasks and powers of which are reflected in the Regulations on the Internal Audit Service. audit, and in the absence of such a service, by the audit commission of the company responsible for the internal control of the company.

4.6. Responsibility for the functioning of the internal control system, in accordance with the company's internal control policy approved by the supervisory board, rests with the head of the executive body. The head of the executive body of the company implements the procedures of the internal control system and ensures its effective functioning, timely informing the 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.

4.7. The proper functioning of the internal control system also depends on the professionalism of employees. The Company makes efforts to ensure that the system of selection, hiring, training, and training of personnel ensures their high qualification and compliance with high ethical standards.

4.8. The following persons are not entitled to hold positions in the internal audit service or are members of the company's audit commission:

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

Other requirements for persons who are part of the internal audit service and the audit commission are established by internal regulations governing their activities.

V. INTERNAL CONTROL PROCEDURES

5.1. Internal control procedures can be:

- precautionary - allowing to prevent the occurrence of an undesirable event;
- detecting (detecting) - to identify an undesirable event that has occurred;
- directive - contributing to the onset of the desired event;

corrective - neutralizing the consequences of the occurrence of an undesirable event;
compensatory - replenishing the weaknesses of existing controls.

5.2. Internal control procedures are carried out at all levels of management in accordance with the rules established by the company's internal documents.

5.3. Internal control procedures in the Company include, but are not limited to:
coordination - approval of documents by employees of various departments and levels of management, endowed with appropriate powers;

authorization - obtaining by employees of permission to perform a transaction;

reconciliation - verification of the completeness, accuracy, consistency and correctness of information received from different sources, including control of the absence of discrepancies between accounting items, accounting systems, accounting data of the company and its counterparties;

arithmetic control - checking the arithmetic correctness of calculations, including the calculation of checksums, in financial, accounting and other documents;

analysis of deviations - an assessment of the degree of achievement of the set goals and the implementation of plans based on a comparison of actual performance indicators with planned indicators, forecasts, data from previous periods, and the results of competitors' activities;

physical control of the safety of assets - restriction of physical access to assets, premises, documents, proper equipment of storage sites for assets, conclusion of liability agreements;

inventory - identification and description of the actual availability and qualitative characteristics of assets and liabilities in order to ensure the reliability of accounting and the safety of the Company's assets;

general and specialized information technology control procedures (computer controls) - access control, data integrity, changes to information systems.

5.4. The content of specific control procedures depends on the level of management and functional focus, is developed by structural divisions in accordance with the goals of the Company and the tasks of the structural division, and is established by the Company's internal documents.

VI. MECHANISM FOR MONITORING THE WORK OF BODIES INTERNAL CONTROL

6.1. The purpose of the monitoring is to assess the effectiveness of the company's internal control system, including its ability to ensure the fulfillment of its goals and objectives, as well as to determine the materiality of the system's shortcomings.

6.2. The company's internal control bodies report quarterly to the company's supervisory board on the results of the inspections carried out in accordance with their functional duties.

6.3. The internal audit (on a quarterly basis and at the end of the reporting year) by conducting relevant audits in areas is carried out by the internal audit service in accordance with the plan annually approved by the supervisory board of the company.

The requirements for conducting an internal audit and compiling a consolidated report based on the results of its conduct are reflected in the Regulations “On the Internal Audit Service of a Joint Stock Company.

6.4. Based on the results of the audit of the financial and economic activities of the Company for the year, the Audit Commission of the Company draws up a conclusion, which is heard at the annual general meeting of shareholders of the Company.

The requirements for the composition of the conclusion, which is heard at the annual general meeting of shareholders of the Company, are established by the Regulations “On the Audit Commission of the “UZBEKGEOFIZIKA” Joint-Stock Company”.

In addition, the Audit Commission quarterly submits to a meeting of the company's Supervisory Board a conclusion on the existence of transactions with affiliates or major transactions in the company, as well as compliance with the requirements of the law and internal documents of the company for such transactions.

6.5. When checking the internal control system, the external auditor examines the current internal control system, assesses the feasibility of control mechanisms, and checks the effectiveness of the internal control system. When studying and evaluating internal control procedures, special attention is paid to the authorization of business transactions, the distribution of responsibilities, documentation and recording of control procedures.

6.6. Involvement of independent professional organizations to assess the effectiveness of the company's internal control system is carried out on a competitive basis by decision of the supervisory board of the company.

6.7. The Supervisory Board of the company, as part of its annual report, provides shareholders with information on the results of the analysis and assessment of the reliability and effectiveness of the internal control system.

The procedure for the formation by the Supervisory Board of the assessment of the internal control system is based on the reporting data of internal and external audits, the audit commission, information from other sources and its own observations on all aspects of internal control, including: financial control, operational control, control over compliance with legislation, control of internal policies and procedures.

6.8. Monitoring of the internal control system is aimed at timely identification of deficiencies and their elimination.

VII. FINAL PROVISIONS

7.1. This Regulation is obligatory for observance by the employees of the company, members of its management and control bodies.

7.2. This Regulation, as well as amendments and additions to it, are approved by the General Meeting of Shareholders by a simple majority of votes.

7.3. These Regulations, as well as amendments and additions made to it, are disclosed by the company on its corporate website on the Internet within ten days after signing the minutes of the meeting of the company's management body, at which the relevant decision was made.

This Regulation has been unofficially translated from Russian to English.