CENTRALRETAIL

THE NEXT

FRONTIER OF GROWTH

RISK MANAGEMENT

Risk Management

Central Retail Corporation (CRC) has recognized the significance of continued corporate management to solidly thrive the organization and flourish the business while also ensuring its financial stability and appropriate returns for shareholders. The Company has been operating on the foundation of good corporate governance in parallel with adequate internal control, check and balance amid the ever-changing competitive business environment currently facing the Company, which influenced by external and internal factors that may affect the ability to achieve its goals and core mission.

The Company's Board of Directors and executives have adopted the risk management system to support the operations to ensure long-term stability in the business objective and maintain the risk to be at the acceptable level. To support this, the Company is thus managed by good corporate governance which strengthens the confidence of shareholders and all parties involved in its business operations while attaining the objectives and creating value added for the Company, as well as reducing risks from critical or uncontrollable events to minimize impacts. Thus, the Company places its focus on developing and strengthening risk management by formulating a risk management policy and framework with an analysis of material risks as follows.

1. Risk Management Policy

The Company has been aware of the importance and necessity of adopting a risk management system that in line with international standards to its management to ensure the achievement of objectives and in compliance with applicable laws and standards, in order to ensure the overall risk is within the acceptable level. As a result, a risk management policy then has been enforced, including

(1) Determine that employees at all levels will adhere to risk management practices and need to be aware of risks in their functions and the organization, focusing on risk management in different types and ensuring that all risks are managed under systematic internal control and limited to an adequate level.

(2) Define an enterprise risk management process that is in line with international practices and standards to establish efficient management approaches to risks that may affect the operations, initiating harmonious enterprise-wide risk management developments and adherence. The Company shall incorporate the risk management system into the decision making for strategic planning, plans, and operations, as well as aiming at achieving the determined objectives, goals, vision, mission, and strategies to attain work excellence and build confidence among all stakeholders.

(3) Define a prevention and mitigation guideline to avoid potential damage or loss, as well as regularly monitor and evaluate the risk management results.

(4) Promote and develop the incorporation of modern IT systems to be implemented in the Company's risk management process and support employees of all levels to get access to risk management resources as well as developing a risk report system to ensure effective acknowledgment of risks by the Risk Policy Committee.

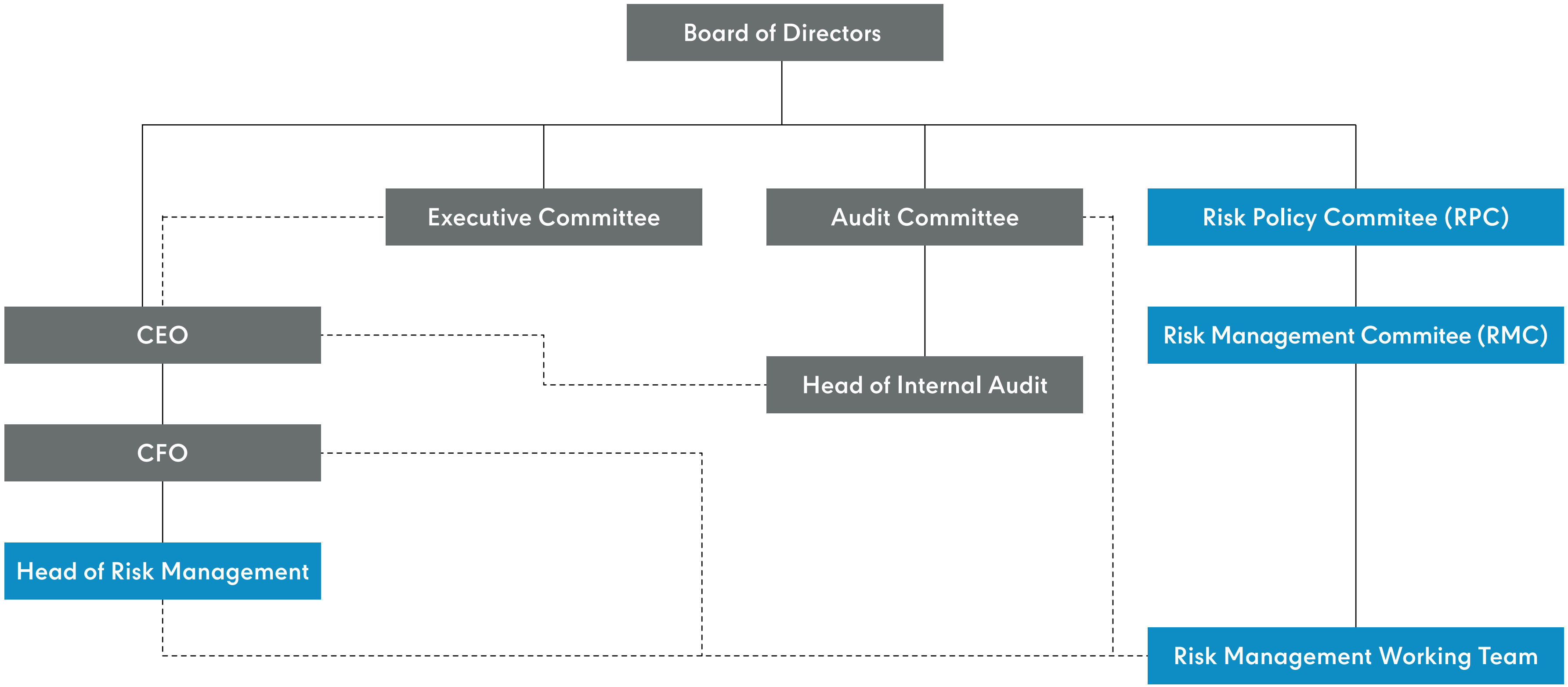
2. Risk Management Framework

The Company has integrated strategy development, business objective identification, and performance evaluation with corporate risk management under 5 principles that are interrelated, which will enhance the value creation for the organization as follows:

2.1 Governance & Culture

CRC places importance on adopting a risk management system to ensure the achievement of objectives in business and compliance with applicable laws and international standards. Risk management has been emphasized throughout the organization from non-management employees to executives.

The Risk Policy Committee ("RPC") consists of directors and executives and reported the results of risk management process to the Board of Directors after every Risk Policy Meeting. The Risk Management Committee ("RMC") monitors, reviews and reports on risk exposures to the Risk Policy Committee at least twice a year. The Risk Management Working Team is responsible for driving risk management across business units of the organization, and is supervised by the Chief Financial Officer (CFO) and the Head of Risk Management. Risk Management Working Team reports risks related issues to RMC and RPC on a regular basis.



Non-executive members of board of directors of CRC who have experience in risk management in accordance with the business strategy.

Board of Directors	Experience in Risk Management
1. Dr. Prasarn Trairatvorakul	✓
2. Mr. Suthikiati Chirathivat	✓
3. Prof.Dr. Suthiphand Chirathivat	✓
4. Mr. Suthilaksh Chirathivat	✓
5. Mr. Prin Chirathivat	✓
6. Mr. Tos Chirathivat	✓
7. Mr. Pichai Chirathivat.	✓
8. Mrs. Patareeya Benjapolchai	✓

2.2 Strategy & Objective-Setting

CRC sets risk appetite and risk tolerance in alignment with Company's strategic directions, and targets that are considered with risk return trade-off. CRC also reviews the risk appetite and risk tolerance annually to ensure that risk appetite and risk tolerance are accurate, complete, and up to date. CRC manages the risks appetite to ensure whether strategic risks, operation risks, financial risks, reputation risks and IT risks are monitored, and mitigated properly and effectively underneath acceptance level. CRC has established and communicated risk tolerance to ensure that all employees could not accept the risk over the tolerable level. Examples of risk tolerance are as follows:

1. Compliance Risk: CRC has established risk tolerance for compliance risk that CRC will neither accept any kind of risk from fraud and corruption nor any from misconduct from regulatory compliance according to good corporate governance.

2. Safety Risk: CRC has established risk tolerance for safety risk that CRC will not tolerate any fatalities from employees, contractors, or relevant workers within workplace under supervision of the Company.

2.3 Performance

The Company identifies and assesses risks that may affect the accomplishment of strategies and business objectives. Risks are prioritized based on the degree of impacts and the likelihood of events that can cause risks as well as determines appropriate risk response methods.

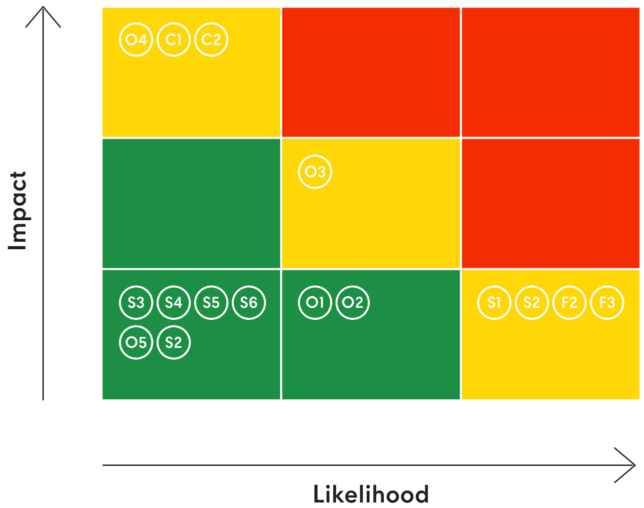
2.3.1 Risk Assessment Matrix

Impact	Medium	High	High
	Low	Medium	High
	Low	Low	Medium
	Likelihood		

2.3.2 Example of Risk Evaluation Criteria

Risk Level	Impact Criteria	Likelihood Criteria
High Risk (Unacceptable) Need to manage immediately and report the result to Top Managements	High impact on the business operation	High chance of occurrence
Medium Risk (Acceptable) But need to be controlled and monitored regularly by Risk Owners or set additional mitigating actions	Moderate impact on the business operation	Moderate chance of occurrence
Low Risk (Acceptable) The risk is controlled by the existing processes as usual	Low impact on the business operation	Low chance of occurrence

2.3.3 Example of Risk Heat Map



Risk Catagory	No.	Risk item	Risk level 2022
Strategy	S1	Customer Behavior Fluctuations	
	S2	Competition Risk	
	S3	New Business or New Foemat risk	
	S4	Overseas business risk	
	S5	ESG risk	
	S6	Human resource management risk	
Operational	O1	Distribution and inventory management risk	
	O2	Product quality and service standard failure	
	O3	Business continuity, crisis management and disasters response failure	
	O4	Cyber crime risk	
	O5	System / Network down, Inconsistency system processing	
Financial	F1	Lack of Liquidity	
	F2	Interest rate risk	
	F3	Currency Fluctuations	
Compliance	C1	Non-compliance with current laws or new/amended laws	
	C2	Fraud & Corruption risk	

2.3.4 Example of Risk Profile

Risk	Description	Risk Level	Risk Tolerance	Mitigation Action
Compliance: C2 Fraud & corruption risk	Risk from any misconduct from regulatory compliance and good corporate governance. This risk could impact on legal, financial, reputational, and operational aspects of Central Retail.	Medium	According to good corporate governance, Central Retail will not tolerate any risks from fraud, corruption, and any regulatory non-compliance.	• Implement strong internal control: having clear policies and ensure its effectiveness with committee and working team. • Create a culture of ethics and compliance: Anti-Corruption Policy is communicated to all employees. • Have Whistleblowing channels in place. • Monitor all business units for unusual activity
Operational: O4 Cybercrime risk	Cybercrime risk can cause significant impacts such as financial losses, disruption of business operation, and damage of Central Retail's reputation.	Medium	Central Retail will not tolerate any cyber security breaches that compromise customer data.	• Implement strong security control: internal audit, strong Point-of-sale (POS) system. • Training employees on cyber security and communicate regularly with employee about cyber threats and Personal Data Protection Act (PDPA). • Regularly monitor IT systems and conduct a third-party audit to ensure the company will not violate any laws and regulations. • Having business continuity plans in all business units.

2.3.5 Example of Emerging Risk

Is consistently identifying and assessing risks by impacts, especially emerging risks. These are risks that may have low level of impact in the short term may evolve to become significant risks in the long term. CRC places importance in resilience and response to crisis to mitigate the impact of emerging risks. CRC has identified “Increasing Trend of Future Global Pandemic” and “Geopolitical Risks on Global Supply Chain Management and Business Operations” as two emerging risks that are significant to specific to context of the retailing sector, and have also been included in the World Economic Forum Global Risks Report 2023.

1) Increasing Trend of Future Global Pandemic

Category: Societal

Description: Population growth, increased travel and tourism, more frequent contact between humans and animals, and environmental degradation are among the major contributors too increase the likelihood of a new global pandemic. A research by Duke University found that there is a 2% chance in any year that new pandemic with impact at a scale similar to that of Covid-19 may occur (https://globalhealth.duke.edu/news/statistics-say-large-pandemics-are-more-likely-we-thought). The 2% chance is also growing, which translates to 6-10% or higher chance that a new global pandemic may occur within the next 3-5 years timeframe. CRC as a retailing business that have large portion of revenue from physical stores will be greatly affected by future global pandemics.

Impact: The next pandemic may evolve to have different modes of transmission and may have more severe symptoms that the present "new normal" measures are inadequate. R&D, production, and distribution of vaccines for the next pandemic may not be quick enough to mitigate widespread impacts as seen from what had happened during Covid-19. Furthermore, government responses maybe inefficient leading to prolonged period for when the pandemic has high severity. Travel bans, curfew and lockdown are among the common response measures that the government impose. These factors and events took at least 3 years for the economy and situation to start recovering and become normalized, which lead to major loss of revenue to CRC, especially revenue generated from the physical stores. Therefore, it is important that CRC carefully monitors, and plan for mitigation measures to prepare for future global pandemic.

Timeframe: 3-5 years or more

Mitigating Actions: CRC have to put in place monitoring and warning system in place to know when the next pandemic will happen. If CRC can assess the situation and prepare a head of times, CRC can be quicker in implementing the response measures, including vaccinations, medicines, and preventive actions. These will help reduce operating costs and mitigate revenue loss from future pandemics.

In alignment with the existing omnichannel business strategy, CRC will have to invest in more digital technology to enhance online shopping experience. From the past years, CRC has already developed various omnichannel products and services to grow online revenue and customers, including the Central Application and the 75th Central Anniversary NFT Shopping Bag Collection. To grow online transactions, CRC can invest in AI technologies such as chatbot to help CRC interact with more customers and personalized their shopping experience. Investment in automation technology used within warehouse, distribution centers, and logistics planning can also reduce exposure to diseases for employees and improv efficiency to support the expected growth in product deliveries.

Furthermore, CRC will have to create synergies between offline and online formats through investment in metaverse or augmented/virtual reality technology . This allow for CRC to create immersive shopping experiences for customers as if they have visited the physical stores while they are remotely shopping at home. Not only do these technology present opportunities to increase revenue but they also reduce the health risks of human contact among employees and customers. These technologies are rapidly advancing, and CRC should be quick in adopting the appropriate technology to its business to help grow online revenue and customers, and increase customer satisfaction from online shopping.

2) Geopolitical Risks on Global Supply Chain Management and Business Operations

Category: Geopolitical Risks

Description: Rising competition between global economic powers and wars will lead to increasing vulnerabilities and polarization of supply chain. Most recently, international conflicts lead to wars that lead to increasing costs of energy and fuel. International tensions and rivalry between competing global powers had also resulted in trade wars and risks of economic sanctions. These events lead to higher risks in CRC's supply chain management that spans the entire globe and businesses operating in multiple countries, especially in terms of increased costs and business continuity.

Impact: CRC is a major retailer that sources its products and services from different suppliers across the globe. Increasing tensions and pressure from rivalry global powers lead to increased risks of trade wars and economic sanctions that will disrupt the supply chain. Suppliers will face increased costs as they have to diversity their own supply chain and raw material sources, or even move manufacturing bases to other countries to avoid the geopolitical conflicts. These costs from suppliers will surely be passed onto CRC.

CRC will also have to diversify its own supply chain and alter its geographical supply chain spending, which will lead to higher logistic costs. And to prevent product scarcity and shortages, CRC will have to increase its storage of stocks leading to increase in inventory cost.

These supply chain management approaches must also be adapted for different country of operations. For example, CRC is planning to expand its business operations in both Europe and Asia, but these two regions may be aligned with rival geopolitical bloc. This will lead to different risks to supply chain management for each countries and regions. Carefully monitoring and managing these risks will have to be country-specific, commodity-specific and sector-specific, which will be costly for CRC.

Timeframe: 3-5 years or more

Mitigating Actions: CRC will have to diversify its supply chain while focusing on country-specific risks. Products and services must be sourced from suppliers with diverse supply chain, rather than suppliers that prioritized low-cost products manufactured under the global assembly line model. CRC will have to distribute its geographical supply chain spending to different countries, and balance between international and local sourcing. Supplier selection will have to put importance in the business relevance aspect to reduce the numbers of critical components and non-substitutable suppliers.

CRC must also adapt its supply chains for business operations in each country. Country-specific risks may be low in one Europe but may be high in Asia. Therefore, supply chain for business operations in Europe must be different from the business operations in Asia.

Despite the higher costs, these geopolitical risks and mitigating approaches are important to create more resilient supply chain and must be integrated into business planning.

2.4 Review & Revision

The Company regularly reviews the overall performance to determine how effective its risk management is, the risk management has been reviewed from time to time for continuous improvements

2.4.1 Sensitivity Analysis

In addition to the sensitivity analysis of financial risks presented in the Annual Report (Pg.456, 470; https://hub.optiwise.io/storage/13/annual-report/2022/e-book/en/index.html), CRC is also aware that non-financial risks can also have impact on the business, being risk from increased consumption the natural resources as raw materials in various business operations. Hence, CRC has conducted sensitivity analysis on water consumption.

It is likely that due to business expansion, there will be increase in water consumption, this can lead to CRC having higher expenses and operation costs. This increase in expenses and operation costs can be predicted by the sensitivity analysis for each percentage increase in water consumption.

On the other hand, it is also likely that increase in level of water stress and increase in water charge can also cause CRC to have higher expenses and operation costs, which can also be accounted for by the sensitivity analysis.

Importantly, the sensitivity analysis can also help CRC estimate how much it need to reduce water consumption in order to maintain the same level of expenses and operation costs under these conditions.

2.5 Information, Communication & Reporting

CRC implements an information system that promotes efficient risk management by which risk information, performance data, and the development of risk management reports to facilitate the communication of risk management results to stakeholders constantly and adequately.

CENTRALRETAIL

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