

Risk Management

At The Erawan Group Public Company Limited (the Company), risk management is a cornerstone of our commitment to sustainable growth and operational resilience. As a leading hospitality company, we recognize the dynamic and multifaceted nature of risks in the global tourism and real estate sectors. Guided by our vision of achieving stability and long-term value, we have established a comprehensive risk management framework that aligns with the internationally recognized COSO 2004 Enterprise Risk Management Framework and is deeply embedded in our corporate culture.

Our approach is designed to proactively identify, assess, and mitigate risks that may impact our strategic objectives. We have established clear risk appetite and tolerance levels to ensure that our decisions align with the company's strategic priorities. Additionally, our Business Contingency Plan equips us to respond swiftly and effectively to unforeseen challenges, ensuring business continuity and minimizing disruptions.

Key risks and Mitigation Strategies as per the table below.

Risk Title	Risk Description	Risk Level	Mitigation Strategy
Macroeconomic and geopolitical uncertainty	Economic and geopolitical uncertainty, which directly affects the hotel business at all levels	High	<ul style="list-style-type: none"> Track uncertainties which may impact the hospitality industry Address these risks in strategic review Develop contingency plans for various economic scenarios
Competition and market disruption	The hotel business is highly competitive as new players continue to enter the market and therefore may impact on the Company's financial performance and growth.	High	<ul style="list-style-type: none"> Focus on enhancing Sales, Marketing, Loyalty and Revenue Management strategies Invest in data analytics to enhance market share performance Product upgrade planning
Cybersecurity and data security	Risk from cyber and information security is a major threat in today's business since our operation involves the collection of large amounts of customer information	Medium	<ul style="list-style-type: none"> Increase a dedicated budget for IT security and cyber security Implement regular employee training on cybersecurity Conduct more frequent vulnerability assessments and penetration testing
Hazard i.e. Fire, Flood	External factors that may affect the Company's assets and operation	Medium	<ul style="list-style-type: none"> Have a Prevention Plan for Pre & Post Construction. All properties have incident response plan relating to their risk.
Financial & liquidity	The risk that an organization may not have enough cash or other liquid assets to meet its financial obligations as they become due.	Medium	<ul style="list-style-type: none"> Explore diverse financial instruments and alternative funding options Develop relationships with new potential investors Implement more robust cash flow forecasting and management systems

The Company's risk management framework is supported by the three lines of defense model. Operational managers serve as the first line, identifying and managing risks in day-to-day activities. The Risk Management Committee acts as the second line, providing oversight and specialized expertise, while Internal Audit functions as the third line, offering independent assurance and ensuring the effectiveness of risk management practices.

Anchored by robust governance, the framework is overseen by the Risk Management Committee and supported by sub-committees specializing in critical business domains, including hotel operations, investments, and property development. Periodic monitoring of potential external and internal situations that could affect the Company is a key feature of our risk management process, allowing us to anticipate and adapt to changing circumstances.

By fostering a risk-aware culture and leveraging advanced risk assessment methodologies, we aim to navigate uncertainties with agility and confidence. This proactive stance enables ERW to protect our stakeholders' interests while driving sustainable growth in an ever-evolving business landscape.

Risk Factors Affecting the Company's Business Operations

1. Strategic Risk

1.1 Risk of Asset Concentration

The Company has expanded its investment through HOP INN in Japan, diversifying from its existing asset concentration in Thailand and the Philippines. However, there remains a risk associated with regional factors, including economic, social, political, or significant events that may substantially impact tourism and the Company's financial performance. Expanding into Japan marks a critical step toward geographic diversification, but the Company must continuously monitor and manage the risks related to the concentration of investments in the Southeast Asia region.

Risk Response:

The Company's Asset Diversification Strategy

1. Focusing on Diverse and Comprehensive Investments

The Company emphasizes diversifying investments to cover both primary and secondary destinations. This approach creates new opportunities for business expansion in Thailand, the Philippines, and Japan.

2. Expanding Investment in the Asia-Pacific Region in 2024

The Company plans to extend its investments in the Asia-Pacific region, with a particular focus on Vietnam and Indonesia.

3. Broadening the Hotel Portfolio Across All Segments

Expanding the hotel portfolio to cover all segments, from 5-star luxury to budget accommodation, allows the Company to cater to a wide customer base. Additionally, the development of budget hotels under the "HOP INN" brand, targeting domestic travelers, reduces reliance on international

4. Collaborating with Leading Hotel Management Groups

The Company selects partners with world-class hotel management groups, including Hyatt International, Marriott International, and InterContinental Hotels Group, to ensure diversity in both brands and assets. This strategy helps mitigate revenue volatility, tourists.

1.2 Competitive Risk

The hotel industry is highly competitive, with new entrants continuously entering the market. Additionally, the growth of alternative accommodation may impact on the Company's performance and growth.

Risk Response:

1. Restructuring to Strengthen Competitiveness

The Company has restructured its management to enhance competitiveness in a transforming industry. The Erawan Group Public Company Limited focuses on developing and increasing the competitiveness of 3to 5-star hotels while investing in high-potential locations such as Phrom Phong. Simultaneously, Erawan Hop Inn Company Limited is expanding the HOP INN network in the Asia-Pacific region to establish itself as the leading budget hotel network.

2. Responding to Competition Through Strategic Initiatives

The Company addresses competition with robust sales and marketing strategies and by diversifying distribution channels. Emphasis is placed on delivering exceptional service experiences and continuously developing products, particularly by tailoring the Phrom Phong development project to meet the demands of the premium market.

3. Risk Diversification Through Diverse Hotel Networks

The Company mitigates risks by developing a diverse hotel network, focusing on less competitive budget markets through the HOP INN brand and selecting strategic locations for premium hotels. Service offerings are also adapted to meet current demands, such as HOP Plus rooms accommodating three guests and mixed-use development projects on Phrom Phong land.

4. Monitoring Competitive Conditions Closely

The Company monitors competitive conditions through key performance indicator analysis, market surveys, satisfaction assessments, and service quality audits. These efforts ensure sustainable competitiveness.

5. Focusing on Sustainable and Eco-Friendly Development

The Company emphasizes sustainable and eco-friendly practices to cater to the growing segment of environmentally conscious travelers. Sustainability initiatives not only reduce costs but also attract global customers, expanding the customer base and enhancing competitiveness. The new development project on Phrom Phong land will elevate the group's sustainability standards.

1.3 Risks Associated with International Investment Expansion

The Company's plan to expand hotel investments internationally exposes it to various risks, including foreign exchange rate fluctuations, changes in investment value, construction delays, legal and regulatory requirements for hotel operations, and the process of obtaining related permits.

Risk Response:

The Company has implemented stringent measures to closely oversee international investment projects through the following actions:

1. Conducting detailed due diligence, planning, and investment procedures to ensure comprehensive risk assessment and management.
2. Employing natural currency hedging to mitigate foreign exchange rate risks.
3. Engaging experienced and knowledgeable consultants in the target countries to reduce operational risks.
4. Regularly and continuously assessing market and political risks by monitoring changes in government policies, economic conditions, and socio-political factors that could impact investments.

1.4 Risks Arising from Changing Consumer Behavior

Structural demographic shifts and the impact of global events have led to diversification in tourist groups, travel behaviors, and travel preferences. This includes the rise of younger travelers prioritizing experiences and sustainability, as well as the blending of travel and work through trends like "workation." The Company faces the risk of losing market share if it is unable to adapt to target audiences or fails to understand the evolving needs of consumers.

Risk Response:

The Company prioritizes regular assessment of customer satisfaction across all service points through real-time digital channels and analysis of reviews from online booking platforms to ensure the highest level of customer satisfaction. Furthermore, the Company is committed to continuous service improvement by leveraging customer feedback to refine services, address customer needs, and enhance facilities to support remote work. Digital services are also being developed to enhance convenience.

The Company closely monitors consumer trends and shifts through market data analysis and collaborations with industry partners to stay informed about tourism trends and respond promptly to emerging demands. The Company offers a diverse range of services, including flexible accommodation and shared spaces, special packages for long-term stays, family-friendly services, business facilities, and unique local experiences. These initiatives aim to attract a broader customer base and mitigate the impact of changing consumer behavior.

2. Operational Risk

2.1 Risks in Supply Chain Management

The Company faces challenges in managing its supply chain due to various factors, including the involvement of multiple stakeholders, inventory management impacting costs, increases in minimum wages, shortages of contractors and labor, financial liquidity issues of contractors, rising material prices, shortages of construction materials, and delays in material deliveries.

Risk Response:

The Company has established a systematic approach to supply chain risk management, beginning with the selection and prioritization of contractors and partners. Regular exchanges of market situation information are conducted, and inventory management is tailored to suit the project requirements and circumstances. For example:

- **Cost risk mitigation:** The Company has set clear labor rates in contracts and diversifies its reliance by sourcing various partners and contractors while assessing their financial credibility.
- **Development of local partner networks:** A partner database has been created to effectively manage risks.
- **Building strategic partnerships with contractors and partners:** These efforts aim to foster long-term cooperation, leading to improved business terms, enhanced credibility, and joint risk management.

2.1.1 Risk of Reliance on a Limited Number of Supply Chains

A few suppliers in the supply chain can create operational vulnerabilities, especially in the face of disruptions like natural disasters, geopolitical issues, or supplier failures. This can lead to delays, increased costs, or interruptions in the availability of goods and services. Mitigation requires diversifying suppliers, sourcing from multiple regions, and implementing contingency plans to ensure supply chain resilience.

Risk Response:

The Company has categorized and prioritized contractors and suppliers, maintaining an updated database to manage supply chain risks effectively. This approach ensures a diverse pool of reliable suppliers and contractors, minimizing dependency on a limited number of sources.

2.1.2 Risk of Receiving Substandard Products or Services

Poor quality goods or services can negatively impact on customer satisfaction and the Company's reputation. This risk arises from inadequate oversight of suppliers or insufficient quality control measures.

Risk Response:

1. Supplier Selection and Evaluation

- **Stringent Selection Process:** The Company conducts thorough assessments of potential suppliers, evaluating their ability to meet the Company's quality standards and ethical expectations.
- **Regular Performance Evaluations:** The Company performs periodic reviews of existing suppliers to ensure ongoing compliance with contractual obligations and quality benchmarks.

2. Quality Control Measures

- **Establishment of Clear Quality Standards:** The Company has defined explicit quality criteria that suppliers must adhere to, ensuring consistency in the products and services received.
- **Implementation of a Code of Ethics for Business Partners:** The Company enforces a code that outlines the expected standards for suppliers, promoting ethical practices and high-quality deliverables.

2.2 Risks from Digital and Emerging Technologies

The rapid advancement of digital technologies, such as Artificial Intelligence (AI), Predictive Analytics, the Internet of

Things (IoT), and robotics, is increasingly becoming a significant part of innovation in the hotel industry. The Company may face risks if it is unable to keep pace with the shift toward digital transformation in a timely manner, potentially leading to a competitive disadvantage.

Risk Response:

The Company places great importance on continuous investment in digital and emerging technologies, focusing on the development and application of innovations that enhance service efficiency and meet the needs of customers in the digital era. Examples include contactless check-in and check-out systems, smartphone-enabled room keys, electronic payment systems, hybrid meeting solutions, and the adoption of automation in service and housekeeping operations.

The Company encourages employee involvement in developing and improving workflows through the application of new technologies. Regular training programs are organized to enhance employees' digital skills and understanding of emerging technologies. This ongoing investment and development in technology not only elevates customer experience but also improves operational efficiency and reduces long-term costs.

2.3 Macroeconomic and Geopolitical Uncertainty Risks

2.3.1 Macroeconomic Risks

The uncertainty of economic conditions has a direct impact on the performance of all segments of the hotel industry, with the Company's performance being similarly affected during downturns in the tourism sector. Factors influencing the Thai economy during periods of stagnation or recession that may affect the hotel business include:

- Lower-than-expected government spending
- Higher unemployment rates
- Reduced wages or incomes
- Declining consumer confidence
- Rising interest rates
- Appreciation of the Thai Baht
- Increased oil prices

2.3.2 Geopolitical Uncertainty Risks

The Company may be unable to avoid geopolitical risks related to international conflicts, terrorism, and tensions between nations. These risks can impact domestic politics, international relations, the national economy, financial conditions, the Company's performance, and its growth trajectory.

Risk Response:

Although macroeconomic and geopolitical risks stem from external factors beyond the Company's control, the Company remains prepared by continuously monitoring key economic indicators and adapting measures to align with evolving circumstances.

Regarding geopolitical uncertainties, which may disrupt supply chains, delay investments, and cause energy price volatility affecting global transportation costs, the Company closely evaluates and analyzes these situations. Comprehensive risk assessments are conducted to identify potential impacts on hotel management, ensuring that contingency plans are in place and adjustments can be made appropriately.

The Company has developed financial plans aligned with strategic objectives and diversified its risk by reducing reliance on customers from any single country. Additionally, a flexible pricing strategy has been adopted to manage demand fluctuations caused by economic or international political factors. This approach allows the Company to maximize revenue during periods of high demand while maintaining occupancy rates during market slowdowns.

2.4 Cybersecurity and Data Security Risks

Cybersecurity and data security risks represent significant threats to business operations today. As the Company stores customer data, it is essential to safeguard this information under the highest security standards to prevent unauthorized access, data breaches, and operational disruptions. Such incidents could adversely affect the Company's reputation, brand image, regulatory compliance, and result in financial damages

Risk Response:

The Company place great importance on cybersecurity and data security by integrating these priorities into its business strategy. Continuous investments are made to enhance security systems and operational procedures to protect the business, customers, and stakeholders. A dedicated budget is allocated for information technology security, and a Data Protection Committee oversees the security of personal data in compliance with the Personal Data Protection Act (PDPA).

The Company fosters awareness by conducting annual phishing email testing to assess and enhance employee knowledge. Additionally, the Company has implemented Cyber Security Insurance to manage risks and mitigate the potential impacts of cybersecurity threats.

2.5 Human Resources Risks

The Company recognizes the critical importance of employees as a key factor in driving organizational success. Therefore, a shortage of personnel and the risk of being unable to retain high-potential talent may result in reduced operational efficiency and effectiveness or disrupt business continuity.

Risk Response:

The Company emphasizes fostering employee engagement and continuously developing staff potential through the following initiatives:

- **Personnel Development:** The Company has implemented individual development plans for employees and established an online learning center to facilitate convenient access to knowledge. It promotes career advancement through job rotation, transfers, and promotions.
- **Welfare and Quality of Life:** The Company prioritizes employee well-being by ensuring fair compensation and providing a work environment that supports both efficiency and flexibility.
- **Recruitment:** The Company has expanded recruitment channels by collaborating with educational institutions. Memorandums of Understanding (MOUs) have been signed with universities to access high-potential candidates.
- **Corporate Culture:** The Company promotes bottom-up management to encourage workplace innovation and supports diversity within the organization. It adheres to principles of equality, ensuring no discrimination based on race, color, gender, age, religion, or beliefs, thereby creating an environment conducive to attracting and retaining talent in the long term.

2.6 Risk from Hazards

External factors that may impact the Company's assets and operations are largely beyond control and difficult to predict. These include natural disasters (e.g., floods, earthquakes), acts of terrorism, and political unrest, both domestically and internationally.

Risk Response:

The Company has secured comprehensive insurance coverage to mitigate various risks, including Business Interruption Insurance to cover income losses due to operational disruptions and insurance against political unrest. These measures are designed to reduce the potential impact on the Company's assets and financial performance.

Additionally, the Company has implemented proactive risk management measures through the establishment of a Crisis Management Committee, tasked with:

- Continuously monitoring and assessing emergency situations
- Evaluating and prioritizing risks
- Developing and updating response plans to align with evolving circumstances
- Communicating and coordinating effectively with stakeholders

The Company's operations may be affected by external factors that influence the number of international tourists, which directly impact revenue and financial performance in both the short and long term, depending on the severity and duration of the events. However, the management of the Company's hotels by international hotel operators ensures a high level of preparedness to address global challenges. Furthermore, the Company continuously develops and improves its risk management plans to address potential future scenarios effectively.

3. Financial Risk

3.1 Financial and Liquidity Risks

Although the tourism sector is expected to continue its recovery in 2024 with the return of international tourists, the Company must carefully manage liquidity and cash flow risks. The hotel business requires adequate working capital reserves to support ongoing operations and future expansion, as well as the ability to meet debt obligations and other financial commitments.

Risk Response:

The Company prioritizes the continuous management of liquidity and cash flow by implementing stringent cost and expense control measures, reducing non-essential expenditures, and negotiating trade terms with partners to align with current circumstances.

In terms of financial institution relationships, the Company emphasizes maintaining strong partnerships with financial institutions while managing its capital structure appropriately and ensuring compliance with financial ratios as stipulated in loan agreements.

Additionally, the Company strategically manages its assets through regular portfolio evaluation and adjustments, while exploring opportunities to optimize asset management to enhance financial efficiency.

The Company has also established an effective monitoring and evaluation system, including regular budget preparation and tracking, analysis of key financial indicators, and continuous assessment of liquidity status and adequacy of working capital.

These measures have resulted in consistent improvements in the Company's performance and financial position, reflecting the effectiveness of its financial and risk liquidity management strategies.

4. Governance and Legal Compliance Risk

4.1 Governance and Legal Compliance Risks

The Company is required to comply with laws and regulations related to the hotel and tourism industries at both national and international levels, as well as the specific laws of each country where it operates. In an environment of constantly evolving regulations and the periodic introduction of new laws, the Company faces risks of non-compliance, which could result in financial losses, penalties, and reputational damage.

Risk Response:

The Company has established a systematic approach to managing governance and legal compliance risks, emphasizing the cultivation of a corporate culture that values good governance. This is achieved through the implementation of clear policies and practices, including the Corporate Governance Policy, Anti-Corruption Policy, Code of Conduct, and the Code of Ethics for Business Partners.

To ensure operations align with established governance frameworks, the Company mandates anti-corruption training (Corruption Knowledge Sharing) for employees at all levels. Additionally, a Personal Data Protection Committee has been established to oversee compliance with the Personal Data Protection Act (PDPA).

The Company also maintains a close monitoring system for changes in laws and regulations relevant to its business. Legal advisors with expertise in domestic and international law are engaged to provide guidance and ensure accurate and comprehensive legal compliance. These advisors also assist in assessing the potential impacts of regulatory changes on the Company's operations.

4.2 Risk Related to Human Rights Issues

These risks may arise from insufficient oversight within the organization and its supply chain, potentially leading to non-compliance with ethical labor practices, violations of employee rights, exploitation of vulnerable groups, or harm to customer well-being.

Risk Response:

The Company and/or Hotels address human rights risks by implementing a comprehensive “Human Rights Policy” that establishes clear guidelines to protect the rights and dignity of all stakeholders, including employees, customers, and suppliers. This policy ensures that the Company upholds ethical labor practices, promotes non-discrimination, prohibition of child labor, labor rights, and freedom of association.

4.3 Risk from Non-Compliance with Laws and Environmental Regulations

Such risks may stem from inadequate adherence to environmental laws, insufficient implementation of sustainability policies, or failure to meet evolving regulatory requirements.

Risk Response:

The Company gathers the relevant impacts data and strives to minimize its climate effects sustainably before the Climate Change Act, approved by the National Assembly on September 23, 2021, came into effect as follow:

- **Increasing Energy Efficiency and Utilizing Alternative Energy:**
The Company conducts an analysis to assess investments for maximum benefit
- **Carbon Management:** Starting from the base year of 2023, the Company will establish guidelines to reduce carbon emissions in line with Thailand's targets.
- **Waste Management:** The Company is collaborating to improve waste sorting efficiency and reduce the amount of landfill waste from its operations.
- **Water Management:** The Company plans to reduce water withdrawal and utilize recycled water for maximum benefit, while consistently monitoring wastewater quality to minimize impacts on communities and the environment.

5. Emerging Risk

5.1 Risks from Emerging Infectious Diseases

The emergence of new infectious diseases poses a global challenge that can directly impact the hotel and tourism industries. Given the nature of the Company's business, which involves providing services and interacting with guests from various countries, the outbreaks of new infectious diseases may affect tourist confidence, occupancy rates, and hotel operations. Additionally, such outbreaks could lead to government-imposed disease control measures that may impact business operations.

Risk Response:

The Company prioritizes the health and safety of its guests and employees by strictly adhering to public health measures and guidelines from relevant authorities. It also closely monitors the situation surrounding outbreaks of new infectious diseases.

The Company regularly evaluates and updates its emergency response plans to ensure business continuity in the event of an outbreak. Preparedness measures include cost and liquidity management strategies to mitigate potential impacts.

Furthermore, the Company maintains high standards of hygiene in its services and is ready to adjust its service models as necessary to minimize the risk of disease transmission.

5.2 Risks Related to Climate Change and Environmental Sustainability

Climate change directly impacts the Company's operations, affecting both operational costs and revenue. Key impacts include:

- Increased investment costs in environmentally friendly technologies and equipment.
- Higher energy expenses due to rising temperatures
- Changes in tourist behavior, with greater emphasis on environmental impact.
- Stricter environmental regulations that may affect business operations

Risk Response:

The Company is committed to environmentally friendly business practices through various initiatives, guided by an Environmental Committee comprising representatives from its hotel network, which sets policies and operational guidelines.

The Company has implemented environmental measures, including:

- Designing buildings with energy efficiency in mind
- Utilizing energy-saving and environmentally friendly equipment and products
- Managing energy and water usage efficiently
- Developing employee knowledge and awareness of the importance of environmental conservation
- Collaborates with business partners to develop and adopt renewable energy sources to reduce greenhouse gas emissions and support efforts to address climate change.