Security Papers Ltd
Policy of Internal Control System

Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations.
2. Reliability of financial reporting.
3. Compliance with applicable laws and regulations.

Any system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The systems that have been established can only provide reasonable and not absolute assurance against material financial misstatement or loss.

Roles and Responsibilities
Everyone in the Company has responsibility for internal control.

1. **Management** – The CEO is ultimately responsible and is the owner of the system. More than any other individual, the CEO sets the "tone at the top" that effects integrity and ethics and other factors of a positive control environment. To assist the CEO in discharge of his responsibilities a Management Committee has been formed to look at annual corporate objectives, approval and revision of budgets prior to presentation to the Board, review of strategy, stewarding corporate and departmental objectives. Senior Managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the department's functions.

2. **Board of Directors** – Management is accountable to the Board of Directors, they provides governance, guidance. Board members are objective, capable and inquisitive. They have knowledge of the Company's activities and environment, and commit the time necessary to fulfill their board responsibilities.

3. **Internal Audit** – Internal audit plays an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of the position and authority, internal audit plays a significant monitoring role.

4. **Other Personnel** – Internal control is, to some degree, the responsibility of everyone in the Company and therefore an explicit or implicit part of employee's job description. Hence all personnel are responsible for communicating upward problems in operations, non-compliance with the ethics and business practices and other policies of the Company.

Activities of Internal Controls
The principal features of the Company's systems of internal control are as follows:

1. Control environment
2. Control procedures
3. Corporate plan
4. Performance review
5. Investment projects
6. Corporate reporting
7. Risk identification and management; and
8. Monitoring

Control environment
The Board encourages a culture of integrity and openness. The Company has an organizational structure with clear lines of accountability and authority across its operations, supported by appropriate reporting procedures. Each of the department is accountable to the CEO and is managed within the strategic guidelines and delegated authorities adopted by the Board. The Management Committee, chaired by the CEO and

comprising the functional heads, meets regularly to discuss issues facing by the Company.

Control procedures
Control procedures have been established in each of the Company's operations to safeguard the Company's assets from loss or misuse and to ensure appropriate authorization and recording of financial transactions.

Corporate plan
Management submits an annual corporate budget and plan to the Board for approval. The budget and plan for each department is the quantified assessment of its planned operating and financial performance for the next financial year, together with a revision of the budget for the current year. Management reviews the plans with each operational team. The individual plans are based on key economic and financial assumptions and incorporate an assessment of the risk and sensitivities underlying the projections.

Performance review
Each department is subject to regular performance reviews with Management during the year. Actual results and forecasts for the year are compared to budget. Key operational and financial results are reviewed together with the risk profile and business environment of the reporting unit.

Investment projects
Investment projects are subject to formal review and authorization procedures with designated levels of authority, including a review by the Board Committee before these are recommended for Board approval.

Corporate reporting
The quarterly, half yearly and annual financial statements and statement of compliance with Code of Corporate Governance are reviewed by BAC before these are recommended for Board approval and dissemination to stock exchanges, SECP and shareholders.

Risk identification and management
As outlined in the Annual Report there is a mechanism for identifying, assessing, evaluating and mitigating the risks faced by the Company. Activities are coordinated by the Management.

Generally, every employee of the Company is responsible for the effective management of risk including the identification of potential risks, development of risk mitigation plans and the implementation of risk reduction strategies. Heads of Departments are responsible for the day-to-day management of risks under their control.

Monitoring
The Board reviews the effectiveness of established internal controls through the Audit Committee, which receives reports from management, Internal Audit, and the external auditor on the systems of internal control and risk management arrangements.

The Board confirms that the actions they consider necessary have been or are being taken to remedy such weaknesses as it has determined to be significant from its review of the system of internal control. This has involved considering the matters reported to it and developing plans and programs that it considers reasonable in the circumstances.

The Internal Audit department, through Head of Internal Audit, reports administratively to the Chief Executive Officer and functionally to the Chairman BAC. It carries out internal audit of various activities in accordance with the audit plan approved by the BAC prior to execution. Emphasis continues to be on internal compliance measured against set standards and best practices. Management is required to comply with defined policies and procedures. The BAC is responsible for ascertaining the adequacy and effectiveness of internal controls including financial and operational controls, accounting systems and reporting structure.