

Enterprise-Wide Risk Management

The objective of Enterprise-Wide Risk Management (“ERM”) is to safeguard shareholders’ interests and the company’s assets. Fraser and Neave, Limited (“F&N” or the “Group”) achieves this objective through having a sound system of risk management that encompasses all key areas of operations.

The Risk Management Committee (“RMC”) was established in 2012 to assist the Board in carrying out its responsibility of overseeing the Group’s risk management framework and policies.

The RMC assists the Board in determining the Group’s overall risk tolerance and risk policies, providing guidance on key risks, and ensuring that management has in place an effective risk management system for the timely identification, mitigation and management of key risks that may have a material impact on the Group. In addition, the RMC also has oversight of the Group’s Insurance and Business Continuity programmes.

RISK MANAGEMENT PROCESS

F&N adopts a cohesive risk management framework to manage risks in an integrated, systematic and consistent manner.

Management has the primary responsibility of identifying, controlling and minimising risks, and reporting to the Board the key risks faced by the Group. Material risks, mitigating measures, Key Risk Indicators (“KRIs”) and risk ratings are reviewed by the management at least three times a year.

Specifically the Head of each business unit (“BU”) is the risk owner, and is responsible for the BU’s ERM programme, determining and managing the overall risk exposure of the BU, and ensuring that the risk management framework is effectively implemented.

The key risks of the various BUs are then consolidated for review at the next higher level, before they are escalated for reviews by CEOs of the Food & Beverage (“F&B”) and Publishing & Printing (“P&P”) business divisions, and finally to F&N RMC and F&N Board.

A risk co-ordinator is appointed in each BU to coordinate the management of the ERM programme, the updating and reporting of the risk status and risk scorecard to the Head of the BU.

Enterprise-wide risk reporting is facilitated through a web-based Corporate Risk Scorecard (“CRS”) system which enables BUs within the Group to report risks and risk status using a common platform. Risks are reported and monitored via a Risk Scorecard which captures risks, mitigating measures, timelines for action items and risk ratings. Risk parameters, upon which the ratings are based, are reviewed annually.

The Group periodically reviews the identification and recording of risks, streamlines the use of Risk Scorecards and upgrades the CRS system, where appropriate.

Risk tolerance statements, which set out the nature and extent of the significant risks that the Group is willing to take in achieving its strategic objectives, are reviewed annually.

At the end of each financial year, management of each business division and the Company provides assurance to the F&N Audit Committee, RMC and the Board regarding the adequacy and effectiveness of the company’s risk management system and internal controls.

The assurances are disclosed on Page 73 of this report.

KEY RISKS IN FINANCIAL YEAR 2014/2015

As at 30 September 2015, the key risks of the Group have been largely mitigated. The proportion of risks that are rated as very significant risks and high risks were reduced substantially by about 40%, after taking account the mitigating measures.

The key categories of risks faced by the Group are summarised as follows.

Strategic Risks

Competition from the food and beverage players attracted to the growing Asia Pacific arena, competition from the digital media and the risks associated with mergers, acquisitions and consolidations are key challenges to F&B and P&P. The Group closely tracks these developments and reviews the effectiveness of its strategies to maintain its competitiveness.

Reputational – Food Safety Risks

Food safety risk remains as a key risk to the F&B business division. In addition to close monitoring of food safety issues worldwide, upholding the strict requirements stipulated under the various food safety standards and certifications, putting in place a robust process to mitigate the risk of food contamination, the RMC closely monitors the status of KRIs which tracked food safety risks.

Reputational – Social Media and Communications Risks

With the increasing use of social media, business divisions closely monitor this medium of communication and periodically review the response plans put in place to mitigate risks.

Country Risks – Currency and Operational Risks

The Group operates and procures raw materials internationally and is exposed to currency risks. The hedging of all committed cash flows is in accordance

with the Group Treasury policy and monitored regularly. Such policy is reviewed on a regular basis, ensuring it reflects the current needs, objectives and strategy of the business.

Globally, the increase in cybercrime, heightened political tensions and threats of epidemic diseases reinforce the need for F&N to be vigilant and respond promptly to unexpected changes in the operating environment. The Group’s cyber security measures are reviewed periodically to mitigate IT-related risks such as malware infection and unauthorised access.

The robustness of business continuity plans (“BCPs”) are also tested and finetuned through annual call notifications, desktop and simulation exercises. The complexity and scale of the exercises are progressively stepped up in our efforts to increase awareness, preparedness and to enhance our ability to continue to operate critical business functions in times of disruptions and/or crises.

The Group recognises the importance of maintaining a consistent and cohesive ERM programme across the 11 countries where we have a presence, and continues its efforts to reinforce risk and BCP awareness throughout the Group. It continues to build on the close working relationships with local authorities and business partners to keep abreast of political, regulatory and economic developments in countries where the Group operates.

The insurance programmes are also reviewed annually to take into account the changing needs of the businesses and the operating environment to better mitigate losses in the event of a claim.

RISK CULTURE

The RMC encourages proactive and periodic benchmarking of the Group’s ERM, BCP and insurance programmes against industry best practices and standards, including the ISO 22301 Business Continuity Management Systems, and takes into account recommendations from BCP consultants and insurance advisers in mitigating pandemic, epidemic and adverse climate situations, to ensure that the ERM, BCP and insurance programmes remain adequate and effective.

As every member of staff has a role to play in risk management and BCP, awareness workshops, facilitated by the business divisions and Group Risk Manager, are organised for new staff and entities of the Group quarterly and refresher sessions organised, when required.