

# Risks & Opportunities

The Group’s risk and opportunity landscape is shaped by the political, economic, social, technological and environmental context in which it operates. Sound risk management enables the Group to adapt to rapidly evolving operating conditions, supporting informed-decision making during volatile periods. The Group’s operating landscape is increasingly dynamic, thereby underscoring the importance of a proactive and agile approach towards risk management, which can drive long-term value creation through building a more resilient operating model.

The global risk landscape during the year was dominated by geopolitical tensions and escalating conflicts, political shifts and instability, technological disruption and AI integration as well as natural catastrophes and climate change. On the domestic front, Sri Lanka’s economy stabilised following critical structural and policy reforms although the medium to long-term growth is predicated on sustained structural reforms and successful debt restructuring.

## APPROACH TO RISK MANAGEMENT

The Group’s Enterprise Risk Management framework supports strategic and operational resilience as we pursue our strategic aspirations and deliver stakeholder value through economic cycles. The Group follows a bottom-up approach to identify, prioritise and mitigate risks- which is subject to quarterly review to ensure completeness, relevance, robustness of mitigating actions as well as Board oversight.

## Risk Governance

The Board serves as the focal point for management of risk and is assisted by the Audit Committee in discharge of this duty. With the adoption of SLFRS S1 and S2 Sustainability Disclosure Standards, the ESG Steering Committee assists the Board in the management of SRROs. The diverse business sectors of the Group have high levels of autonomy in driving their businesses with Group governance structures playing a key role in harmonising policies, sharing best practice, guiding strategic direction, managing risks and optimising resource

allocation across the Group as depicted below. The Group also adopts the three-lines of defense model (as illustrated below) which ensures effective segregation and discharge of duties.

1
1ST LINE OF DEFENSE

- Individual Businesses
- Risk Identification, Acceptance & Mitigation

2
2ND LINE OF DEFENSE

- Sector level Boards, Audit Committees and ESG Committees
- Risk Monitoring & Management

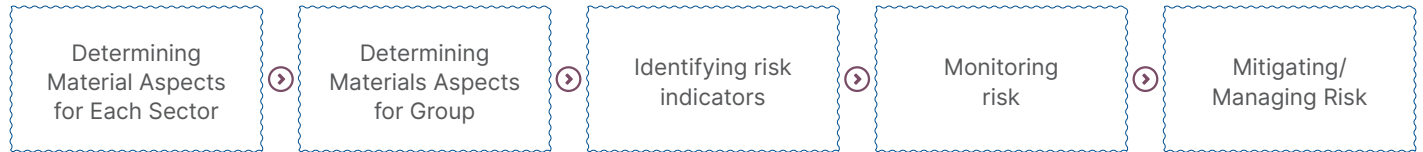
3
3RD LINE OF DEFENSE

- Hayleys PLC Board, Audit Committee and Group ESG Steering Committee
- Assurance and policy formulation



## Risks & Opportunities

The Group adopts the COSO Framework in assessing potential risks which are ranked and prioritised based on impact and likelihood of occurrence. The risk management process is as follows;



## WIDENING THE LENS OF RISK

As discussed in further detail on page 123, the adoption of SLFRS S1 and S2 Standards compelled the Group to widen its risk management lens to integrate the management of SRROs to its existing risk management processes.

**A phased approach:** As discussed last year, the Group is adopting a phased approach to the new sustainability disclosure standards. We are aware that truly embedding this new dimension to existing risk processes, controls and most importantly, the risk culture will require time. Following the identification of CROs last year, this year the Group widened its lens to include the identification and management of SRROs across its operations.

**Connectivity of risks:** Sustainability risks are typically pervasive in nature, demonstrating interactions across other types of risks. By adopting a unitary risk framework which integrates ESG risk assessments with existing business risk processes, the Group seeks to better understand these interactions, thereby providing leadership with the insights required to embed sustainability considerations into strategic decision-making.

## MANAGEMENT OF SRROS

→ **Roles and responsibilities:** The Group ESG Steering Committee is responsible for the management of sustainability and climate-related risks and opportunities CRROs including formulating response strategies and assessing progress against the Group's ESG roadmap (including the climate strategy).

## HOW HAYLEYS VIEWS SRROS

## INSIDE OUT



How external sustainability issues affect the Group's financial performance

## OUTSIDE IN




## The Group's impacts on the environment and society

- Sector-level ESG Steering Committees were established during the year under review, facilitating more focused and systematic

management of industry-specific  
SRROs and CRROs

- **Risk identification:** Self-assessment of ESG risks and opportunities at Sector level through ESG risk templates

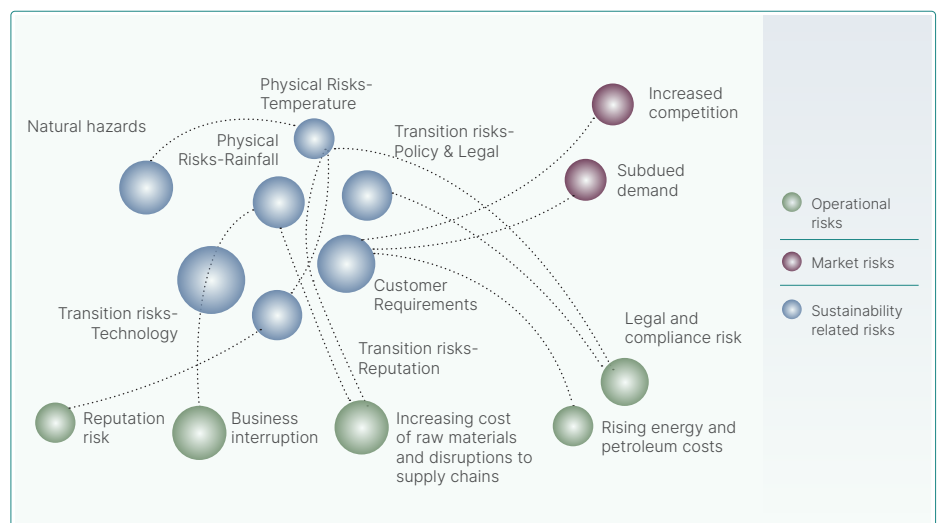
- **Data inputs:** An array of operational data and non-financial performance indicators (based on reporting frameworks) which are monitored on a monthly basis

 Further details relating to the Group's approach in managing SRROs are given on page 129 of this Report.

## INTERACTION OF RISKS

The following infographic demonstrates the link between these strategic, operational and other risks and the climate-related risks identified above. The size of the circle represents the magnitude of the risk.

## Connectivity between risks



INTEGRATED THINKING & EFFICIENT RESOURCE ALLOCATION




Several Hayleys PLC Centre functions monitor external developments and a variety of internal factors for early warning signs of threats and opportunities to align plans and ensure strategic relevance. The following functions come together at Group level to identify risks and opportunities and to mitigate them and manage them. The Group Management Committee plays a critical role as well, providing insights in to diverse areas of expertise, enabling early identification of potential risks, sometimes when it's just a whisper. The diagram below sets out the effective risk management structure of Hayleys Group, reflecting the evolving nature of this increasingly important function.

Department & Area of Focus	
<b>CORPORATE AFFAIRS UNIT</b> <ul style="list-style-type: none"><li>Manages Group financial performance and resilience</li><li>Monitor external landscape to identify emerging threats including impending regulations and other pressure points</li></ul>	
<b>GROUP RISK AND INSURANCE DIVISION</b> <ul style="list-style-type: none"><li>Formulation and negotiation of the Group's insurance programme</li><li>Monitoring risk exposures across the Group</li></ul>	
<b>MANAGEMENT SYSTEM AUDIT &amp; REVIEW DEPARTMENT (MSA&amp;RD)</b> <p>Manage risks at a strategic level whereas MSA&amp;RD approach it primarily from a risk mitigation and management perspective</p> <p>Responsible for collating risk registers, constructively challenging them and presenting to Group Management Committee, Audit Committee and Board</p>	
<b>STRATEGIC BUSINESS DEVELOPMENT UNIT</b> <ul style="list-style-type: none"><li>Monitoring the PESTEL factors to identify new opportunities as well as assess risks related to the opportunities</li><li>Review risk from a portfolio perspective</li></ul>	
<b>GROUP TREASURY</b> <ul style="list-style-type: none"><li>Management of Group liquidity including Foreign Exchange liquidity</li><li>Managing Group funding including costs of funding</li></ul>	<div><div>P</div><div>E</div><div>S</div><div>T</div><div>E</div><div>L</div></div> <div><div>→ Political</div><div>→ Social</div><div>→ Environmental</div><div>→ Economic</div><div>→ Technological</div><div>→ Legal</div></div>
<b>GROUP ESG</b> <ul style="list-style-type: none"><li>Review and monitor non-financial indicators to identify areas of concern and opportunities to optimise resource allocation</li><li>Monitor external sustainability landscape to identify emerging threats including impending regulations and evolving customer considerations</li></ul>	
<b>GROUP SOURCING</b> <ul style="list-style-type: none"><li>Ensuring defined procurement procedures are carried out in line with the Group Procurement Policy</li><li>Support Sectors in identifying, monitoring and managing risks across the supply chain</li></ul>	
<b>GROUP IT</b> <ul style="list-style-type: none"><li>Responsible for safeguarding the digital infrastructure and information assets of the Group</li><li>Surveillance to assess cyber threats</li><li>Cybersecurity</li></ul>	

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## TOP RISKS OF 2024/25




### Market risks

ECONOMIC RISK						LIQUIDITY AND FINANCIAL STABILITY					
Impact	3	Likelihood	3	Risk rating FY 2024	9 9	Impact	3	Likelihood	3	Risk FY 2024	9 9
<b>Strategic pillar</b> 		Portfolio optimisation/Customer centricity				<b>Strategic pillar</b> 		Portfolio optimisation/Customer centricity			
<b>Capitals impacted</b> 		Financial				<b>Capitals impacted</b> 		Financial			
<b>Material matters</b>		Domestic and international government policy /macro-economic risk				<b>Material matters</b>		Domestic and international government policy /macro-economic risk			
<b>Context and potential impact</b> While macro-economic conditions have stabilised, the recovery remains fragile with near term risks such as policy uncertainty, and insufficiently deep debt restructuring weighing down the overall outlook. These vulnerabilities could impact growth potential, cross border transactions and international business operations.						<b>Context and potential impact</b> Financial stress and impaired ability to meet future debt obligations and potential liquidity shortages in the Banking System and the Money Market could impact sector operations. Furthermore, a potential reduction in the Single Borrower Limit to 25% of the tier 1 capital by 2025 would further intensify the Group's liquidity risks					
<b>Mitigating actions</b> <ul style="list-style-type: none"><li>Reduce dependency on domestic market through expanding export-orientation</li><li>Maintain strong relationships with stakeholders, lobby groups and banks</li></ul>						<b>Mitigating actions</b> <ul style="list-style-type: none"><li>Improve liquidity risk oversight by Board and GMC</li><li>Derive Group synergies to manage borrowings</li><li>Diversify funding sources through exploring non-banking and offshore opportunities</li></ul>					

GEOPOLITICAL RISK						SUBDUED DEMAND					
Impact	3	Likelihood	2	Risk rating FY 2024	6 4	Impact	2	Likelihood	3	Risk FY 2024	6 6
<b>Strategic pillar</b>  		Portfolio optimisation/Customer centricity				<b>Strategic pillar</b> 		Portfolio optimisation			
<b>Capitals impacted</b>  		Financial/ Social & Relationship				<b>Capitals impacted</b>  		Financial/ Social & Relationship			
<b>Material matters</b>		Domestic and international government policy				<b>Material matters</b>		Macro-economic impacts Evolving customer requirements			
<b>Context and potential impact</b> Implications of the global escalation in geopolitical tensions and geo economic confrontations such as tariffs, supply chain disruptions, rate volatility and demand fluctuations. During the year 53% of the Group's turnover was derived from exports; the recent trade tariffs are likely to affect several key sectors of the Group						<b>Context and potential impact</b> Demand could be impacted by reduced disposable incomes, inflationary pressures and potential inventory build-up which can affect top line growth. Meanwhile, global economic vulnerabilities could lead to subdued demand in major export markets such as North America, UK, European region and Japan.					
<b>Mitigating actions</b> <ul style="list-style-type: none"><li>• Pursuing increased diversification of export markets, particularly in non-traditional markets</li><li>• Focused growth in selected markets</li><li>• Value-added product propositions which are relatively price inelastic</li></ul>						<b>Mitigating actions</b> <ul style="list-style-type: none"><li>• Diversification across market and product categories</li><li>• Forward contracts with key buyers</li><li>• Focus on new customer acquisition</li><li>• Explore opportunities to establish distribution networks in key export markets</li></ul>					







## Operational risks









INCREASING COST OF RAW MATERIAL AND DISRUPTIONS TO SUPPLY CHAIN						DATA PROTECTION AND CYBER SECURITY RISK					
Impact	2	Likelihood	3	Risk rating FY 2024	6 6	Impact	3	Likelihood	2	Risk FY 2024	6 6
<b>Strategic pillar</b> 		Portfolio optimisation/Inclusive business models				<b>Strategic pillar</b> 		Customer centricity ESG integration			
<b>Capitals impacted</b>  		Financial/ Social & Relationship				<b>Capitals impacted</b>  		Social & Relationship/ Intellectual			
<b>Material matters</b>		Principal relationships/Operational efficiency and productivity/Domestic and international government policy				<b>Material matters</b>		Technology and product innovations			
<b>Context and potential impact</b> Escalating geo-economic confrontations and potential disruptions to supply chains could exert pressure on margins and challenge predictability and future planning.						<b>Context and potential impact</b> Cyber-attacks or ransomware attacks and potential losses to confidential stakeholder data can lead to legal implications, financial loss and damage credibility and corporate reputation					
<b>Mitigating actions</b> <ul style="list-style-type: none"><li>Proactive and daily monitoring of raw material pricing</li><li>Raw material planning and effective inventory management</li><li>Diversification of supply chains</li><li>Building long-term relationships with suppliers through strategic initiatives</li></ul>						<b>Mitigating actions</b> <ul style="list-style-type: none"><li>IT governance policies and structures in place</li><li>Regular employee awareness on mitigating cybersecurity risks</li><li>Robust Business Continuity Plan in place</li></ul>					

HIGH STAFF TURNOVER AND EMPLOYEE RELATIONS					
Impact	2	Likelihood	3	Risk rating FY 2024	6 6
<b>Strategic pillar</b> 		Nurturing inspired teams			
<b>Capitals impacted</b>  		Financial/Human			
<b>Material matters</b>		Employee value proposition and well-being			
<b>Context and potential impact</b> While the prevalence of talent migration has slowed in comparison to the previous year, it still remains a key risk-underscoring the importance of continued investments in employees to ensure retention.					
<b>Mitigating actions</b> <ul style="list-style-type: none"><li>Enhancing employee value proposition through an array of retention, welfare and development strategies</li><li>Proactive and close engagement with employees to ensure that concerns are swiftly identified and addressed</li><li>Maintain cordial relationships with employee unions</li></ul>					

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## Sustainability-related risks

PHYSICAL RISKS OF CLIMATE CHANGE						TRANSITIONAL RISKS OF CLIMATE CHANGE					
Impact	3	Likelihood	2	Risk rating FY 2024	6 6	Impact	2	Likelihood	3	Risk FY 2024	6 6
<b>Strategic pillar</b> 		Portfolio optimisation/ ESG integration				<b>Strategic pillar</b> 		Portfolio optimisation/Inclusive business models/ESG integration			
<b>Capitals impacted</b>  		Financial/ Natural				<b>Capitals impacted</b>  		Financial/ Social & Relationship			
<b>Material matters</b>		Physical climate risks/ Climate change adaptation				<b>Material matters</b>		Evolving climate regulations, Evolving customer requirements			
<b>Context and potential impact</b> As a Group which has extensive interests in plantations and agriculture as well as a high degree of reliance on agricultural input materials, the Group is directly exposed to physical impacts of climate change including fluctuations in rainfall and precipitation levels, rise in temperatures and increasingly erratic weather patterns						<b>Context and potential impact</b> Key sectors in the Group are exposed to climate-related transition risks such as increasingly stringent environmental and emission regulations and energy policies					
<b>Mitigating actions</b> <ul style="list-style-type: none"><li>Close monitoring of weather patterns and potential impacts</li><li>Climate adaptation measures across sectors</li><li>Strengthen environmental management systems through certifications</li></ul>						<b>Mitigating actions</b> <ul style="list-style-type: none"><li>Close engagement with customers on identifying and responding to sustainability-related demands</li><li>Gradual transition to renewable energy sources</li><li>Environmental targets centered on emission reductions, water consumption and waste management</li></ul>					

WATER AVAILABILITY						ECOLOGICAL IMPACTS					
Impact	3	Likelihood	1	Risk rating FY 2024	3 6	Impact	2	Likelihood	3	Risk FY 2024	6
<b>Strategic pillar</b> 		ESG integration				<b>Strategic pillar</b>  		Customer centricity/Inclusive business models			
<b>Capitals impacted</b>  		Financial/ Natural				<b>Capitals impacted</b>   		Financial/ Social & Relationship / Intellectual capital			
<b>Material matters</b>		Managing environmental impacts				<b>Material matters</b>		Evolving customer requirements			
<b>Context and potential impact</b> Implications of water scarcity on water-intensive sectors, deteriorating water quality conditions and risks relating to water discharge						<b>Context and potential impact</b> Impacts of ocean and soil erosion, loss of biodiversity and changes to ecosystem balance which over the long-term can lead to increased overhead costs and impacts on the quality, quantity and pricing of agricultural raw materials					
<b>Mitigating actions</b> <ul style="list-style-type: none"><li>• Increase reliance on sustainable water sourcing including rainwater and recycled waste water</li><li>• Ongoing efforts to increase water efficiency</li></ul>						<b>Mitigating actions</b> <ul style="list-style-type: none"><li>• Processes to identify impacts and dependencies of nature</li><li>• Incorporating principles of environmental sustainability, resource optimisation</li></ul>					

Please refer to page 123 SLFRS S1 and S2 disclosures for further information



## OPPORTUNITIES

While remaining strategically focused on navigating emerging risks, the Group seeks to leverage opportunities to pursue potential areas for growth and drive long-term value creation. These identified opportunities are a vital input into the strategic planning and budgeting cycle, and shape the Group's overall strategic aspirations. Key opportunities identified are summarised below from a portfolio perspective; the implications on each sector are discussed in further detail in the Sector Reviews on page 156 to 288 of this Report.

### Strategic context and opportunities



#### Strategic Pillar:

#### PORTFOLIO OPTIMISATION

**Regional expansion and market diversification** – The Group is actively pursuing regional opportunities across its key business lines, as it seeks to expand its geographical reach thereby building further resilience. Given geopolitical tensions and geo economic confrontations in recent months, the Group is also pursuing expansion in non-traditional markets such as Asia and Africa.

**Acquisitions** – The Group has a strong history of growth through acquisition and has a finely-honed team in place for the purpose with the expertise required. Major acquisitions such as Singer (Sri Lanka) PLC, Fentons, South Asia Textiles and Horana Plantations are key contributors to Group earnings, attesting to the effectiveness of the Group's acquisition strategy.

**Business diversification** – Strategic investments in complementary industry

sectors and verticals enable the generation of long-term value through leveraging domain-specific knowledge and synergies.

#### Strategic Pillar:

#### CUSTOMER CENTRICITY

**Expansion in value-added product segments and customers**– Sectors are pursuing increased penetration of premium, value-added products segments with the aim of limiting vulnerabilities to price competition and

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margin pressure. The Group is aptly positioned to drive growth in such niche segments given its expertise in R&D, human capabilities and reputation.

## Strategic Pillar:

### NURTURING INSPIRED TEAMS

**Talent pipeline and succession** – A strong talent pipeline supports our growth aspirations, enabling us to invest with confidence as a number of potential leaders remain eager for growth opportunities.

**Upskilling and learning platforms**– With the demand for future-ready skills growing, emphasis on continuous learning presents a significant opportunity for the Group. The Group is exploring the use of digital and AI-driven learning platforms which proactively address skills gaps, support career development, and enhance employee engagement.

**Mental health and well-being**– The focus on mental health and well-being presents a meaningful opportunity to foster a more engaged, satisfied and resilient workforce particularly given the increasing awareness on the impacts of stress, burnout and work-life balance. Structured and holistic well-being programmes can lead to increased productivity, improved morale and stronger loyalty, which can further enhance the Group's employer brand and emerge as a key differentiator in its HR proposition.

## Strategic Pillar:

### INCLUSIVE BUSINESS MODELS

#### Expand presence along value chain

– The sectors have potential to widen their presence along the value chain through backward or forward integration, improving synergies, margins, stability of supply chains and market presence.

#### Diversification of supply chains

– Increasing implications of climate change, geopolitical dynamics and

technological shifts are disrupting global value chains, leading to increased volatility in raw material prices. Geographical diversification of supply chains, particularly for agricultural commodities presents a significant opportunity for the Group to secure its supply chains while also injecting value across a broader ecosystem of business partners.

## Strategic Pillar:

### STRATEGIC ESG INTEGRATION

**Energy transition** – The Group has a portfolio of investments in renewable energy and there are opportunities for investments in this sector in line with the country's long-term power generation plan. Additionally, the increasing cost of fuel and electricity will reduce payback periods of investments in alternative energy solutions at manufacturing locations, supporting investments in solar energy and other renewable and sustainable energy sources.

**Sustainable Innovation**– We innovate products with a purpose and work closely with customers to identify their needs to make them customer centric. It is a key opportunity that has propelled our growth and we will continue to invest in research and development to drive innovation. A number of our products are necessary to address issues such as water and air pollution and environmental degradation. We will continue to stay at the cutting edge of sustainable innovation to drive growth in our businesses.

**Digitalisation** – Digital transformation has been identified as a cross-cutting enabler which can drive the acceleration of all five strategic aspirations. The Group's digital roadmap centers on the key pillars of workflow automation, IoT driven digitisation, modernisation of applications and AI and machine learning with the aim of accelerating digital maturity across all sectors.

