AGILE BY NATURE

RISK MANAGEMENT

DIMO
THE PERFECT PARTNER

Risk and opportunity Management

GRI: 2-25

Risks and Opportunity Management Section

https://www.dimolanka.com/2023-2024-dimo-annual-report/url.php?id=23

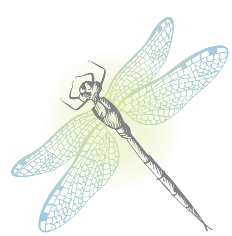
The key objective of risk and opportunity management is to support business success and safeguard the company as a going concern through an opportunity-focused but risk-aware decision-making framework.

The Executive Board has overall responsibility for setting up a robust risk and opportunity management system that ensures all material risks and opportunities across the organization are effectively managed and addressed. At DIMO, risk and opportunity management is a collaborative effort that involves contributions from all the business units and functions across the Group, with valuable insights from the Board.

The Group adopts the three lines of defence model with clear segregation of duties. It is a proactive approach to risk management and internal control.

Figure 14: The Three Lines of Defence

FIRST LINE MANAGEMENT	RISK MANAGEMENT AND COMPLIANCE	ASSURANCE
1st Line of Defence	**2nd Line of Defence**	**3rd Line of Defence**
Policies and Values	**Compliance** Compliance with legal and regulatory requirement Conformance relating to Quality, Environment and Occupational Health and Safety Management Systems	**Assurance – External** Independent Assurance of Financial Statements **Independent Assurance on:** Integrated Reporting | GRI Standards | SASB Standards | ESG Performance Statement **Independent Assurance on Management Systems and Certification:** Quality Management System | Environmental Management System | Occupational Health and Safety
Code of Business Ethics	**Risk Management** Strategic | Governance | Operational | ESG | Business related Risk Management	**Assurance – Internal** **Internal Audit – Financial:** Effectiveness of internal controls | Effectiveness of controls relating to preparation of financial statements **Internal Audit:** Audit of effectiveness of management systems
Internal Control Procedures and Processes | Segregation of Duties		
Accredited Management Systems Quality | Environment | Health and Safety		
Performance Management		



Diversity and Reach

There are over 7,000 species of dragonflies alive today, with a presence across every continent but Antarctica. Sri Lanka is home to 130 known species of dragonflies and damselflies, 58 of which are endemic. Their vast presence demonstrates their ability to adapt to diverse conditions.

GRI: 2-13, 2-25, 2-26

At Group level, several functions typically collaborate to identify, mitigate, and manage risks and opportunities effectively. These functions collaborate closely to ensure that identified risks and opportunities are assessed, prioritized, and managed effectively, in alignment with the Group's strategic objectives and its long-term sustainability and resilience.

Figure 15: Organisation Hierachy and Responsibilities

Board of Directors	Assumes responsibility for ensuring robust risk management practices by establishing appropriate structures, policy frameworks, actively monitoring risks, and offering guidance on risk management strategies.
Audit Committee	Scrutinize risk registers to ensure comprehensive oversight of prominent and emerging risks, keeping the Board informed of critical threats.
Group Management Committee	Address and manage the risks within the risk appetite of the Group. Provide recommendation to the Board on resource allocation.
Corporate Management	Sector-wise risk assessment while actively supporting and overseeing mitigation efforts.

Function	Area of focus
Corporate Planning & new business development	• Identify strategic risks and opportunities.
Group Finance	• Assess the financial implications of various risks and opportunities.
Group Treasury	• Manage liquidity and cost of funding. Hedging against currency fluctuations.
Supply Chain Management	• Leveraging group synergies to optimise pricing.
Compliance	• Ensures that the organization adheres to relevant laws, regulations, and internal policies.
Group IT	• Responsible for managing cybersecurity risks, data privacy risks, and other technology related risks.
Group HR	• Identifying and managing risks related to human capital.
Sustainability	• Driving continuous improvement in ESG risk management practices, fostering a culture of sustainability and resilience within the organization.
Corporate Communication	• Responsible for communicating corporate and employer brand equity in an appropriate manner.

Strategic Business Units	Strategic business leaders are accountable for fostering the sustainable growth and profitability of their respective ventures, with support provided by Group functions.

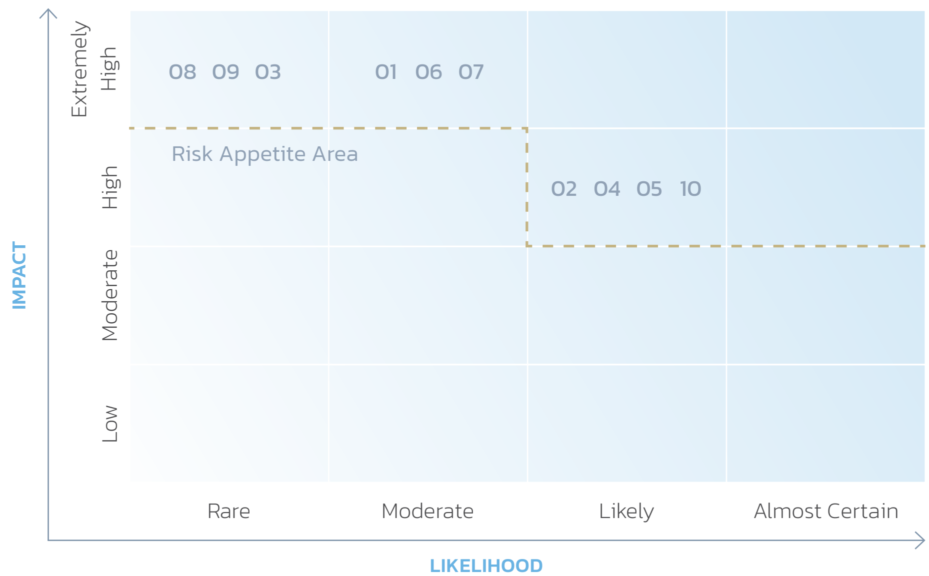
While the Board of Directors and the Group Management Committee play a vital role in overseeing the risk management process, they ensure that both strategic risks, which can have long-term implications for the organization's goals and sustainability, and operational risks, which affect daily operations and have more immediate consequences, are appropriately addressed. This helps them to identify the risks related to our short to medium term plans as well as the strategic risks which reduce our ability to achieve our corporate strategy over the long term. The risks within the risk appetite of the Group are addressed and managed by the Group Management Committee, based on the management activity to which they are related. Risks falling outside the risk appetite are communicated to the Board of Directors to ensure that proper mechanisms are in place to address those risks.

A risk map is developed following an assessment of the likelihood of occurrence and the potential impact of risks. The likelihood of occurrence is assessed based on experience and the preventative measures currently in place. Based on its probability of occurrence, each risk is assigned a ranking of 'almost certain', 'likely', 'moderate' or 'rare'. The impact of each event is assessed by determining the extent of the impact and the loss it would cause. 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 within or beyond DIMO's risk appetite. The extent to which risk mitigation actions are required is then determined.

GRI: 2-25, 403-2

Figure 16: Risk Heat Map



Risks that Exceed Group's Risk Appetite

1. Economic conditions
2. Innovation and competitor actions
3. Technological disruptions
4. Supply chain disruptions
5. Environmental and social risks
6. Financial risk
7. Global events
8. Safety & quality risk
9. Compliance and regulatory risks
10. Operational processes and controls

Strategic Risk Management

Strategic risks can have a more profound impact on the organization's long-term viability and its ability to achieve the corporate objectives. These risks are typically associated with factors such as changes in market dynamics, shifts in consumer preferences, technological advancements, geopolitical instability, and competitive pressures. 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 management strategies. Annually, the Corporate Planning team presents their business plan including the strategic risk profile to the Group Management Committee and the Board of Directors to further analyse the strategic risks to the company. The main strategic risks to the Group are,

Table 42: Strategic risks, impacts, and mitigation

Risk area	Description	Impact to DIMO	Mitigating actions
1. Economic conditions	The adverse economic conditions will lead to economic downturns.	• Reduced customer spending impacting demand for our products and services. • Cost pressures for the Group and limited access to capital. • New regulations and fiscal policies aimed at stimulating economic growth may increase costs or restrict market access.	• Diversify revenue streams. • FOREX hedging. • Cashflow management. • Build agility into our business models to adapt quickly to changing market conditions.
2. Innovation and competitor actions	Competitor actions can pose various risks to the Group, influencing our market position, profitability, and long-term sustainability.	• Aggressive marketing strategies of competitors will lead to loss of our market share. • Price competition creates a challenging operating environment for the Group. • Loss of relevance and market competitiveness due to failure to anticipate and respond to competitive innovation. • Competitors may poach key employees or talent, affecting the Company's ability to innovate, execute strategies, and maintain a competitive edge. • Talent competition can drive up the Group's labour costs and lead to workforce instability.	• Offering unique products, services and experiences. • Products and services will be tailored to meet the needs of specific market segments. • Innovation and strong relationship with customers. • Invest in building a strong brand for DIMO.

GRI: 2-25, 201-2

Risk area	Description	Impact to DIMO	Mitigating actions
3. Technological disruptions	Rapid advancement in technologies can render existing business models obsolete, making it essential for us to adapt quickly or face declining relevance and competitiveness.	• Losing market share to more innovative competitors who leverage these technologies to offer better products or services. • Increased reliance on digital technologies exposes the Group to cybersecurity risks such as data breaches, phishing scams, and other forms of cybercrime. • Advances in technology raise concerns about privacy and data protection, leading to regulatory scrutiny and consumer backlash.	• Conduct scenario planning exercises to anticipate potential technological disruptions and their impacts on our business. • Develop contingency plans and risk mitigation strategies. • Ensure compliance with relevant laws and regulations governing data privacy, cyber-security, intellectual property, and other areas impacted by technological advancements. Refer page 96 to read more about our cyber-security governance under Corporate Governance. • Develop internal talent related to emerging technologies through training programs, mentorship, and cross functional collaboration. • Conduct company-wide information security awareness activities.
4. Supply chain disruptions	Supply chain disruptions can have significant impact on the Group, as most business units rely heavily on the smooth functioning of global supply chains to source materials, components, and finished goods from suppliers located in different countries.	• Challenges in maintaining optimal level of inventory levels and meet customer demand. • Market volatility, impacting Group's ability to forecast demand, manage pricing strategies, and make strategic decisions. • Changes in trade regulations, tariffs, or customs procedures require us to adapt quickly to ensure compliance and minimize disruptions.	• Reduce the dependency on a single supplier or sourcing region by diversifying the supplier base. • Work closely with suppliers to understand their capabilities, assess risk exposure, and develop contingency plans. • Conduct risk assessments and develop contingency plans and alternative sourcing strategies such as dual sourcing and safety stocks. • Embrace technology solutions such as advanced analytics into the supply chain process. • Utilize supply chain risk management methodologies such as risk mapping, scenario analysis and business continuity planning.
5. Environmental and Social risks	Since DIMO has a large volume of imports, environmental and social risks can stem from suppliers' practices, including poor working conditions, child labor, environmental degradation, or violations of human rights. Importing goods often involves transportation, which contributes to carbon emissions and climate change.	• Sourcing from suppliers engaged in unethical practices, if done, will have an adverse impact on our reputation and supply chain sustainability. • Regulatory pressure, carbon taxes, or reputational damage arising from failure to address our carbon footprint and adopt sustainable transportation practices. • Reputational damages due to local communities impacted by our operations and sourcing activities. • Extreme weather conditions such as floods and drought can disrupt business operations leading to supply chain disruptions and revenue losses.	• Ensure that our suppliers adhere to ethical and sustainable practices throughout the supply chain. • Conduct due diligence on suppliers and adhere to ethical sourcing standards. • Engage with local communities, respect indigenous rights and implement community development initiatives. • Take action to consolidate shipments, utilize more fuel-efficient transportation modes and leverage advanced logistics technologies. • Conduct climate risk assessments and develop comprehensive risk management plans for extreme weather conditions. Refer page 128 - 136 to read more about our sustainability practices.

Risk area	Description	Impact to DIMO	Mitigating actions
6. Financial risk	These are risks associated with financial management and liquidity, including cash flow deficits, credit risk, market volatility, currency fluctuations, and inadequate capitalization.	• Higher interest rates will restrict our opportunities to invest in new business activities and will increase our finance cost. • Exchange rate fluctuations can have a significant impact on the cost of imported goods and profit margins. • Extending credit to customers can result in bad debts, write-offs, and impaired assets.	• Implement Asset-Liability Management strategies (ALM) to match the maturity and interest rate sensitivity of assets and liabilities. • Monitor the trends of market interest rates and decide on fixed-rate financing or variable-rate financing options to reduce the vulnerability to increasing interest rates. • Use currency hedging techniques such as forward contracts. • Monitor exchange rate movements, economic indicators, and geopolitical developments that may impact currency markets. • Set appropriate credit limits and payment terms for customers and counterparties, based on their creditworthiness and risk profile. • Implement credit policies and procedures to monitor credit exposures and enforce timely payments.
7. Global events	Geopolitical instability, trade disputes, natural disasters, or pandemics can have far-reaching impacts on our export business, international trade and supply chains.	• Geopolitical tensions between countries and regions may result in us encountering import/export restrictions, tariffs, sanctions, or political risks that affect market access, profitability, and strategic investments.	• Diversify export markets and supply chains. • Stay informed about local laws, regulations, and political developments in each market where we operate. • Develop contingency plans and response strategies to anticipate and prepare for potential geopolitical risks.

Addressing these strategic risks requires proactive risk management, scenario planning, and the agility to adapt to changing circumstances effectively. We continuously assess our risk exposure and implement mitigation strategies to safeguard our long-term success. Our Group Management Committee and Board of Directors are balanced in skills, knowledge and experience to effectively carry out this process.

Operational Risk Management

Operational risk refers to the potential for losses arising from inadequate or failed internal processes, people, systems, or external events. Operational risk arises from the day-to-day operations of the Group, and are short to medium term risks to which we are exposed throughout the value chain. The Group Management, the Board of Directors and Operational Compliance Team review the key operational risks on a quarterly basis. These risks are based on insights from management teams across the organisation and include all types of risks that could cause significant disruptions to the business. Below is an overview of our key operational risks.

Risk area	Description	Impact to DIMO	Mitigating actions
8. Safety & quality risk	Our primary concern regarding health and safety risks is the well-being of employees, consumers, and customers. Workplace accidents or incidents can result in injuries, illnesses, or even fatalities, causing physical and emotional harm to employees and their families.	• Absenteeism, reduced work hours, and decreased efficiency can result from health and safety issues, impacting overall business operations. • The disruption of product supplies due to quality issues may compromise product availability. • As we operate in the healthcare sector, shortages or quality issues in medical equipment could have potential impact on patients.	• Stay up to date with relevant safety and quality regulations, standards, and industry best practices. (ISO 9001:2015 certified quality management system and ISO 45001:2018 certified health and safety management system) • Comprehensive training and education programs. • DIMO fosters a culture of continuous improvement by regularly reviewing safety and quality performance, soliciting feedback from employees, customers, and stakeholders, and implementing corrective actions to address any issues or deficiencies identified.

GRI: 2-25, 403-2

Risk area	Description	Impact to DIMO	Mitigating actions
9. Technology and information systems related risks	Risks related to the malfunction, failure, or security breaches of technology systems, including hardware, software, networks, and data storage can result in data loss, cyberattacks, system downtime, and financial losses.	• Limit our ability to maintain operations and future business opportunities if proprietary information is lost. • Failure to protect sensitive data will damage the company's reputation, brand, and public perception.	• Comprehensive backup and disaster recovery plan to ensure the timely recovery of data and IT systems in the event of a cyberattack, natural disaster, or system failure. • Take action to regularly back up critical data, test backup systems, and maintain off-site backups for redundancy. • Regular training and awareness programs about IT security. • Conduct company-wide internal audit of IT security controls. • Implement robust data security measures to protect sensitive information from unauthorized access, theft, or disclosure. • Security software and patches are regularly updated.
10. Compliance and regulatory risks	Compliance and regulatory risks refer to the potential violations of laws, regulations, industry standards, and contractual obligations that could result in legal and financial consequences for the Group.	• Non-compliance with regulations and laws expose us to investigations, sanctions, and other penalties. • Failure to fulfill contractual obligations with internal and external stakeholders can lead to legal disputes, financial liabilities, and damage to business relationships.	• Conduct regular risk assessments to identify potential compliance and regulatory risks associated with the company's business activities, processes, products, and services. • Internal controls in place to ensure compliance with applicable laws, regulations, and industry standards. • Conduct regular internal audits and reviews to assess the effectiveness of the company's compliance program, policies, and controls. • Having a code of conduct integrated into our business which empowers us to conduct our operations responsibly.
11. Operational Processes and Controls	Weaknesses or failures in operational processes, procedures, and internal controls can result in errors, inefficiencies, fraud, non-compliance with regulations, and operational losses.	• Poorly designed or outdated operational processes can lead to inefficiencies and can result in wasted time, resources, and increased costs. • Mistakes can lead to inaccuracies in data, financial discrepancies, or product defects, ultimately affecting customer satisfaction and DIMO's reputation. • Cybersecurity threats and supply chain disruptions associated with our operational processes will have an adverse impact to the Group.	• Regularly assess our operational processes, identify potential vulnerabilities, and implement appropriate controls and safeguards. • Investing in technology, training employees, establishing contingency plans, and continuously monitoring and improving processes to adapt to changing circumstances.

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Opportunities

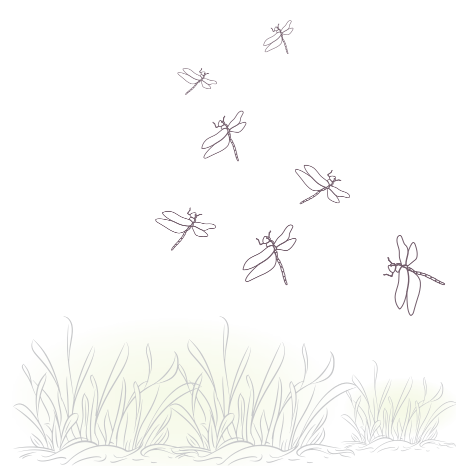
In the midst of acknowledging the risks inherent in our industry, it's equally important to recognize the abundance of opportunities that surround us. Despite challenges, our company stands on the verge of numerous possibilities waiting to be seized, promising growth, innovation, and success.

Table 43: Opportunity Identification, Categorisation, and Action

Opportunity	Description	Siezing the opportunity
Corporate Brand equity	DIMO brand equity is important in attracting stakeholders. By managing the corporate brand and further enhancing it by managing ESG risks effectively and responsibly, DIMO can create brand equity as a company that respects and embraces sustainability.	The management systems available drive 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	Employees like being employed by a company that behaves responsibly. This affords an employee a congruence between his or her conscience and that of the corporate. This increases 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 ensure that the sustainability- friendly values of DIMO are communicated to current and prospective employees.
Electric vehicle	Changes in the environmental landscape demand that combustion engines are replaced by electrically powered vehicles.	Key principals of DIMO associated with the automobile industry have developed electric vehicles that are attractive to the market. DIMO will be engaged in importing these vehicles once the country's regulations permit import of Electric Vehicles.
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.
Products and Services driven by sustainability	Future generations will value products and services that embed principles of sustainability and have positive impacts on the society and environment. They are also likely to assess the commitment of the seller towards sustainability prior to making the "buy" decision.	The Sustainability Agenda 2030 of DIMO is dedicated to enhancing the percentage of "Sustainability Friendly" products and services in the portfolio. Further as a company, DIMO is committed to responsible behaviour respecting all principles relating to Sustainability.

Alignment with Seven strategic priorities

1. Reduce dependencies on individual business domains
2. Increase business presence in essential goods and services while focusing on geographical expansions
3. Drive for sustainable products, services, and practices
4. Enhance brand equity
5. Critical talent retention via equitable compensation
6. Create a conducive environment for employees to collaborate seamlessly, ensuring a unified brand voice and consistent customer journey(s)
7. Address climate risk



Refer page 22 - 24 to read more on Seven strategic priorities