

▶ ENTERPRISE-WIDE RISK MANAGEMENT (“ERM”)

The objective of risk management is to safeguard shareholders' investments and the company's assets as the company pursues its strategic objectives. Fraser and Neave, Limited, (“F&N” or the “Group”) achieves this objective through having a risk management framework that encompasses all areas of operations.

Enterprise-wide risk reporting is facilitated through a web-based Corporate Risk Scorecard system which enables entities within the Group to report risks and risk status using a common platform in a consistent and cohesive manner.

Risk Management Process

Risks are reported and monitored at the operational level using a Risk Scorecard which captures risks, mitigating measures, timeline for action items and risk ratings.

Where applicable, Key Risk Indicators (“KRIs”) are established to monitor risks.

For risks that are material, the mitigating measures and KRIs are presented in the form of a Key Risk Dashboard and reviewed by Management on a regular basis.

There are 3 levels of risk reporting: Operating Units reporting into the Subsidiaries which in turn report to the Business Units and finally to the Group.

Risks are reviewed and managed at each level of reporting and consolidated for review at the next higher level, before they are escalated for review at Group level.

A risk coordinator appointed within each entity (ie. operating unit, subsidiary, business unit) coordinates the risk review and reporting process.

In response to the increasing scale and complexity of operations, a Group Risk Management Committee was formed in May 2012, to assist the Board in ensuring that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's and Group's assets.

Risk Update

Risks are reported and monitored at the scorecard level and grouped under the following risk categories for the purpose of management reporting.

- Reputational risks
- Strategic risks
- Country and political risks
- Currency and interest rates risks
- Commodity risks
- Operational risks

At the end of each financial year, an annual ERM validation session is held where Management of the business units provide assurance to the Group Management Committee, that key risks at the business unit level have been identified and the control measures are adequate.

This is followed by an ERM validation before the Group Risk Management Committee, where the respective business units provide assurance to the Committee that key risks at Group level have been identified and the controls are adequate.

F&N also seeks to benchmark its ERM programme against industry best practices and standards. In assessing areas for improvement and how the ERM processes and practices can be strengthened, reference was made to the best practices in risk management set out in the Risk Governance Guidance for Listed Boards issued by the Corporate Governance Council in May 2012 and the ISO 31000 standards on risk management.

During the year, F&N initiated a group-wide review of the risk scorecards of the various business units and presented recommendations to improve the identification and recording of risks.

As every staff has a role to play in risk management, ERM and business continuity plan awareness workshops are facilitated jointly by the business units and Group Risk Manager/Risk Coordinator for new staff and entities of the Group and refresher sessions organised where required.

Key Risks in Financial Year 2011/2012

During the last financial year, the key categories of risks faced by the group are summarised as follows.

Reputational Risks

Global food safety concerns served to reinforce the importance of managing the risks related to food safety. While F&N has in place a robust process to mitigate the risk of food contamination through upholding the strict requirements stipulated under the various food safety standards and certifications, food safety risk is reported by the Food and Beverage division of the Group at quarterly intervals.

With the increasing use of social media, the Group closely monitors this medium of communication and periodically reviews the response plans put in place to mitigate the potential risks.

Strategic Risks

Asia Pacific being the key region of growth, has attracted more new players to the food and beverage industry. This, coupled with the heightened pace in digital transformation, and evolving European debt crisis, posed new challenges to the various businesses within the Group. The Group closely tracks these developments and reviews the effectiveness of its strategies so as to sustain its competitiveness.

Country and Property Risks

The threat of natural disasters and political tensions in Asia and Middle East entails a continual review of the effectiveness of business continuity plans and insurance programmes. Greater emphasis has been placed on raising the awareness and preparedness of staff in responding to crisis.

The Group recognises the importance of maintaining a consistent and cohesive ERM programme across over 30 countries where we have a presence, and continues its efforts to reinforce risk and business continuity plan awareness to newly acquired business units.

The Group also maintains close working relationships with local business partners and authorities to keep abreast of political developments, and changes in the regulatory framework and business environment in which entities of the Group operate.