

RISK MANAGEMENT

GROUP RISK MANAGEMENT FRAMEWORK

The group's risk management framework aims to:

- align strategy with risk tolerance;
- improve decision-making which improves the group's risk profile;
- promote the strategic and coordinated procurement of a quality order book;
- ensure equitable commercial terms and conditions are contracted;
- promote continuous improvement through the application of key lessons learnt;
- improve predictability and build shareholder confidence;
- build robust organisational risk structures and facilitate timeous interventions to promote long-term sustainability; and
- promote the efficient and proactive utilisation of opportunities.

The group's key risks with control and/or mitigation strategies are outlined below.

2016 rating (2015 rating in brackets)	Top risks that are threatening the achievement of the business plan	Current controls and new strategies/ action plans that are being implemented to mitigate risk or to realise benefit	Residual risk ratings	Impact on business plan – F2017
1 (1)	Market conditions and weak economy resulting in low business confidence. This, coupled with low levels of disposable income, interest rates and currency fluctuations, in turn places pressure on sales volumes and margins.	DAWN's D-Next strategy has identified projects and measures to maximise contribution in the current market, including Customer Relationship Management (CRM) platform enhancement, sales process optimisation, new market investigations as well as product range reviews.	Extreme	High

2016 rating (2015 rating in brackets)	Top risks that are threatening the achievement of the business plan	Current controls and new strategies/ action plans that are being implemented to mitigate risk or to realise benefit	Residual risk ratings	Impact on business plan – F2017
2 (2)	<p>Continued pressure on group banking facilities and cash flow due to over-investment in stock, loss-making operations, slowed collections (government), in-country currency risk exposure (Africa) as well as disrupted business cash flows with system implementations.</p> <p>Negative impact of higher funding cost on earnings achievement.</p>	<p>Focused collaboration between entities and DAWN Treasury to monitor cash flow against set targets. This includes daily monitoring of cash and weekly payment approvals.</p> <p>There is a strategic focus on optimising working capital across the group through various D-Next projects.</p> <p>Key strategies have been set for exiting loss-making operations.</p> <p>Increased trading facilities have been obtained and renewal of the term facility has been requested at the same level.</p> <p>Collaboration between DAWN Treasury and Barclays to provide in-country facilities, procuring currency and extracting currency. Alternate hedging strategies are executed, where possible.</p>	Extreme	High
3 (New)	<p>Inability of Grohe DAWN Watertech (GDW) to perform according to expected levels, impacting negatively on the group's performance.</p>	<p>GDW has developed a turnaround strategy, which is currently in the process of implementation.</p>	High	High
4 (7)	<p>High dependence on government spending and civil contracts and mines specifically impacting Incedon and the pipe manufacturing entities DPI, Sangio and Swan.</p> <p>With the 2016 calendar year being an election year, government spend on capital projects may decline post election as new procurement structures settle. Further impact of delayed projects and cancellations, influencing stock ordering and cash flow.</p>	<p>Continued refocus of market strategies towards a more sustainable and profitable product mix.</p> <p>Optimised collaboration in the collections process.</p>	High	High

RISK MANAGEMENT

(continued)

2016 rating (2015 rating in brackets)	Top risks that are threatening the achievement of the business plan	Current controls and new strategies/ action plans that are being implemented to mitigate risk or to realise benefit	Residual risk ratings	Impact on business plan – F2017
5 (4)	IT systems – The impact of the implementation of Enterprise Resource Planning (ERP) systems across the group. This has inherent temporary post-implementation risks resulting in disruption of work processes, productivity, system balancing issues and place an additional burden on key resources.	<p>Reduced implementation risk through a highly experienced project management team and a systematic phased implementation approach.</p> <p>Lessons learned interventions to ensure continuous improvement across group ERP implementations.</p> <p>Focused ongoing project risk assessments.</p> <p>ERP optimisation reviews, post-implementation for live environments.</p> <p>Benefits realisation measurement.</p> <p>Continued collaboration with service providers to resolve any latent issues.</p>	High	High
6 (8)	<p>Customer service levels are difficult to maintain due to the impact of erratic demand patterns as well as the unpredictability of market requirements. Forecasting remains a challenge.</p> <p>Dichotomy between customer expectations for high service levels and low cost. Managing fixed costs versus variable volumes is a challenge in the current low-volume economic climate.</p>	<p>A major focus on customer service levels through market surveys and customer visits by senior and executive staff. Strict measurement and control of stock availability of commodity items.</p> <p>CRM systems are included in the IT upgrade. A project on customer-centricity has been launched.</p> <p>A D-Next project for the logistics division focuses specifically on optimising the DAWN footprint and reviewing the logistics division's fixed cost base.</p>	High	High

2016 rating (2015 rating in brackets)	Top risks that are threatening the achievement of the business plan	Current controls and new strategies/ action plans that are being implemented to mitigate risk or to realise benefit	Residual risk ratings	Impact on business plan – F2017
7 (5)	<p>More than 90% of sales are on credit – a deterioration in the percentage of collections could lead to possible bad debts. This is especially a risk for Incedon. The increased deterioration in the percentage of collections, which could lead to possible bad debts, is a reflection of the current economic climate.</p> <p>Market intelligence shows funding of undercapitalised contractors and municipalities.</p>	<p>High focus on credit policies and strict application of credit terms. Collection incentives have been implemented. The strict policy of credit insurance assures that the bulk (approximately 85%) of credit is insured across the group. Approximately 60% of Incedon's credit is insured due to the nature of the insurable book.</p> <p>There is an increased focus on collaboration between the credit insurance providers, the independent credit specialists and the legal collection team with a heightened monitoring by DAWN executives to mitigate the higher risks.</p>	High	Medium
8 (6)	<p>Over-investment in stock due to the negative impact on accuracy of demand planning as a result of change in customer buying patterns towards cheaper products and commodity items, combined with erratic demand patterns.</p>	<p>D-Next projects have been initiated to significantly reduce this risk, including focus on demand planning, product range, as well as stock movement and storage optimisation.</p> <p>A major focus on stock models and the reduction of investment in slow-moving stock versus fast-moving commodity items. Stock level targets have been agreed with all businesses.</p>	High	High
9 (new)	<p>Inability to comply with the new BBEE codes effectively in order to ensure continued optimal economic performance and take advantage of related economic opportunities.</p>	<p>The group has drafted a transformation policy aligned to transformation objectives. The approach includes a phased strategy to align to the requirements, prioritising the government market entities.</p> <p>This includes a focus on economic initiatives, workplace initiatives as well as social development initiatives.</p>	High	High
10 (new)	<p>Talent attraction and skills retention. The capability of ensuring continuous attraction, succession planning and skills retention in a performance challenged environment.</p>	<p>Various D-Next projects are aimed at improving the culture and leadership of the group, and attracting, developing and retaining core talent, including surveys, training, mentorship and leadership programmes, performance incentives and benchmarking initiatives.</p>	Medium	Medium