

Enterprise-Wide Risk Management

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. F&N integrates prudent risk limits with appropriate risk measurement, monitoring and reporting, and encourages open communication and escalation of concerns in a timely manner. The objective is to safeguard shareholders’ interests and protect the Group’s assets.

The Sustainability & Risk Management Committee (“**SRMC**”) assists the Board in overseeing the Group’s risk management framework and policies. The Committee provides guidance on key risks, taking into account the Group’s risk appetite and risk tolerance, and ensures that Management maintains an effective and adequate risk management system.

In addition, the Committee also requires management to integrate environmental, social and governance-related risks (“**ESG**”) into their Enterprise-wide Risk Management (“**ERM**”) processes. The Board believes that this sustainable ERM, which connects risks, strategy and decision-making, makes the Group more resilient and competitive.

RISK MANAGEMENT PROCESS

F&N adopts a cohesive risk management system to manage risks in a holistic, structured and consistent manner. The system encompasses setting of risk appetite and risk tolerance statements, risks identification, risk impact assessment, response and recovery processes using a top-down and bottom-up approach.

Management (business division heads and business unit heads) has the primary responsibility for identifying, managing risks and reporting to the Board on the status and effectiveness of risks mitigation and strategy implementation. Management conducts risk assessment and reviews control measures on a regular basis to evaluate the adequacy and effectiveness of controls that are in place to mitigate the identified risks.

The key risks of various business units are consolidated for review by CEOs of the Group’s business divisions; and subsequently circulated to the F&N SRMC at least three times a year. In addition, annually the F&N Audit Committee reviews F&N’s key risk profile and advises the Board.

Each business division has a dedicated risk coordinator to conduct risk analyses with Management. Risk coordinators compile timely reports for submission to the division head and conduct briefings on risk policies and practices. The objective is to promote a culture of risk awareness, recognising that some risks may impact more than one department, division or subsidiary and could have financial, reputational, legal and/or operational impact on the Group.

To facilitate the reporting and monitoring of risks, F&N Group uses a web-based Corporate Risk Scorecard (“**CRS**”) system, a common platform which enables BUs to report risks and risk status consistently and cohesively. 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 also streamlines the use of risk scorecards and upgrades the CRS system.

Risk appetite and 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, Audit Committee and SRMC on the adequacy and effectiveness of the Group’s risk management system and internal controls.

These assurances for FY2019 are disclosed on Page 74 of this report.

KEY RISKS IN FINANCIAL YEAR 2019

As at 30 September 2019, the key risks have been identified and mitigation plans developed. 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 risk faced by the Group are summarised as follows.

Strategic

With increasing environmental, social and governance concerns, the Group closely tracks developments in the Food and Beverage (“**F&B**”) and Publishing and Printing industries and reviews the effectiveness of its strategies.

The key risks facing the Group include:

- (i) changing regulatory and consumer trend and the impact F&N products have on the environment; and
- (ii) competition from digital technology and e-commerce

In Singapore, there is an increasing consumer preference for healthier food and beverage options. The change in consumer trend is further supported by the promotional and educational efforts by the Ministry of Health and Health Promotion Board to encourage healthy eating among Singaporeans. Healthier choice symbols were introduced to help Singaporeans make informed food and drinks choices and more recently, F&B industry players are encouraged to reduce the sugar content of their products.

In Malaysia, an excise tax is imposed on sweetened beverages that contain more than 5g of sugar per 100 millilitres and in Thailand, the Excise Department also announced increased taxes on sugary drinks from 1 October 2019.

As such, the Group continues to work on the development of the soft drink category, focusing on, the expansion of sugar-free and sugar-reduced products.

In F&N, we are passionate about improving the environment through finding new innovative ways to reduce waste and extend shelf life (refer to F&N Sustainability report on the Group’s initiatives). F&N is looking into alternative forms of packaging. The effectiveness of these measures is regularly monitored and evaluated to address the preferences of the consumers as well as the impact such alternatives may have on the environment.

The Group continues its efforts to connect with customers on digital and social platforms. GoGuru, the Group's online bookstore, has extended its reach through multiple e-commerce channels such as Shopee mass marketplace, Lazada and Qoo10 to drive sales. The Group also periodically reviews its business models to ensure its continued relevance to customers.

Strategic – Merger & Acquisitions Risks

The Group has in place an investment approval process whereby a disciplined approach is taken to review key risks and opportunities presented by potential investments. As part of the approval process, all major investment opportunities are subject to due diligence and are evaluated by cross-functional project team. This ensures that the potential investment is in line with the Group's vision, underlying risk factors and the required return.

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 Key Risk Indicators 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 as well as promotion of trending stories, new methods of monetising content, and the spread of misinformation around the world, business divisions closely monitor this medium and periodically review the effectiveness of policies and procedures that are in place.

Currency Risks

The Group operates and procures raw materials and equipment 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 regularly to ensure it reflects the current needs, objectives and strategy of the business.

Operational – Risks associated with Business Interruption

Globally, the increase in cybercrime, heightened political tension, risk of terrorism, threats of epidemic diseases and unhealthy air quality reinforce the need for F&N to remain vigilant and respond promptly to unexpected changes in its operating environment.

The Group's cyber security measures are reviewed regularly to mitigate IT-related risks such as malware infection, ransomware, denial of service and unauthorised access. Cybersecurity awareness of staff is heightened through eLearning, covering topics such as ransomware and password control. The Group also conducts mock phishing exercises to reinforce lessons and keep users engaged.

As part of the Crisis Management maintenance programme, the Group conducts call notification exercises, walk-through / desktop exercises, mock product recalls, IT disaster recovery exercises and Business Continuity Plan ("BCP") simulation exercises. All staff in the Group involved in crisis management are trained on key aspects of crisis management.

A consultant has been engaged to provide further insight and guidance on how to conduct business continuity simulation exercise.

Operational – People Risks

People are the most important asset in the Company. The Group recognises the importance of identifying and growing its talent pool to successfully transform our business. Team building workshops and competency-based trainings are organised periodically. As a recognition of the Group's continuing efforts in improving workplace safety and health for its employees, most of its Singapore's operations have been awarded with Singapore's bizSAFE certificates. Plants are also surveyed,

to identify potential fire hazards and non-compliance to fire safety standards. In addition to participating in activities organised by Health Promotion Board, F&N also actively encouraged staff to participate in sports activities organised by the Group.

Country Risks

The Group recognises the importance of maintaining a consistent and cohesive ERM programme across the 11 countries where it has a presence and continues to reinforce risk and BCP awareness throughout the Group.

It also builds good rapport with local authorities and business partners to keep abreast of political, regulatory and economic developments in countries where the Group operates.

With the construction of new factories, new insurance covers are put in place to mitigate losses during construction. The insurance programmes are also reviewed annually to consider 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 SRMC encourages proactive and periodic benchmarking of the Group's ERM, BCP and insurance programmes against industry best practices and standards. It considers recommendations from consultants and insurance advisers in mitigating cyber security and terrorism risks, 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, BCP and cyber security, awareness workshops, facilitated by the business divisions and Risk Management, are organised for new staff and entities of the Group quarterly. Refresher sessions are organised when required.