

# Risk Management

The Erawan Group has put in place the risk management policy for directors, executives and staff to implement and recognize its importance. The Risk Management Committee has also established a risk management framework for everyone to comply with.

The Risk Management Committee is chaired by President and consists of executives from Finance, Operation and Corporate Governance. The Committee meets on a quarterly basis and reports to the Audit Committee and the Board. Staff under the Risk Management Department directly report to the Risk Management Committee. They operate in compliance with risk management plans by, among a few, establishing objectives, identifying and assessing risks, managing risks, controlling risks and monitoring risk management outcomes. Tools designed to integrate risk management include KRIs Dashboard, regular trainings to cultivate risk management culture to enhance staff's understanding, workshops organized for the management and staff, and newsletters etc.

## Business Risks

### 1. Strategic Risk

#### 1.1 Risk from asset concentration

The Erawan Group is exposed to risk from its investment in the hotel business mostly concentrated in Thailand and the Philippines, which may affect its financial performance. Political crisis or other incidents with material effects on the tourism sector in this region may also affect our investment.

## Risk Responses

The Erawan Group implements the following strategies to diversify our assets investment.

1. Underlining diversification and expansion to cover both primary and secondary tourist destinations to open up opportunity both in Thailand and abroad. In the future, we plan to expand our hotel business into Asia-Pacific to continue the diversification. In 2023, we opened Hop Inn in Kyoto, Japan, and will open three more Hop Inn in Japan in 2024.

2. Expanding our hotel portfolio to cover all levels from five-star to budget hotels in Thailand to make our clientele more diverse and to reduce dependence on foreign tourists.
3. Selecting a variety of leading hotel management chains, namely, Hyatt International, Marriot International, Intercontinental Hotels Group and AccorHotels, in terms of brands and assets to minimize income volatility.

### 1.2 Competition Risk

The hotel business is one of the most competitive businesses as new players constantly step into this crowded market, which may affect our financial performance and growth.

## Risk Responses

1. Locations and strong brands add to our competitive advantage. We also diversify our risk by developing a budget hotel chain that faces lesser competition than other hotel segments. More services are offered to respond to current needs of our customers. For example, Hop Inn now offers HOP Plus, which allows three guests to check in one room specifically designed to cater for friends or families.
2. The Erawan Group constantly monitors marketing competitions through, for example, analyzing major competition indicators, conducting market surveys to gauge the customer's satisfaction and measuring service quality to ensure that we remain competitive.
3. The Erawan Group commits to sustainability in the business and therefore is able to attract tourists with environmental awareness. Sustainability not only helps reduce operation costs but also attracts travelers from all over the world.

### 1.3 Risk from investment expansion to overseas

The Erawan Group plans to expand our investment overseas and therefore is exposed to risk associated with foreign exchange volatility, fluctuation of investment values, construction delay, rules and regulations relating to the hotel operation and applying processes for related permits.

## Risk Responses

The Erawan Group closely monitors overseas investment projects. We conduct due diligence and carefully plan each step. We also pursue natural currency hedging and hire consultants and experts in countries in which we invest to minimize risks from overseas operations.

In addition, we conduct regular marketing and political risk assessments by monitoring changes potentially resulting from government policies as well as economic, social and political factors that may affect overseas investment.

### 1.4 Risk relating to consumer's behavior.

Population change does lead to differentiation of visitors with varying travel behaviors, needs and preferences. The Erawan Group may lose our market share if we can neither adapt to nor understand the needs of our target customers.

## Risk Responses

We pay attention to fast-changing consumer behaviors using these monitoring measures to keep delivering better services.

1. The first mission is to continue improving our services by listening to what our clients say before analyzing them in order to satisfy their needs.
2. We closely monitor changes and movements of consumer's trends for timely responses.
3. Eclectic services and diverse experiences are created to respond to customer's needs ranging from family to business travelers to cover a wider clientele base.

## 2. Operational Risk

### 2.1 Risk from supply chain management.

The following are main reasons why businesses are facing risks relating to the supply chain:

- So many parties are involved.
- Necessity to stock so many materials in hand which therefore affects costs.
- Minimum wage increase
- Shortage of contractors
- Shortage of labor
- Contractor's financial problem
- Rising costs of materials
- Shortage of construction materials or failure to deliver construction materials on time.

## Risk Responses

The Erawan Group has set up ways and means to respond to this risk by, for example, grouping and prioritizing different contractors and suppliers, constantly updating situations with them, stocking materials at a level that reflects the current situation and construction projects, indicating fixed compensation in labor contracts, finding new ways to hire labor, seeking a diverse pool of suppliers and contractors and verifying financial reliability before the project starts.

The Erawan Group targets local suppliers and has enough and proper suppliers to work with in major areas. Suppliers' information is kept in a database for risk management and to minimize the supply chain risk.

We also nurture relationships with contractors and suppliers to strengthen partnership in order to secure better conditions, enhance reliability and collaborate risk management with one another.

### 2.2 Risk from digitalization and new technology

Disruptive technology such as AI, Predictive Analytic, Internet of Things and Robots are likely to be part of the hotel business's operation knowhow. We can be exposed to this risk if we cannot catch up with this rapid evolution in time.

## Risk Responses

A special task force consisting of staff from various departments has been established to initiate projects that promote innovation and technology. Study is made to introduce new technological systems into hotel services such as touchless check-in and check-out, the use of smart phone instead of key card, e-payment, hybrid meeting and cleaning and serving robots. This allows us to effectively improve the way we offer experiences to customers, reduce long-term costs and encourage staff to incorporate new ideas to further enhance our service. Training and study of new technology and digital devices are periodically organized for staff to enrich the efficiency of our services.

## 2.3 Macroeconomics Risk and Risk from Geopolitical Uncertainty

2.3.1 Macroeconomics risk resulting from economic uncertainty has a direct effect on the entire hotel sector, which will inevitably affect our financial performance when the tourism sector is down. Factors affecting the Thai economic downturn that negatively affect the hotel are:

- Lower-than-expected public spending
- Rising unemployment
- Employees earning less incomes
- Weakening consumer confidence
- Rising interest rates
- Baht appreciation
- Volatility of fuel prices

2.3.2 Risk from geopolitical uncertainty refers to international war, terrorism, tension resulting from international conflict that could affect domestic politics or international relations in a chain reaction, all of which will have direct negative impact to the local economy and our financial condition, operation results and growth.

### Risk Responses

Both macroeconomic risk and risk from geopolitical uncertainty are triggered by external factors and therefore beyond our control. For macroeconomic risk, we are ready to update measures that most reflect current situations by monitoring major economic indicators.

For geopolitical uncertainty, we assess uncertainty and closely monitor and analyze prevailing situations by taking into consideration all risks in order to access important information that will allow us to design a proper plan that responds to emerging impacts. We practice resiliency and pursue financial planning based on our strategic plans. The Erawan Group also diversifies this risk by expanding our business network to minimize dependence on customers from a particular country. A flexible pricing strategy is used to manage changes of customers' needs resulting from economic shift or change in international policies. This allows us to generate more income when demands are high while maintaining our occupancy rate when the market is slow.

## 2.4 Cyber Security Risk

Cyber Security risk is a major threat since our business requires us to collect lots of customer information that is to be protected by a very high security standard to avoid unauthorized data access. Data leakage may disrupt the business, jeopardize our reputation and image and trigger financial damage.

### Risk Responses

We underline the importance of cyber security by integrating this topic into our business strategy. Investment is made to develop a security system and process to protect the business, customers and all stakeholders. To comply with the Personal Data Protection Act (PDPA), a Data Protection Committee is established to supervise personal data safety.

Training on data privacy & security is organized to raise awareness of this issue, and communication is made through newsletters and Town-hall meetings. Staff are constantly tested for phishing email. The Cyber Security Insurance Committee is set up to hire a cyber security company as part of an attempt to diversify this risk.

## 2.5 Human Resource Risk

Human resources are an organization's crucial driver for success. Lacking them or a risk from failure to retain resourceful persons may prevent us from effectively conducting our business as anticipated.

### Risk Responses

A relationship is nurtured between staff and the Company through capacity building designed to enhance skills in various areas and to retain resourceful persons. This is done through, for example, an individual HR development plan, the setting up of an online learning center and an opportunity to grow in one's career path through rotation, transfer and promotion. Besides, qualified persons are hired to join the workforce. An MOU is also signed with certain universities for certain positions. Lastly, there is zero discrimination in terms of race, color, gender, age, religion and faith.

The Erawan Group prioritizes health, safety, security and environment (HSSE) by promoting both physical and mental health and wellbeing and by offering fair wages to increase work efficiency and retain staff.

## 2.6 Disaster Risk

External factors that could affect our property and operation are beyond control and unpredictable. They include natural disaster, terrorism and political upheaval either locally or abroad.

### Risk Responses

We take out all-risk insurance that offers protection during business disruption and also covers political violence in order to minimize damage that may directly impact on our property and performance. Besides, measures to increase restriction in compliance with international standards are put in place. A Crisis Management Committee is established to monitor an emergency, assess the level of its intensity, issue an appropriate plan and communicate to relevant parties in a timely fashion. Its task includes making a risk prevention plan more efficient to handle future incidents.

## 3. Financial Risk

Covid-19 did have a tremendous impact on our liquidity and cashflow. While the recovery of the Thai tourism sector in 2023 resulted in more positive effect, this recovery continues to be challenged by uncertainty in several areas including how the pandemic has evolved, government policies and volatility of the global economy. That's why we still need to carefully manage financial risks to safeguard business stability.

### Risk Responses

To be ready for adaptation and flexible responses, we pursue the following:

1. Regularly conducting analysis and cashflow management; closely monitoring cashflow and assessing financial needs to properly maintain our liquidity.
2. Effective control of budget and cost management
3. Open and clear communication with shareholders and business partners to maintain trust.

The Erawan Group underlines the importance of maintaining financial stability and liquidity that allows us to face future challenges and uncertainty within the existing business environment.

## 4. Compliance Risk

Governance and compliance risk may result in financial damage as a result of failure to comply with what regulatory authorities' requirements. Besides, when doing business overseas, there are national laws and regulations relating to the tourism sector that we must comply with. Upon changes or when a new law is enforced, it is possible that we may not be fully complying with them.

### Risk Responses

1. To reduce governance risk, the Erawan Group establishes the Corporate Governance (CG) policy, the Anti-Corruption policy, the Code of Conduct and the Code of Ethics for Business Partner to establish confidence in our response to this risk. An obligatory training course for all staff to attend is held to share corruption practices and is part of a constructive CG action. The Data Protection Committee is also set up to supervise compliance with the Personal Data Protection Act, B.E. 2562 (2019).
2. New laws and regulations relating to the hotel business are monitored and law firms are hired to minimize this compliance risk.

## 5. Emerging Risk

Risk from climate change and deteriorating environment inevitably affect the costs of our business ranging from higher costs as a result of higher electricity consumption as the global temperature is rising to degradation of the ecosystem and/or regulatory changes from the government to prevent impacts from climate change.

### Risk Responses

The Sustainable Development Committee has been established having President as its chairman and executives as members. The committee is tasked to integrate sustainability work throughout the company while the Sustainability Development and Corporate Communication Division and other related departments are responsible at the operation

level. Their tasks are to raise awareness, follow up impacts to the ecosystem and environment and enhance capacity to tackle environment issues while able to respond to sustainability policies at both national and international levels.

The Erawan Group and hotels have started working with business partners to reduce negative impacts from climate change and the environment and to generate benefits from the opportunity to introduce sustainability through this collaboration, which should produce positive and sustainable effects to the business. (Please see “Business Sustainability Development” for more information”

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