

ARCTIC TEXTILE MILLS LIMITED

Internal Control Policy

OBJECTIVE: -

This document aims to establish the guidelines for the assessment of internal control, considering the main operational processes of Arctic Textile Mills Limited. These guidelines are complemented, when applicable, by specific business rules and procedures, which are fully disclosed and available to all members of the Company.

Internal controls": According to the COSO ERM model, internal control is defined as a process that is executed by the Company's senior management, managers or other persons associated with the Company, and considers policies, procedures, activities and mechanisms that are aimed at providing a significant degree of reliability on the following objectives: Effectiveness and efficiency of resources; Reliability of the financial information; Compliance with established laws and regulations.

RESPONSIBILITY: -

The responsible areas are:

Risk Management and Internal Controls, Internal Audit and Company coordinators whose business processes are part of the scope of the periodic assessment of internal controls.

REFERENCE: -

This Policy is based on;

- The corporate governance guidelines of the Company's by laws, as amended.
- The applicable rules issued by the Securities and Exchange commission of Pakistan ("SECP").
- The Risk Management Policy, whose adoption was approved by the Company's Board of Directors,

ROLES AND RESPONSIBILITIES

Senior Management:

- periodically monitors the evolution of the internal control assessment according to the reports issued by the Risk Management and Internal Control, Internal Audit and Independent Audit coordination teams;
- ensures the implementation of actions defined by the coordinators subordinated to them in relation to the implementation/adequacy of internal controls; and

- sponsors improvements to the internal control environment, always seeking a balance among the effectiveness of the processes, controls and costs, as well as the alignment with the Company's strategic objectives.

Risk and Internal Control Coordination:

- assists the business areas in the identification/implementation/adequacy of internal controls, documentation of internal controls;
- identifies the need to implement new controls and/or the need for improvement in existing controls when the absence and/or insufficiency of these result in significant deficiencies;
- manages the self-assessment steps of the internal controls;
- reviews/evaluates the action plans indicated by the business areas in relation to meeting the objectives of internal controls, mitigation of risks and implementation deadlines;
- monitors the independent assessments of internal controls performed by the Internal Audit and Independent Auditors;
- is subordinate to the Financial Division.

Coordinators and Teams responsible for internal controls: (a) self-assess the processes under their responsibility during a period pre-determined by the Risk and Internal Control Coordination; (b) ensure the execution of existing internal controls according to architecture and frequency, implement new internal controls and improvements to existing internal controls; and (c) report any changes in the internal controls structures through changes in business (processes, people, systems) in a timely manner.

SELF-ASSESSMENT OF INTERNAL CONTROLS

The internal control's self-assessment is the procedure in which the evaluation of processes and controls must be performed by the internal control officers assigned in the documents of the internal controls matrix.

The self-assessment is performed either through questionnaires or facilitated sessions to assess the adequacy of internal controls in mitigating risks and promoting compliance with objectives.

The self-assessment procedure should occur annually according to the schedule defined by the Risk and Internal Control Coordination.

During the self-assessment process, changes in internal controls architecture, inclusion of new controls and substitution/elimination of controls may be proposed by the respective controllers, provided that it ensures reasonable assurance that all business objectives will be met.

As an outcome of the self-assessment process, the internal control officers must assign the following status: Implemented (for controls and processes that were implemented and are operating properly as documented in the control matrix) or Not Implemented (for controls that are not operating as described). The internal controls with a Not Implemented status should have a justification in order to be assessed by the Risk and Internal Control Coordination.

The results will be analyzed by the Risk and Internal Control Coordination and informed to the Steering Committee.

INDEPENDENT ASSESSMENT OF INTERNAL CONTROLS

The assessment of internal controls is performed in two phases: assessment of control design (documentation and walkthrough) and assessment of operational effectiveness (control test).

The assessment of the internal control architecture is performed annually to confirm understanding of transaction flow and process documentation.

The assessment of the operational effectiveness is performed annually and the selection of internal controls to be tested is performed considering the following criteria: (a) 'relevance of the control (key controls must be selected annually); (b) result of the effectiveness test from the previous year (ineffective controls are selected); (c) impact on the financial statements, Listed in the scope of the Independent Auditors' assessment are selected); (d) past selection of controls in previous years (other controls are selected according to rotation so that they are assessed, at least, every 3 years).

The Internal Audit carries out internal control tests according to the selection criteria above or according to the planned audit work for the year.

The scope of internal control tests that have impact on the financial statements is jointly defined with the Internal Audit and Independent Audit in order to guarantee work synergy. The work carried out by the Independent Audit may use information provided by the Internal Audit to identify material misstatement in the financial statements, and the Internal Audit may use the work performed by the Independent Audit to complement the assessment of the company's control environment. This synergy does not eliminate the need for the independent auditor to study and evaluate the entity's accounting system and internal controls as a basis for determining the nature, timing and extent of the application of audit procedures, considering various aspects.

The internal control testing procedures are documented in the work plan and must present: control information based on the internal control matrix, test procedure (inquiry, observation, inspection, performance or analytical procedures), selected samples, test results, completion of control (effective/ineffective), impact measured, responsible for the test and test date.

Ineffective internal controls are assessed in relation to their classification as significant deficiency according to extent of impact on the financial statements or operations of the Company.

The Independent Audit shares the result of the internal control test with the Internal Audit, consolidates the results and issues a recommendation letter to Management on identified improvement opportunities for internal control according to the performed assessment.

The result of the internal control tests is consolidated by the Internal Audit and presented to Management and the Audit and Risk Management Committee.

ACTION PLAN

Internal controls assessed as ineffective are discussed with those responsible for the implementation of the controls and the Coordination responsible for defining the action plan for correcting the identified deficiency.

The Risk and Internal Control Coordination assists in the preparation and follow-up of the implementation of the necessary action plans to implement or improve the internal controls necessary to mitigate risks.

The status of the agreed action plan is reported to Management and to the Audit and Risk Management Committee.