

# Risk Management

Carson Cumberbatch PLC is one of the largest diversified conglomerates in Sri Lanka, with interests in oil palm plantations, oils & fats, beverages, portfolio and asset management, real estate and leisure. The Group manages a global network of operations in Sri Lanka, Indonesia, Malaysia, Singapore, Mauritius and India. The Group is exposed to diverse types of risks both general or industry/country specific, and risk management therefore forms an integral part of our business and management policies.

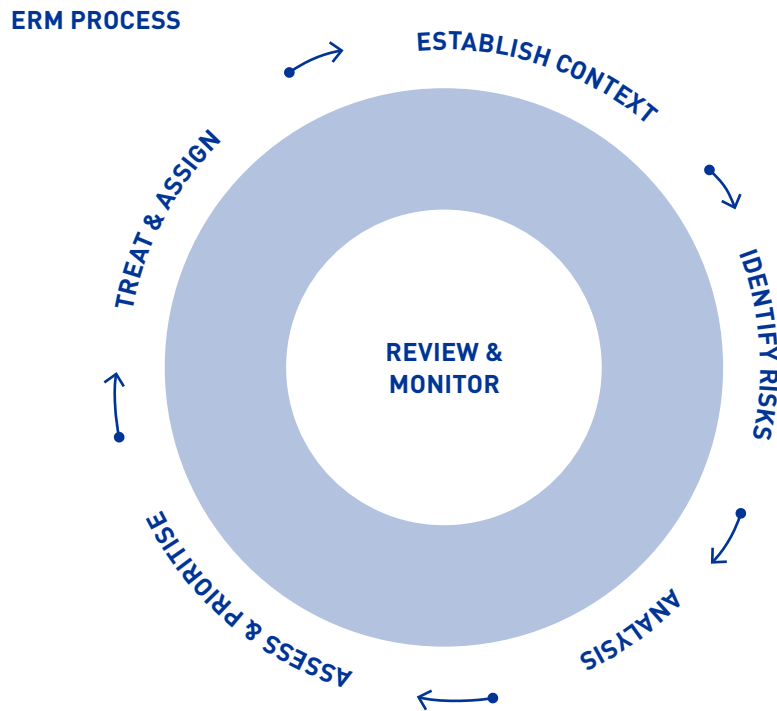
Risk management involves identifying, analysing and responding to risk factors that may affect a business. A strong risk management framework therefore, provides reasonable assurance through the process of identification and management of events, situations or circumstances which, even if they do occur, would not significantly impact the achievement of our business objectives. In other words, robust risk management practices can ensure minimum impact from adverse events and help to maximise the realisation of opportunities whilst the risks are managed, until they are mitigated and re-assessed to fall within the Group's risk appetite.

Enterprise Risk Management (ERM) provides a common process and terminology for all risk management activities. The principle goals of ERM are to foster risk awareness and promote the pro-active management of threats and opportunities.

As part of our business plan implementation, the Carsons Group has made enterprise risk management integral to all our business activities.

Our risk management process supports:

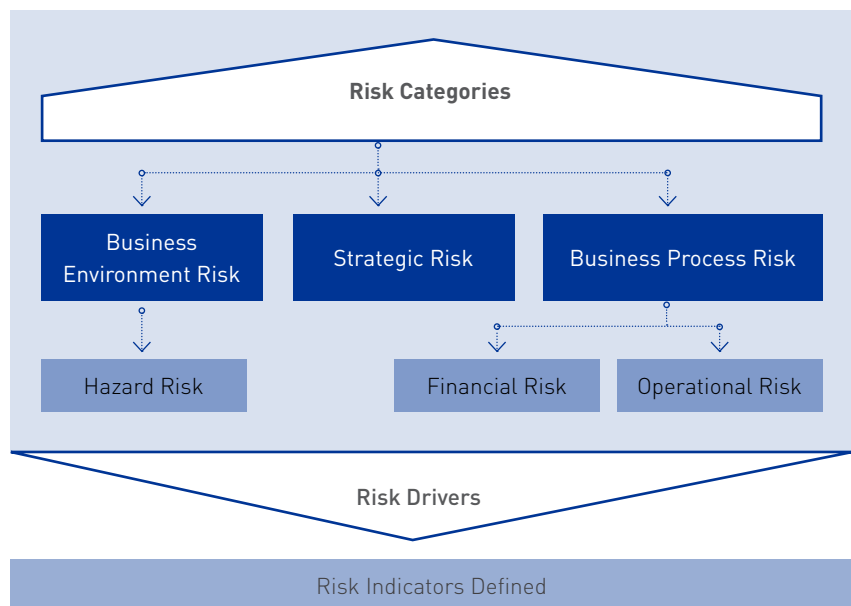
- Corporate governance
- Quality of business planning
- Audit planning
- Project planning and implementation
- Building confidence across various stakeholder groups



The ERM process revalidates the fact that the relevant internal control systems are in place, providing assurance to the Management and Board of Directors that these processes are robust and effective.

As part of the ERM process, the management identifies and categorises the risk into three main types, as shown below. The purpose of such risk modelling is to create a common language for better communication, knowledge-sharing and comparison.

Risk drivers are key factors in the creation of risk. Risk indicators are primarily deviations from set Goals or KPI's. These deviations are promptly identified through the ongoing reviews and monitoring activities conducted by management.



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The likelihood of occurrence and the probability of the outcomes of the identified risks shown above are analysed using qualitative and quantitative methods. The management uses the Risk Grid to determine the contribution of each risk to the aggregate risk profile in terms of its impact on the achievement of the company’s objectives and these are prioritised accordingly.

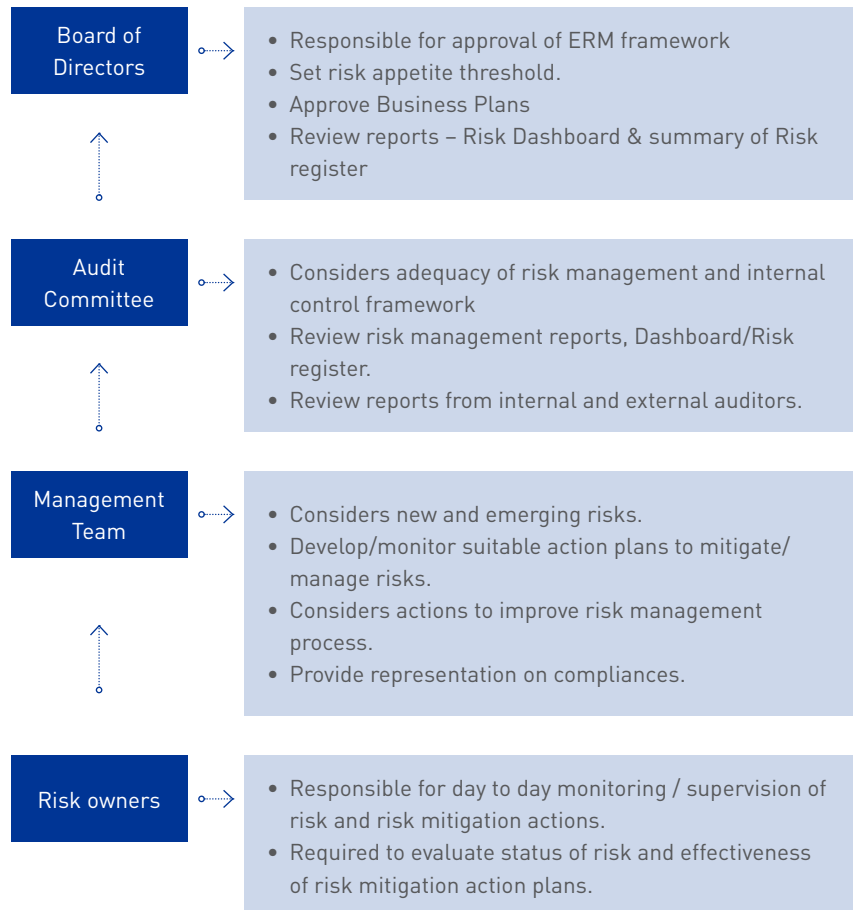
Once risk events are identified, the risk responses could involve:

- Risk Acceptance
- Risk Avoidance
- Risk Transfer/ share
- Risk Minimisation

The first line of defense in this process involves the timely supervision and monitoring of risk management practices by the business managers and accountability in discharging their responsibilities.

The relevant action plans are reviewed and monitored by the management teams in their respective spheres of operation, while the relevance and impact of identified risks are also reassessed as part of this process. The status and outcomes of the action plans are presented to the CEO, the Audit Committee and the Board of Directors.

The Risk Management Governance Structure includes a reporting framework within the organisation and to the Board of Directors, which facilitates the Directors’ supervisory functions for better Corporate Governance.



Risk Management is a key factor in operational sustainability and the Group has identified the following risk profiles. The principal risks identified are continuously evaluated and reviewed at various stages of our business process and appropriate risk responses and strategies are implemented.

Risk	Impact	Risk Responses
<b>Commodity Price Risk</b>	<p><b>Oil Palm Plantation and Oil &amp; Fats</b></p> <p>These segments are susceptible to fluctuations in global Crude Palm Oil (CPO) prices over which we have minimal control, being a price-taker.</p> <p>Key impacts on CPO prices are driven by the global demand for vegetable oil, the supply from the palm plantation industry as a whole, the supply and demand for substitute oils such as soy and rapeseed, global crude oil prices, the demand for biofuel and other factors which impact supply and demand.</p> <p><b>All sectors</b></p> <p>The costs of other raw materials may also fluctuate due to changes in global economic conditions, weather patterns, government policies and developments in international trade.</p>	<p><b>Oil Palm Plantation Segment</b></p> <p>The Company manages the impact of price volatility and cash flows by entering into physical spot and forward sales contracts and manages the timing of sales and price hedging in an opportune manner.</p> <p>The segment continues to focus on becoming one of the lowest cost producers, as cost remains the area that lies within the control of the management.</p> <p><b>Oils &amp; Fats Segment</b></p> <p>The Company sought to maintain a back-to-back cover on raw material purchases (Palm Kernel PK feedstock), to minimise price volatilities.</p> <p>The Company transfers the price fluctuations to the customer whenever possible.</p> <p><b>Beverage Sector</b></p> <p>The Beverage sector continuously monitors the prices of raw materials and where opportune, enters into forward contracts for buying major raw materials with the assistance of its international business partner or on its own.</p>
<b>General Securities Risk</b>	<p>Any trading in securities carries inherent investment risks associated with the entity issuing those securities. In particular, the price or value of any security can and does fluctuate and may even become valueless, resulting in possible loss not only of returns and profits, but also of all or part of the principal sums invested. These risks arise as a result of the overall risks faced by the issuing entity, which affect its ability to provide a return to the investors holding the securities issued by it. Particularly in the case of equities, the past performance of any investment is not necessarily indicative of future performance. At Guardian, our approach focuses on the fact that there is no substitute for fundamental individual security assessment.</p> <p>The largest components of assets remain with carefully selected quoted investments in the Colombo Stock Exchange (CSE).</p>	<p><b>Investment sector</b></p> <p>The Company has sound internal research processes and evaluates all investments after taking precautions, given the stressed conditions.</p> <p>Once an investment is made, management adopts a continuous process of monitoring the performance of that investment.</p> <p>We manage the concentration risk arising from over-exposure to one security by monitoring sector exposure and single company exposure as mitigation strategies. Further, private equity exposure limits at company and group level are monitored, as another measure of managing risk. Loss limits are set to monitor stocks performing below their cost of acquisition to determine whether temporary capital erosion is a concern. This helps us mitigate the downside risk of any security in the portfolio.</p> <p>Market risks affecting a particular class of security are mitigated by switching to asset classes that are assessed to be less risky in a particular scenario.</p>

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<b>Human Resource Risk</b>	<p>The difficulties in recruiting and retaining appropriately skilled employees could adversely affect our ability to grow and maintain a competitive position in the marketplace.</p> <p>The human resources required to harvest Fresh Fruit Bunches (FFB) in Oil Palm plantations tend to be impacted by high turnover.</p>	<p>The Group has implemented the following initiatives.</p> <ul style="list-style-type: none"> <li>• Ensure that recruitments are carried out to hire employees with the required qualifications, knowledge and experience.</li> <li>• Identify and assess the key staff members crucial for successful operations.</li> <li>• Identify gaps in skills and capabilities of key roles and implement development programs to facilitate career progression and succession planning.</li> <li>• Invest in organisation-wide training and development to enhance capability levels and maintain the motivation levels of the employees.</li> </ul>
<b>Foreign Exchange Risk</b>	<p>Foreign currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates.</p> <p>The sharp devaluation of the Sri Lankan Rupee against USD has direct as well as indirect impacts on companies operating in Sri Lanka.</p> <p>Currently, the Plantations, Oils and Fats sector's impact from exchange rate movements mainly arises from the translation/revaluation of the Group's borrowings and supplier liabilities denominated in USD as required by IFRS and do not entail an actual cash transaction loss.</p>	<p>Assets, liabilities and other operational expenses which arise from daily operations are primarily denominated in the functional currencies within the Group.</p> <p>The expenses of all sectors operating in Sri Lanka have seen notable escalations following the recent Rupee depreciation, particularly with regard to renovation and maintenance costs, insurance premiums, the cost of importing raw materials, machinery and spare parts etc.</p> <p>We minimise the cash flow impact by linking the oil palm sector revenue to the USD linked CPO prices. We continue to monitor market volatilities, to anticipate and exploit favourable movements.</p>
<b>Business Environment Risks</b>	<p>The recent changes in Sri Lanka's macroeconomic conditions will have direct impacts on the Group's business operations in Sri Lanka. Some of the key challenges are given below.</p> <p>The steep increase in construction costs and the scarcity of spare parts and other related maintenance equipment poses a risk to smooth business operations.</p> <p>Further, interruptions to the supply of electricity through the national grid and the lack of a continuous supply of diesel posed a risk to the smooth operation of business activities during first half of the financial year 2022/23. This had resulted in cost escalations as we try to source utilities for our premises in a timely manner.</p> <p>Unfavourable global and local weather patterns resulting in adverse weather conditions, natural and man-made disasters including fires and haze from fires, droughts, floods, pestilence and crop disease could reduce the amount or quality of FFB we can harvest in the oil palm plantation sector.</p>	<p>Whenever possible, the management of our respective companies have taken steps to order and maintain stocks of critical spare parts, raw materials etc., that are vital for the day-to-day operations of the Company.</p> <p>Management is also making its best effort to source the required utilities to ensure minimum disruption to the Company's operations.</p> <p>The Group takes steps to minimise the risk of fire by monitoring and maintaining appropriate fire-response resources. We also invest in agronomy and plantation management best practices, in order to minimise the impact of a sudden outbreak of pests and/or diseases.</p> <p>The Group employs Business Continuity Planning as well as safeguards against perils through adequate insurance.</p>

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<b>Liquidity Risk</b>	The risk that the sector may not easily be able to meet its operational and financial obligations can result in an unavailability of sufficient funds, which may interrupt the smooth functioning of day-to-day operations.	<p>Management closely monitors the Group companies' liquidity positions and ensures that funds are available for the settlement of all liabilities.</p> <ul style="list-style-type: none"> <li>• effective working capital management.</li> <li>• The Group maintains sufficient credit facilities.</li> <li>• develop policies and procedures to plan liquidity based on medium-term plans.</li> </ul> <p>To ensure financial flexibility of Pegasus Hotels of Ceylon PLC and its Subsidiary, Equity Hotels Limited, Pegasus Hotels of Ceylon PLC announced a rights issue of shares in order to raise funds for its planned capital expenditure and to subscribe for a right issue of Equity Hotels Limited to partially settle its borrowings.</p>
<b>Financial Leverage and Cash Flow Risk</b>	The Oil Palm Plantation segment is impacted by the 25 to 30-year investment cycle and its inherently high financial leverage due to price and volume volatility. GAHL is required to generate continuous strong free cash flow and repay debt from its operational cash inflows.	<p>We manage bank funding facilities and service the borrowings, while maintaining adequate liquidity.</p> <p>Management implement cost control measures targeting overhead reductions and capex prioritisation.</p>
<b>Credit Risk</b>	Each sector is exposed to credit risk primarily from their trade receivables, which arise from their operating activities and deposits with banking institutions.	<p>The slowdown of economic activity has led to challenges in the recovery of dues in some sectors.</p> <p>Individual companies exercise some of the following controls to mitigate this risk.</p> <ul style="list-style-type: none"> <li>• Implementation of credit policies</li> <li>• Continuous and regular evaluation of customers' creditworthiness</li> <li>• Ongoing monitoring of receivable balances.</li> <li>• Covering credit exposure through a combination of bank guarantees and discounting of credit to banks with no recourse to the Company.</li> </ul>

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<b>Interest Rate Risk</b>	<p>During the year, interest rates have shown a sharp increase due to the policy rate adjustments by the Central Bank of Sri Lanka. But towards the later part of the year interest rates had shown a downward trend.</p> <p>The interest rates on most of our loans and borrowings are currently on a floating basis. As such, our financial performance may be negatively affected by changes in prevailing interest rates in the financial market.</p>	<p>Carson Cumberbatch PLC's financial strength is used via the Group treasury, in negotiating the rates.</p> <p>The Plantation sector will pursue derivative mechanisms such as interest swaps, where necessary.</p> <p>As at the reporting dates, both the financial assets and financial liabilities of the Group consist of variable as well as fixed rate instruments.</p> <p>We have pursued the appropriate capitalisation of business, together with the right balance between long and short term bank facilities, plus obtaining a combination of loans linked to SLIBOR &amp; AWPLR</p>
<b>Systems and Process Risks</b>	<p>The risk of direct or indirect losses due to inadequate or failed internal processes and systems.</p> <p>Information technology is a vital component of Group operations.</p>	<p>The Group has enhanced IT systems via a secure VPN with no disruptions, together with anti-virus upgrades, backups and monitoring of Disaster Recovery sites.</p> <p>We maintain detailed procedure manuals and provide training and guidelines for new recruits.</p> <p>The internal audit function of the Group carries out regular reviews of internal control systems and processes and recommends process improvements if shortcomings are noted.</p>
<b>Legal and Regulatory Compliance Risk</b>	<p>Failure to comply with the regulatory and legal frameworks applicable to the Group.</p>	<p>The management and the Carsons Group Legal division pro-actively identify and set up appropriate systems and processes for legal and regulatory compliance in respect of Sector operations.</p> <p>We arrange training programs and circulate updates for key employees on new/revised laws and regulations as required.</p> <p>The Group provides comments on draft laws to the government and regulatory authorities.</p> <p>We obtain comments and interpretations from external legal consultants on areas that require clarity.</p> <p>We also obtain compliance certificates from management on a quarterly basis, on compliance with relevant laws and regulations.</p>

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<b>Reputational Risk</b>	As a Group which carries out business activities in different sectors and global network of operations, it is vital to safeguard the good name and reputation of the businesses.	<p>The right values are communicated to all employees from inception, both through formal communication and by example. Our screening process at interviews is designed to select people of the right calibre and training them for higher responsibility is an ongoing process.</p> <p>The extensive compliance process also ensures that the Group does not take the risk of process failure that will lead to reputational risk.</p> <p>Maintaining good relationships with all stakeholders further helps manage any crisis situations that could damage our reputation.</p>

Risks arising from unforeseen events such as natural disasters, riots and civil commotions are covered by obtaining the appropriate insurance covers.