HORANA PLANTATIONS PLC
POLICY ON RISK MANAGEMENT AND INTERNAL CONTROLS

1. Objectives

The Company operates in a dynamic and rapidly evolving landscape, underscoring the critical importance of proactive risk management practices in building a resilient business model.

Key objectives of the Company's Risk Management Policy are set out below:

- Optimise risk-return dynamics and ensure sustainable business growth through effective management of all risks.
- Establish consistent and systematic procedures to effectively identify, measure, manage and mitigate risk exposures.
- Enhance the effectiveness and efficiency of the entity's operations, which in turn leads to improvements in resource allocation and decision-making.
- Promote prudent risk-based decisions through nurturing a risk conscious culture.
- Fulfill all relevant reporting requirements including financial and non-financial internal and external reporting.
- Ensure compliance to all laws and regulations the Company is subject to.

2. Scope

This Policy applies to all locations of the Horana Plantations PLC including all support functions.

3. Risk Classifications

The Company is exposed to a wide array of risks under both the internal and external dimensions. These risks are classified as follows:

- **Market risk-** Potential for financial losses or adverse outcomes resulting from fluctuations in market variables, such as prices, interest rates, exchange rates, and other market conditions.
- **Strategic risks:** Risks that arise from the misalignment of the organisation's strategy with business opportunities and developments in the external environment
- **Operational risks:** Risks arising from activities carried out by the organisation, stemming from structure, systems, products or processes.
- **Financial risks:** Risks arising from financial operations and include credit risk, interest rate risk, liquidity risk and currency risk among others.

- **Information technology risks**: Risk of technological obsolescence and ISS risks which arise from aspects such as external and internal vulnerabilities to the information systems, lack of disaster recovery and back-up procedures.
- **Sustainability-related risks:** Environmental and social risks that arise from an entity's lack of recognition of environmental and social sustainability factors affecting society and the entity.
- **Governance risks:** Risks arising from the failure to manage other risks due to a lack of robust governance systems.

4. Approach to Risk Management

The Company's approach to risk management is based on the COSO Enterprise Risk Management model, which enables integration with strategy and planning through embedding risk management across all departments and functions. This approach enables the organisation to position risk in the context of the Company's performance allowing it to anticipate risks in a more proactive manner. The components of the Company's Risk Management Framework are described below:

4.1 Governance and Culture

The Board holds apex responsibility for the management of risk and is assisted by the Audit Committee in discharge of this duty.

4.1.1 Roles & Responsibilities

Responsibility of the Board

- Approval and review of the Risk Management Policy.
- Define the organisation's risk appetite and tolerance levels.
- Delegate monitoring and reviewing of risk management to the Audit Committee or any other functions as it may deem fit.
- Oversee the development of the risk management framework and ensure adequate monitoring and reporting.
- Conduct a robust assessment of principal risks facing the organisation (as defined in Section 3 of this Policy), including those that would threaten its business model, future performance, solvency or liquidity.
- Set the tone at the top for nurturing a risk management culture, ensuring that it aligns with the organisation's strategy and objectives.
- Ensure effective systems are in place to secure the integrity of information, internal controls, cyber security and business continuity.

Responsibility of the Audit Committee

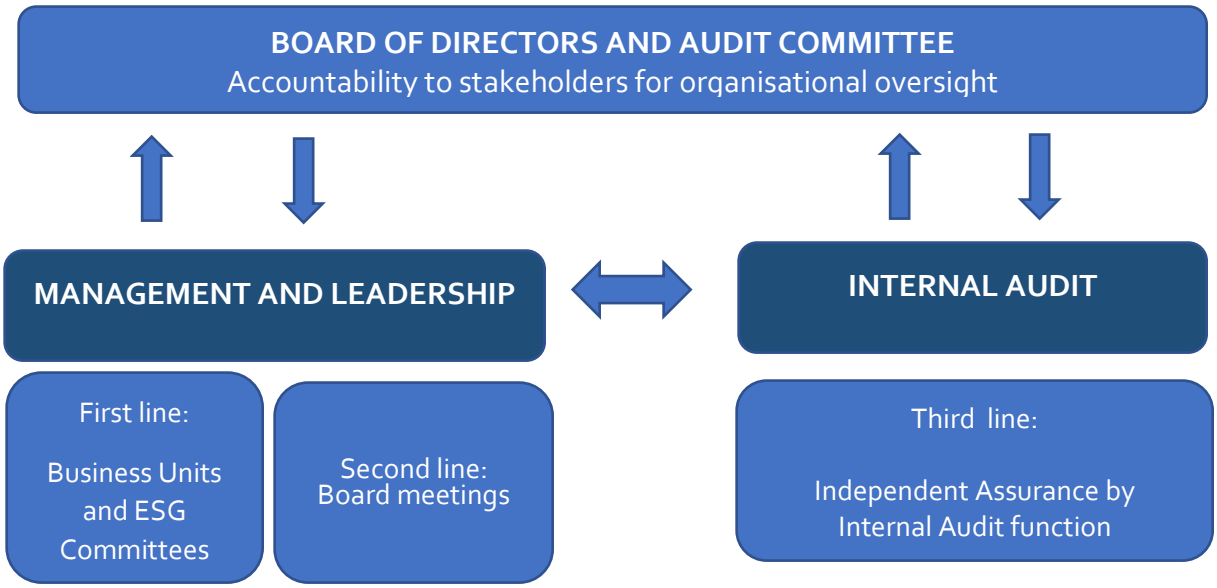
- Obtain and review assurance from the Chief Executive and management team on the adequacy and effectiveness of the organisation's risk management and internal control systems.
- Oversee the processes to ensure that the organisation's internal controls and risk management are adequate to meet the requirements of the Sri Lanka Accounting Standards.
- Review and assess the organisation's risk management process, including the adequacy of the overall control environment and controls in areas of significant risks.
- Conduct a review of internal controls covering financial, operational and compliance controls and risk management.
- Take corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the risk appetite and tolerance levels determined by the Board.

Responsibility of the ESG Committee

- Identify ESG related risks, opportunities and impacts and recommend the implementation of appropriate measures to effectively address these dynamics.
- Review emerging trends and issues in the ESG areas and assess potential impact on the Company.
- Receive updates at least quarterly or as and when required, on ESG matters including progress against targets, key KPIs and strategy implementation.

4.1.2 Risk Management Structures

Roles and responsibility allocation for risk management is based on the Three Lines of Defense model which ensures transparency and accountability across the organisation.



4.1.3 Risk Culture

The Hayleys Way (The Policy of the Ultimate Parent Company) serves as the Internal Code of Conduct and functions as the ethical roadmap in nurturing a culture of compliance and risk awareness. It is reinforced through regular training, including a session for new recruits at the Company's induction programme.

4.2 Strategy and Objective

Risk appetite is defined as the type and amount of risk the organisation is willing to accept in the pursuit of its strategic aspirations. Given the diversity of the Company's operations, risk appetite is defined and articulated through a range of tolerance limits and risk KPIs. These targets/KPIs are reviewed at monthly review meetings and Sector meetings. Performance against defined risk KPIs are monitored at quarterly Audit Committee meetings while the relationship between key risks and the achievement of business objectives are also assessed. Targets and KPIs are reviewed and revised on an annual basis.

4.3 Performance

4.3.1 Risk Identification

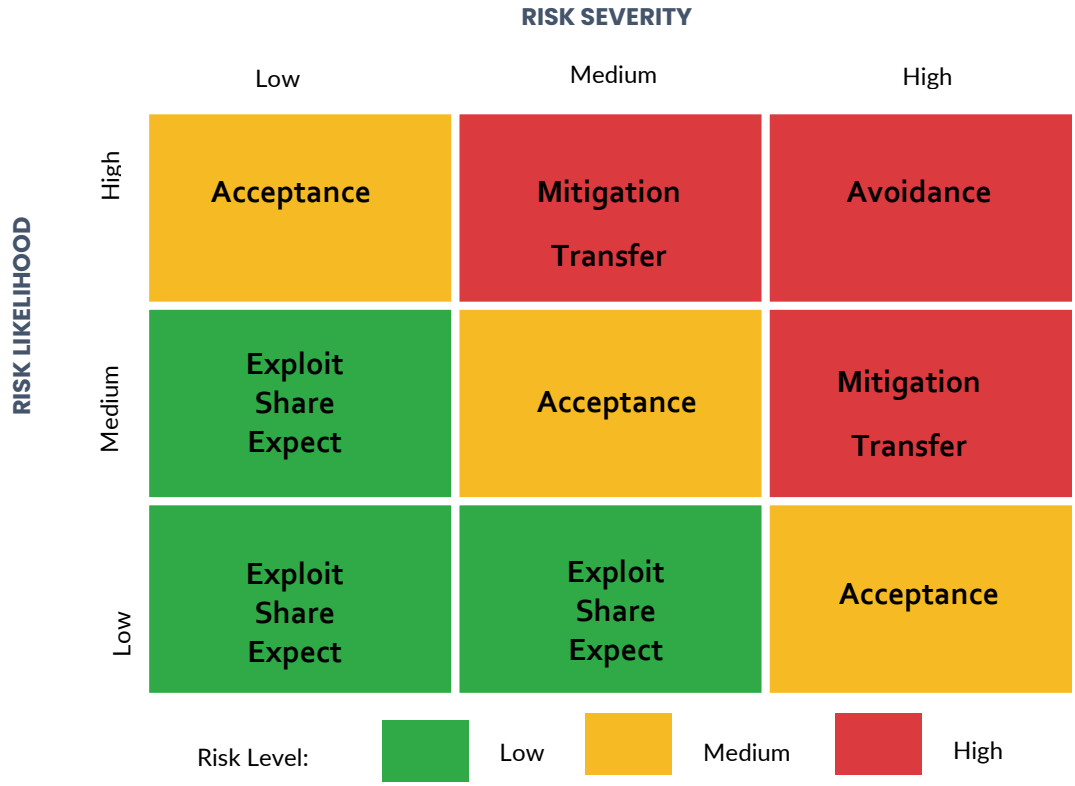
Risks are identified at Business Unit level, with the inputs of key employees across all functional areas. Risk identification occurs through leadership meetings, assessment of the external operating landscape, materiality analysis, strategic performance updates and engagement with both internal and external stakeholders among others. A risk inventory, cataloging potential risk exposures (including sustainability-related risks) that could impact the organisation has been formulated.

4.3.2 Risk Assessment and Prioritisation

Risks are assessed in terms of severity and likelihood; the former ranges from 1 to 3 (low, medium and high impact) and factors to be considered include financial impact, customer/reputational impact, employee, social and environmental implications among others. Likelihood of risks are assessed from 1 to 3 (low, medium and high impact). Risks assessment and prioritisation is done through a standardised Risk Register. Risks are assessed on the three time periods of short, medium and long-term.

4.3.3 Risk Response

Risk response is defined as the action taken to address identified risks in order to mitigate their impact or likelihood.



4.4 Review and Revision

Substantial changes in the risk landscape are continuously assessed through periodic re-evaluation. Potential drivers of change include organisational strategies and objectives, changes to processes, people and technology, emerging stakeholder requirements, changes in regulations and societal expectations among others. The review of risks is an organisation-wide discipline, with dedicated departments discharged with the responsibility for the review of specific risks as listed below:

Area of focus	Division
Company financial performance and resilience	Finance Department
Formulation and negotiation of the Company's insurance programme	Finance Department / Group Risk and Insurance
Review PESTEL risk from a portfolio perspective	Finance Department
Liquidity and foreign exchange risks Funding risks	Finance Department / Group Treasury

Supply chain risks	Procurement Department / Group Sourcing
Safeguarding the digital infrastructure and information assets	IT Department / Group IT
Environmental, social and governance risks	ESG Department / Group ESG

The monitoring of performance against defined risk metrics and assessing the adequacy of the organisation's internal control frameworks is carried out by the Group Internal Audit Function, which conducts comprehensive audits based on the annual audit plan. Risk performance is assessed is the context of industry dynamics and peers. A direct line of communication between the Head of Internal Audit and the Chairman of the Audit Committee ensures that concerns are escalated to the Board of Directors as required.

4.5 Communication and Reporting

Risk Registers are updated quarterly and submitted to Audit Committee for review. Meanwhile, ESG risks are tabled by ESG Divisions to the ESG Committees prior to being submitted to Audit Committee. Meanwhile, key findings from the audits conducted by the Internal Audit Division are escalated to the Audit Committee for corrective action.

5. Review and Update

This policy shall be reviewed and updated at least once every two (2) years by the Chief Financial Officer. The required updates and modifications shall be recommended to the Chairman and to the Board for approval. All stakeholders shall be informed of any revisions made to this Policy. Horana Plantations PLC reserves the right to modify/amend the policy at any time.

Effective date of implementation

This policy shall be effective and operative from 1st of October 2024.