RISK *management*

The group risk management structure and process are aimed at managing material risks that could affect value creation.

The Board of Directors bear the overall responsibility of ensuring that all material risks are identified, assessed, and managed. The risk management function is operationalised through five pillars, decided based upon the locus of risk.

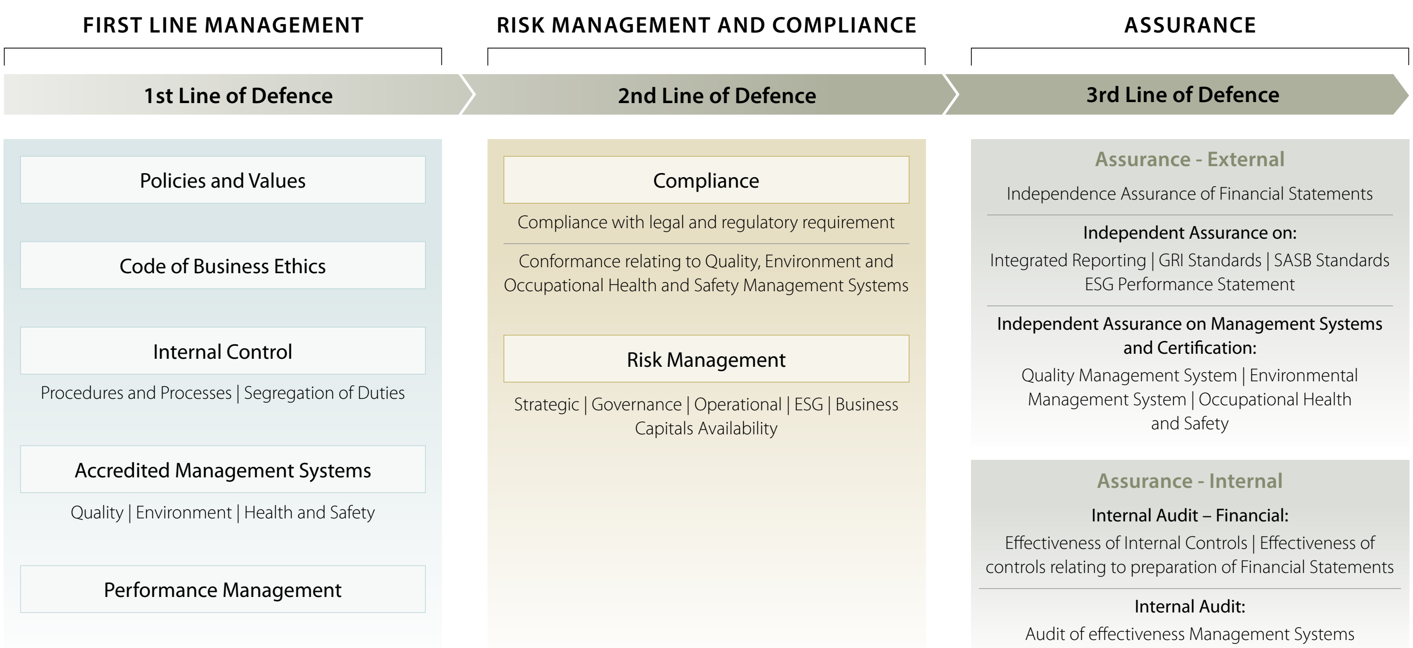
Figure 23: Locus of Risks Management

The below table demonstrates how the group risk management process is operationalised under each pillar and where it is reported in the annual report.

#	Risk Type	Identification | Mitigation	Section reported
1	Strategic & Enterprise Governance	Identified and actioned at strategic planning level and at enterprise governance level.	Risk management section Refer pages 81 - 86
2	Operational	Identified and actioned either through accredited management systems or stakeholder engagement.	Risk management section Refer pages 81 - 86
3	Business	Highlighted during market surveys and stakeholder surveys and actioned through Business Units.	Business report Refer pages 30 - 41
4	Capitals	Relating to availability of capitals of the right quality and quantity - identified and actioned at functional level. i.e HR, IT, Finance	Capital report Refer pages 42 - 56
5	Environmental, Social and Governance	Identified and actioned during strategic planning and through stakeholder engagement.	Risk management section refer page 81-86, Sustainability Agenda 2030 page 88-95, Business reports page 30-41, Capital Reports page 42-56

The three lines of defence given below show how the robustness of the risk management process is preserved.

Figure 24: The Three lines of defence



RISK MANAGEMENT

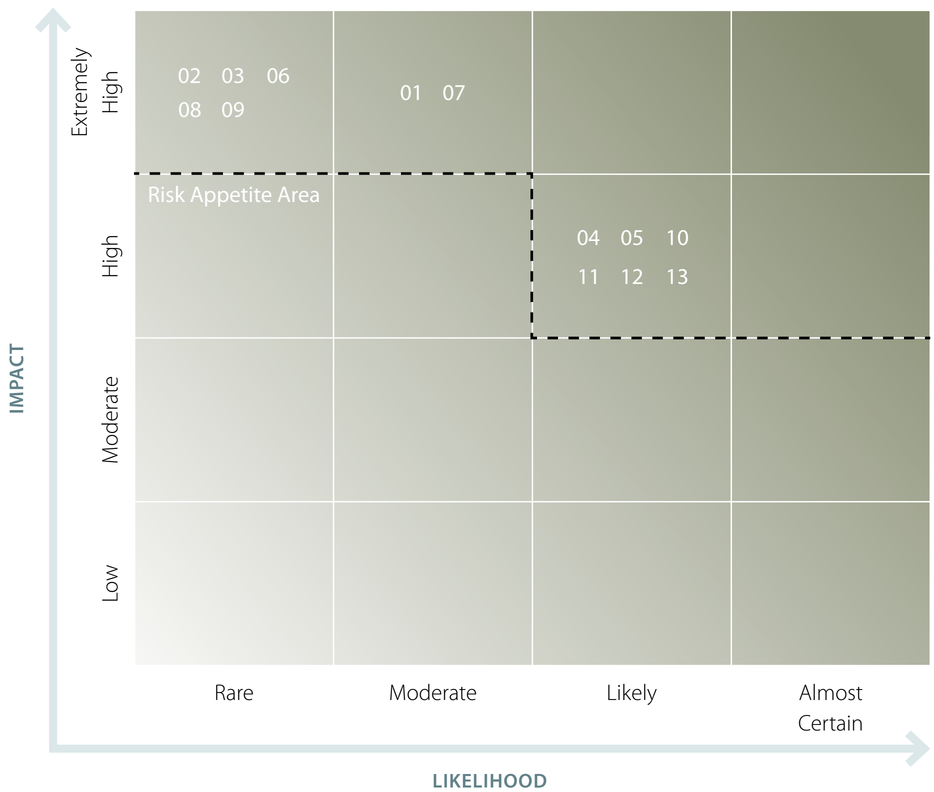
Risk Evaluation and Mapping

The risks identified are mapped on a grid to determine the materiality of each in relation to value creation. The grid considers the likelihood of occurrence and potential impact. The likelihood of occurrence is assessed based on past experience and the preventative measures in place, while the impact of the event is assessed by determining the loss it would cause and the extent of the impact. Each risk is assigned a ranking of 'almost certain', 'likely', 'moderate' or 'rare' related to the probability of occurrence. After consideration of these two factors, the impact is then categorised as 'low', 'moderate', 'high' or 'extremely high'.

The position of a particular risk on the risk map indicates whether the risk falls below or beyond DIMO's risk appetite. The extent to which risk mitigation actions are required is then determined.

The risks that are within the risk appetite of the Group are addressed and managed at the Group Management Committee level based on the management activity to which it relates. Risks falling outside the risk appetite are communicated to the Board of Directors to ensure proper mechanisms are in place to address such risks.

Figure 25: Risk Heat Map



Risks that Exceed Group's Risk Appetite

1. Legal & Regulatory Risks
2. IT & Data Security Risks
3. Data Privacy
4. Restructuring of Local Debt
5. E-commerce and Digital Transformation
6. Health and Safety Risk
7. Disruption in Supply Chain Management
8. Foreign Currency Rate Fluctuation Risk
9. Foreign Currency Availability
10. Reduction in Purchasing Power of Consumer
11. Reputational Risks (Social)
12. Climate Related Risks (Environment)
13. Reputational Risks (Environment)

Strategic & Enterprise Governance Risks

Our strategic risk management encompasses the comprehensive understanding of the organisation's internal and external environment, effective risk assessment and analysis, and the development of robust risk mitigation strategies. It involves aligning the organisation's strategic objectives with its risk appetite, regularly monitoring, and evaluating strategic initiatives, and fostering a culture of risk awareness and proactive decision-making throughout the organisation.

Enterprise governance risks are risks associated with design lapses or breaches in enterprise governance; lapses in IT security, legal and regulatory compliance and customer confidentiality are examples.

Table 48: Strategic and enterprise governance Risk & mitigation strategies

Risk	Inherent Risk	Mitigation Strategy	Residual Risk After Mitigation Strategy
1. Legal & Regulatory Risks Breach of regulations, legislation, best practices, industry standards, or company policies.	Non-compliance can cause loss of reputation and license to operate, and consequently impact sales.	Management Systems at DIMO such as EMS, QMS & OHS; Code of Business Ethics; Reviews by Legal Division; Compliance requirements of foreign principals.	Residual risk after mitigation is reduced to 'Medium to High'.
2. IT & Data Security Risks Disruption to IT systems, such as cyber-attacks or infrastructure failure, resulting in business disruption.	Limits our ability to produce and safeguard product quality. Limits our ability to maintain operations or limits future business opportunities if proprietary information is lost. May have an adverse impact on sales, profits and market position.	DIMO IT Security Policy: Contingency plans for non-availability of IT systems. Company-wide internal audit of IT security controls. Detection and protection mechanisms in IT systems and business processes.	Residual risk after mitigation is reduced to 'High' from 'Extremely High'.
3. Data Privacy Breach of data confidentiality in stakeholder information.	Such an event could damage Company's reputation and expose DIMO to legal consequences.	Identification of location of confidential information; staff training with regard to data privacy; Company-wide information security awareness activities.	Residual risk after mitigation is reduced to 'High' from 'Extremely High'.
4. Restructuring of Local Debt The government has agreed with International Monetary Fund (IMF) to restructure its local debt.	The government has agreed with the IMF to restructure the local debt, which may lead to a shortage in local bank funding for investment and the working capital requirements of the corporate sector.	The relationships with banking institutions to secure priority allocation of working capital funding. Be alert to action taken by the bank in line with government policy. Compiling a backup plan.	Residual risk after mitigation will remain unchanged.
5. E-commerce and Digital Transformation	The industry is experiencing a shift towards online channels and digital transformation. Failing to effectively leverage e-commerce platforms, mobile technology, and data analytics can pose strategic risks for DIMO.	The organisation is in the process of setting up an innovative ERP system across all business verticals that are capable of enhancing analytics, customer behaviour simulation and customer experience.	Residual risk after mitigation is reduced to 'High' from 'Extremely High'.

RISK MANAGEMENT

Operational Risk

Managing operational risks involves identifying, assessing, and mitigating potential risks to ensure the smooth functioning of an organisation's operations. This includes implementing robust internal controls, effective management system and processes, regular monitoring and reporting mechanisms, and training programs to enhance employee awareness of different management system.

Table 49: Operational Risk & mitigation strategies

Risk	Inherent Risk	Mitigation Strategy	Residual Risk After Mitigation Strategy
6. Health and safety risk Risk of possible threats to health and safety of customers, employee and any person within the premises of DIMO or carries out work on behalf of DIMO.	DIMO is a responsible company committed to safeguarding health and safety of any person who could be affected by DIMO's operations. Any breach can cause losses to the victim and the company's reputation.	DIMO's ISO 9001:2015 certified quality management system and ISO 45001:2018 certified health and safety management system ensure that the health and safety of all stakeholders of DIMO is not compromised.	Residual risk after mitigation strategies will reduce to 'Low' from 'High'.
7. Disruption in supply chain Management	DIMO is the representative for a number of global best in class brands. Any disruption to supply chain, such as delays, quality issues, or inventory shortages, can impact the availability of products and lead to customer dissatisfaction and also the dissatisfaction of principals whom we represent.	Effective communication, relationship management and sales and operational processes operation are crucial to managing a smooth supply chain without disruptions. Adequate resources are allocated for its effective functioning.	Residual risk after mitigation is reduced to 'Medium' from 'High'.
8. Foreign currency rate fluctuation risk Unusual depreciation/appreciation of the rupee against foreign currencies.	Unusual foreign currency fluctuation effects pricing policy and may result in increased costs that cannot be passed on to customers	Close monitoring of movement in foreign exchange rate. Use of mechanisms to hedge against foreign currency exposure (forward contracts, etc.). To work on a mid-term pricing policy valid for approximately one year.	Residual risk after mitigation strategies will reduce to 'High' from 'Extremely High'.
9. Foreign currency availability Recurrence of shortage of foreign currency.	Foreign currency shortages will impact imports by causing stock shortage.	Treasury function and sales and operational processes to take account of trends in the foreign currency market.	Residual risk after mitigation is reduced to 'Medium' from 'High'.

ESG risk and Opportunities

Risks

This section together with Sustainability Agenda 2030 on pages 88 - 95 and the ESG Performance Statement on page 96 provides Information to readers to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities. This section covers risks and also some opportunities arising from external events and our own actions, whilst the Sustainability Agenda 2030 and ESG Performance Statement covers mainly the sustainability related impacts made by the operations of DIMO.

ESG Risk Management

Risks related to environmental and social aspects could harm and impair DIMO's value creation. The Company must manage these risks whether DIMO is exposed due to its own actions or due to events occurring outside the boundaries of DIMO. For example, conducting a business in a manner that harms the environment exposes the Company to risks arising from the environmental aspect. There can also be an external event such as drought and non-availability of water that would impact DIMO's value creation activities although such external events are not within the control of DIMO. Both situations however pose a risk and therefore, have to be managed.

The governance structure pertaining to the management of environmental and social risk is presented on page 91. Discussed below are some aspects relating to management of ESG risks.

Strategic Risks & Opportunities Relating to ESG

ESG related risks can be strategic, similar to other strategic enterprise risks. These can be in the form of non-availability of the required quality and the quantity of social and natural capital or reputation. On the other hand, it can become an opportunity if the Company's responsible behaviour towards environmental and social factors is capitalised on to enhance brand equity. Thus, the governance of environmental and social factors could have a strategic impact on verification.

Operational Risks Relating to ESG

In the short to medium term, we are exposed to ESG risks throughout our value chain. Each business unit is required to maintain an aspect register and a risk register to record aspects that can pose a threat and risks that can arise within those aspects. The Quality Management System, Environmental Management System and Occupational Health & Safety standards are key tools used to manage operational risks relating to ESG. The head of each business unit is mainly responsible for managing operational risks relating to ESG with the assistance of the Compliance Unit and Sustainability Unit of DIMO.

Stakeholder Engagement

Our stakeholder engagement is a key governance tool used to map risks and opportunities arising from all our stakeholders, ensuring a value driven ESG strategy. Stakeholder engagement takes place through several methods which vary from surveys to independent one-on-one interviews. Please refer Stakeholder Engagement presented from pages 77 - 80 for more details.

Table 50: ESG Risk & mitigation strategies

Risk	Inherent Risk	Mitigation Strategy	Residual Risk After Mitigation Strategy
10. Reduction in Purchasing Power of Consumer (Social) Increase in inflation affects all businesses, exerting pressure on costs and margins. There is a potential pressure on wages as well. From the consumer perspective, inflation could lead to reduced demand for non-essential goods.	Majority of DIMO's products are of a capital nature thus can be of lower priority during an economic recession.	Strengthen sales and operational processes taking in to account the impact of inflation. Offer value proposition catered to customers capacity. Marketing strategy to increase market share.	Residual risk after mitigation strategies will reduce to 'High' from 'Extremely High'
11. Reputational Risks (Social)	Any impact towards our customers, employees, and community through our business operations. The consequences can be loss of social license to operate, damage to brand equity, customer dissatisfaction and impact on employer branding.	• An outstanding customer service with 24/7 service provision and customer satisfaction surveys. • Community service and CSR. • Adhering to labour laws and regulations and other international principles. • Member of UN Global Compact (UNGC). • Focus on diversity and inclusion and employee well-being.	Residual risk after mitigation strategies will reduce to 'Medium' from 'High'
12. Climate Related Risks (Environment)	Damages to people, property, and business. Impact towards employees and humans from rising temperatures, floods, tsunami, and other natural disasters.	Climate risk adaptation, mitigation and disaster risk resilience for people and property.	Residual risk after mitigation strategies will reduce to 'High' from 'Extremely High'

RISK MANAGEMENT

Risk	Inherent Risk	Mitigation Strategy	Residual Risk After Mitigation Strategy
12. Climate Related Risks (Environment)	Impact on the quality and productivity of principle crops from DIMO Agribusiness due to heavy rainfall and chemical accumulation in soil.	Hybrid and climate resilient seed production. Hydroponics and other technologies to deal with climate related risks.	Residual risk after mitigation strategies will reduce to 'High' from 'Extremely High'
	Sri Lankan agriculture largely depends on rainfall. Lack of rainfall can adversely affect the agriculture business.	Increase in market share to compensate for loss of sales due to drought.	Residual risk after mitigation strategies will reduce to 'High' from 'Extremely High'
13. Reputational Risks (Environment)	The impact on the environment through our business operations can lead to a damage in brand equity, legal consequences and even loss of social license to operate.	Certified in ISO 14001: 2015 environmental standards. This ensures we adhere to local and internal standards for water, energy, and waste management in our operations. ISO 14064: 2018 is used to calculate our carbon footprint and indicates our responsibility towards our emissions.	Residual risk after mitigation strategies will reduce to 'High' from 'Extremely High'

Table 51: Opportunities

As much as sustainability operations and external situations can pose risks for DIMO, they also present opportunities. Given below is a brief of such opportunities that DIMO is geared to seize:

ESG opportunity	Description	Seizing the opportunity
Corporate Brand equity	DIMO brand equity is important in attracting stakeholders. By managing ESG risks effectively and responsibly, DIMO can create brand equity as a company that respects and embraces sustainability.	As seen in the Strategy and Resource Allocation section (page 18 - 23), sustainability has a significant space in corporate strategy. The sustainability management systems implements standards of quality, environment and health and safety. The Corporate Communication Division is entrusted with communicating DIMO's sustainability efforts in an appropriate manner.
Employer Brand equity	An employee would like to be employed by a company that behaves responsibly. This affords an employee a congruence between his or her conscience and that of the corporate. This increased the likelihood of prospective employees wanting to be part of the DIMO tribe by increasing the employer brand of DIMO.	The human resources development function together with the Corporate Communications Division make sure that the sustainability friendly values of DIMO are communicated to current and prospective employees.
Electric Vehicles	Changes in the environmental landscape demand that combustion engines are replaced by electrically powered vehicles.	The two key principals of DIMO have developed electric vehicles that are attractive to the market. Preparations are underway to import and take care of these vehicles when electrically driven vehicle imports are permitted.
Renewable Energy	The energy plan of the government requires a significant increase in generation of renewable energy, partly to keep up with its sustainability targets.	DIMO is in the process of consolidating and strengthening its portfolio of renewable energy mainly through solar power.