RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

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Risk management within the Group takes a holistic and integrated approach, recognising the interrelationships between effective risk management, sustainable development and good governance practices.

ENTERPRISE RISK MANAGEMENT PROCESS OVERVIEW

The John Keells Group enterprise risk management strategy is carried out through its risk management framework, embedding a culture of risk management within its business operations and strategic decision-making processes. Formal mechanisms are in place to ensure that best efforts are taken to appropriately identify, manage and mitigate risk on a Business Unit, Industry Group and Group level. Risk management within the Group takes a holistic and integrated approach, recognising the interrelationships between effective risk management, sustainable development and good governance practices.

Risk Management Process

The risk management process and information flow is depicted below:

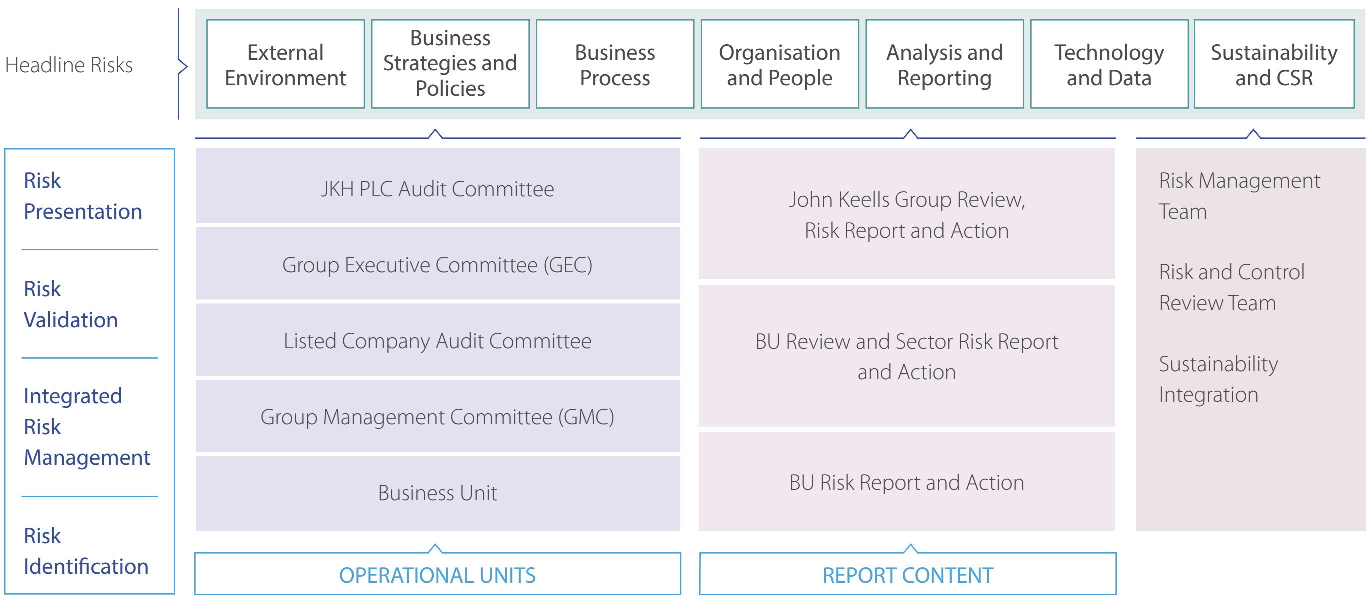
The enterprise risk management process at John Keells is an annual cycle, consisting of risk identification and review processes by each Group Company on a quarterly basis. Such risks are consolidated upwards, and along with sector and industry group common risks, are reviewed at fora such as the monthly Group Management Committees and quarterly Board Meetings. Group risks are reviewed on a bi-annual basis. The risk management cycle is concluded with the presentation of the annual Group Risk Report, which details the Group-wide risk status, appetite, analysis and risk profile, to the Group Audit Committee, with any policy level changes then incorporated into the next cycle.

The Group utilises its Enterprise Risk and Incident Management IT platform to carry out these processes, with all reviews being conducted on the online system, facilitating up-to-date and dynamic risk registers. Categorisation of risks are based on a Risk Universe which is updated as necessary to include emerging risks, and then classified under 'Headline' and 'Related' risks, enabling Group businesses across industry groups to record diverse risks in a consistent format. Risks covered by risk reviews include financial risks, a variety of operational risks and information technology risks as well as governance and sustainability related risks.

Key Impacts, Risks and Opportunities

Within the Group's robust corporate governance structure, risk management in the John Keells Group is interlinked with internal audit, sustainability and corporate social responsibility functions and processes, enabling management of both financial and non-financial risks and covering risk emanating from its own operations as well as from its value chain. This framework has allowed the Group to pursue projects with a clear assessment of potential risks and opportunities from both a local and global perspective, in order to optimise value creation for stakeholders. Emphasis is also given to potential risks related to environmental impacts and the Group's risk mitigation processes are influenced by the 'Precautionary Principle' in ensuring management and tracking of impacts related to consumption of and effects on natural resources. Other key areas of focus include effective management of human capital through talent retention, attraction and positive labour engagements, and impacts on external stakeholders through enhancement of product responsibility and furthering community relationships through infrastructure projects.

The John Keells Group believes that the interrelated risk management and sustainability frameworks, further strengthened by the corporate governance framework which focuses on compliance to regulatory and ethical guidelines, are instrumental in assisting the Group to operate in line with the principles of sustainable development.



Further discussions on risks, at a Group Level, are contained in the Outlook section, the Capital Management section of the Group Consolidated Review section, the Industry Group Review section and the Financial Statements of the Annual Report 2019/20. Details on risks, opportunities and internal controls specific to business units, sectors and industry groups are discussed in the Industry Group Review section of the Annual Report.

Headline Risks

Macro-economic and Political Environment

	2019/20	2018/19	2017/18
Risk rating	High	Low	Low

Risk Overview: The financial year under review witnessed unprecedented volatility on both domestic and global levels in the context of the COVID-19 pandemic, in addition to a number of changes and developments in political and economic spheres. Given this setting, this risk has been upgraded to a 'high' risk for the reporting period.

Mitigation Strategy: The Group contributes its expertise through active participation of its senior management in key policy making bodies and consultative committees, committing their time and wealth of experience to support the Government's development and economic policies.

Regulatory Environment

	2019/20	2018/19	2017/18
Risk rating	High	High	High

Risk Overview: Given the changes to the political landscape during the financial year and the expectations of a transitionary period before the stabilisation of regulatory, legal and tax structures, the rating for this risk has remained a 'high'.

Mitigation Strategy: The Group's operating model and internal processes and structures are such that they aim to maximise adaptability with respect to volatility in regulatory frameworks. This is further bolstered by the participation and contributions of the Group's senior executives in key industry chambers and associations to advocate for clear and consistent policies and regulations.

COVID-19

The COVID-19 pandemic sweeping the globe resulted in widespread upheaval and uncertainty across global economies, as countries were forced to close borders, enforce lockdowns and ensure social distancing in order to forestall devastating impacts on public health and overwhelming pressure on healthcare services.

The Group's risk mitigation strategy involved the implementation of business continuity plans for each company, allowing operations and functions to continue through alternate working arrangements, whilst strictly adhering to and supporting government directives.

Key operations such as supermarkets, distribution centers, hotels and logistics providers were able to effectively operationalise their respective business continuity plans in order to allow them to meet stakeholder and national requirements during this period, whilst maintaining all relevant health and safety and hygiene protocols to safeguard its employees.

While all risks associated with the COVID-19 pandemic and its resultant effects will need to be assessed as the situation evolves, the Group has ensured operations continue unhindered, to the extent possible, while ensuring all health and safety aspects have been adhered to. Given the volatile and evolving landscape, the Group will continue to monitor the impacts to its operations and proactively take measures to ensure business continues as seamlessly as possible.Further details relating to the outlook and risk mitigation steps can be found in the MD&A section, under Capital Management Review, Industry Group Review and Outlook, of the Annual Report 2019/20.

Financial Exposure

	2019/20	2018/19	2017/18
Risk rating	Low	Low	Low

Risk Overview: Group Treasury, guided by the GEC and supported by the Finance functions of the businesses, is responsible for the management of financial risks through continued monitoring. Hedging mechanisms, liquidity management strategies, capital structuring, asset allocation limits, institutional limits and other Board approved strategies for interest rate, currency, counterparty and liquidity management are applied across the Group. Given the volatility and uncertainty in the global and domestic environment witnessed in the recent years, the ensuing section details material sources of financial risk and the state of the Group's readiness to navigate such risks.

Currency / Exchange Rate

Risk rating – Medium

The Central Bank of Sri Lanka (CBSL) maintained a market-based exchange rate policy which restored market confidence towards a stable Rupee for majority of 2019/20. However, the Rupee witnessed a sharp depreciation against the Dollar in March 2020 on the back of economic turmoil resulting from the COVID-19 pandemic. In response, CBSL introduced urgent measures in March 2020 to curtail importation of non-essential goods and foreign currency investments for a period of 90 days with a view to counter the unwarranted excess depreciation of the Rupee and the stress on financial markets.

Mitigation Strategy: The Group adopted prudent measures, as and when required, to manage the financial impacts arising from currency fluctuations, by primarily matching liabilities with corresponding inflows and entering into forward exchange rate agreements. At a Group level, the translation risk on foreign currency debt is partially hedged 'naturally' using Dollar cash and cash equivalents and Dollar denominated revenue streams. To this end, the Dollar debt obligations at Leisure and Transportation industry groups are naturally hedged by matching such obligations against its Dollar revenue streams. Business-specific exchange rate exposure over and above the business' 'natural' hedges were managed through forward exchange rate agreements; the weighted average coverage was ~50 per cent during 2019/20.

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Interest Rate

Risk rating – Low

Rupee interest rates witnessed a downward movement in 2019/20 as a result of four consecutive reductions in policy rates, aggregating 175 bps cumulatively, the reduction in statutory reserve ratio by 100 bps and other interventions by the CBSL to encourage banks and finance companies to reduce lending rates. While such measures were originally introduced to stimulate economic growth, this was subsequently used as a tool to support economic activity.

Mitigation Strategy: The Group invested in more short-term Rupee instruments taking into consideration the projected liquidity requirements during the year. The short-term Dollar investment portfolio was primarily invested in bank deposits of medium tenure, given expansionary monetary policy stances adopted by most countries. The Group actively reduced Rupee borrowing cost during the year under review by refinancing expensive short-term facilities and consciously financing new capital investments through short-term funding until effects of monetary easing were reflected in long-term financing costs.

The Group continued to maintain a partial hedge of the USD 395 million syndicated loan facility as a prudent measure to mitigate the Group's exposure to rate fluctuations in the long-term. The Group will continue to monitor its LIBOR exposure in relation to the syndicated loan facility and other existing and additional loan facilities going forward, make periodic updates and recommendations to the Board as necessary, and take required action to mitigate exposure and potential risks.

Credit and Counterparty

Risk rating – Low

Mitigation Strategy: The Group continued to liaise with only reputed creditworthy counterparties. All clients are subject to credit verification procedures and are required to submit bank guarantees, performance bonds or counter guarantees, as applicable. These clients are regularly monitored, and subject arrangements are frequently reviewed. Concentration risk stemming from any single counterparty or asset class is mitigated due to internally set exposure limits, which are reviewed on a routine basis and amended as necessary.

Liquidity

Risk rating – Low

Mitigation Strategy: The Group continued to place emphasis on ensuring that cash and undrawn committed facilities are sufficient to meet the short, medium and long-term funding requirements, unforeseen obligations as well as unanticipated opportunities. Constant dialogue between Group companies and banks regarding financing requirements, ensures that availability within each single borrower limit is optimised by efficiently reallocating underutilised facilities within the Group.

The daily cash management processes at the Holding Company include active cash flow forecasts and matching the duration and profiles of assets and liabilities, thereby ensuring a prudent balance between liquidity and earnings.

The GEC frequently reviews the ability of the Holding Company to fund the forecasted pipeline of projects for the ensuing five years, which is further stress tested to include scenarios of extreme distress in the operating environment and the resulting adverse impacts on business profitability. The current COVID-19 pandemic has placed pressure on cash flows and financial indicators. The Group continues to maintain adequate banking facilities and will look to manage its liquidity position despite the volatile environment.

Information Technology

	2019/20	2018/19	2017/18
Risk rating	High	High	High

Risk Overview: Group companies continue to digitise their business models and processes, while striving to keep abreast of developments in the IT landscape. With the need for increasing usage and constant evolution of IT technologies and tools in order to gain productive advantages, and the complex and ever-changing nature of potential related risks, this risk continues to be rated as a 'high'.

Mitigation Strategy: The Group continually assesses its level of cyber exposure to ensure awareness and adequate counter measures are enforced in a coordinated manner. The majority of the Group's IT systems have been consolidated into central data centers and critical services have migrated to the cloud, while stringent IT protocols and security systems have been established to protect the Group and its data from internet-borne attacks. The Group also has in place business continuity plans and disaster recovery sites and processes. The Group has witnessed a significantly higher incidence of remote working arrangements as a result of the COVID-19 pandemic. Whilst the Group was able to seamlessly transition to such working arrangements due to the IT landscape, the Group is conscious of the heightened security and risk mitigation strategies required in such operating environments and continues to evaluate and take necessary steps to protect its IT systems and data.

"The Group's strives to inculcate a global mindset amongst its businesses and employees by benchmarking against global best practices and quality standards."

Global Competition

	2019/20	2018/19	2017/18
Risk rating	Low	Low	Low

Risk Overview: In the context of increasing globalisation and foreign investment in Sri Lanka by recognised international companies and brands, the Group recognises the need to match global standards if it is to continue to maintain competitiveness.

Mitigation Strategy: The Group's strategy is to inculcate a global mindset amongst its businesses and employees by benchmarking against global best practices and quality standards. It also focuses on disruptive innovation and emerging digital advancements, working through its Digitisation Steering Committee to proactively seek innovative methods to improve business models and processes, and using advanced data analytics to create business value. The Group also rewards employees through its Chairman's Award for Disruptive Innovation with an emphasis on benchmarking against best in class practices. The rating for this risk remains at a 'low'.

Human Resources and Talent Management

	2019/20	2018/19	2017/18
Risk rating	Low	Low	Low

Risk Overview: The Group recognises the importance of investments in its human capital alongside effective talent and performance management as a key factor of long-term sustainability and success, as well as a critical component in its overall risk management strategy.

Mitigation Strategy: The Group's strategy has been to continually invest in its talent, through its robust and targeted learning and development processes, building a skill-based workforce and striving for ongoing improvements in key competencies on a need-basis. Retention of talent has been a vital component of its overall human resources strategy and frequent internal surveys are conducted as means of staff engagement to best understand employee requirements. Targeted reward and recognition schemes, career development and leadership programmes, and succession planning are aimed at ensuring retention and talent attrition is monitored closely and reported on a quarterly basis to the GEC.

Group employees have recourse to effective grievance handling mechanisms and the Group has in place a strict Non-Discrimination Policy and positive engagements with unions, while seeking to ensure that these processes and strategies are implemented in a context and culture of openness and engagement.

With the above strategies in place, the risk has been rated at a 'low' level.

Environment and Health and Safety

	2019/20	2018/19	2017/18
Risk rating	Low	Low	Low

Risk Overview: Given the Group's commitment and understanding of the importance of a Triple Bottom Line approach, environmental impacts and safe working conditions remain a priority for its businesses. Expectations and requirements in this sphere continue to grow, on both local and global levels and are important concerns for key stakeholder groups.

Mitigation Strategy: As part of its sustainability management framework, the Group has in place robust management systems governing its practices concerning environmental and safety policies. Environmental and social indicators are tracked, monitored and reported on a quarterly basis with internal targets set and integrated with business plans, while companies with the best performance with regard to such indicators are rewarded and incentivised on an annual basis at the Chairman's Awards.

The Group's environmental management system includes specific monitoring with respect to energy usage, water and discharge, waste and biodiversity, with all companies expected to comply with all applicable environmental laws and regulations, whilst going over and above such levels where possible, striving to meet global best practices and obtain international certifications such as the ISO 14001 Environmental Management standards. Group companies are expected to minimise their impacts on the environment by protecting the country's biodiversity, investing in energy and water efficient equipment, switching to renewable sources of energy and improving waste management processes and generation.

The Group also places the highest levels of importance on ensuring safety and security, extending beyond its employees to consumers and other relevant stakeholders, through provision of safe and healthy products to consumers, whilst ensuring safe working conditions for its workforce. Where relevant, Group companies have obtained and maintain international certifications such as OHSAS 18001 Occupational Health and Safety and the food safety and quality standards HACCP and ISO 22000.

Given this comprehensive management framework, this risk was rated a 'low' at the Group risk review conducted prior to the escalation of the COVID-19 pandemic. However, given the continually evolving health and safety concerns, the Group will be reviewing and updating its assessment of health and safety risk and related mitigation plans, on an ongoing basis, as relevant. It has put in place comprehensive procedures in line with the recommended public health guidelines, including remote working arrangements where feasible, physical distancing requirements and stringent sanitisation procedures. Such measures have been implemented across all functions and operational units to ensure the health and safety of the Group's internal and external stakeholders.

"The Group's longstanding reputation as an ethical corporate is a result of a zero risk tolerance for violations of regulatory compliance and governance."

Reputation and Brand Image

	2019/20	2018/19	2017/18
Risk rating	Low	Low	Low

Risk Overview: The Group's longstanding reputation as an ethical corporate is a result of a zero risk tolerance for violations of regulatory compliance and governance. All employees and businesses are expected to conduct themselves in an manner that is in accordance with its Code of Conduct.

Mitigation Strategy: The Group has in place processes and measures such as an Anti-Corruption policy, Whistleblower process and a 'Chairman Direct' communication line, along with the presence of an independent Ombudsperson. The Group's mitigation strategy to address brand and reputation risks also encompasses thorough vetting of its public marketing and communications in line with the Group Marketing and Communications Policy which is based on the ICC Code of Advertising and other similar standards, whilst also maintaining the highest quality and product standards through ongoing monitoring and quality assurance processes. In recent years, effective monitoring and responsiveness over social media has been increasingly important and relevant to the Group as a means of managing its brand and reputation.

This risk is also addressed through the functioning of the John Keells Foundation, which facilitates the Group's strategic corporate social responsibility strategy through its varied and numerous focus areas, including community development and infrastructure programmes. Given the high level of priority this risk areas is given, the rating has remained at a 'low' level.

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Supply Chain Risk

	2019/20	2018/19	2017/18
Risk rating	Low	Low	Low

Risk Overview: The Group, with its maturing risk and sustainability management frameworks, recognises that risk management must extend beyond its own business operations and is aware of the importance and relevance of the value chain as a means of ensuring a holistic approach to the mitigation of risk.

Mitigation Strategy: All suppliers are required to abide by the Group's Supplier Code of Conduct which educates suppliers on the Group's expectations with regard to their business practices. On an annual basis, the Group also assesses its significant suppliers on risks and sustainable practices with respect to labour, environmental and other social, legal and regulatory compliances and works with its supply chain partners through forums, knowledge transfer and trainings to educate and create awareness on ethical and sustainable business operations. This has created mutually beneficial relationships between the Group and its value chain partners which allows the Group to maintain the risk rating at a 'low' level.

John
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Group

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