risk management

Managing risk
in delivering our strategy

1 **Managing risks**
and strengthening our risk culture

2 **How our principal risks**
evolved from last year?

3 **Governance structure**
and framework to manage our risks

4 **Our risk profile**
Upside and downside risks

"Risk management remains an important management tool that allows our teams to gauge and focus on the 'risks that matter' for the business in line with defined strategic enablers and objectives of delivering long-term value for our shareholders."

Hector Espitalier-Noël
CEO

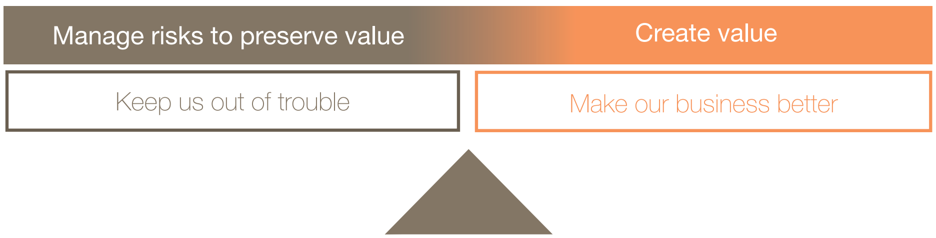
1. Managing risks and strengthening our risk culture

The success of any business rests on effective strategic planning and execution as well as proper management of risks and uncertainties. ENL Limited (referred to as ENL or the 'Group') cruises on 7 served markets ranging from the traditional sugar-based activity to more innovative services e.g. Fintech and thus, the **diversification of its activities entails in spreading of business risks** in different industries thereby providing cushion against sectorial downside risks.

The principal risks faced by ENL as compared to last financial year 30 June 2016 have evolved and further details are outlined in sub-section 2 of the risk management section. In spite of challenging economic and market conditions in localised sectors and fierce competition, the Group focuses on remaining agile in its operational execution to sustain attractive value propositions to customers and hence, profitability.

Taking risk management beyond compliance

Effective and sustainable risk management rests on a well-entrenched 'Risk culture'. The Group's philosophy and importance given to risk management together with the various initiatives undertaken over the years demonstrates the drive of the Board and Senior Management in taking risk management beyond compliance. A strong 'Risk culture' together with the right tone at the top from ENL's Senior Management contribute in ensuring that business units perform effectively and sustainably thus, preserving and creating value for stakeholders.



Balanced approach to risk and performance

Source: adapted from Ernst & Young - 'Building an enterprise approach to risk and performance'

The Group seeks to continuously improve processes underpinning effective risk management be it in terms of initiatives and/or measures to strengthen risk awareness culture and risk ownership across entities of the Group.

01

Managing risks and strengthening our risk culture

Sharing insights on risk

To the ARMC members, C-suite team and Management of the Group on (i) Top Business Risks 2017 as per Allianz Risk Barometer and (ii) 'Guide to Cyber risk' published by Allianz.

Introducing an **in-house newsletter referred to as 'Insightful feed'** intended to share trends, global news and issues related to risk, opportunities and assurance.

Workshops and exchange sessions

Facilitating **'risk awareness' and '1-to-1' sessions** with the Management teams of the BUs as a refresher to sustain importance of effective management of risks.

Conducting **'Fraud and corruption awareness' workshop** with the Leadership team and ARMC members facilitated by 'ENSafrica (Mauritius) law firm'.

Conducting mini-workshop via our in-house **'Learning bytes' forum on IT security** with the Leadership team of the Group's entities.

Risk reporting & oversight

Introducing a **'Risk Management Dashboard'** for Senior Management and ARMC members of the Group highlighting the Top 10 key residual business risks, risk trends and potential upsides of BUs.

Linking of risks to business objectives in the Group's enterprise risk management framework to ensure risks and strategy are aligned.

Periodic review of 'risk management registers' of the Group's BUs with the support of the GRC function at the group.

> "Enterprise risk management is about ensuring that our businesses are better managing their risk exposures through effective and sustainable mitigating measures while keeping informed of emergent challenges that may impact the business, its operations and performance."

Hector Espitalier-Noël, CEO

Embarking on the new 3-year strategic plan, Vision 2020

The end of the year for ENL also marks the beginning of a new 3-year plan. The Group is getting ready to boldly take up the strategic challenges of **Vision 2020**, placing at the heart of its plan its key enablers being: Customer centricity, Innovation, Operational efficiency, and Management commitment.

The strategic enablers will spur the Group in a new era of performance while at the same time, capitalising on the effective management of principal risks to drive operations.

2. How did our principal risks evolve from last year?

The main risks of ENL, as at 30 June 2017, are highlighted in the snapshot table below which shows the linkage of risks with strategic enablers of Vision 2020, risk trend as compared to last year as well as capitals impacted. Accordingly, stakeholders and investors are encouraged to consider these risks and take cognisance of mitigating strategies in place to manage same. More details are in sub-section 4 of the risk management disclosures.

Strategic enablers	Risk category	Principal risks	Risk trend (△ from last FY)	Capital(s) impacted
Client centricity	Strategic	Market conditions and economic factors	∨	
		Market intelligence - competition threats	↔	
		Customer attractiveness and retention	↔	
Operational efficiency	Financial	Financial performance sustainability	∨	
		Liquidity risk	↔	
Operational efficiency *Innovation*	Operational	Property development and land bank optimisation	∨	
		Investments in associates, jointly-controlled entities and financial assets	↔	
		Innovation	∨	
Management commitment	People and systems	Talents attraction, retention and engagement	↔	
		Cyber-threats and IT	↻	

Note: The 'Risk trend' is based on the current understanding of the risk environment and may change over time given the dynamism of the environment, business and evolving risks. The legend for the 'Risk trend' is set out below:

Key :

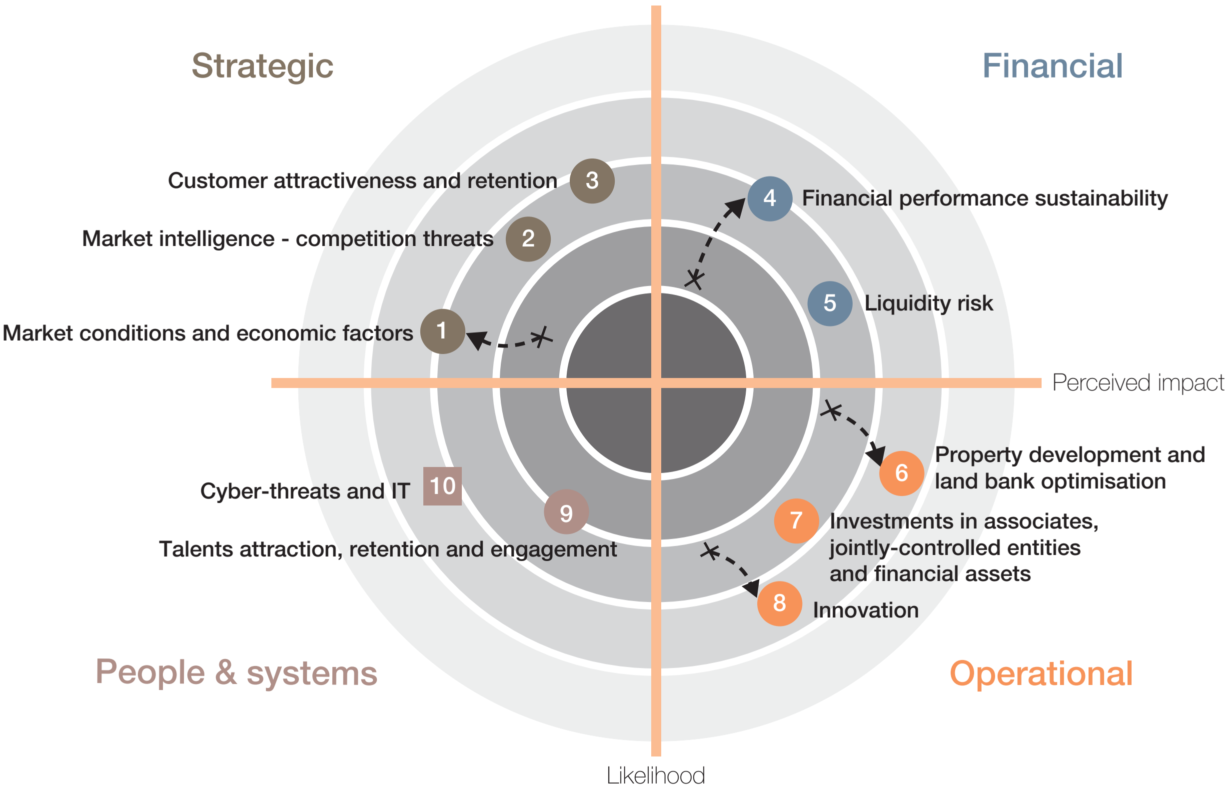
∧ risk has increased ∨ risk has decreased ↔ risk has remained unchanged ↻ emergent risk ✕ reflects position of last year

02

How did our principal risks evolve from last year?

Evolving from last year's 'Risk heatmap', the risk profile of ENL as set out in the snapshot table, is translated on the 'Risk radar' which provides a bird's eye view of the principal residual risks. The 'Risk radar', illustrated below, is divided in four risk categories: (i) Strategic, (ii) Financial, (iii) Operational and (iv) People and systems. The radar shows the likelihood of occurrence of risks, perceived impact as well as evolution of risks. As such, **risks closer to the centre of the radar are risks that posed the greatest challenge during the year** and risks positioned further from the centre are those showing lower likelihood of occurrence and impact but were nonetheless monitored by Senior Management.

Risk radar of ENL Limited



Basis for identification and prioritisation of the principal risks

The radar is the outcome of the risk identification and assessment process, facilitated by the GRC function, which involved discussions with Senior Management. As such, the principal residual risks identified, at the Group level, is the outcome of a blend of: (i) **bottom-up approach,** i.e. whereby principal residual risks of each served market of ENL Limited, as identified through its main subsidiaries, are escalated to Senior Management; and (ii) **top-down approach** which takes on-board the key risks at the Group level.

3. Governance structure and framework to manage risks

Risk governance encompasses the tone at the top, strategic decision-making and risk oversight. At ENL, the risk governance structure in place, namely through the Audit and Risk Management Committees (ARMC) of the holding's subsidiaries (ENL Land Ltd and ENL Commercial Limited), stresses on the responsibilities of the Lines of defences with regards to identifying, evaluating, responding and monitoring of risks that may impact business objectives, operations and performance. The "Three lines of defence" model as per below is applied to have a cohesive approach to reinforce the effectiveness of the risk governance structure.

Board of Directors
• Tone at the top and responsible for the total process of risk management and risk tolerance. • Takes adequate measures to monitor effective management of risks and sound system of internal controls.

Senior Management	Audit and Risk Management Committees
• Oversee implementation, embedding of risk management practices and regular monitoring of entities' key residual risks via dashboards.	• Monitor and review the risk management process and internal controls systems with the support of the Governance, Risk and Compliance (GRC) function of ENL who tables the prominent, inherent and emergent risks.

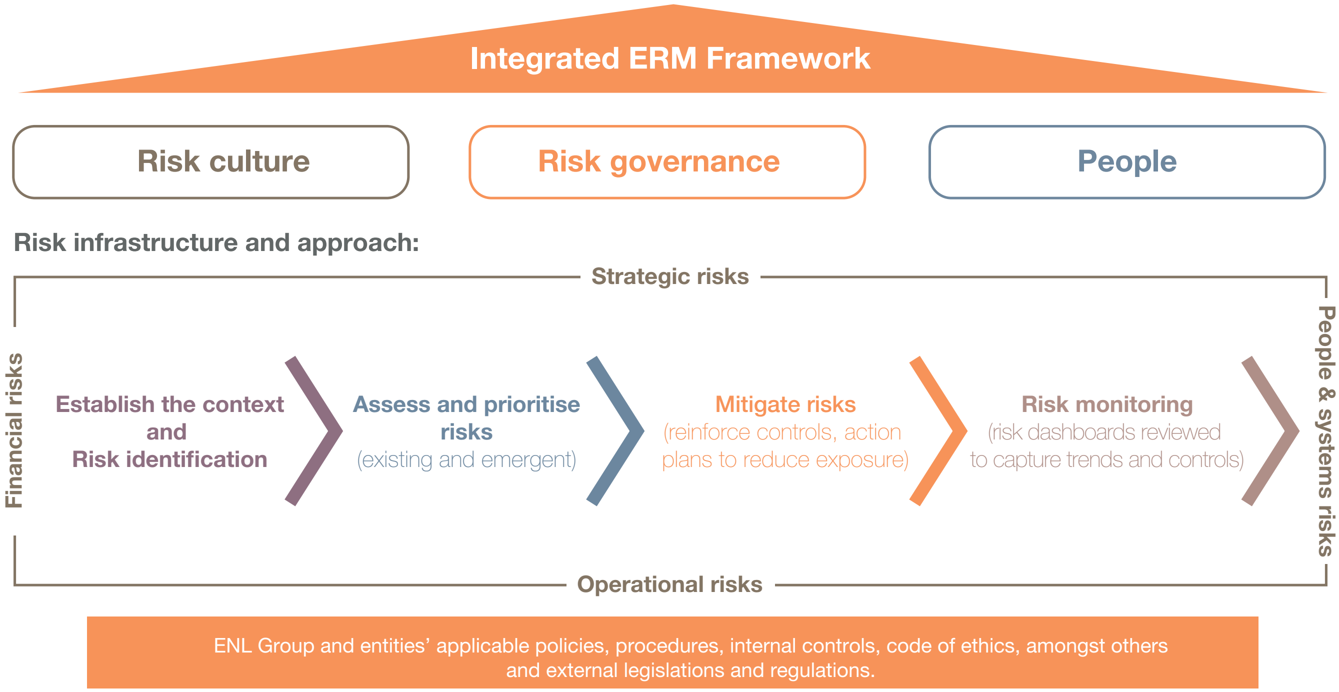
First line of defence: Operational Management	Second line of defence: Support functions	Third line of defence: Internal Audit
• Accountable to the Board for the design, implementation and monitoring of the risk management processes and ensuring that internal controls are effective and adhered to.	• Risk management and compliance functions monitor the effectiveness of the first "Line of defence" in mitigating the occurrence and significance of risks.	• Independent assurance to the Audit and Risk Management Committee on risk management, controls and governance processes.

Embracing the new National Code of Corporate Governance (CG) 2016

The year 2016-17 also witnessed the launching of the second edition of the National Code of CG for Mauritius (2016), applicable as from the FY 2017-18. The Group embraces the new Code and views it as being a positive step forward aligned with ENL values and upholding of good corporate governance. The new Code brings forward eight basic CG principles and introduces the "apply and explain" concept with Principle 5 of the new Code dealing with 'Risk Governance and Internal Control'. As such, the Group will initiate a **readiness self-assessment of existing risk management practices against requirements of the new Code** so as to be better prepared for migrating towards its application.

Integrated Risk Management Framework at a glance

The ERM framework at ENL underpins the Group's strategy and enables the identification, assessment, prioritisation, mitigation and monitoring of prominent risks associated with business operations. The integrated framework, as shown below, rests on 3 fundamental pillars namely: Risk governance, Risk culture and People. It facilitates a harmonised top-down approach to effective management of risks across the Group thus enabling entities of the Group to align their risk management practices with ENL Group's methodology. Entities of the Group periodically review their risk management dashboards and Risk Management Registers (RMR) to assess evolution of their risks, effectiveness of controls and hence, set priorities on existing and emergent risks that require Senior Management attention.



Source: Adapted from Ernst & Young – an integrated approach towards effective and sustainable risk management

Risk appetite

Appetite towards risk is set at the Board level. Risk taking activities are managed within the risk appetite, which defines the amount and types of risks the business is willing to assume in the pursuits of its objectives. Risk appetite is unique to every business and setting the risk appetite takes into consideration factors such as:

- **risk profile** of the business in line with its business strategy and its corporate values, i.e., 'what are the risks inherent to the business and those to be avoided';
- **risk capacity** of the business, i.e., 'how much risks can the organisation absorb';
- **risk assessment and analyses,** i.e., 'what is the ranking of risks and what are the boundaries within which Management can operate'.

4. Our risk profile – upside and downside risks

While the term **'Risk'** is perceived as having undesirable impact on business operations and/or financial performance, risks can also create **'Opportunities'** for improvement that can make businesses more efficient, or provide a competitive edge.

Upside risks

The Group's philosophy is to view risk management as a management tool, not only to avoid and mitigate risks that can affect the Group, but also to view risks as potential **opportunities** that can create value for entities of ENL. The table below provides a glimpse of some key opportunities seized and/or sustained by the Group during the year.

Nature of risks	Upside
Agro-industry: Combined effect of uncertainties regarding the world sugar price, end of EU export quotas and lower cane harvest	Increasing scale of non-sugar operations and product mix, in line with the diversification strategy, will further enable diluting revenue concentration and mitigating shortfall in sugar proceeds (revenue mix in agro-industry being 60% sugar and 40% non-sugar).
Residential property development: Risks related to expansion and development of the property sector in the country	Seizing opportunities of 'Smart City schemes', as enunciated in the national budget, translated by the successful launch of 'Moka City' in April 2017. This brings up a new impetus to the residential property segment thereby creating buoyancy and future growth prospects.
Innovation: Risk of not leveraging innovation in the business model to sustain competitive edge	'Compass', the corporate venture arm of ENL Land, has as primary objective to expose the Group to new industries, whether adjacent or outside its core markets. During the year, Compass invested in innovative start-ups in the fields of renewable energies (Reuniwatt) and media and technology (ICT.io).
Commerce and industry: Risk of being impacted by increasing costs of operations that may impede on financial performance	Initiatives were taken to adopt lean management practices that resulted in desirable gains in productivity of employees, streamlining of operations and bridging efficiency gaps. The positive outcome of this initiative has encouraged replicating of these practices.

Downside risks

The principal risks and uncertainties, as tabled below, reflect the residual positioning of such risks after taking into consideration the

- **Risks' rating:** i.e., likelihood of occurrence of risks; and perceived impact on the Group's operations;
- **Risk control measures:** i.e., mitigating strategies in place;
- **Risk trend:** i.e., how the risks have evolved in terms of significance, compared to the last financial year.

The following tables capture the risk profile of ENL highlighting the principal risks faced, mitigating strategies taken and also, outlook of risks.

I. Strategic

The success of the Group rests on effective strategic planning, choices and execution including the ability to adapt rapidly to evolving customer needs and delivering attractive value proposition. The table below depicts the key residual risks and controls:

(1) Market conditions and economic factors

What is the risk?

The Group is exposed to downside risks that may impede on performance of served markets such as (i) challenging market conditions, (ii) appreciation of MUR against key currencies and (iii) risk of Mauritius not perceived as a sufficiently attractive property investment destination to boost property development.

Strategic enabler

Served markets

Key measures to manage risks

- Reinforce activities in buoyant and promising sectors e.g. Hospitality, Property, Fintech, and capitalise on synergies and diversification.
- Focus on '**Client centricity**' by offering a portfolio of attractive offerings and capitalising on aggressive marketing to improve product visibility, client experience and sales potential.
- Treasury management at entity/ group level.
- Collective strategy with local stakeholders to further position Mauritius as a key international platform for business and investment.

Risk outlook

- Anticipated fall in sugar prices.
- Changes in macro economic policies, the environment and fiscal regime may be threats/ opportunities.
- FX volatility may be accentuated by changes in the Eurozone/ Brexit.

(2) Market intelligence – competition threats

What is the risk?

Increasing competition felt in different served markets, arising from existing players and new entrants reinventing or expanding their scale of activities may result in erosion of the market share and declining performance.

Strategic enabler

Served markets

Key measures to manage risks

- Revamped marketing strategy and increased use of digital marketing and social media to differentiate our brands, products and services.
- Providing high and middle-end offerings at different price-points, benchmarking with competitors and capitalising on our Unique Selling Points.
- Consolidate our position as an integrated player in Hospitality, Property and Logistics sectors through acquisitions and innovation.

Risk outlook

Threat of growing presence of smaller-size players as well as increasing use of technology and digitalisation resulting in fiercer competition.

(3) Customer attractiveness and retention

What is the risk?

Customers are at the heart of the business and risks may be with respect to:

- pricing of products/services not being appropriate; and/or
- product/ service quality not being at desired level thus affecting customer experience and hence, revenue streams.

Strategic enabler

Served markets *The Group*

Key measures to manage risks

- Invested to improve understanding of the served markets to uncover upcoming trends and seeking regular customer feedback.
- Increasing visibility of our offerings by leveraging on our distribution channels.
  For e.g. Property (combined offerings of Ascencia, ENL Property and Bel Ombre targeting different customer segments) and Hospitality.

Risk outlook

Competitors may innovate in their business models to attract/ retain customers for e.g. aggressive pricing and low margins, introduce new offerings.

II. Financial

The table below depicts the key residual risks and controls observed for the subset of risks falling under "Financial". **Details on financial risk management are supplemented in Note 3 of the Financial Statements,** on pages 115 to 119.

(4) Financial performance sustainability

What is the risk?

Risk that financial performance may be impacted by several factors, such as pressure on selling prices and declining margins due to fierce competition, thereby impacting on sustainability of profits and dividend pay-out.

Strategic enabler

Served markets *The Group*

Key measures to manage risks

- Capitalise on products and services, generating mid to high-end margins (e.g. in Fintech, Hospitality, Property) to increase revenue mix, cash flows and profits.
- Combined effect of several measures support the Group in managing its cost base such as cost controls, working capital management, restructuring, automation and efficiency.
- Close monitoring of the performance by Executives of ENL via board meetings and strategic reviews.

Risk outlook

Sustainability of performance and operations is likely to remain a key risk given challenging conditions and fierce competition.

(5) Liquidity risk

What is the risk?

Risk that the Group may encounter difficulty in meeting the obligations associated with its financial commitments that are honoured by delivery of cash.

Strategic enabler

Served markets *The Group*

Key measures to manage risks

- Monitor rolling forecasts of the Group's liquidity reserve based on expected cash flows.
- Monitor obligations and maintain flexibility in funding by keeping committed credit lines available including financial restructurings.

Risk outlook

Liquidity risk is likely to remain a key risk for the Group given the nature of activities.

III. Operational

Operational risks span across the business activities of entities and encompass areas pertaining to effectiveness and efficiency of operations, compliance and governance. The key risks and controls are summarised as follows:

(6) Property development and land bank optimisation

What is the risk?

Exposed to the risk that potential projects contemplated in optimising the value of the land bank may not meet customer appeal and/or encounter significant delays/overruns.

Competitors may outpace the Group and opportunities/ revenue streams being missed.

Strategic enabler

Served markets

Key measures to manage risks

- Proper investment appraisal and market surveys prior to "go or no-go" of projects and monitoring of yield on projects against budget.
- Capitalise on key initiatives such as **Moka City** to maintain momentum in transforming land assets into sustainable revenue streams through sales and/or leasing. Regionally, remain open to opportunities in different sectors.
- In-house officials and third party professionals monitor the selection and performance of professionals/ contractors in achieving project milestones to minimise overruns.

Risk outlook

Increase in local competition coupled with factors such as positioning of Mauritius as an attractive property investment destination are key determinants that will influence the risk level.

(7) Investments in associates, jointly-controlled entities and financial assets

What is the risk?

Risk that the Group's interests' within investees may not be adequately safeguarded thereby exposing to potential impairment and risk of sub-par returns of the investment portfolio.

Strategic enabler

Served markets *The Group*

Key measures to manage risks

- Securing seats at the Boards of Directors of associates and jointly-controlled entities to ensure that the Group has a say in the strategic direction and affairs.
- Investments held are kept for strategic and sustainable long-term objectives and are spread over several blue-chip/medium-sized companies operating in different industries.

Risk outlook

Risk level with respect to investments is likely to remain unchanged.

(8) Innovation

What is the risk?

Risk that ENL may not leverage innovation, in its business model, to sustain competitive advantage thus resulting in missed opportunities.

Strategic enabler

Served markets *The Group*

Key measures to manage risks

- **Innovation** embedded within enterprises translated in terms of ability to continuously introduce/enhance our offerings.
- **Higher risk appetite** to identify and invest in sectors in which the Group is not traditionally present through (i) 'Compass' and (ii) 'Turbine'.
- **Embedding digitalisation** in business models. e.g. going digital in malls, Fintech offerings, digitalisation of travel business to enhance customers' experience.

Risk outlook

Digital disruption is a growing threat especially as start-up companies or existing players innovate faster and increase their speed to market compared to others.

IV. People and systems

The Group is highly dependent on its people and management information systems for the smooth running of its operations as well as for reporting and decision-making purposes. The Group benefits from support on a range of services such as Human Resource (HR), Business Process (BP) and Information System (IS) from ENL Limited thereby encouraging harmonisation across the Group. The residual people and systems risks and measures are set below:

(9) Talents attraction, retention and engagement

What is the risk?

The Group may be exposed to the risk of not being able to :

- attract, retain and facilitate growth of its talents to support its ambitions.
- ensure high level of engagement of employees to deliver higher performance.

Strategic enabler

Served markets *The Group*

Key measures to manage risks

- Encourage **dynamism and leadership** of teams and aligning their objectives with corporate goals.
- Employee recognition and rewards as well as sustaining investment in personnel to reinforce commitment and achieve their potential.
- Engagement level of employees is regularly measured through surveys and measures are taken to increase engagement.

Risk outlook

- Risk of mobility of talents is likely to remain a threat for businesses.
- Actions taken are likely to result in the risk decreasing going forward.

(10) Cyber threats and IT

What is the risk?

- Cyber threats, being rampant, expose businesses to (i) paralysis and downtime of operations, (ii) ransom ware threats, (iii) loss of confidential data and BI.
- Risk of loss of critical and confidential data in the event of IT system failure or theft of data/piracy of electronic devices.

Strategic enabler

Served markets *The Group*

Key measures to manage risks

- Raising **awareness** of end users through IT policies and regular communications with respect to suspicious emails, attachments, password protection and 'bring your own devices'.
- Implementation of business continuity plans and deployment of the IT Framework across the Group, in progress, to achieve desired level of IT governance maturity in line with ENL's IT policies.

Risk outlook

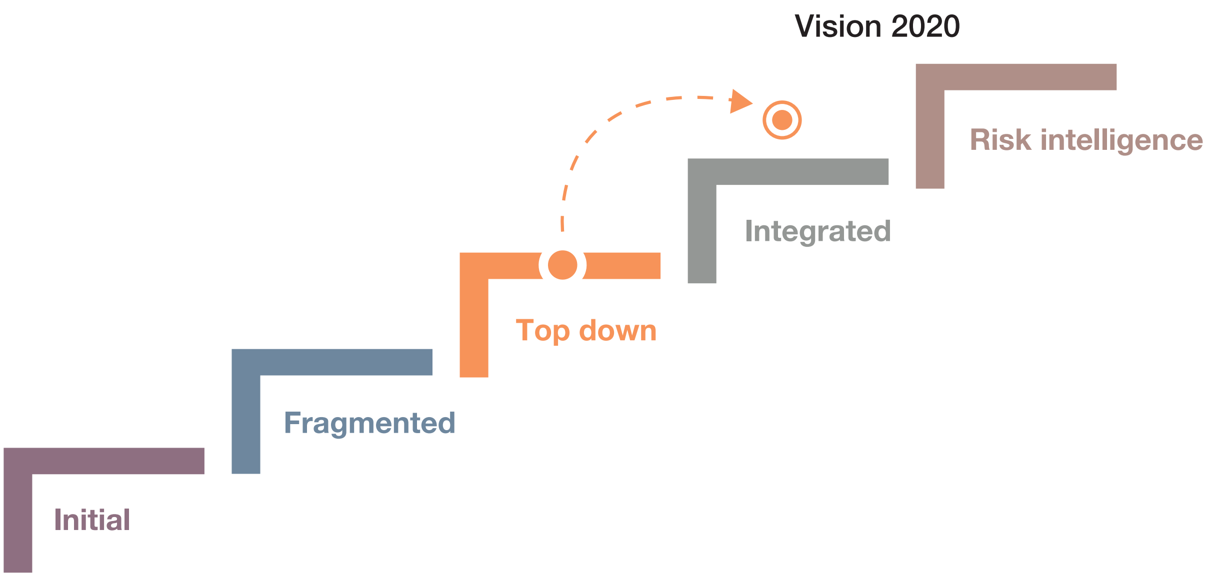
Cyber-attacks worldwide have left undeniable trace that such threats are likely to recur as the world becomes more digitally connected. Cyber risk is a key risk for which businesses may not be prepared.

Going forward

At ENL, efforts and measures implemented in the scope of ERM during the year ended 30 June 2017 further helped in cementing risk management practices. Going forward, the Group would continue on its momentum, i.e.:

Engage	• In finalisation of the ERM policy, formalising new group policies to enhance governance and aligning with the new Code of CG (2016) to reinforce the risk governance.
Sustain	• In nurturing the risk culture and risk ownership with the support of the GRC function. • In maintaining periodic review of RMR of entities and oversight of existing and emergent risks.
Improve	• Risk maturity of our entities, i.e., the Group will continue moving up along the risk maturity curve so as to reach an 'Integrated' maturity level, in line with Vision 2020, as illustrated below.

Risk management maturity of ENL Limited



Source: Deloitte. Risk intelligent series. Creating Risk Intelligent infrastructure. Getting Risk Intelligence done.