

ENTERPRISE-WIDE RISK MANAGEMENT

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The Board and senior management of Fraser and Neave, Limited, (“F&N” or the “Group”) promote a strong risk management culture through having sound risk management processes and operating procedures that integrate prudent risk limits with appropriate risk measurement, monitoring and reporting, and encourage open communication and escalation of concerns in a timely manner. The purpose is to safeguard the interests of shareholders and the assets of F&N.

The Risk Management Committee (“RMC”), which was established by the Board in 2012, has oversight of the Group risk management policies and implementation. It assists the Board in determining the Group’s level of 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. The framework provides for the identification and management of risks using a top-down and bottom-up approach.

Management (business division heads and business unit heads) has the primary responsibility for identifying, controlling and reducing risks, and reporting to the Board. Material risks, mitigating measures, Key Risk Indicators (“KRIs”) and risk ratings are reviewed by Management at least three times a year.

Specifically, the Business Heads are the risk owners, and are responsible for identifying risks, establishing sound practices, and ensuring that effective procedures and robust systems are in place to mitigate the risks.

The key risks of the various business units are consolidated for review by CEOs of the Food & Beverage (“F&B”) and Publishing & Printing (“P&P”) business divisions, and finally to F&N RMC and Board.

Each business division has a dedicated risk coordinator to conduct risk analyses with management and compile timely reports to the Division Head. Risk coordinators also conduct briefings on adopted risk policies and practices when required. The objective is to increase risk awareness amongst key staff and to involve and commit them to implement measures that have been adopted by the Group.

To facilitate the reporting and monitoring of risks, F&N uses a web-based Corporate Risk Scorecard (“CRS”) system which enables business units to report risks and risk status using a common platform. The CRS 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.

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

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

These assurances for FY2016 are disclosed on Page 79 of this report.

KEY RISKS IN FINANCIAL YEAR 2015/2016

As at 30 September 2016 the key risks of the Group have been largely mitigated. The proportion of risks that were rated as “very significant” and “high” have been reduced substantially after taking account of the mitigating measures.

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

Strategic Risks

The Group closely tracks developments in the F&B and P&P industries and reviews the effectiveness of its strategies as it works towards its vision of becoming a stable and sustainable F&B leader in the ASEAN region. The key risks facing the Group include increasing awareness of possible health effects associated with high

sugar consumption, competition from disruptive technology and the risks associated with mergers, acquisitions and industry consolidation.

Reputational – Food Safety Risks

Food safety remains a key risk to the F&B business division due to the potential reputational impact on the Group. In addition to

- (i) close monitoring of food safety issues worldwide,
- (ii) upholding the strict requirements stipulated under the various food safety standards and certifications,
- (iii) putting in place a robust process to mitigate the risk of food contamination and
- (iv) close monitoring of the status of KRIs which track food safety risks,

Management also shares learnings on food quality and safety issues and best practices across business units.

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 effectiveness of policies and procedures that are in place.

Country Risks – Currency and Operational Risks

The Group operates and procures raw materials internationally and is exposed to currency risks. The hedging of committed cash flows is in accordance with the Group Treasury policy. 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 tension and threats of epidemic diseases reinforce the need for F&N to be vigilant 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, ransomware, distributed denial of access and unauthorised access.

The robustness of F&N's business continuity plans ("BCPs") are also tested and fine-tuned through annual call notifications, desktop and simulation exercises. The complexity and scale of the exercises have been stepped up to raise awareness and preparedness. This ensures critical business functions can continue to operate in times of disruption and/or crises. The Group has also put in place a crisis communication policy, incident escalation procedure and incident alert codes, to ensure prompt notification of crisis incidents to Management.

The Group demonstrates its commitment to provide a safe workplace for its employees with the attainment of bizSAFE Level 3 certification by the F&N Corporate Office at Alexandra Point. Plants are also scheduled for surveys, to identify potential fire hazards and non-compliance to fire safety standards.

The Group recognises the importance of maintaining a consistent and cohesive ERM programme across the 12 countries where it has a presence, and continues to reinforce risk and BCP awareness throughout the Group. It also builds 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. Plant and equipment are revalued periodically to ensure adequacy of insurance coverage.

RISK CULTURE

The RMC encourages proactive and periodic benchmarking of the Group's ERM, BCP and insurance programmes against industry best practices and standards. It 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 Management, are organised for new staff and entities of the Group quarterly. Refresher sessions are organised, when required.