

RISK MANAGEMENT

As a successful diversified conglomerate, we believe that our dynamic approach to risk management ensures that key risks are proactively identified, assessed and appropriate risk responses are taken. Our ongoing assessment process takes into account the likelihood of an event, its potential impact on the business and the need for mitigation controls.

Our system of risk management identifies and provides the response to risks of group significance and business significance through the establishment of standards and other controls. The risks are categorized as: Strategic, Financial, Compliance and Operational.

We have adopted the ISO 31000 standard of risk management and this framework has been established at both Group and SBU level to enable scarce resources to the opportunities that are expected to generate maximum return whilst minimizing the associated risk. It elaborates on risk identification, risk assessment, risk response and risk reporting methodologies.

RISK MANAGEMENT POLICY

Our policy for risk management is to proactively manage risk to ensure continued growth of our business and to protect the value created. Accordingly we;

- Utilize an effective and integrated risk management system while maintaining business flexibility.
- Identify and assess material risks associated with our business and monitor, manage and mitigate risks.

One of the tasks of the Hemas Holdings Board is to ensure that the entity is functioning effectively and that the material risks to the group are identified and understood, and that the systems of risk management and internal control are in place to respond to those risks.

INTERNAL CONTROL, AUDIT AND RISK MANAGEMENT

The agenda for the audit committee contains standing items on internal controls. These include the quarterly internal audit findings report, an evaluation of internal controls, and an annual assessment of Hemas's enterprise level controls.

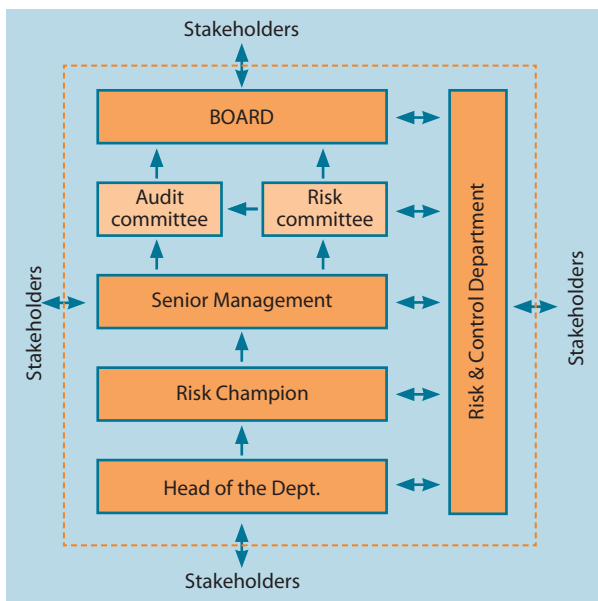
Group Risk Management Committee (GRMC) has been formed to overlook the risk management process. The GRMC meets once every quarter to review the company's risk profile and to provide guidance on required risk responses.

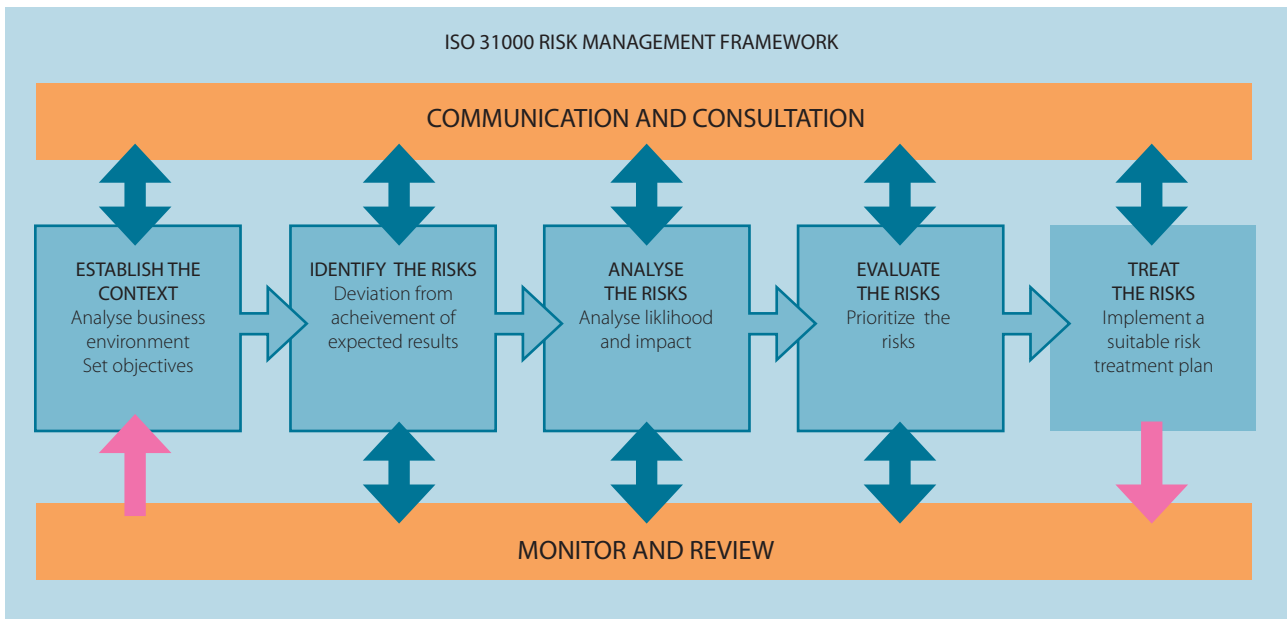
As part of Risk Management process, at the Group level, the Board reviews on a continuous basis its strategies, processes, procedures and guidelines to effectively identify, assess and respond to risks. Further, at SBU level, the management of subsidiaries have developed processes to identify, assess and respond to risks.

The group wide risk management programme is being facilitated by Risk and Control division with the inputs from Business Strategy, Corporate Finance, Group treasury and Group HR divisions.

Risk facilitation is exercised through risk workshops, risk reviews, essential control checklists and risk reporting.

THE BOARD AND RISK MANAGEMENT





KEY RISKS AND ACTION PLANS

The following framework depicts the specific and most relevant risks faced by the group and the management actions to respond to the risks. The risks are not ranked, but are categorized and described.

Risk	Risk exposure	Mitigating actions
Market Risk	Loss of market share or market leadership in relevant segments due to intense competition from existing and potential competitors, changes in customers attitudes and adverse economic conditions.	<ul style="list-style-type: none"> Regular monitoring of key customers and consumer trends Enhance productivity/efficiency to improve price competitiveness Continuous focus on innovation Focus on new markets and growth prospects
Business Partner Risk	Loss of principals/business partners due to global mergers and acquisitions, intense competition, service level gaps.	<ul style="list-style-type: none"> Seek new market opportunities and develop new alliances to minimize exposure to a single business partner. Regular assessments of service levels in order to ensure business partner expectations are met Develop strategies to maximize value proposition of existing business partners
Growth Risk	Risk of core businesses of the portfolio being in the maturity/declining phase.	<ul style="list-style-type: none"> Develop strategies to win the market share from competitors through continuous innovation and value enhancement. Identify new business opportunities that leverage on core competencies
Investment Risk	Effect on future profitability of the Group by the degree of realization of expected earnings on investments.	<ul style="list-style-type: none"> Information on returns from business activity is aggregated each quarter to form an early risk warning system Gaps in the business portfolio are identified and potential new areas of business identified.

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Risk	Risk exposure	Mitigating actions
Legal and Regulatory Risk	Changes to regulations or new regulations imposed could bring adverse effect on our businesses.	<ul style="list-style-type: none"> • The centralized Legal division assists and advises the companies across the Group on legal matters. • Periodic compliance reviews to ensure adherence to regulatory and statutory requirements. • Participate in industry forums to lobby against regulations that could have an adverse impact.
Operational Risk	Internal process failures, fraud, breakdown of internal controls, failure to comply with statutory requirements, natural and man made disasters could result in potential loss of earnings as well as reputation.	<ul style="list-style-type: none"> • Maintain objectivity and independence of the internal audit function. • Business Continuity Plans are in place to ensure the smooth operation of the businesses even at a time of disaster. • Seek continuous improvement of processes through process documentation, root cause analysis, vendor performance evaluation, customer satisfaction measurement etc.
Product Risk	Possibility of products becoming irrelevant in the market	<ul style="list-style-type: none"> • Product innovation is given high priority. • Strategies are developed to get closer to customers and be responsive to their needs.
Interest rate and Foreign Exchange Risk	Potential losses as a result of adverse movement of interest and high volatility in foreign currency exchange rates against the Sri Lankan Rupee.	<ul style="list-style-type: none"> • Exchange rate movements are constantly monitored for currencies in which the Group carries exposure, to ensure timely actions to hedge. • Centralized treasury management • Managing interest rate risk and foreign exchange exposure through appropriate financial risk management techniques.
Human Resource Risk	Risk arising as a result of failure to attract, develop and retain a skilled workforce	<ul style="list-style-type: none"> • Build strong employer brand image and talent management process to retain critical employees in the long term. • Develop career development programme, mentoring programmes and performance based rewards programs. • Periodic salary surveys to ensure that remuneration is in line with the market.
IT Risk	Inaccuracy or delays in decision making due to inaccurate or non availability of timely information from key computer system since the Group depends mainly on IT system for information purpose.	<ul style="list-style-type: none"> • A centralized IT team is mobilized in the Group • A contingency plan is in place to mitigate the risk of IT failures. • Comprehensive IT policy across the Group to ensure adequate systems and controls are in place.