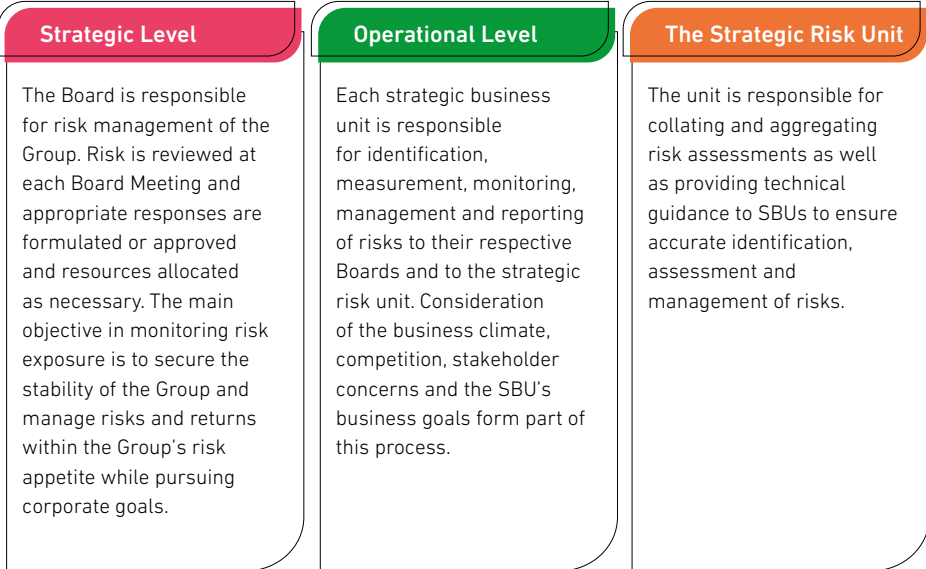


Risk Management

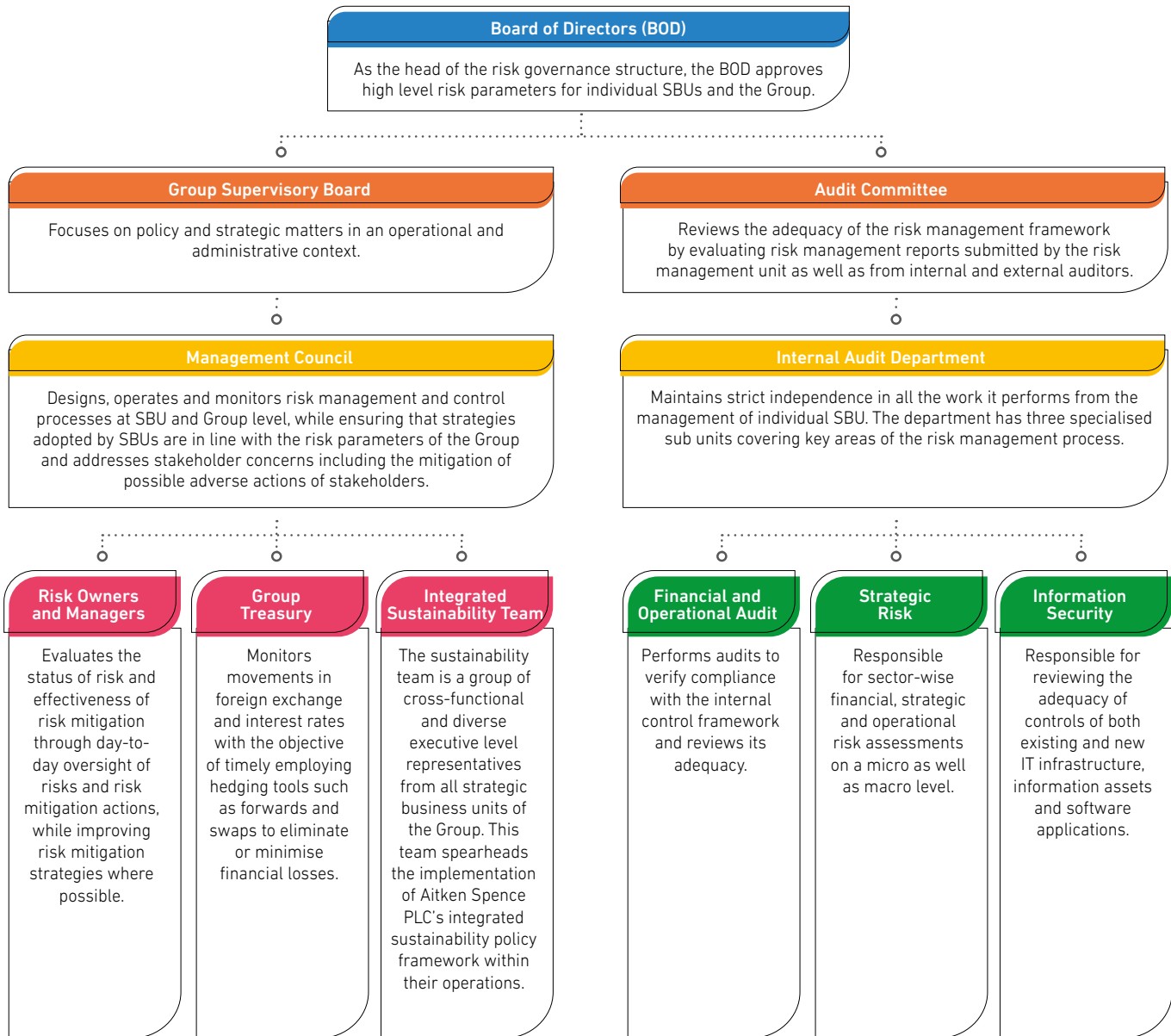
Risk is inherent to all businesses operating in any market and needs to be identified, measured, monitored and managed to achieve an organisation’s strategic goals. The COVID-19 pandemic heightened the need for a robust risk management framework, as the scale and duration of its impact intensified the vulnerabilities of many organisations due to the convergence of multitude of risks. In this demanding environment we needed to respond with increased rigour in identifying and managing risks so as to implement mitigating actions early to minimise their impact while seizing opportunities that arose to grow the business. The Group’s proactive approach to risk management and effective Group-wide risk management framework were key to the Group’s resilience and performance in the year under review.

Aitken Spence’s overall risk management process is overseen by the Board through the Audit Committee as an integral element of corporate governance. The importance of employee involvement in the risk management process has been recognised by the Group as a vital factor in minimising potential negative consequences of risks encountered in the operating environment. The total continuum of the Group’s decision-making process including strategy formulation, evaluation and implementation is integrated with risk management procedures ensuring desired outcomes are achieved. The Group has shown resilience in meeting and countering challenges in its operating environment during the recent past and the success evident in the financial results for 2021/22 are a testimony to the effective risk management process in place across all our businesses.

Risk Management Structure



Risk Management



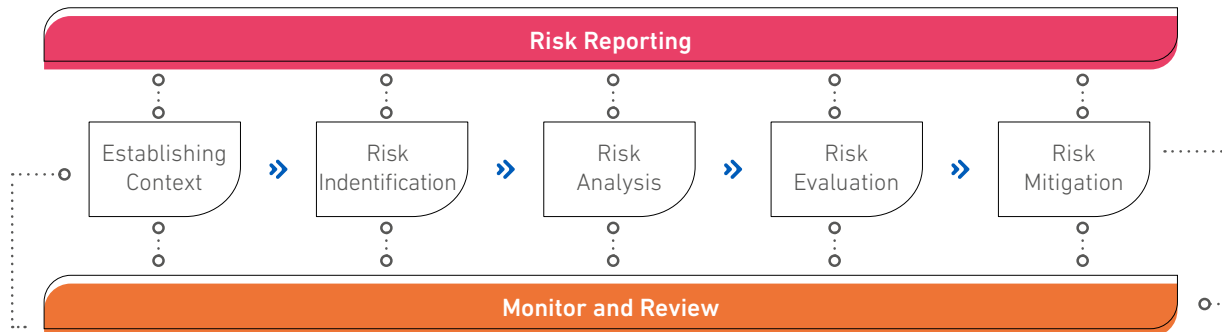
Risk Appetite

Aitken Spence defines risk appetite as the amount and type of risks deemed reasonable before rolling out its business strategy. This, in turn, helps the Group to maintain its normal course even in the event of unexpected circumstances. In order to make strategic decisions a number of scenario analysis are performed which takes into account

potential impacts on the levels of capital, liquidity, profitability and the share price.

The Board provides the level of acceptable risk appetite of the Group on an annual basis. It also monitors the Group's risk profile while ensuring the consistency with the risk appetite. The risk appetite levels are set for the Group as well as its main business units.

Risk Management Model



Group Wide Risk Management (GWRM) involves identifying, assessing, adequately managing and controlling all risks, with a comprehensive and integrated vision at all levels of the organisation.

Risk Landscape 2021/22

A Prolonged Pandemic

The risk landscape was dynamic throughout the year as the pandemic continued to disrupt economic activities. Health and safety concerns were paramount for most of the year with the fast-spreading variant “Omicron” hindering the recovery of the Tourism sector during the latter part of the year. During the second quarter, at the peak of the pandemic the country was reporting 4,000 + new infections and 200 + deaths daily. We experienced national and area wide lockdowns during the financial year which were a setback for the recovering Tourism sector. Even domestic tourism was not possible due to prohibition of inter-provincial travel which created significant challenges across other operations of the Group as well. The second dose of vaccinations was rolled out across the country by August and the booster dose was also given during the latter part of the year.

Vaccination Rates



As a % of population over 12 years as at 1st May 2022

- » 1st Dose: 97%
- » 2nd Dose: 82%
- » 3rd Dose: 36%

Impact and Implications for the Group



Creating a safe working environment for employees and a comprehensive care package for those who needed to be in quarantine facilities and specialised care centres.



Implementing Semi Virtual Mobility (SVM) working environment increased cyber risk exponentially for the Group with potential threats to the information assets and operating systems of the Group. This resulted in increased resource allocation to strengthen cybersecurity infrastructure to safeguard the systems and information assets of the Group



Increased resource allocation for upgrading the Group's digital infrastructure to support Semi Virtual Mobility

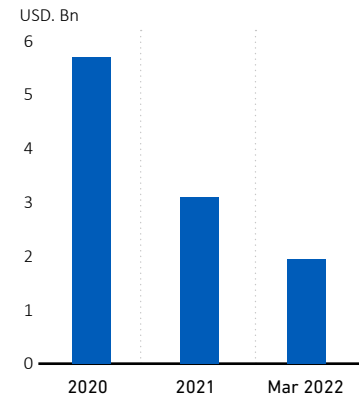
Risk Management

A Country in Crisis

The country's foreign currency liquidity worsened during the year which commenced with import restrictions on motor vehicles and other non-essential goods. As tourism inflows were at a low ebb for a prolonged period and migrant worker remittances declined, the country's foreign exchange generated through exports were insufficient to meet its import bills. This was exacerbated by debt repayments and interest payments which led to a rapid depletion of the country's foreign exchange reserves and a decline in sovereign credit ratings to a historical

low. This had wide ranging implications across all sectors of the economy and society as it led to high inflation, exchange rate volatility and scarcity of dollars to purchase essential goods such as fuel, medicine and food. The resultant energy and humanitarian crisis has led to civil protests and political instability with a call for change in the government. With the objective of controlling high inflation the Central Bank increased policy rates in April 2022 leading to a sharp spike in lending rates.

Gross Official Reserves



Implications for the Group

Import Restrictions

- » The ban imposed by the government on certain types of fertiliser had a negative impact on the Plantation segment as it would be a challenge to maintain crop volumes to keep up with market demand.
- » Maritime & Freight Logistics sector have been impacted due to low import volumes.

Inflation

- » Increased inflation has wide ranging implications across all businesses exerting pressure on costs and margins. There is potential for wage pressure as well.

Fiscal Policy

- » The inconsistent tax policies and adhoc taxes introduced retrospectively such as the surcharge tax will lead to a large tax burden on the Group and inflict additional strains on its cash flows as well as planned future investments

Foreign Exchange Volatility and Liquidity Shortage

- » The depreciation of the Sri Lankan Rupee and scarcity of foreign exchange adversely impacted printing, elevators and integrated container segments, as the cost of raw materials and spare parts increased considerably. Further, the exponential increase of freight rates during this period had an impact on these business segments.
- » Interim measures adopted by CBSL to manage the foreign exchange liquidity included imposing a cap on the Dollar buying and selling rates, resulted in diversion of overseas worker remittances to informal channels.

Energy Crisis

- » Continued power cuts implemented due to unavailability of fuel for thermal power plants, has been affecting businesses since March 2022. The Group has managed to minimise the impact of power cuts with generator power. Nearly all our businesses are dependent on access to grid electricity and fuel for generators and fleets.
- » Tourism industry In Sri Lanka would be affected with many European countries issuing travel advisories on Sri Lanka.

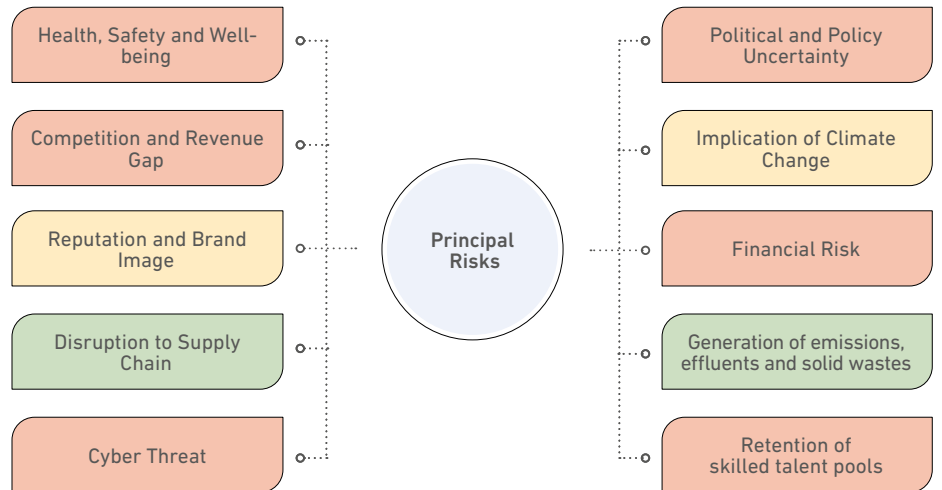
Russia-Ukraine War

The knock-on effects of the war between Russia and Ukraine and the sanctions on Russia will have potential negative impacts on the operations and profitability of the Group.

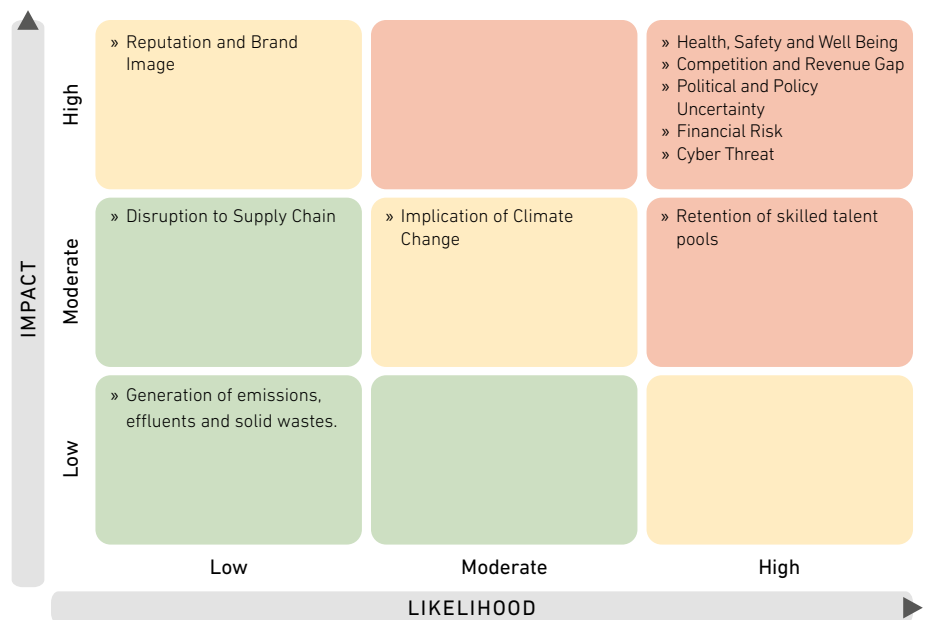
Implications to Group

- » Last few months Sri Lanka and Maldives witnessed an influx of Russian and Ukrainian tourists arrival reassuring a slow but steady revival of the tourism industry. The conflict has led to the closure of all Airports in Ukraine and the EU member states have denied entry to all Russian aircrafts over its airspace. This will hinder the recovery momentum of the tourism industry and the Tourism sector of the Group.
- » Russian banks have been cutoff from the international SWIFT banking system. This will make extremely difficult for the tea exporters to receive payments from their Russian counter parts. This poses a risk for the Group's plantation segment. The same risk exists for the Tourism sector as there is a considerable number of Russian tourists and tour operators who would be unable to make payments.
- » Sri Lanka maybe diplomatically pressured by the West to discontinue trading with Russia. With a considerable volume of tea being exported to Russia, the tea exporters will have to seek other avenues if this occurs.






Principal Risks





Risk Dash Board









Risk Management

Risk and Risk Rating	Indicator and Assessment	Mitigation Strategies	Further information																											
Health, Safety and Well-being of all Stakeholders																														
	<p>With the detection of new variants and sub variants the threat of the pandemic is still continuing, although somewhat reduced due to the successful vaccination campaign in the country. The safety and well-being of our employees and the other stakeholders will be a top priority for the Group.</p> <p>We also understand that specific aspects of our operations may present higher levels of risk to employees' 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> <table border="1"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Indicator</td> <td></td> <td></td> </tr> <tr> <td>Employee Vaccination Rate</td> <td></td> <td></td> </tr> <tr> <td>1st Dose</td> <td>96%</td> <td>N/A</td> </tr> <tr> <td>2nd Dose</td> <td>94%</td> <td>N/A</td> </tr> <tr> <td>3rd Dose</td> <td>60%</td> <td>N/A</td> </tr> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>High</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>High</td> <td>High</td> </tr> </tbody> </table>		2021-22	2020-21	Indicator			Employee Vaccination Rate			1st Dose	96%	N/A	2nd Dose	94%	N/A	3rd Dose	60%	N/A	Assessment			Impact	High	High	Likelihood	High	High	<ul style="list-style-type: none"> » Implemented "Spence Safe" safety plan across all hotels operated by the Group. » Implemented COVID-19 safety protocols throughout the Group. » Comprehensive care package for employees who were diagnosed as COVID-19 positive. » Continuous reinforcement of health and safety measures at all locations where risks have been identified. » Certifications for health and safety obtained for high-risk operations to benchmark health and safety practices of the Group with global standards. 	<p>Social and Relationship Capital on page 201</p> <p>Human Capital on page 156</p> <p>Material Topics</p>  
	2021-22	2020-21																												
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Disruption to Supply Chain																														
	<p>The Group experienced several disruptions to its supply chain that impacted the smooth flow of operations. Production-oriented segments, such as printing and apparel, which sourced raw materials from overseas were mostly affected.</p> <table border="1"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>Moderate</td> <td>Moderate</td> </tr> <tr> <td>Likelihood</td> <td>Low</td> <td>Moderate</td> </tr> </tbody> </table>		2021-22	2020-21	Assessment			Impact	Moderate	Moderate	Likelihood	Low	Moderate	<ul style="list-style-type: none"> » The Group's broad presence in the Maritime & Freight Logistics sector provided insights, which were utilised in managing inventory, lead times and other logistics necessary for the smooth operation of supply chains. 	<p>Material Topics</p> 															
	2021-22	2020-21																												
Assessment																														
Impact	Moderate	Moderate																												
Likelihood	Low	Moderate																												
Competition and Revenue Gap																														
	<p>Actual margins and market share achieved by the Group in various sectors may be less than the budgeted targets due to competitive pressure.</p> <p>Most markets in which the Group operates are characterised by strong competition and are often price driven.</p> <table border="1"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>High</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>High</td> <td>High</td> </tr> </tbody> </table>		2021-22	2020-21	Assessment			Impact	High	High	Likelihood	High	High	<ul style="list-style-type: none"> » Segment level strategic plans and close monitoring by the Group Supervisory Board facilitates in identifying early warning signs and formulating plans for remedial action in a timely manner. » The reputation, stability and broad presence of the Group enables businesses to compete effectively, leveraging the resources, skills and expertise of the Group. » The geographical and sectoral diversity remains a key risk mitigating factor in managing the resilience of the Group as witnessed in the recent past. 	<p>Material Topics</p>  															
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Risk and Risk Rating	Indicator and Assessment	Mitigation Strategies	Further information																																							
Political and Policy Uncertainty																																										
<p>Prevailing strict exchange control regulations, import restrictions and new tax policies due to the present economic situation in the country, may adversely impact the Group.</p> <table border="1"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>High</td> <td>Moderate</td> </tr> <tr> <td>Likelihood</td> <td>High</td> <td>High</td> </tr> </tbody> </table>			2021-22	2020-21	Assessment			Impact	High	Moderate	Likelihood	High	High	<p>» Political and policy uncertainty has already had a significant impact on operations of the Group. The Group has strategised and remained resilient due to its sectoral and geographical diversity.</p>	<p>Operating environment on page 64 Financial Capital on page 172 Material Topics</p> 																											
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Assessment																																										
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Likelihood	High	High																																								
Implications of Climate Change																																										
<p>The impacts of climate change will result in more intense and extreme environmental events such as heatwaves, drought, and storms occurring at a higher frequency. Changes in environmental conditions such as average temperatures and rainfall patterns will adversely affect people as well as businesses.</p> <p>Plantation and power segments are directly impacted by altered rainfall patterns while extreme weather events may have a significant impact on the entire Group.</p> <table border="1"> <thead> <tr> <th>Indicator</th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Rain Fall in our plantation segment (mm)</td> <td></td> <td></td> </tr> <tr> <td>Up Country</td> <td>2,569</td> <td>2,359</td> </tr> <tr> <td>Mid Country</td> <td>2,630</td> <td>1,603</td> </tr> <tr> <td>Low Country</td> <td>3,979</td> <td>3,508</td> </tr> <tr> <td>Number of wet days in our plantation segment</td> <td></td> <td></td> </tr> <tr> <td>Up Country</td> <td>180</td> <td>192</td> </tr> <tr> <td>Mid Country</td> <td>172</td> <td>147</td> </tr> <tr> <td>Low Country</td> <td>216</td> <td>224</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>Moderate</td> <td>Moderate</td> </tr> <tr> <td>Likelihood</td> <td>Moderate</td> <td>High</td> </tr> </tbody> </table>		Indicator	2021-22	2020-21	Rain Fall in our plantation segment (mm)			Up Country	2,569	2,359	Mid Country	2,630	1,603	Low Country	3,979	3,508	Number of wet days in our plantation segment			Up Country	180	192	Mid Country	172	147	Low Country	216	224		2021-22	2020-21	Assessment			Impact	Moderate	Moderate	Likelihood	Moderate	High	<p>» The Group has an Integrated and systemic approach to sustainability, supporting its efforts to mitigate the impact of climate change.</p> <p>» Vulnerability assessments are conducted across the Group to identify potential risks as well as preventive and corrective measures to strengthen disaster risk reduction mechanisms while improving Business Continuity Plans.</p> <p>» Insurance of inventory and PPE against damages from extreme weather events.</p> <p>» Inbuilt safeguards including comprehensive flood mapping studies to track flood statistics for the past several decades. For example, these studies conducted at the pre-construction stage have enabled the waste to energy power plant and the printing facility in Mawaramandiya to be built above these levels.</p> <p>» Business models assessed for climate change related risks. For example, outcomes of risk assessments against climate change influenced the plantations segment's investments in rainwater harvesting, renewable energy and further business diversification.</p>	<p>Material Topics</p> 
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Risk Management

Risk and Risk Rating	Indicator and Assessment	Mitigation Strategies	Further information																								
Financial Risk																											
<p>The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations in floating interest rates.</p> <p>There has been a significant delay in settling invoices by the power segment's largest and only trade debtor, the Ceylon Electricity Board which has resulted in increased financing costs.</p> <p>Weakening of LKR against USD at a rapid rate poses challenges to some sectors with foreign currency liabilities.</p> <table border="1" data-bbox="118 709 821 1119"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Indicator</td> <td></td> <td></td> </tr> <tr> <td>Interest Rate Spread (weekly AWPLR)</td> <td>Min : 5.43% Max : 9.71% Spread : 428 basis points (4.28%)</td> <td>Min : 5.54% Max : 9.49% Spread : 395 basis points (3.95%)</td> </tr> <tr> <td>Annual depreciation of LKR against the USD</td> <td>47.26%</td> <td>5.11%</td> </tr> <tr> <td>Percentage of trade debtors over 90 days</td> <td>23.2%</td> <td>18.9%</td> </tr> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>High</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>High</td> <td>High</td> </tr> </tbody> </table>		2021-22	2020-21	Indicator			Interest Rate Spread (weekly AWPLR)	Min : 5.43% Max : 9.71% Spread : 428 basis points (4.28%)	Min : 5.54% Max : 9.49% Spread : 395 basis points (3.95%)	Annual depreciation of LKR against the USD	47.26%	5.11%	Percentage of trade debtors over 90 days	23.2%	18.9%	Assessment			Impact	High	High	Likelihood	High	High		<ul style="list-style-type: none"> » All sectors consistently follow up with debtors in order to collect their debts on time to minimise finance cost. » Constantly monitoring and forecasting market interest rates, in order to ensure that appropriate and timely measures are taken to maximise the return on financial investments and to minimise the cost of borrowings. » Mitigating the adverse impact of movements in interest rates on long term borrowings by interest rate swaps and other hedging mechanisms depending on their availability in the market. 	<p>Material Topics</p> 
	2021-22	2020-21																									
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Assessment																											
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Likelihood	High	High																									
Reputation and Brand Image																											
<p>The Group engages with many customers and other stakeholders across various industries annually.</p> <p>Activities and events beyond our control have the potential to cause reputational risk.</p> <p>If incidents that may cause reputational damage are not well-managed, it could rapidly escalate into a major strategic crisis.</p> <p>Widespread use of social media has allowed individuals to publish feedback on their interactions with the brand.</p> <table border="1" data-bbox="118 1461 821 1593"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>High</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>Low</td> <td>Low</td> </tr> </tbody> </table>		2021-22	2020-21	Assessment			Impact	High	High	Likelihood	Low	Low		<ul style="list-style-type: none"> » Integration of ESG into the Group's strategy and corporate governance frameworks facilitates awareness of the Group's commitment to upholding responsibilities to society and the environment. » All media communications are channelled through the corporate communication unit, to ensure consistency in communications. » Commenced annual survey of customer satisfaction as pilot on two segments to check the pulse of customers. 	<p>Material Topics</p> 												
	2021-22	2020-21																									
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Risk and Risk Rating	Indicator and Assessment	Mitigation Strategies	Further information																				
<p>Cyber Threats</p> <p>Several of the Group's business operations can be impacted by cyber incidents via a targeted attack from a hacker, collateral damage as a result of a non-targeted attack, insider attack, an accidental cyber incident or any combination of these.</p> <table border="1" data-bbox="118 569 820 703"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>High</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>High</td> <td>High</td> </tr> </tbody> </table>		2021-22	2020-21	Assessment			Impact	High	High	Likelihood	High	High	<ul style="list-style-type: none"> » An IT governance framework is in place addressing cybersecurity. » The Group has a 24/7 multi layered defense and surveillance operation to safeguard its core systems and information. » As a part of IT governance, the Group continues to carry out risk assessments based on environmental changes while mitigating associated risks and implementing corrective action plans against risks which are identified as high risk. 	<p>Material Topics</p>  									
	2021-22	2020-21																					
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<p>Generation of emissions, effluents and solid waste</p> <p>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> <table border="1" data-bbox="118 951 820 1182"> <thead> <tr> <th></th> <th>2021-22</th> <th>2020-21</th> </tr> </thead> <tbody> <tr> <td>Indicator</td> <td></td> <td></td> </tr> <tr> <td>Volume of water withdrawn (M³)</td> <td>796,024</td> <td>651,752</td> </tr> <tr> <td>Direct greenhouse gas emissions (tCO₂)</td> <td>87,606</td> <td>348,723</td> </tr> <tr> <td>Assessment</td> <td></td> <td></td> </tr> <tr> <td>Impact</td> <td>Low</td> <td>Moderate</td> </tr> <tr> <td>Likelihood</td> <td>Low</td> <td>Low</td> </tr> </tbody> </table>		2021-22	2020-21	Indicator			Volume of water withdrawn (M ³)	796,024	651,752	Direct greenhouse gas emissions (tCO ₂)	87,606	348,723	Assessment			Impact	Low	Moderate	Likelihood	Low	Low	<ul style="list-style-type: none"> » The Group has an integrated approach to sustainability and a key element of that strategy is the commitment to protect the environment, especially the ecosystems Group operates in. » We have close to 50 diverse management systems which minimises environmental impact. 39 of such systems are currently certified. » General guidelines followed by the Group's companies are influenced by the ISO 14001 system standard. » Heritage hotels maintain management systems aligned to the ISO 50001 system standard for energy management. These benchmarks are also maintained at other Aitken Spence hotel properties. » Estates in the upcountry cluster manage Rainforest Alliance certification standards and the low country estates maintains activities in line with the Forestry Stewardship Council system requirements, for social and environmental impact control. <p>A full list of our certified management systems can be viewed in the Intellectual Capital section of this report.</p>	<p>Material Topics</p>  
	2021-22	2020-21																					
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Risk Management

Risk and Risk Rating	Indicator and Assessment	Mitigation Strategies	Further information
<p>Retention of skilled talent pools</p> <p>The success of any organisation hinges on the performance of its competent workforce.</p> <p>In the recent past the country witnessed an ever-increasing number of professionals who desire to migrate, triggered by push factors, including adverse economic conditions, lack of social freedom and unstable political governance.</p>	<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 staff to develop leadership qualities. » Providing adequate monetary and non-monetary benefits to employees. 	<p>Material Topics</p> 