

**APPROVED BY**

Chairman of Board  
of JSC “Almalyk JSC”

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# Internal Control System Policy

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## **Chapter 1. General**

- 1.1 This Internal Control System Policy (hereinafter referred to as the Policy) is an internal document of JSC “Almalyk MMC” (hereinafter referred to as the Company) and is developed in accordance with the Charter, regulations on the bodies and structural divisions of the Company, the Corporate Governance Code of the Company, and the provisions of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 1.2 This Policy establishes the goals, principles of functioning and components of the Internal Control System (hereinafter referred to as the ICS).
- 1.3 ICS is a key component of the Company's corporate governance system and is defined as a set of processes and procedures, norms of conduct and actions that contribute to efficient and rational activities aimed at ensuring that the Company achieves its operational goals and minimizes process-level risks.
- 1.4 This Policy defines internal control as a process carried out by the Supervisory Board, the Management Board and employees of the Company (together referred to as ICS subjects), aimed at providing reasonable confidence in achieving the Company's goals in three key areas:
  - improving the efficiency of operating activities;
  - preparation of complete and reliable financial statements;
  - compliance with the requirements of the legislation of the Republic of Uzbekistan and internal documents of the Company.

At the same time, there are limitations inherent in the ICS, which affect the likelihood of achievement in these areas. These limitations are due to the following factors:

- judgments – when making decisions by the subjects of the ICS, their subjective judgments may be incorrect;
  - external events – the impact of external events beyond the control of the Company;
  - failures – due to the fault of the employee due to making mistakes as a result of inattention or the need to pay attention to a large number of assigned tasks;
  - willful override of control – desire and ability to override internal control by willfully overturning established policies and procedures with the intention of deriving personal benefit or improving the results of one's activities;
  - conspiracy - the actions of two or more persons to jointly commit and conceal unlawful acts.
- 1.5 The Company shall introduce uniform approaches to the construction of the ICS, including common goals, principles and methodology. Process-level risk management based on this Policy is the basis for the functioning of the ICS in the Company.

## **Chapter 2. Scope**

- 2.1 This Policy covers all levels of management, all internal processes and operations of the Company and is mandatory for familiarization and application by all subjects of the Company's ICS.

## **Chapter 3. Key Objectives of the Internal Control System**

- 3.1 The key objectives of the ICS are:
  1. improving the efficiency of operating activities in accordance with the Company's Development Strategy;
  2. ensuring the safety of assets and information, efficient use and distribution of resources;
  3. ensuring the completeness and reliability of financial and management reporting, as well as the reliability of the system for its preparation;

4. compliance with the requirements of the legislation and regulatory technical documents of the Republic of Uzbekistan, internal documents of the Company;
5. reducing the likelihood of process-level risks and possible losses through the introduction of effective control procedures, creating a reliable information basis for making management decisions;
6. control over the effective functioning of business processes and analysis of the results of the Company's activities;
7. assistance in building the optimal organizational structure of the Company;
8. identification of areas for improvement and further improvement of the ICS.

#### **Chapter 4. Basic Principles of the Internal Control System**

4.1 This Policy is based on the following principles for the construction of the ICS:

1. **continuous functioning** – the constant and proper functioning of the ICS allows the Company to timely identify any deviations that have a negative impact on the Company's activities and prevent their occurrence in the future;
2. **reporting by ICS subjects** – the quality and timeliness of the tasks and duties performed by each involved ICS subject is controlled by another (superior) ICS subject;
3. **division of duties** – the Company seeks to avoid duplication of control functions, and these functions should be distributed among the officers and employees of the Company in such a way that one and the same person does not combine functions related to approving transactions with certain assets, accounting for transactions, ensuring the safety of assets and conducting their inventory;
4. **proper approval (agreement) of transactions** – the Company strives to establish the procedure for approval (agreement) of all financial and economic operations by the bodies and persons of the Company within their respective powers, by reflecting it in the relevant internal documents;
5. **responsibility of all subjects of the ICS for the proper performance of control functions**, which are defined, fixed in the internal documents of the Company and brought to the attention of all subjects of the ICS;
6. implementation of internal control on the basis of **clear interaction** of all bodies and structural divisions of the Company;
7. **continuous development and improvement** – the ICS should be built in such a way as to be able to adapt it to changes in the internal and external conditions of the Company's functioning and new tasks that have arisen;
8. **timeliness of reporting** on any significant shortcomings and weak points of control - the Company should set the shortest possible time for the transfer of relevant information to the authorities and / or persons authorized to make decisions on the elimination of any significant deviations;
9. **unity of the methodological base** – a unified approach to the application of policies, regulations and procedures in the field of internal control for the Company.

#### **Chapter 5. Components of the Internal Control System**

5.1 In accordance with the COSO model, the Company's ICS consists of the following five interrelated components:

- control environment;
- risk assessment;
- control procedures;
- information and communications;
- monitoring procedures.

- 5.2 The control environment ensures the efficient functioning of all components of the ICS and includes the following elements:
1. adherence to the principle of decency and ethical values;
  2. independence of the Supervisory Board of the Company from the Management Board of the Company and supervision over the development and functioning of internal control;
  3. definition of an organizational structure with three lines of defense:
    - **first line of defense** (business functions): managers and employees of structural units who are responsible for assessing and managing risks, as well as for ensuring an effective ICS;
    - **second line of defense** (monitoring functions): heads and employees of structural units responsible for ensuring and monitoring the implementation of effective risk management practices, internal control, compliance with legislation, internal documents and investigating facts of dishonest actions on the part of the Company's employees;
    - **third line of defense** (independent function): the internal audit service that provides confirmation to the Supervisory Board of the Company and the Management Board of the Company about the effectiveness of the management systems and the operation of the first and second lines of defense.
  4. the desire to attract, develop and retain competent employees in accordance with the goals of the Company;
  5. distribution of responsibility of ICS subjects for the performance of their duties in the field of internal control in the process of achieving the goals of the Company.
- 5.3 Risk assessment is carried out in accordance with the internal documents on the ICS, and is designed to ensure the identification, assessment and analysis of risks that may adversely affect the achievement of the Company's operational goals, and includes the following elements:
1. setting clear goals to enable risk identification and assessment;
  2. identification and analysis of risks affecting the achievement of the Company's goals;
  3. taking into account the opportunities for unfair actions on the part of the Company's entities when assessing risks;
  4. identification and evaluation of changes (in the external environment, in the business model, in management) that can significantly affect the ICS.
- 5.4 Control procedures are policies and procedures that ensure effective internal control over the fulfillment of the goals, objectives and plans of the Company and include the following elements:
1. development of control procedures that reduce risks to an acceptable level;
  2. development of common controls over information technology to achieve goals;
  3. implementation of control procedures through policies to obtain the expected results and procedures to be performed.
- 5.5 The information and communications system of the Company provides complete and adequate information about events and conditions that can affect the decisions made, and includes the following elements:
1. **obtaining, generating and using high-quality information** to maintain the functioning of internal control;
  2. **internal exchange of information**, including information on the goals and responsibilities in the field of internal control, which is necessary for its functioning;
  3. **exchanging information with external parties** on issues that affect the functioning of the Company's internal control, takes measures to ensure the functioning of effective channels for registering and exchanging information, including both vertical and horizontal communications in order to form an understanding among all ICS subjects of the policies and procedures adopted in the Company internal control and enforcement. The Company takes steps to establish sufficient controls

to protect its applications and systems from unauthorized access and use of information. The effectiveness of these controls is subject to independent verification on a regular basis (for example, through information security analysis and penetration testing).

5.6 ICS monitoring procedures can be carried out both in the form of continuous monitoring, and in the form of one-time assessments, or a combination of both, and include the following elements:

1. carrying out continuous and/or periodic evaluation of the components of the ICS to obtain reasonable assurance that all components of internal control are present and functioning effectively;
2. timely assessment and communication of ICS shortcomings to the attention of those ICS subjects who are responsible for taking corrective measures, including the Management Board and the Supervisory Board.

## **Chapter 6. Final Provisions**

6.1 The policy is subject to revision as necessary. The Management Board of the Company, with the support of the Risk Management Committee, submits proposals for amendments and additions to the Policy for consideration by the Supervisory Board of the Company.

6.2 Issues not regulated by this Policy are governed by the legislation of the Republic of Uzbekistan, the Charter and other internal documents of the Company.