

RISK MANAGEMENT

Sustainable growth requires a sound process for identifying, measuring, monitoring, managing and reporting risk to the Board on a regular basis enabling effective allocation of resources in line with the risks and opportunities faced by entities. This report sets out how the Group manages risk and discusses the most significant risks and opportunities.



GROUP INTEGRATED RISK MANAGEMENT POLICY

Our risk management policy stems from a philosophy of seeking sustainable growth and creating economic value while managing appropriate risks and opportunities. As risk management is an integral part of how we plan and execute our business strategies, our risk management policy is set by the Board. The Group's accountability structure requires each of the respective SBUs to implement risk management programs that are tailored to their specific industries and responsibilities, while being consistent with the overall policy.

The Group has implemented a set of risk management and control systems which support the early recognition of developments that could jeopardise the continuity of its businesses. The most pivotal of these systems include our enterprise-wide processes for strategic planning and risk management reporting. Strategic planning is intended to support us in considering potential risks and opportunities well in advance of major business decisions, while management reporting is intended to enable us to monitor such risks more closely as our business progresses.

GLOBAL ECONOMIC OUTLOOK

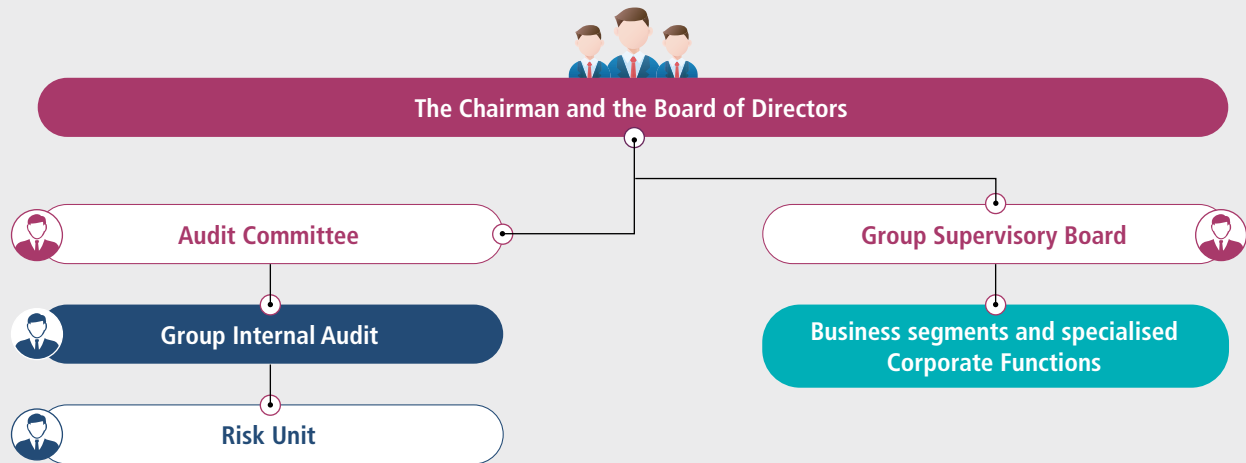
The global economy showed remarkable resilience in 2023, considering the number of headwinds and negative economic shocks from the previous year. Nevertheless, these shocks will still have adverse implications for economic growth in 2024, especially the dampening effects of tighter financial conditions. Accordingly, in 2024 the global economy is bound to further slowdown to low single digits. Given the high number of active and potential geopolitical conflicts, the outlook is subject to a high level of uncertainty.

More restrictive financial conditions would likely push advanced economies into recession and pose a significant risk to vulnerable emerging economies. Highly indebted countries such as Sri Lanka could suffer from increasing financing costs, U.S. dollar appreciation and loss of investor confidence.

On a more positive note, although at a slower pace, the decline of inflation rates is expected to continue. Past interest rate hikes are having the desired effect, and headline inflation is expected to steadily approach the central bank targets. Hence, monetary policy is expected to become less restrictive in 2024.

RISK GOVERNANCE

The Group has a well-established risk governance structure which is aligned to the three lines of defense model, as set out below.



The Chairman and the Board of Directors are responsible for risk management of the Group. Risk is reviewed at each Board meeting and appropriate responses are formulated and resources allocated as necessary. The Board is assisted by the Audit Committee and the Group Supervisory Board who meet more frequently to review the risks. The main objective in monitoring risk exposure is to secure the stability of the Group and manage risks and returns within the Group's risk appetite while pursuing corporate goals.



The unit is responsible for collating and aggregating risk registers as well as providing technical guidance to SBUs to ensure accurate and timely identification, assessment and management of risks.

Each SBU is responsible for identification, measurement, monitoring, management and reporting of risks to their respective Boards and to the risk unit. Consideration of the business climate, competition, stakeholder concerns and the SBU's business goals forms part of this process.

CONNECTIVITY WITHIN THE ANNUAL REPORT

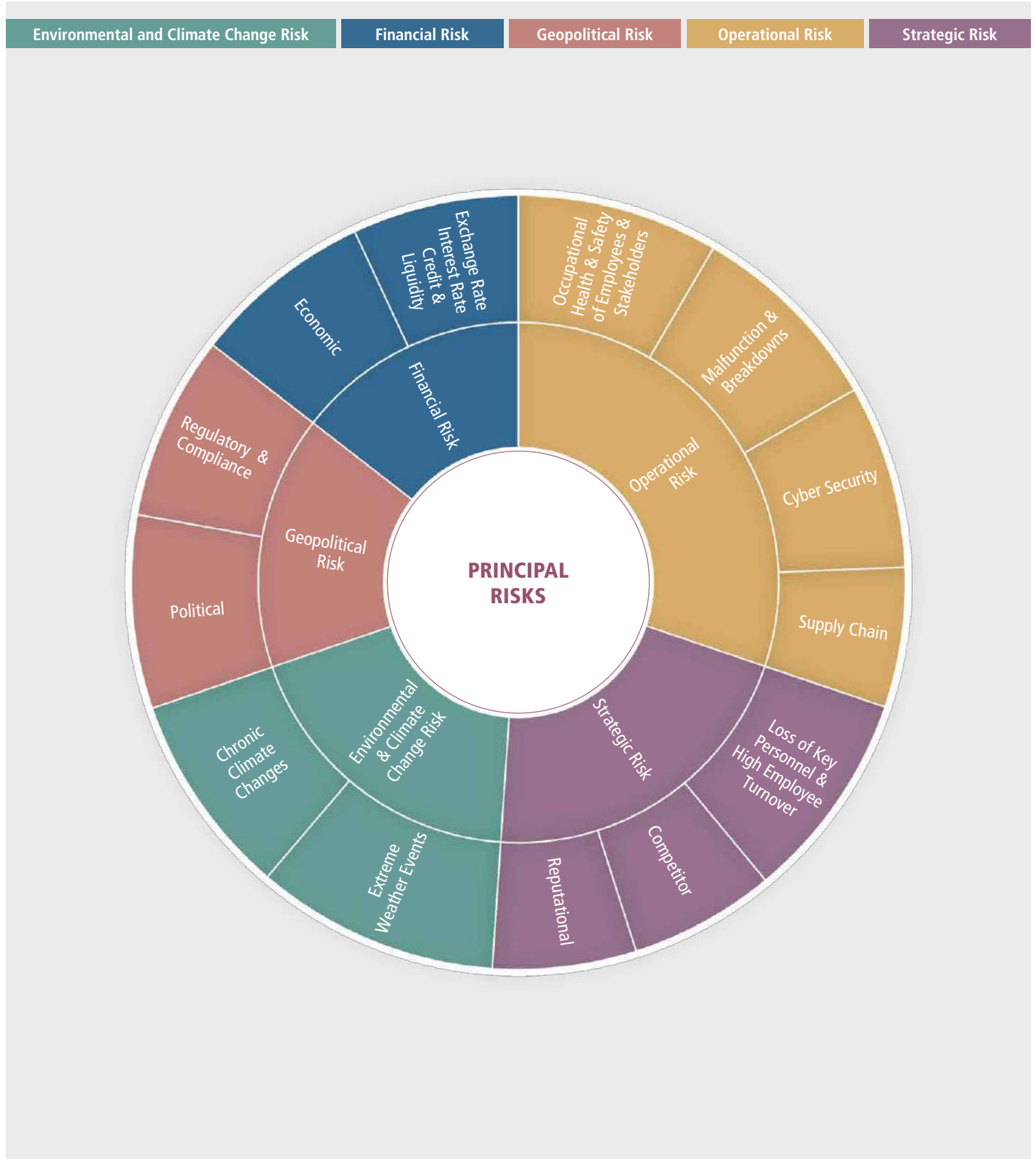
The following sections of this report are connected to the annual report, as set out below:

- **Risk environment** – Refer operating environment on page 40 which describes the risk environment that prevailed during the year, providing context for risk assessments.
- **Business reviews** – The risks and opportunities identified by the business segments were considered in compiling and updating the risk register.
- **Material matters** – Matters that are material to the Group were considered in compiling the risk register as set out on page 61.
- **Capital reports** – These set out how the risks were managed in more detail and are indicated alongside the relevant risks in the summary of risks provided in this report.



OVERVIEW OF RISKS

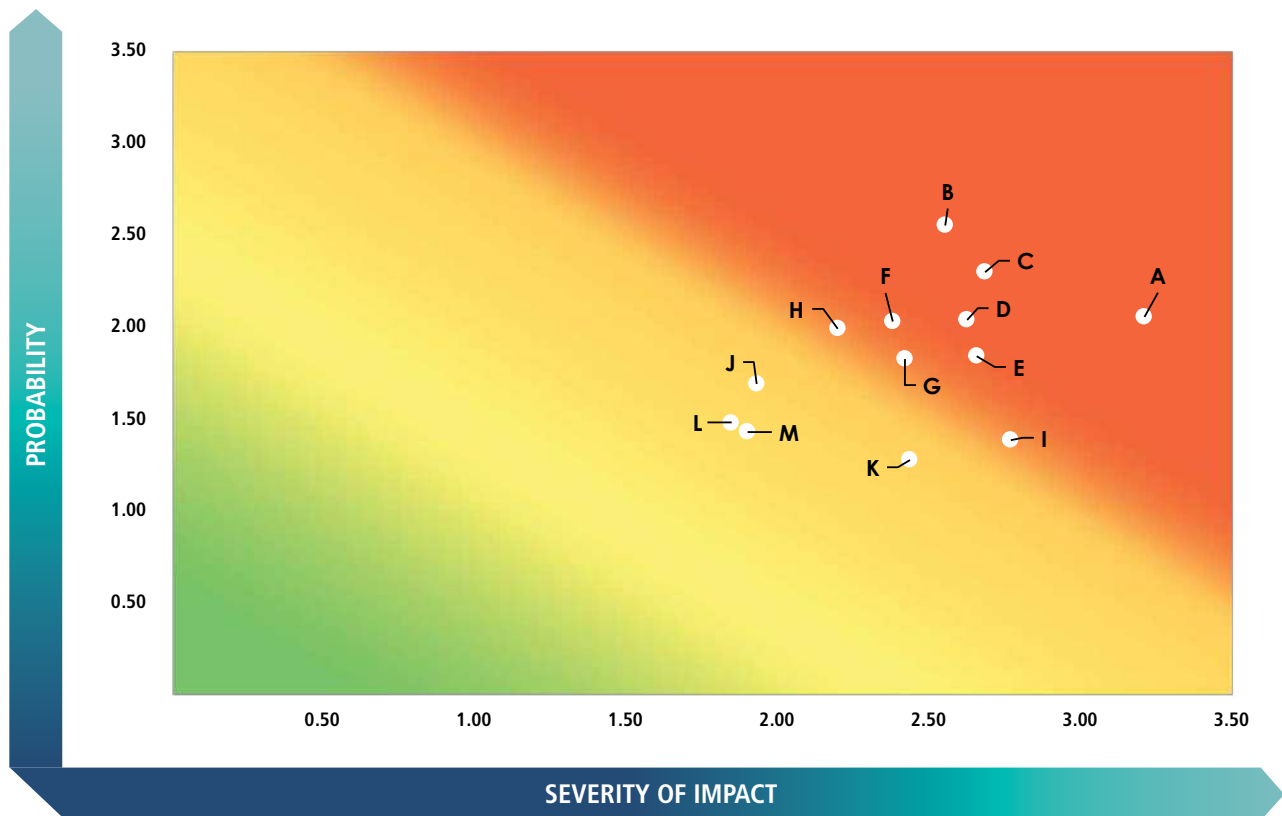
Aitken Spence PLC has adopted a structured approach to identify and classify risk to facilitate reporting across 16 business segments.



PRINCIPAL RISKS AND RISK HEAT MAP







Principal Risks		Risk Rating
A	Extreme Weather Events	○
B	Political	○
C	Chronic Climate Changes	○
D	Malfunction and Breakdowns	○
E	Occupational Health and Safety of Employees and Stakeholders	○
F	Economic	○
G	Cyber Security	○
H	Exchange Rate, Interest Rate, Credit and Liquidity	○
I	Loss of Key Personnel and High Employee Turnover	○
J	Competitor	○
K	Regulatory and Compliance	○
L	Supply Chain	○
M	Reputational	○

The risk heat map below provides a high-level view of the principal risks the Group is exposed to.
























RISKS AND OPPORTUNITIES





















Risk Category	Mitigation Plans				
<p>A. Extreme Weather Events </p> <table border="1" data-bbox="126 663 535 743"> <tr> <td>Flood warnings issued</td> <td>631</td> </tr> <tr> <td>Landslide warnings issued</td> <td>197</td> </tr> </table>	Flood warnings issued	631	Landslide warnings issued	197	<p> Risk Rating- High </p> <p>The impact of extreme weather events is different for each sector. Therefore, each sector has been separately assessed and mitigation and disaster recovery plans made are sector specific.</p> <ul style="list-style-type: none"> ▪ Sustainability measures aim to reduce carbon and water footprints. ▪ Inventory and PPE are insured for natural disasters. ▪ The Group assesses vulnerabilities, strengthens disaster preparedness and enhances sustainability efforts. ▪ Disaster recovery plans are in place for cyclones, high winds, earthquakes, forest fires, landslides, lightning strikes and tsunamis.
Flood warnings issued	631				
Landslide warnings issued	197				
<p>B. Political </p> <p>Geopolitical Risk</p> <p>Civil Unrest</p> <p>Terrorism</p>	<p> Risk Rating- High </p> <p>The Russian-Ukraine and the Israel-Palestine wars continue to elevate geopolitical risks. The attacks of the Houthis in the Red Sea are also concerning. Along with Sri Lanka, many countries will be conducting elections this year which can shift the geopolitical landscape.</p> <ul style="list-style-type: none"> ▪ The risk unit monitors both domestic and global operating environments, swiftly identifying early warning signs of risks and opportunities and promptly communicating them to management. ▪ Maintain continuous interaction with regulatory authorities, trade chambers, and associations to stay abreast of new laws and regulations and advocate for changes that may negatively affect the economy and business environment. <ul style="list-style-type: none"> ▪ Developing crisis management plans and establishing communication channels with local authorities. ▪ Conducting significant CSR projects and building a good rapport with the neighbourhood. ▪ Maintaining open communication with community leaders and stakeholders to address grievances proactively. ▪ Maintaining harmonious relations with trade unions <ul style="list-style-type: none"> ▪ Strong security culture is adopted within the premises by regularly emphasising the importance of security measures. ▪ Emergency telephone numbers are displayed at security points. ▪ Property, lives and businesses are insured against losses due to terrorism. 				

(GRI 201-2)

Risk Category	Mitigation Plans					
C. Chronic Climate Changes 	 Risk Rating- High 					
Soil erosion	<ul style="list-style-type: none"> Improvement of soil carbon percentage and soil conservation. 					
Toxic smog and smoke	<ul style="list-style-type: none"> Implement air quality monitoring systems. Conduct regular maintenance of ventilation systems. 					
D. Malfunction and Breakdowns 	 Risk Rating- High 					
	<ul style="list-style-type: none"> All machinery and vehicles are regularly serviced. Engineering experts are consulted to address complicated technical issues. All segments maintain sufficient spare parts inventory. Comprehensive training is provided to employees in machine operation and handling. Instructions in the operating manuals are adhered to consistently. 					
E. Occupational Health and Safety of Employees and Stakeholders 	 Risk Rating- High 					
<table border="1" data-bbox="126 909 537 982"> <tr> <td>Number of Injuries</td> <td>340</td> </tr> <tr> <td>Number of Deaths</td> <td>NIL</td> </tr> </table>	Number of Injuries	340	Number of Deaths	NIL	<p>This is a key risk for the Group and stringent measures have been put in place to mitigate, which has significantly reduced the associated risks.</p>	
Number of Injuries	340					
Number of Deaths	NIL					
	<ul style="list-style-type: none"> Continuously strengthen health and safety measures at identified high-risk locations. Implementation of occupational health and safety (OHS) policies throughout the Group. Usage of PPEs are strictly adhered to. Conducting continuous training and awareness sessions. Robust safety procedures for operations are in place. Regular site inspections and hazards spotting exercises are conducted across the Group. Proper cleaning, sanitisation and pest control are periodically conducted. Proper fire prevention mechanisms are in place. 					
F. Economic 	 Risk Rating- High 					
Inflation	<p>Inflation has a significant impact on all businesses as it reduces consumer purchasing power and also increases our own cost profiles.</p>					
<table border="1" data-bbox="126 1392 537 1423"> <tr> <td>Headline CCPI (Y-o-Y change)</td> <td>0.9%</td> </tr> </table>	Headline CCPI (Y-o-Y change)	0.9%	<ul style="list-style-type: none"> Cost optimisation measures are undertaken throughout the Group. Assess ability to pass through increases in costs to ease pressure on margins. Diversification of business and penetrate new markets without over depending on single market or single geographical region. 			
Headline CCPI (Y-o-Y change)	0.9%					
Changes in trade polices of other countries.	<p>Trade policies have a significant effect as they can increase or decrease entry barriers to markets and change a country's or product's competitiveness significantly.</p> <ul style="list-style-type: none"> Assess and diversify supply chains to minimise disruptions caused by economic shocks or regional instability. 					
Economic instability and down turns	<p>In an economic downturn, businesses need to balance support to customers and suppliers with associated risks to facilitate business continuity where possible. There is also the opportunity to disrupt market dynamics with cost effective solutions and capture market share.</p>					
<table border="1" data-bbox="126 1791 537 1896"> <tr> <td>GDP Growth</td> <td>-2.3%</td> </tr> <tr> <td>Foreign Exchange Reserves as of March 2024</td> <td>USD 4.95 Bn</td> </tr> </table>	GDP Growth	-2.3%	Foreign Exchange Reserves as of March 2024	USD 4.95 Bn	<ul style="list-style-type: none"> Innovations are carried out to provide more cost-effective solutions to customers. Encourage customers and prospective customers to consider safeguarding themselves for unforeseen economic shocks. 	
GDP Growth	-2.3%					
Foreign Exchange Reserves as of March 2024	USD 4.95 Bn					

Risk Category	Mitigation Plans					
G. Cyber Security 	 Risk Rating- High 					
<table border="1" data-bbox="126 394 534 464"> <tr> <td>Total vulnerabilities detected and treated</td> <td>09</td> </tr> </table>	Total vulnerabilities detected and treated	09	<ul style="list-style-type: none"> Group-wide staff awareness programs are conducted on information security. Implementation of various protection technologies to manage network perimeter defense, data loss prevention, cyber security threats like cyber-spoofing and distributed denial of service (DDoS) attacks. Centralised control over application installation and configuration. Adhered with the benchmarked IT system related security measures and frequent update of same. Utilise state of the art firewalls and intrusion detection systems. Identity and access management systems, including multifactor authentication are employed. 			
Total vulnerabilities detected and treated	09					
H. Exchange Rate, Interest Rate, Credit and Liquidity 	 Risk Rating- High 					
Exchange Rate Risk <table border="1" data-bbox="126 856 534 926"> <tr> <td>Annual appreciation of LKR against the USD</td> <td>8.16%</td> </tr> </table>	Annual appreciation of LKR against the USD	8.16%	<ul style="list-style-type: none"> Close monitoring of the forex fluctuations is done by the Group Treasury. Fixing the exchange rate in contracts. Judicious use of foreign exchange rate hedging instruments depending on forecasted movements. 			
Annual appreciation of LKR against the USD	8.16%					
Interest rate Risk <table border="1" data-bbox="126 1024 534 1171"> <tr> <td rowspan="3">Interest Rate Spread (weekly AWPLR)</td> <td>Min: 10.13%</td> </tr> <tr> <td>Max: 22.63%</td> </tr> <tr> <td>Spread: 1,250 basis points</td> </tr> </table>	Interest Rate Spread (weekly AWPLR)	Min: 10.13%	Max: 22.63%	Spread: 1,250 basis points	<p>The segments with significant borrowings are adversely affected by an upward movement of interest rates whereas segments with cash surpluses are adversely affected by downward movement of interest rates. The Group is a net borrower, so the overall impact will be negative on upward movement of interest rates.</p> <ul style="list-style-type: none"> Cost of capital and investments are managed by the Group Treasury, leveraging expertise in the segments. 	
Interest Rate Spread (weekly AWPLR)		Min: 10.13%				
		Max: 22.63%				
	Spread: 1,250 basis points					
Liquidity <table border="1" data-bbox="126 1245 534 1314"> <tr> <td>Quick Asset Ratio</td> <td>1.12</td> </tr> <tr> <td>Debt to Equity Ratio</td> <td>0.45</td> </tr> </table>	Quick Asset Ratio	1.12	Debt to Equity Ratio	0.45	<p>The Group maintains a cautious approach to managing liquidity and leverage which provides for significant headroom in case of need.</p> <ul style="list-style-type: none"> Agile and proactive management of working capital. Ensure adequate bank facilities are available. Aim for shorter working capital cycles. 	
Quick Asset Ratio	1.12					
Debt to Equity Ratio	0.45					
Credit Risk <table border="1" data-bbox="126 1455 534 1524"> <tr> <td>Percentage of trade debtors over 90 days</td> <td>13%</td> </tr> </table>	Percentage of trade debtors over 90 days	13%	<ul style="list-style-type: none"> The Group regularly reviews credit controls. All SBUs have established debt collection targets. Internal monitoring of debt collection is carried out diligently. Credit limits of customers are reviewed regularly and adjusted appropriately. 			
Percentage of trade debtors over 90 days	13%					
I. Loss of Key Personnel and High Employee Turnover 	 Risk Rating- Moderate 					
<table border="1" data-bbox="126 1675 534 1703"> <tr> <td>Employee Attrition Rate</td> <td>22</td> </tr> </table>	Employee Attrition Rate	22	<ul style="list-style-type: none"> Implemented comprehensive talent management programs to cultivate talent pipelines, including succession planning. Offer job rotation and overseas assignments to employees to foster leadership development. The Group has a credible grievance handling mechanism. Human resources policies and practices are regularly updated to align with industry trends. Formulating human resource strategies to retain employees and management intervention to ensure such strategies are implemented. 			
Employee Attrition Rate	22					

Risk Category	Mitigation Plans	
J. Competitor 	  	Risk Rating- Moderate 
	<ul style="list-style-type: none"> ▪ Each sector conducts regular and systematic competitor analysis and implements measures to sustain the Group's competitiveness. ▪ Group Supervisory Board closely monitors strategy implementation. ▪ Continued efforts are carried out to develop new markets and market segments. ▪ Market dynamics are monitored, and quarterly competitor analysis are conducted. ▪ Strategic partnerships and Group synergies are leveraged. 	
K. Regulatory and Compliance 	  	Risk Rating- Moderate 
	<ul style="list-style-type: none"> ▪ Awareness and strict adherence to regulatory timelines and requirements. ▪ Regularly update compliance registers for all segments. ▪ Stay informed about legislative changes and adapt business practices accordingly through consultation with legal experts. ▪ Work with tax professionals to ensure compliance with tax regulations and explore tax planning opportunities. 	
L. Supply Chain 	 	Risk Rating- Moderate 
	<ul style="list-style-type: none"> ▪ Ensure adequate inventory levels are maintained for frequently needed items including fuel. ▪ Collaborate with suppliers to minimise lead times. ▪ Build relationships with multiple suppliers and create contingency plans for sourcing materials from different regions. 	
M. Reputational 	 	Risk Rating- Moderate 
	<ul style="list-style-type: none"> ▪ The Code of ethics and professional conduct applies to all directors and employees. ▪ Implemented integrated sustainability management policy with a centralised team overseeing implementation. ▪ Standard operating procedures for key business processes are established. ▪ Adopted the ESG framework. ▪ Aligned with international best practices through certification on quality, environment and social management. ▪ A crisis communication plan is in place to address negative publicity promptly and transparently. ▪ Implemented reputation management strategies, including initiative-taking, communication and swift resolution of issues. ▪ The Group gives priority to customer satisfaction and customer comments are taken into consideration in every point. 	

OPPORTUNITIES

Opportunities often arise alongside risks, and organisations must capitalise on such opportunities to progress. Here are few key opportunities identified within the principal areas of risk.

