INTERNAL CONTROL AND RISK MANAGEMENT RULES

I. GENERAL PROVISIONS

Art. 1. (1) These rules shall define the internal control and risk management activities related to the financial reporting processes at M+S Hydraulic Plc.

(2) Financial management and control shall be implemented through management and control systems, which include a set of existing policies and procedures aimed at providing reasonable assurance that the company's objectives for protecting financial interests are achieved through:

1. compliance with legislation, internal acts, and contracts;
2. reliability and comprehensiveness of financial and operational information;
3. economy, effectiveness, and efficiency of activities;
4. safeguarding of assets and information.

Art. 2. The financial management and control systems aim to ensure:

1. lawful, economical, effective, and efficient management of financial resources;
2. compliance of the company's financial activities with applicable legislation, internal rules, and contracts;
3. safeguarding of assets and information;
4. prevention and detection of financial irregularities and errors in the functioning of the administration;
5. reliability of accounting information;
6. provision of timely and reliable information for the purpose of making sound decisions in financial management.

Art. 3. (1) Financial management and control systems consist of mandatory control activities.

(2) Control activities shall be the rules, procedures, and actions aimed at mitigating risks to the achievement of objectives and contributing to the implementation of management decisions.

(3) The Company shall apply control activities, which include:

1. authorization and approval procedures;
2. a dual-signature system, which prevents assuming financial obligations or making payments without the signatures of a company representative and the chief accountant;
3. ex-ante control for legality (pre-audit), performed by the chief accountant;
4. procedures for complete, true, accurate, and timely accounting of transactions;
5. reporting and verification of activities – assessment of the efficiency and effectiveness of operations;
6. monitoring procedures;
7. human resources management;
8. documentation of all transactions and actions.

II. ELEMENTS AND INTERNAL ACTS FOR FINANCIAL MANAGEMENT AND CONTROL

Art. 4. Management shall implement financial management and control through the following interrelated elements:

1. control environment;
2. risk management;
3. control activities;
4. information and communication;
5. monitoring.

Art. 5. (1) For the purpose of effective disclosure of material information regarding the financial and operational results and the significant key risks and uncertainties in the activities of the company and the economic group, the following internal policies and rules have been

adopted:

1. Information Disclosure Policy.
2. Policy on Transactions with Interested and Related Parties.
3. Internal Control and Risk Management Rules.
4. Code of Ethical Conduct.
5. Auditor Independence Criteria.
6. Remuneration Policy for the Members of the Board of Directors.

(2) For the purpose of effective implementation of financial management and control, the following internal acts have been adopted:

1. Staffing Table (Schedule of Positions).
2. Job Descriptions.
3. Internal Labor Regulations.
4. Internal Salary Rules.
5. Archiving Instructions.

III. RISK MANAGEMENT

Art. 6. Risk management shall be the process of identifying, assessing, and monitoring risks that may affect the achievement of the company's objectives and implementation of necessary control activities aimed at mitigating those risks.

Art. 7. (1) Risk Identification.

1. This stage aims to compile a comprehensive list of risks based on events that may provoke, incite, delay, eliminate, accelerate, or hinder the achievement of objectives.

2. Risk identification shall consist of examining the impact of specific consequences, including side effects and cumulative impacts. A wide spectrum of consequences shall be examined, even when the source or cause of the risk may not be obvious. Possible causes of potential consequences shall be investigated.

3. The company’s management shall delegate identification of risk sources, areas of impact, events (including changes in circumstances), as well as their causes and potential consequences.

(2) Risk Analysis.

1. It shall provide input data for risk assessment and for making decisions on the necessity of addressing the risk. It shall allow for the selection of the most appropriate methods and strategies for addressing the risk. It shall contribute to decision-making when a choice must be made and when opportunities for different types and levels of risk exist.

2. It shall include considering the causes and sources of risk, their positive and negative consequences, and the possibility of these consequences occurring. It shall identify the factors that influence the consequences. It shall define the consequences and their likelihood.

3. Risk analysis can be conducted at varying levels of detail depending on the risk, the purpose of the analysis, and the information, data, and resources available.

(3) Risk Assessment.

1. The purpose of the assessment shall be to assist in decision-making when determining the necessity of addressing the risk and the priority in implementing the response.

2. Risk assessment shall involve comparing the level of risk determined during the analysis process, with the probability of that risk manifesting. Based on this comparison, it is possible to study the risk assessment and the necessity of addressing that risk.

IV. PROCEDURES FOR PERMISSION, APPROVAL, AND AUTHORIZATION

Art. 8. (1) Permission procedures shall relate to the decision-making by the Board of Directors, the Chairperson of the Board, the Executive Director, or other authorized persons, which results in specific consequences for the company.

(2) Approval shall be the validation or certification of transactions, data, or documents, which concludes processes, actions, proposals, and their consequences.

(3) Permission and approval shall be performed only by the Board of Directors, the Chairperson of the Board, the Executive Director, or persons specifically authorized for that purpose.

Art. 9. (1) Authorization shall be a procedure where the Board of Directors issues a decision, and the Chairperson of the Board or the Executive Director issues an order instructing specific officials to perform certain functions or actions, such as actions for the management and disposal of assets, assuming obligations, incurring expenses, actions related to the awarding and implementation of various activities, and others.

(2) Authorization shall be carried out in accordance with the legally regulated possibilities, specific terms and conditions, and in compliance with the requirements for the necessary competence and professional experience.

(3) Authorized employees shall act in accordance with the instructions within the limits defined by the given authority and the regulatory acts.

V. SEPARATION OF DUTIES

Art. 10. (1) Separation of duties shall be implemented to mitigate the risks of errors, irregularities, and violations, and shall be regulated by the company's internal acts under Art. 5.

(2) Responsibilities shall be distributed in a manner that ensures no single employee has simultaneous responsibility for approval (authorization), execution, accounting, and control.

VI. DUAL-SIGNATURE SYSTEM

Art. 11. The dual-signature system is a mandatory procedure for assuming obligations, incurring expenses, taking actions for the management or disposal of property, and others on behalf and for the account of the company.

Art. 12. (1) All documents related to obligations, expenses, actions for management or disposal of property, and others, regardless of their value, shall be signed by the Chairperson of the Board of Directors or the Executive Director in their capacity as manager, and by the Chief Accountant in their capacity as the person responsible for accounting entries.

(2) The Chairperson of the Board of Directors and the Executive Director may, by means of orders, delegate rights to competent officials to sign primary accounting documents on behalf of the manager for the collection of revenue, the assuming of obligations, and the incurring of expenses in the following cases:

1. collection of revenue, making of payments via cash or bank transfer, and expenditure of inventories (payment orders, cash receipt and disbursement vouchers, material requisition forms);
2. reporting of settlement transactions (payroll sheets, expense reports of materially accountable persons and employees);
3. receipt of invoices for supplies of goods and services;
4. orders for personnel leave.

(3) The dual-signature system shall also be applied when ex-ante control has not been exercised.

(4) The Chief Accountant, in their capacity as the person responsible for accounting entries, may refuse to provide a second signature. In such cases, the refusal must be in writing and reasoned.

VII. EX-ANTE CONTROL

Art. 13. (1) Ex-ante control is a preventive activity for legality, where, prior to making a decision or performing a specific action, a comparison is made with the requirements of the applicable regulatory framework.

(2) The order and manner for exercising ex-ante control shall be determined by these rules.

Art. 14. (1) Ex-ante control shall be performed prior to making any decision or performing any action related to the financial activity of the company, regardless of the amount of revenue or expenses associated with them.

(2) Ex-ante control shall be performed through checks regarding the legality of the decision or action related to the disposal of assets and funds, including the assumption of obligations and the incurring of expenses.

Art. 15. Access to assets and information shall be exercised by the respective officials in a manner aimed at mitigating the risk of improper use or disposal of assets and financial information.

Art. 16. For every obligation or expense, prior to its assumption or incurrence, the accompanying documents (reports, requests, opinions, offers, contracts, invoices, acceptance-delivery protocols, etc.) shall be provided and attached to the payment document.

VIII. PROCEDURES FOR THE ACCOUNTING OF TRANSACTIONS

Art. 17. (1) Procedures for the accounting of transactions shall be carried out in accordance with the regulatory framework and the International Accounting Standards.

(2) The objective of the procedures for the true, accurate, and timely accounting of business transactions shall be to mitigate the risk of incorrect and untimely reporting of information, to ensure the proper preparation of financial statements, and to provide the company's management with reliable information for making management decisions.

IX. CONTROL PROCEDURES FOR INFORMATION SYSTEMS

Art. 18. (1) Communication shall be the flow of information through all information channels. Its purpose is to increase awareness and support the achievement of the company's objectives.

(2) Reporting shall be one of the most important communication channels between employees and management. Management must receive timely, relevant, up-to-date, accurate, and true information regarding all activities of the company.

Art. 19. (1) Information shall be collection of data regarding events that are significant for the performance of the company's activities at all levels.

(2) Management shall inform employees what information is needed for making sound management decisions through decisions, orders, instructions, and others.

(3) The company shall utilize the information systems necessary for its activities, which allow for the identification, collection, processing, and dissemination of information.

Art. 20. (1) The quality of information provided by the information system affects the management's ability to make appropriate decisions in the context of managing and controlling individual operations and activities.

(2) The information system contains functions that ensure access at any given moment to reliable, credible, and up-to-date information, enabling the exercise of effective control.

X. MONITORING PROCEDURES

Art. 21. (1) The management of the company shall carry out an overall review of the activity, the purpose of which is to provide assurance that the control activities are functioning as intended and remain effective over time.

(2) The review of the activity shall be carried out on a current and periodic basis through analysis and assessment performed after the events and depends on the risk assessment and the effectiveness of ongoing monitoring.

(3) The company shall establish an audit committee, which shall oversee the financial reporting process, the effectiveness of the internal control system, and the risk management system.

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These Rules were adopted at a meeting of the Board of Directors on March 16, 2017.