Risk Management and Internal Controls Policy

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SECTION A – POLICY ON RISK MANAGEMENT

1. PURPOSE

The Risk Management Policy provides a structured approach for the Company to continuously manage its risks. It outlines the process for identifying, measuring, and monitoring significant risks, and ensures compliance with the requirements of the Securities and Exchange Board of Sri Lanka, where applicable.

The Company is committed to high standards of business conduct and good risk management to:

- Protect the Company's assets.
- Achieve sustainable business growth.
- Avoid major surprises related to the overall control environment.
- Safeguard shareholder investment.
- Ensure governance and compliance with applicable legal and regulatory requirements.
- Integrate risk management into all business processes.
- Establish a robust system for identifying, analyzing, evaluating, and addressing risks.
- Make informed decisions.
- Avoid significant reputational or financial losses.
- Implement effective risk management options and controls.
- Strengthen corporate governance practices.
- Ensure the company's focus on ESG matters.

2. SCOPE

This policy applies to the Board, Risk Management Committee, senior management and all employees of JAT Holdings operates in all regions. It is everyone's responsibility to identify, analyze, evaluate, respond, monitor, and communicate the risks associated with all activities, functions, or processes within their relevant scope of responsibility and authority.

3. JAT RISK MANAGEMENT FRAMEWORK

- Risk Identification

Each business unit and function/ department is responsible for identifying potential risks that could impact the Company's objectives, operations, or compliance. This step ensures that all possible risks are recognized early.

- Risk Prioritization

Once risks are identified, they are assessed based on the probability of occurrence and the severity of their potential impact. This prioritization allows the Company to focus on the most significant risks first.

- Risk Management Approach

For each identified risk, a tailored approach is determined. The relevant Audit Committee and the Risk Management Committee decide whether to:

- Avoid: Eliminate the risk by changing plans or processes.
- Accept: Acknowledge the risk and prepare to manage its impact.
- Mitigate: Implement measures to reduce the likelihood or impact of the risk.
- Transfer: Shift the risk to a third party (e.g., through insurance).

- Risk Management Implementation

The selected risk management approach is then implemented with clear guidelines. Responsibilities are assigned, and reporting structures are established to ensure accountability and transparency in the risk management process.

- Risk Reporting

Continuous reporting is essential for tracking the progress of risk management efforts. Regular updates on the actions taken to reduce risks and the current status of risk management activities are shared with relevant stakeholders.

4. COMPANY RISK IDENTIFICATION AND CATEGORIZATION STRATEGY

The Company is mainly engaged in the business of trading and manufacturing and faces various types of risks including, inter-alia, regulations, competition, business risks, technology obsolescence, operations risks, financial risks, changes in fiscal policies, etc.

JAT takes 2 approaches to identify its risk through assessments.

Approach 1 – Ongoing Operational Assessment.

Risks identified by the Head of each department are documented, and deliberated by the cross-functional team, and an action plan is documented for action to be taken. This is an ongoing process. Once the risks are identified, the relevant HOD must speak with the CEO and direct the matter to the relevant audit committee if necessary.

<u>Approach 2 – Annual Process Risk Assessment</u>

During the year, the mandate to monitor and review the scope, extent, and effectiveness of the company's activities is assigned to the Internal Audit Department. Internal Audit Division conducted planned audit assignments at the Head Office Departments/Processes, Information Systems, and related processes based on the risk-based Internal Audit Plan approved by the Committee annually. The Internal Audit Department also performs other reviews based on the requirements from the Audit Committee, Management, or based on need.

Various types of risks faced by the Company can be broadly outlined as follows:

No	Area	Risk Types
1	Strategic	Risks associated with brand management, strategy development, strategic alliance, R&D, business planning, and performance targets.
2	Business Development	Risks associated with developing, implementing, and managing new and existing products/new markets, customer service, pricing, marketing, and feasibility of new business opportunities.
3	Operations	Risks associated with operations, both internal and external, include procurement of raw materials, safety, lack of defined processes, etc.
4	Human Resource	Risks associated with organizational structure, recruitment, remuneration, industrial relations, communication, support systems, processes, and procedures.
5	Entity	Risks associated with lack of defined policies, processes, procedures, and delegation.
6	Information Technology	Risks associated with data management, system migrations, interfaces, data integrity, and network architecture not supporting business functions and requirements.
7	Financial	Risks related to liquidity, cash management, collection of dues from debtors, foreign currency fluctuations, interest rate fluctuations, etc.

8	Asset Management	Risk related to the management or maintenance of the Company's key assets including property, plant, equipment, and environment
9	Legal	Risks related to non-compliance with legislations, regulatory issues impacting the company, adverse impact of new laws, etc.
10	Sustainability	The risk associated with environmental compliance changes, risk identified to the environment through business operation, and vice versa.

The management cautions that the risks outlined above are not exhaustive and are for information purposes only. It represents the management's perception only and it is not possible to assess all risk factors and risk mitigation measures.

5. STRATEGIC CONTROLS FOR RISK MITIGATION

- **Establish Internal Controls through Documentation and Standardization**

The Company has taken necessary actions to ensure all the processes are documented and standardized. These documents provide clear guidelines and standardized processes, ensuring consistency and reducing the likelihood of errors or oversights. By following these documented procedures, employees can more effectively identify and manage potential risks within their areas of responsibility. Refer to section B of this policy.

- **Ongoing Training and Development Programs**

Recognizing the importance of continuous learning, the Company regularly conducts training and development programs at all levels. These programs are designed to enhance employees' skills and knowledge, particularly in areas related to risk assessment and mitigation. By staying informed about best practices and emerging risks, employees are better prepared to handle challenges proactively.

- **Periodic Review of Functional Areas**

To ensure that risk management practices remain effective and up-to-date, the Company conducts periodic reviews of all functional areas. These reviews involve assessing current processes, identifying potential gaps, and making necessary adjustments to mitigate risks. Regular audits and evaluations help to maintain high standards of performance and compliance. This mitigation approach is executed through the Internal Audit department. Refer to section 4 (Annual Process Risk Assessment) of this policy.

- **Fostering a Favorable Environment for Audits and Compliance**

The Company has cultivated a positive environment that encourages open communication, transparency, and adherence to regulatory requirements. This includes promoting a culture where audits are seen as opportunities for improvement rather than mere formalities. By ensuring that all employees understand the importance of compliance and are comfortable reporting issues, while the company strengthens its overall risk management framework.

- **Establishment of the Risk Management Committee (RMC)**

The Board of Directors is ultimately in charge of managing the Group's risk exposures. With this policy, the Board formalized the company Risk Management Committee (RMC) expecting their immense support to the Board in carrying out its risk-related responsibilities.

6. FUNCTIONS OF RISK MANAGEMENT COMMITTEE (RMC)

The Risk Management Committee plays a crucial role in overseeing the Company's risk management, financial reporting, compliance, and internal control processes. Below are the key functions:

- **Financial Reporting and Monitoring**

- **Review and Discussion**: The Committee examines and discusses the Group's quarterly and annual financial statements with management to ensure accuracy and consistency.

- **Regulatory Compliance**: It ensures that the Company complies with all financial reporting regulations, including listing rules, the SEC Act, and other relevant requirements.

- **Accounting Policies**: The Committee reviews the propriety of the Company's accounting policies and addresses significant judgmental matters raised by External Auditors in their annual audit reports.

- **Financial Reporting Process**: The Committee monitors the financial reporting process to provide additional assurance on the reliability of the financial statements through an independent and objective review process.

- **Impact of New Standards**: The Committee ensures that the effects of new accounting standards are thoroughly discussed and disclosed in the financial statements to maintain transparency and stakeholder understanding.

- **Compliance**

- **Adherence to Regulations**: The Committee ensures compliance with all mandatory, statutory, and regulatory requirements set by authorities. This includes monitoring adherence to applicable laws, regulations, codes, and standards.

- **Corporate Governance**: The Committee ensures the Group upholds the highest standards of corporate governance as outlined in the Group's Code of Conduct and Ethics, which includes provisions for enforcing compliance norms.

- **Internal Controls and Risk Management**

- **System Oversight**: The Committee, alongside the Board, is responsible for ensuring the robustness of the Group's risk management and internal control systems. This includes financial reporting and legal compliance.

- **Audit Committee Support**: The Committee works with the Audit and Risk Management Committee and the Related Party Transaction Review Committee to evaluate and enhance internal control systems.

- **Independent Auditor Interaction**: Non-executive directors meet with external and internal auditors without the presence of Executive Directors and management to assess the adequacy and robustness of internal controls.

- **Information Security**: The Committee ensures that internal controls are in place to prevent unauthorized access to sensitive information and to manage risks in daily operations effectively.

- **Internal Audit Review**: The Committee serves as a forum for the impartial review of internal audit reports, considering findings and recommendations related to significant business risks.

- **Risk Management**: The Committee reviews and manages various business and operational risks, including financial, legal, regulatory, and strategic risks, and ensures effective mitigation plans are in place for each business unit.

- **Audit Plan and Resources**: The Committee assesses and approves the Group's annual audit plan, including the budget and resources needed to execute it effectively.

- **Internal Audit Performance**: The Committee conducts an assessment of the Internal Audit department's performance to ensure it meets the required standards.

- **Internal Control Systems**: The Committee oversees the development and implementation of sufficient internal control systems and obtains assurance from the CEO and other Key Management Personnel regarding the adequacy and effectiveness of the risk management and internal control systems.

- **Regulatory Compliance**: The Committee ensures that the entity's internal controls and risk management processes comply with the requirements of the Sri Lanka Auditing Standards.

SECTION B – POLICY ON INTERNAL CONTROL

7. PURPOSE

The Internal Controls Policy is designed to provide a comprehensive framework for identifying, assessing, managing, and monitoring the operations of JAT Holdings PLC. This policy ensures that all divisions within the company follow a standardized and consistent approach in conducting daily activities, which safeguards assets, enhances operational efficiency, and protects the interests of stakeholders. By establishing clear guidelines for transactional activities, this policy promotes accountability and helps maintain the integrity and stability of the company's operations.

8. SCOPE

The policy applies to all employees of JAT and covers all the operations at all the geographical locations.

9. COMPANY INTERNAL CONTROL STRATEGY

JAT believes in process documentation and standardization as an effective approach to establishing and enforcing internal controls in its operations. Process documentation and standardization refers to the systematic recording and consistent application of procedures within an organization.

- **Process Documentation**

Process documentation involves creating detailed descriptions of how tasks and activities are performed, including step-by-step instructions, workflows, and any relevant guidelines or policies. This ensures that all employees have a clear understanding of how to execute specific processes.

- **Process Standardization**

Standardization is the practice of establishing uniform procedures across the organization. By standardizing processes, the organization ensures consistency, reduces errors, and improves efficiency, as everyone follows the same set of practices.

10. COMPANY PROCESS INDEX

Company Process Index acts as the source document that states division-wise processes, supporting the organization to track, review, and improve all its processes. (Annexure 1) The Company Process Index consists of 3 folders.

- **Process Map** that displays in graphical form the transaction from commencement to end. (Annexure – 2) All the processes are given a unique index number to ensure the latest version is available for the employees. All the processes are to be signed off by the

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relevant department heads using the Process sign-off Sheet *(JAT/SUS/PE/FRM/07)*. (Annexure - 3)

- **Standard Operating Procedure (SOP)** is a document consisting of a step-by-step guide to execute the process end to end and to achieve uniformity in the performance of a specific function. The SOP control document format (*JAT/SUS/PE/SOP/02)* is expected to be followed. (Annexure – 4)

- **Policies** for each function process that identifies the company's stand on each of the activities, together with a policy sign-off document signed off by the Chief Executive Officer and the HOD of the operation. The policy control document format (*JAT/SUS/PE/P/02)* is expected to be followed. (Annexure – 5)

All the above-mentioned documents are given a unique index number according to ISO standards to ensure the latest version is available for the employees on the company intranet.

11. COMMUNICATION AND TRAINING

- **Communication**

The Company is committed to maintaining open channels of communication regarding internal controls, ensuring that all relevant information is accessible both internally and externally, as appropriate. To support this, all policies, process maps, and Standard Operating Procedures (SOPs) will be consistently uploaded to the Company Intranet, making them readily available for all employees.

Any revisions to the policies, maps, and standards of procedures (SOP) will be communicated to the relevant employees by the Head of the relevant department via email.

- **Training and Awareness**

During the induction of the recruits, the Human Resources department will provide an overall view of company policies and how to access them.

Employees will receive regular training on internal controls from the relevant Department Heads and the Company Training Officer to ensure a culture of compliance and accountability.

12. COMPLIANCE AND ENFORCEMENT

Failure to comply with this Policy may lead to disciplinary action. Depending on the severity and nature of the non-compliance, consequences may include termination of employment or, where necessary, legal action. The Company is committed to upholding these standards to protect its integrity and ensure adherence to all policies.

13. CONTINUOUS IMPROVEMENT

The Company is dedicated to the ongoing evaluation and enhancement of its internal control processes. As the business continues to grow and adapt, we will regularly review and update policies, making necessary adjustments to process maps to reflect these improvements. The changes we consider may include:

- **-** Adapting to shifts in the business environment and evolving regulatory requirements.
- **-** Responding to new laws and regulations.
- **-** Addressing the impacts of macroeconomic factors.

This approach ensures that our internal controls remain effective, relevant, and aligned with both the external landscape and the Company's strategic objectives.

14. REVIEW AND REVISION

The overall Policy Index, detailed in Annexure 01, will undergo a quarterly review or be updated as needed to ensure its ongoing effectiveness and relevance. Any necessary revisions will be made in alignment with applicable laws, regulations, and industry best practices, ensuring the Policy remains robust and up to date.

15. VERSION CONTROL

This policy was adopted by the Board of Directors of JAT Holdings PLC and shall become effective from 01st October 2024.