

“APPROVED”
By the decision of the sole shareholder
of JSC “Regional Electric Networks”
dated “July 29” 2019 No. 3

REGULATION ON INTERNAL CONTROL OF JOINT-STOCK
COMPANY “REGIONAL ELECTRIC NETWORKS”

Tashkent - 2019

TABLE OF CONTENTS

I.	GENERAL PROVISIONS	3
II.	DEFINITION AND OBJECTIVES OF THE INTERNAL CONTROL SYSTEM	3
III.	PRINCIPLES OF FUNCTIONING OF THE INTERNAL CONTROL SYSTEM	4
IV.	COMPONENTS OF THE INTERNAL CONTROL SYSTEM	5
V.	BODIES AND PERSONS RESPONSIBLE FOR INTERNAL CONTROL	6
VI.	PROCEDURES AND METHODS OF INTERNAL CONTROL	8
VII.	FINAL PROVISIONS	9

I. GENERAL PROVISIONS

1. This Regulation on Internal Control (hereinafter - Regulation) of JSC “Regional Electric Networks” (hereinafter - the Company) has been developed in accordance with the current legislation of the Republic of Uzbekistan, the Charter of the Company, the Corporate Governance Code, 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 No. 9, and internal documents of the Company.
2. This Regulation 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.

II. DEFINITION AND OBJECTIVES OF THE INTERNAL CONTROL SYSTEM

3. Internal control is a continuous process, integrated 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 productivity of activities, including the degree of operational efficiency, profitability, and asset protection;
 - Reliability and accuracy of financial reporting;
 - Compliance with legislation and legal norms that regulate the activities of the Company.
4. The internal control system is a set of organizational structure, controlling 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 executive body, and other employees at all levels (hereinafter referred to as internal control entities) and for all functions. The qualification of members of the internal control bodies of the Company may be established in the Regulations on their activities.
5. Internal control procedures are a set of measures carried out by the audit commission of the Company, the audit committee of the supervisory board of the Company, the supervisory board of the Company, the internal audit service of the Company, the executive body of the Company, as well as the divisions of the Company authorized to carry out internal control (hereinafter - the divisions of the Company), and aimed at identifying violations of legislation and internal documents of the Company in the implementation of financial and economic activities, to assess the effectiveness of achieving the

Company's goals, as well as the interaction of internal control entities with each other in the process of implementing internal control procedures.

6. The main goal of internal control is to ensure the protection of the rights and legitimate interests of the shareholder.
7. Internal control is designed to provide in operational mode: safety of assets, economical and efficient use of the Company's resources;

compliance with the requirements of 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 Company's activities;

planning and risk management in the Company's activities, including the adoption of timely and adequate risk management decisions;

establishing and maintaining a good reputation of the Company in business circles and with consumers;

adequacy, transparency, and objectivity of the payment of remuneration and compensation, including its size, to members of the executive body, supervisory board, and audit commission.

III. PRINCIPLES OF FUNCTIONING OF THE INTERNAL CONTROL SYSTEM

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

uninterrupted operation - continuous 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 strives 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 transactions - the Company strives to establish a procedure for approving all financial and economic transactions by authorized persons within their respective powers;

ensuring the organizational separation of the Company's unit that carries out daily internal control, and its functional accountability directly to the Supervisory Board;

responsibility of all internal control entities 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;

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 tasks, expand, and improve the system itself;

timely transmission of messages about deviations - the Company has established the shortest possible deadlines for transmitting relevant information to persons authorized to make decisions on the elimination of deviations;

determination of the priority of areas of activity of the Company, in which control is established - strategic directions covered by the internal control system are identified, even if the effectiveness of their functioning (ratio of "costs - economic effect") is difficult to measure.

IV. COMPONENTS OF THE INTERNAL CONTROL SYSTEM

9. The internal control system includes the following interrelated components:

a control environment that includes the ethical values and competence of the Company's employees, management policies, the way management distributes powers and responsibilities, the structure of the organization, and

the professional development of employees, as well as leadership and management by the supervisory board;

risk assessment - representing the identification and analysis of relevant risks in achieving specific tasks, interconnected at different levels and internally consistent;

control activities, summarizing the policies and procedures that help to ensure that management decisions are implemented, and including a range of diverse actions, such as: issuing approvals, sanctions, confirmations, conducting audits, monitoring current activities, ensuring asset security and separation of powers;

information support and information exchange activities aimed at timely and effective identification of data, their registration and exchange, including the creation of effective channels of information exchange in order to create in all internal control entities an understanding of the policies and procedures of internal control adopted in the Company and ensure their implementation. The Company takes measures to protect against unauthorized access to information;

monitoring - a process that includes management and supervision functions, during which the quality of the system's operation is evaluated over time. Evaluation of the internal control system is carried out to determine the likelihood of errors affecting the reliability of financial reporting, to determine the materiality of these errors and to determine the ability of the internal control system to ensure the fulfillment of the tasks. To assess the effectiveness of the internal control system in the JSC, the general meeting of shareholders based on the proposal of the Supervisory Board may engage an independent professional organization - a consultant.

V. BODIES AND PERSONS RESPONSIBLE FOR INTERNAL CONTROL

10. Internal control is carried out by the audit commission, the Supervisory Board of the Company, the Internal Audit Service, the head of the executive body, the internal audit service, as well as other employees of the Company at all levels, and each is responsible for internal control in accordance with the established procedure.
11. The functions, rights and obligations, responsibilities, procedure for calculating compensations and paid remuneration of the units functioning in the Company are provided for by the internal documents of the Company. These documents, as well as other documents directly or indirectly affecting the issues of internal control, may not contradict this Regulation.

12. In order to ensure the systematic nature of the control of the financial and economic activities of the Company, the implementation of internal control procedures is carried out by the authorized division of the Company - the internal audit service, and in the absence of such a service by the audit commission of the Company, responsible for internal control, in cooperation with other bodies and divisions of the Company.

13. The functions of the Supervisory Board include:

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

annual communication 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 regular reports of the head of the executive body of the Company, internal and external audits, 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;

determining the structure and composition of the Company's division responsible for internal control;

continuous improvement of internal control procedures.

14. Responsibility for organizing control over the accuracy and completeness of financial reporting, the reliability and effectiveness of the Company's internal control system rests with the Supervisory Board, whose role, goals, objectives, and powers are reflected in the Regulation on the Supervisory Board of the Company.

15. Responsibility for its functioning, in accordance with the internal control policy approved by the Supervisory Board of the Company, 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, promptly 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.

16. Employees (including managers) of divisions of any level, within their competence, take direct participation in the detailed development of strategies and procedures for exercising control. Their responsibilities include coping with non-standard situations and problems as they arise. Employees report significant issues or risks arising from a specific transaction to the Company's senior management.

17. Responsibility for exercising control over the financial and economic activities of the Company and its separate divisions rests with the permanent

internal control body - the Audit Commission, whose role, goals, objectives, and powers are reflected in the Regulation on the Audit Commission.

18. Responsibility for exercising regular control over the implementation of internal control procedures, namely, for the compliance of financial and economic transactions 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 accounting and financial reporting lies with the internal audit service, whose role, goals, objectives, and powers are reflected in the Regulation on the internal audit service.

The Regulation on the internal audit service is approved by the Supervisory Board of the Company.

19. The Internal Audit Service of the Company reports to the Supervisory Board on the results of internal audit, the internal control system. The Internal Audit Service of the Company reports to the Supervisory Board's Audit Committee.
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 economics or for crimes against public order;
- persons who are the head or members of the executive body of the Company;
- persons who are the founders (shareholders, participants), head or members of the executive body or employees of another legal entity that is a competitor of the Company;

Other requirements for persons who are part of the Internal Audit Service may be established by the Supervisory Board of the Company.

21. 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, training, and promotion of employees ensures their high qualifications and compliance with high ethical standards.

VI. PROCEDURES AND METHODS OF INTERNAL CONTROL

22. The internal control procedures of the Company include:

defining interconnected and consistent goals and objectives at different levels of management of the Company;

identifying and analyzing potential and existing operational, financial, strategic, and other risks that may prevent the achievement of the Company's goals;

assessing the essential components of internal control;

assessing the effectiveness of the internal control system of business processes;

determining the criteria and assessing the effectiveness of the work of structural divisions, officials, and other employees of the Company;

considering financial and other information in comparison with comparable information for previous periods or with expected results of activities;

using adequate methods of accounting for events, transactions, and transactions;

checking the safety of assets;

proper documentation of internal control procedures;

regular assessments of the quality of the internal control system;

bringing to all employees of the Company their responsibilities in the field of internal control;

distribution of key responsibilities among employees of the Company (including responsibilities for approving and approving transactions, accounting for transactions, issuing, storing and receiving resources, analyzing and verifying transactions);

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

other procedures necessary to achieve the goals of internal control.

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

VII. FINAL PROVISIONS

24. This Regulation, as well as amendments and additions to it, are approved by the decision of the general meeting of shareholders.

25. Additions and amendments to this Regulation are made at the proposal of members of the supervisory board of the Company, the external auditor of the

Company, the audit commission of the Company, the internal audit service of the Company, the head of the executive body of the Company.

26.If, as a result of changes in the legislation and regulations of the Republic of Uzbekistan, certain articles of this Regulation conflict with them, these articles lose their force, and until the moment of making changes to this Regulation, the Company is guided by the legislation and regulations of the Republic of Uzbekistan.