

RISK MANAGEMENT

Risk management has gained importance over the past several years as known risks evolved and escalated, while new risks were defined to meet the needs of an increasingly complex operating environment. The ability to identify early warning signs and fortify businesses to manage the impacts of escalating risks has been key in managing the performance of the Group through the turbulence of the year in review. This report is a summary of how we managed converging risks in an extraordinarily challenging year.

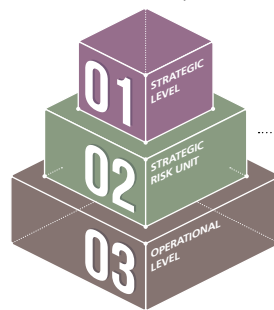
Risk Governance

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



The Board is 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.

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



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

A Common Language

During the year, the Strategic Risk Unit rolled out a centralised risk register to facilitate a common language and process for risk management throughout the Group's diverse business segments and specialised corporate functions such as human resources and IT, which provide guidance to all business segments on matters within their purview. All business segments and specialist functions were consulted on building the common risk register and technical guidance was provided on assessing the risks. The risks included in the risk register at the closure of the year are graphically summarised below.



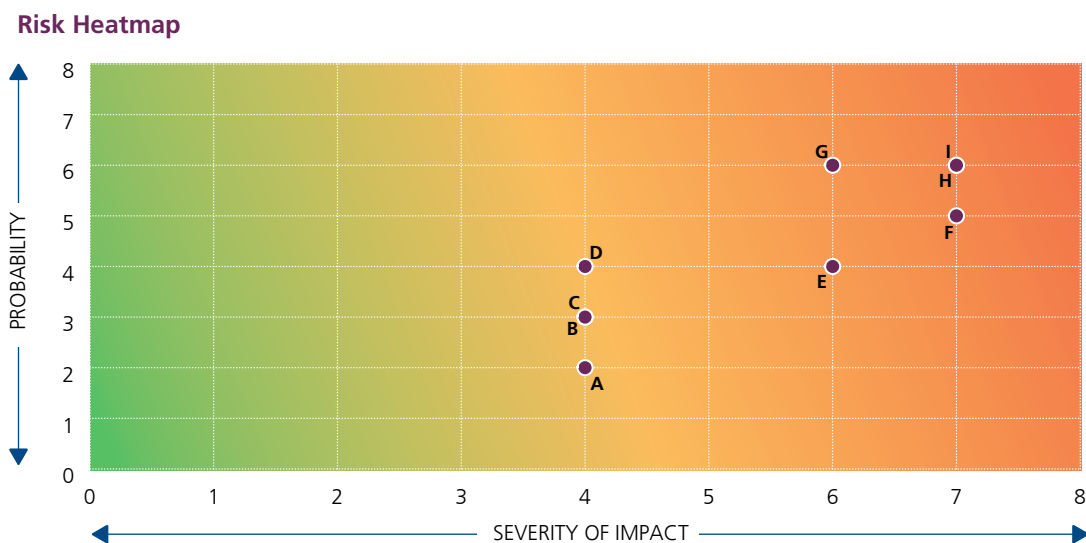
Connectivity within the Annual Report

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

- » Risk environment – Refer operating environment on page 20 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 40.
- » Capitals 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.

Risk Assessment

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



- | | |
|----------------------------------|---|
| A Health, Safety and Well- being | F Human Resource Risk |
| B Reputation Risk | G Political and Policy Uncertainty |
| C Concentration Risk | H Climate Change and Environmental Risk |
| D Competition and Revenue Gap | I Financial Risk |
| E Cyber Security Risk | |

RISK MANAGEMENT

Top Risks	Risk Indicator and Risk Rating			Mitigation Strategies
<p>Financial Risks</p> <p>Various financial risks loom over Group's investments and operations. The following are the key risks in this area:</p> <ul style="list-style-type: none"> » Considerable amount of credit needs to be extended by the Group for it to generate healthy volumes of business. The amount of credit granted by sectors may expose them to a default risk. » The Group's debt obligations in terms of floating interest rates exposes it to interest rate risk. » The Group is also exposed to foreign exchange rate risk where it has cash flows in foreign currency which are affected by foreign exchange movements. 		2022-23	2021-22	<ul style="list-style-type: none"> » Implementing cost-cutting measures to improve working capital efficiency. » All sectors focus on prudent management of debtors. » Ensuring that long and short term funding are negotiated and sourced at low interest rates. » Maintaining forex buffer and utilising forward contracts where available. » Maintaining sufficient bank facilities and striving for short working capital cycles. » The Group ensures that inflation is inbuilt to the pricing strategies of all sectors.
	Indicator			
	Interest Rate Spread (weekly AWPLR)	Min : 9.85% Max : 29.67% Spread : 1,982 basis points (19.82%)	Min : 5.43% Max : 9.71% Spread : 428 basis points (4.28%)	
	Annual depreciation of LKR against the USD	11.32%	47.26%	
	Percentage of trade debtors over 90 days	37.8%	23.2%	
Rating	High	High		
<p>Climate Change and Environmental Risk</p> <p>The manifestations of climate change include higher temperatures, altered rainfall patterns and more frequent or extreme weather events such as heatwaves, droughts and storms.</p> <p>Plantation and power segments are directly impacted by weather patterns while extreme weather events may have a significant impact on the entire Group.</p> <p>Further, every activity has an environmental impact that if not managed can be a risk to the environment, our communities and the sustainability of the business.</p>		2022-23	2021-22	<ul style="list-style-type: none"> » Vulnerability assessments are conducted across the Group to identify potential risks and preventive measures are taken to strengthen disaster risk reduction mechanisms while improving business continuity plans. » Inventory and PPE are insured against damages from natural disasters. » Extreme weather events are continuously monitored via alerts received from disaster management center. » Business models are assessed frequently for climate change related risks. » The Group adopts an integrated approach to sustainability which supports the reduction of carbon and water footprints. » Providing training on disaster risk reduction and business continuity planning to develop mitigation and adaptation strategies.
	Indicator			
	Number of extreme weather event alerts received from DMC	337	281	
	Volume of water withdrawn (M3).	1,094,597	796,024	
	Direct greenhouse gas emissions (tCO ₂).	93,411	73,178	
Rating	High	Moderate		

Top Risks	Risk Indicator and Risk Rating			Mitigation Strategies
<p>Political and Policy Uncertainty</p> <p>The Government's tendency to impose strict exchange control regulations, import restrictions and new tax regulations due to the present economic situation in the country, may adversely impact the Group.</p>		2022-23	2021-22	<ul style="list-style-type: none"> » Strategic Risk Unit monitors the domestic and global operating environment to identify early warning signs of risks and opportunities which are promptly intimated to the management. » Mobilising internal resources to ensure timely response to regulatory changes and maintaining regulatory compliance. » Constant engagement with regulatory authorities together with trade chambers and associations, so as to be up to date with new laws and regulations and influence those which adversely impact the economy and the business environment.
	Indicator			
	12 Month average LMD – NielsenIQ business confidence index	90	110	
	Rating	High	High	
<p>Human Resource Risk</p> <p>Due to the economic condition of the country significant number of professionals and skilled employees are migrating or taking up overseas employment. As a result, attracting and retaining suitably skilled and experienced staff is a constant challenge.</p>		2022-23	2021-22	<ul style="list-style-type: none"> » Comprehensive talent management programmes are in place to build talent pipelines including succession planning. » Job rotation and overseas assignments are offered to employees to develop their leadership qualities. » The management ensures the credibility of grievance mechanisms. » Human Resources policies and practices cognizant to trends in the industry are frequently updated.
	Indicator			
	Employee Attrition Rate	24.5%	20.5%	
	Rating	High	Moderate	
<p>Cyber Security Risk</p> <p>Majority of the Group processes are supported by one or many internet driven services. While the Group encourages work from home practices, this in turn presents a unique set of cyber threats.</p>		2022-23	2021-22	<ul style="list-style-type: none"> » Application installation and configuration is centrally controlled. » IT sourcing is from reputed and reliable vendors. » Security operations center is centrally managed. » Group-wide staff awareness and programs are conducted on information security and on handling of sensitive information. » Different protection technologies are implemented to manage network perimeter defence, data loss, cyber-spoofing, distributed denial of service attack, mobile devices and monitor suspicious cyber activities.
	Indicator			
	Country ranking as per the National Cyber Security Index	76	78	
	Rating	Moderate	High	

Top Risks	Risk Indicator and Risk Rating			Mitigation Strategies
<p>Competition and Revenue Gap</p> <p>Increasing competitive pressure will prevent the Group from achieving its predicted margins and market share. Most markets in which the Group operates are characterised by strong competition and are often price driven.</p>		2022-23	2021-22	<ul style="list-style-type: none"> » Close monitoring of strategy implementation by Group Supervisory Board. » Continued efforts to develop new markets and market segments. » Monitoring market dynamics along with quarterly competitor analysis. » Leveraging strategic partnerships and Group synergies. » Group-wide initiative are carried out to focus on customer centricity. » Spenceway Service Excellence surveys are performed to ascertain a baseline for continuous improvement. » Increasing online presence and engaging customers online. » Focus on further diversity to reduce reliance on a single product or market.
	Rating	Moderate	High	
<p>Concentration Risk</p> <p>Some segments of the Group are exposed to concentration risk.</p>		2022-23	2021-22	<ul style="list-style-type: none"> » Group Supervisory Board continuously monitors concentration risk. » Close monitoring of correlations between industries are carried out at Group level. » Focus on growth in defensible sectors of the economy.
	Rating	Moderate	N/A	
<p>Reputation Risk</p> <p>The Group renders its services and products to large number of customers and interacts with hundreds and thousands of stakeholders annually, exposing the Group to potential reputational risk. Reputational risk, if not properly managed can quickly escalate into a major strategic crisis.</p>		2022-23	2021-22	<ul style="list-style-type: none"> » Code of ethics and professional conduct is applicable to all directors and employees. » Sound governance and comprehensive policy framework are in place to articulate Group's management approach on material topics. » The Group has an integrated sustainability management policy and a dedicated team to ensure the implementation of same. » Standard operating procedures for key business processes are in place. » The Group voluntarily adopted the Environmental, Social and Governance (ESG) framework. » Voluntary alignment to international best practices through certification on quality, environment and social management systems. » Frequent social media surveillance and formulating appropriate responses by a specialist team.
	Rating	Moderate	Moderate	

Top Risks	Risk Indicator and Risk Rating			Mitigation Strategies
<p>Health, Safety and Well being</p> <p>The safety and wellbeing of our employees and the other stakeholders is a priority for the Group.</p> <p>We also understand that specific aspects of our operations may present higher levels of risk to employee's health and safety. Thus, we have taken measures to safeguard employees, who are exposed to higher levels of health and safety risks in several businesses within the Group.</p>		2022-23	2021-22	<ul style="list-style-type: none"> » Customer health and safety is benchmarked with international quality management systems for food safety in Tourism sector and plantation segment and by "Worldwide Responsible Accreditation Production" in the apparel segment. » Continuous reinforcement of health and safety measures at all locations where risks have been identified. » Provision of personal protection equipments in areas of risk.
	Indicator			
	Number of Injuries in the Group	116	187	
	Rating	Low	High	

Opportunities

Risks and opportunities are intertwined, and it is well established that an organisation needs to take risks to progress. The opportunities perceived in these key areas of risk are set out below.

Green/sustainable funding	Invest in essential services and import substitution	Strategic partnerships	Technology driven growth	Diversification
<ul style="list-style-type: none"> » The Group's strong commitment to sustainability provides a solid foundation to raise funds through green/sustainable financing options. 	<ul style="list-style-type: none"> » The current operating and policy environment supports investments in import substitution and in industries supporting essential services. 	<ul style="list-style-type: none"> » Grow existing relationships and acquire new relationships to drive growth. » Develop new markets leveraging strategic partnerships. » Leverage Group synergies to grow. 	<ul style="list-style-type: none"> » Collaborative growth. » Implementing leaner ways of working. » Seeking new ventures based on ground breaking technology. 	<ul style="list-style-type: none"> » Geographical and industry diversification. » Moving into new customer segments.