

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 risk management framework that encompasses all key areas of operations.

The Risk Management Committee ("RMC") assists the Board in carrying out its responsibility of overseeing risk management of the Group. Specifically, the RMC's role is to report to the Board and provide appropriate advice and recommendations on key risks, and to ensure that Management has in place an effective risk management system for the identification, mitigation and management of such key risks that may have a material impact on the Group.

The head of each business division is the risk owner, and is responsible for determining and managing the overall risk exposure of their business division.

There is a risk coordinator in each business division coordinating the implementation of the ERM programme, the updating and reporting of the risk status and risk register of their business division.

Enterprise-wide risk reporting is facilitated through a web-based Corporate Risk Scorecard ("CRS") 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 on 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.

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

Material risks, mitigating measures and KRIs are presented on a Key Risk Dashboard and reviewed by Management at least three times a year.

There are three levels of risk reporting: operating unit, business division and respective CEOs of Food & Beverage ("F&B") and Publishing & Printing ("P&P") business divisions.

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 by RMC.

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.

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

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, during the ERM validation, Management of the F&B and P&P business divisions provide assurance to the F&N Audit Committee and RMC regarding the adequacy and effectiveness of the company's risk management system.

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 is made to the best practices in risk management set out in the Code of Corporate Governance May 2012 and the Risk Governance Guidance for Listed Boards May 2012 issued by the Corporate Governance Council and the ISO 31000 standards on risk management. The ERM policy has been updated to incorporate these enhancements.

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

Key Risks in Financial Year 2013/2014

As at 30 September 2014, 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 mitigating measures.

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

Reputational - Food Safety Risks

Food safety risk remains as a key risk to the F&B division of the Group. In addition to close monitoring of food safety issues worldwide, a robust process has been put in place to mitigate the risk of food contamination through upholding the strict requirements stipulated under the various food safety standards and certifications.

The status of KRIs which are tracked for the management of food safety risk is reported to the RMC at quarterly intervals.

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.

Strategic Risks

Competition from the food and beverage players attracted to the growing Asia Pacific arena and competition from the digital media are key challenges to F&B and P&P. The Group closely tracks these developments and reviews the effectiveness of its strategies so as to sustain its competitiveness.

Country and Operational Risks

Globally the increase in cyber crime, heightened political tensions and threat of epidemic diseases reinforce the need for F&N to be resilient and respond promptly to unexpected changes in its 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 are also tested through call notification, desktop and simulation exercises annually. The complexity and scale of the exercises are progressively stepped up in our efforts to increase awareness and preparedness. The insurance programmes are also finetuned to take into account the changing needs of the businesses and operating environment to better mitigate losses in the event of a claim.

The Group recognises the importance of maintaining a consistent and cohesive ERM programme across the 12 countries where we have a presence, and continues its efforts to reinforce risk and business continuity plan awareness throughout the Group.

The Group 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 in where the Group operates.