

POLICY ON RISK MANAGEMENT AND INTERNAL CONTROLS

1. DEFINITIONS:

‘BAT’: British American Tobacco PLC

‘Board’: Board of Directors of Ceylon Tobacco Company PLC

‘Company’: Ceylon Tobacco Company PLC

‘CSE’: Colombo Stock Exchange

‘ESG’: Environment, Social and Governance

‘Listing Rules’: Listing Rules of Colombo Stock Exchange

‘RMC’: Risk Management Committee, which is composed of the following:

- Finance Director (Chairperson)
- Corporate Finance Manager (Secretary)
- Commercial Finance Manager
- Sales Operation Manager
- Head of External Affairs Senior Manager – External Engagement
- Manufacturing Manager
- Head of Leaf
- Corporate Affairs Manager

- Operations HR Business Partner
- IDT Services Manager
- Country Security Manager
- Senior Legal Counsel
- Commercial Planning Manager
- Marketing HR Business Partner
- Brand Manager
- Supply Chain Manager

2. PURPOSE AND OBJECTIVE

The Policy on Risk Management and Internal Controls outlines the framework and procedures adopted by the Company to ensure that risks are effectively managed and internal controls are robust. This policy aims to safeguard the assets of the company, ensure the accuracy and reliability of financial reporting, and comply with applicable laws, regulations, and standards, including those stipulated by the CSE.

3. SCOPE

This policy applies to all employees, directors, and officers of the Company. It covers all aspects of management of risks including financial, operational, compliance, strategic, and reputational risks, and having adequate internal controls in place.

4. RISK MANAGEMENT FRAMEWORK

4.1 Risk Identification

Comprehensive risk assessments should be conducted to identify the principal uncertainties facing the Company, including those that could threaten the Company's business model, future performance, solvency, or liquidity. Financial and non-financial risks should be identified by the RMC at a functional level with inputs from all Heads of Departments of the Company as well as other employees (where necessary). This process is to be facilitated through team discussions and brainstorming sessions, ensuring that value is added to the identification process.

4.2 Assessment and Evaluation

All identified risks are assessed and reviewed by the RMC using risk registers, maintained at three levels (high/medium/low), based on the likelihood of occurrence and the potential impact on the Company. Tolerance levels and trigger points are defined for each identified risk.

The Company will prioritize risks that have the potential to significantly affect its operations, financial performance, reputation, and compliance status.

The risk registers are validated by the RMC and reviewed bi-annually by the Audit Committee and thereafter by the Board, to ensure same reflect the current risk landscape.

4.3 Risk Management

Responsibility for managing each identified risk is allocated to the Head of each Department of the Company (risk owners), who report regularly to the RMC on the performance of defined risk parameters.

Additionally, the potential impact of global trends and risks is captured through inputs from the Regional Audit Committee of BAT, which also recommends improvements in internal controls in line with global best practices.

The Company will develop and implement risk mitigation strategies to manage identified risks. This may involve avoidance, reduction, sharing, or acceptance of risks, depending on the nature and magnitude of the risk.

4.4 Monitoring

Risks are monitored at multiple levels within the organization, including at the functional level, by the RMC, the Audit Committee, and the Board of Directors. The identified risks, risk registers, mitigation plans, and performance of each identified risk are evaluated at these levels throughout the year, ensuring continuous oversight and proactive management of risks.

5. INTERNAL CONTROL FRAMEWORK

5.1 Control Environment

The Company is committed to maintaining a strong control environment, characterized by ethical behavior, competence, and a clear organizational structure. The Board of Directors and senior management will set the tone at the top, emphasizing the importance of internal controls.

The Board plays a crucial role in shaping the organizational culture of the Company. Guided by the BAT Values, the Board fosters a culture that is responsive to change, encourages continuous learning, . The Standards of Business Conduct (SoBC) of BAT, which has been adopted by the Company subject to the local laws and regulations, further reinforces this by outlining expectations for employees and suppliers in areas such as bribery, corruption, political contributions, money laundering, principles of engagement, and human rights.

5.2 Control Activities

The Company will undertake control initiatives, comprising policies, procedures, and practices, to ensure the mitigation of risks and the attainment of its objectives. These initiatives will be woven into the Company's business operations and information systems.

5.3 Information and Communication

The Company will ensure that relevant information related to risks and internal controls is identified, captured, and communicated in a timely manner. Communication channels will be established to facilitate the flow of information across all levels of the organization.

5.4 Monitoring of Controls

The effectiveness of internal controls will be regularly monitored through internal audits, management reviews, and external audits. The Company will promptly address any deficiencies identified in the control environment and take corrective actions to strengthen controls.

6. ROLES AND RESPONSIBILITIES

6.1 Board of Directors

The Board of Directors are responsible for overseeing the risk management and internal control frameworks. The Board will ensure that adequate resources are allocated for the effective implementation of this policy.

6.2 Audit Committee

The Audit Committee will assist the Board in monitoring the effectiveness of the risk management and internal control processes. The Committee will review risk reports received from RMC, internal audit findings, and other relevant information, and provide recommendations to the Board.

6.3 Management

Heads of Departments are responsible for implementing the risk management and internal control frameworks. Management will ensure that risks are identified, assessed, and managed, and that internal controls are effectively designed and operated.

6.4 Employees

All employees are responsible for adhering to the Company's risk management and internal control policies and procedures. Employees are encouraged to report any risks or control deficiencies to their supervisors or through established reporting channels.

7. REVIEW AND UPDATE

The Audit Committee will review this policy annually, or more frequently if required, to ensure its continued relevance and effectiveness. Any updates to the policy will be approved by the Board of Directors.

8. COMPLIANCE AND REPORTING

The Company is committed to complying with all applicable laws, regulations, and standards related to risk management and internal controls. Non-compliance with this policy may result in disciplinary action, up to and including termination of employment.

9. QUESTIONS

All questions concerning the implementation of this policy are required to be addressed to the Assistant Company Secretary of Ceylon Tobacco Company PLC via ctc_inquiries@bat.com