

## DIESEL & MOTOR ENGINEERING PLC

<b>DIMO</b>	<b>POLICY ON RISK MANAGEMENT AND INTERNAL CONTROLS</b>	Document Number: GRP/FM/CG/07/11
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### 1. INTRODUCTION

Diesel & Motor Engineering PLC (hereinafter referred to as "the Company") is a diversified conglomerate listed on the Colombo Stock Exchange. Given its diverse business portfolio and the dynamic business environment, it is crucial for the Company to have a robust risk management and internal control framework. This policy establishes the principles and processes for effective risk management and internal controls to safeguard assets, ensure financial integrity, and comply with regulatory requirements.

This policy applies to all employees of Diesel & Motor Engineering PLC at all levels and grades, including the Board of Directors, the Group Management Committee, and all business units within the conglomerate. It encompasses the systematic management of all risk categories that may impact the Company's strategic, operational, and financial objectives.

### 2. OBJECTIVES

The objectives of this policy are:

- **Effective Risk Management:** To systematically identify, assess, and manage risks that could impact the Company's ability to achieve its strategic, operational, and financial objectives.
- **Robust Internal Controls:** To establish and maintain a system of internal controls that safeguard assets, ensure accurate financial reporting, and promote operational efficiency.
- **Regulatory Compliance:** To adhere to applicable laws, regulations, and listing requirements set forth by the Colombo Stock Exchange and other regulatory bodies.
- **Promote Accountability:** To foster a culture of accountability, integrity, and transparency at all levels across the organization.
- **Sustainable Growth:** To ensure that risk-taking is balanced with the Company's long-term strategic goals, facilitating consistent value creation for stakeholders while maintaining financial resilience and stability.

### 3. RISK MANAGEMENT FRAMEWORK

#### 3.1 Risk Management Objectives

The Company's risk management objectives are to establish the overarching principles for risk and control. The detailed procedures, workflows, and methodologies required to achieve these objectives are set out in the Company's Risk Management and Internal Controls Manual.

The risk management framework aims to:

- **Identify Risks:** To systematically identify potential risks that may affect the Company's operations, financial performance, climate and compliance.
- **Assess Risks:** To evaluate the likelihood and impact of identified risks to prioritize risk management efforts.
- **Mitigate Risks:** To develop and implement mitigation strategies to an acceptable level.
- **Monitor and Review:** To continuously monitor and review the effectiveness of risk management strategies and processes.
- **Sustenance:** To safeguard the Company's long-term viability and value by integrating climate-related risks and opportunities into strategy, governance, and capital allocation, in line with the Climate Scenario Analysis Methodology and Manual and the Board's fiduciary responsibilities to ensure prudent financial stewardship and sustainable growth.

#### 3.2 Risk Appetite and Tolerance

The Company defines its risk appetite as the amount and type of risk it is willing to pursue or retain in pursuit of its strategic objectives. The Company maintains a bifurcated approach to risk tolerance:

##### 3.2.1 Zero-Tolerance Risks

The Company maintains a zero-tolerance policy toward risks that compromise its core values, legal standing, or the safety of its people. This includes:

- **Health and Safety:** Any actions that jeopardize the well-being of employees or stakeholders.
- **Fraud and Integrity:** Any acts of dishonesty, bribery, or corruption.
- **Regulatory Non-Compliance:** Any breach of applicable laws, Colombo Stock Exchange listing requirements, or statutory obligations.

##### 3.2.2 Moderate to High Tolerance Risks

The Company may accept higher levels of risk where such risks are calculated and necessary for long-term sustainable growth and value creation. This includes:

- **Strategic Growth:** Market entry and expansion risks aligned with the Company's diversified portfolio.
- **Innovation and R&D:** Investments in research, development, and technology pursued to enhance competitive advantage.
- **Capital Allocation:** Strategic resilience testing through climate-related scenarios to inform long-term investment.

### 3.3 Risk Management Process

#### 3.3.1 Risk Identification

- **Methods:** Utilize various methods such as risk workshops, climate scenario analysis methodology, and Strength, Weakness, Opportunities and Threat (SWOT) analysis to identify risks. Engage with key stakeholders, including management, employees, and external advisors, SWOT Analysis, Value Chain Mapping, and process mapping.
- **Risk Register:** Maintain a risk register which captures identified risks, their sources, potential impacts, and control measures. This enables to identify Strategic Risk & Operational Risks within the company.

#### 3.3.2 Risk Assessment

- **Likelihood and Impact:** Assess the likelihood of each risk occurring and its potential impact on the Company's objectives. Use qualitative and quantitative techniques to evaluate risks. As part of its commitment to long-term sustainability, the Company integrates Climate Risk Scenario Analysis into its risk identification process to evaluate both Physical Risks. By utilizing various climate-related scenarios, the Company tests its Strategic Resilience to ensure the robustness of its business model and inform long-term capital allocation.
- **Risk Matrix:** Employ a risk matrix to categorize risks based on their severity, allowing for prioritization of risk management efforts.

#### 3.3.3 Risk Response

- **Mitigation Strategies:** Develop strategies to address high priority risks. Strategies may include risk avoidance, reduction, sharing, or acceptance.
- **Action Plans:** Create detailed action plans outlining specific measures, responsibilities, timelines, and resources required for risk mitigation.

#### 3.3.4 Risk Monitoring and Review

- **Ongoing Monitoring:** Continuously monitor the risk environment and the effectiveness of risk management strategies. Utilize key risk indicators and performance metrics.
- **Periodic Review:** Conduct periodic reviews of the risk management framework to ensure its continued relevance and effectiveness. Update risk assessments and strategies as necessary.

- **Annual Review:** Conduct annual reviews by Corporate Planning Team and the Responsible Parties mentioned in 3.3.

### **3.4 Risk Management Responsibilities**

- **Board of Directors:** Oversee the risk management framework, review significant risks, and ensure alignment with the Company's strategic objectives.
- **Audit Committee:** Periodically review risks identified and measures taken.
- **Group Management Committee:** Evaluate and address significant risks, oversee risk mitigation strategies, and provide guidance and approval on implementation of risk management policy within the Company.
- **Risk Management Working Group:** Identify, assess and mitigate risks and identify available opportunities for the organisation to meet its key objectives, business and operations with its representation from all departments within the Group.
- **Management Systems:** Is a structured framework of policies, processes and procedures used to fulfill the tasks required to achieve its risk objectives.
- **Management System Audit:** A systematic, independent and documented process used to determine risk management activities align with defined criteria – ensuring compliance with risk management policies within the boundaries of the organisational scope.

## **4. INTERNAL CONTROL FRAMEWORK**

### **4.1 Group Management Committee**

The Group Management Committee shall ensure that controls are in place to safeguard company's assets.

### **4.2 Finance Function**

To facilitate safeguarding of assets, the company's finance function should maintain adequate and accurate records.

The finance function also should ensure that adequate internal controls are in place to ensure the accuracy of financial statements.

### **4.3 Internal Audit Function**

The internal audit function shall carry out tests to provide comfort that internal controls designed are followed.

### **4.4 Audit Committee**

The audit committee shall oversee the adequacy of internal controls and their implementation.

#### **4.5 DIMO Risk Management Working Group**

This Group is an in-house specialized team tasked with identifying, assessing, and mitigating threats to an organization's objectives, projects, or operations.

The Group consists of representatives from the following department.

- a. Legal
- b. HR
- c. Compliance
- d. Corporate Planning
- e. Management Accounting
- f. Sustainability
- g. IT
- h. Corporate Communication
- i. Finance
- j. Internal Audit
- k. Supply Chain
- l. Customer Experience