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 escalates issues in a timely manner. The objective is to safeguard shareholders' interest 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 primary responsibilities of the SRMC are to:

- provide guidance on key risks, taking into account the Group's risk appetite and risk tolerance;
- ensure that the Management (business division heads and business unit heads) maintains an effective and adequate risk management framework, and
- ensure the Management integrates environmental, social and governance-related risks ("ESG") into their ERM processes. The Board believes that ERM must work hand-in-hand with sustainable business practices to connect risks, strategy and decision-making to make 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.

The Management has the primary responsibility for identifying and evaluating risks, as well as monitoring and reporting to the Board the status and effectiveness of risks mitigation measures and strategy implementation. The Management conducts such risk assessment and reviews control measures regularly.

The key risks of various business units are consolidated for review by Chief Executive Officers ("CEOs") of the Group's business divisions and circulated to the SRMC three times a year. The F&N Audit Committee reviews these key risks and recommendations from SRMC, and then advises the Board annually.

Each business division has a dedicated risk coordinator to conduct risk analyses with the Management. Risk coordinators compile reports for timely submission to division heads and conduct briefings on risk policies and practices. The objective is to promote a culture of risk awareness, as 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 business units to report risks and risk status consistently and cohesively. The CRS records risks, mitigating measures, timelines for action items and risk ratings. Key risk indicators, upon which risk ratings are measured against the probability of occurrence, are also reviewed. 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, the CEOs, the Heads of Finance and other key management personnel who are responsible in each of the Group's business divisions, and the CFO 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 FY2020 are disclosed on Page 76 of this report.

KEY RISKS IN FINANCIAL YEAR 2020

As at 30 September 2020, 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 into account the mitigating measures.

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

Strategic – Covid-19 Pandemic and Business Risks

The Company's crisis management steering committee ("CMSC") closely monitors development of the COVID-19 pandemic and its impact on the Group. Where risks are identified, Management, in consultation with CMSC, formulates and implements action plans. Such action plans are reported to the Board Executive Committee by Management. The Group has implemented several measures to minimise the impact of Covid-19 on the businesses of the Group. These measures included enabling employees to work from home and remote access to office email to ensure the day-to-day operation of the Group remain active and at the same time remain in contact with the stakeholders through online meetings and email communications. In addition, meetings of the Board of Directors and the Board Committees are conducted virtually, utilising the available technology. The Board has also conducted cash flow planning and stress-tested the sustainability of income and asset pools. You may read more about our efforts on Covid-19 which are published on https://fraserandeave.com/investor-relations/our-response-to-covid-19.

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

The key risks facing the Group include:

(i) changing regulatory and consumer trends and the impact F&N products have on the environment; and

(ii) competition from digital technology

From end-2021, drinks with high sugar or saturated fat content are required to display a Nutri-Grade label. These colour-coded nutrition labels, with descending grades ranging from A to D – from A (dark green) representing the lowest sugar and fat contents, B (light green), C (orange) and to D (red) representing the highest amount of sugar and fat contents – aim to help consumers better gauge how healthy pre-packaged beverages are at a glance.

The Group fully supports the government in the war against diabetes and to provide nutrition facts label on the packaging to allow consumers to make informed food choices based on their individual diet requirements. As one of the leading F&B companies in Southeast Asia, the Group has a shared responsibility to help consumers cut down on sugar and calories. We believe that education is ultimately the best way for consumers to make informed choices and drive consumers to choose healthier food options. 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 committed to improving the environment through finding new innovative ways to reduce waste and extend shelf-life to cut food waste (refer to F&N...
In addition to Food safety remains a key risk to the F&B
Reputational – Food Safety Risks
and the required return.
The Group periodically reviews its business
model and strategies to ensure its continued
relevance to its stakeholders. At the onset of
the COVID-19 pandemic, the Group adopted
digital measures to ensure it could continue
operations and keep people in touch while
following COVID-19 related distancing
measures. In addition to traditional channels,
the Group stepped up its efforts to connect
with customers on digital and e-commerce
platforms – in F&B, the Group strengthened
its e-commerce presence with the launch of
F&N Life, an online store; in P&P, the Group
embedded a recommendation engine in
GoGuru, P&P’s online e-commerce platform
to cross-sell complementary products to
customers. P&P also launched the ‘Assisted
Buy Programme’ in Waterway Point Times
bookstore to allow in-store customers to
easily search and purchase products not
found in the store but available on GoGuru.
To support self-directed learning and home-
based learning on its e-learning platforms,
and also to cater for the sudden increase in
demand for digital material, P&P expanded
its interactive Digital Resources library and
stepped up the conversion of print to eBook
– with the aim of targeting and engaging
young learners.

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,
the Management also shares learnings on
best practices, food quality and safety issues
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
Owing to its international activities,
the Group is exposed to currency risks.
These financial risks occur in connection
with the purchase of raw materials and
equipment, and sale of products, which
are transacted in different currencies.

While foreign currency risks are reduced
through natural hedging, the Group also
hedges committed cash flows, 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 rise in cybercrime, heightened
political and racial tensions, risk of terrorism,
threats of epidemic infectious diseases and
poor air quality reinforce the need for F&N
to remain vigilant and respond promptly
to unexpected changes in its operating
environment.

The Group continues to have regular
engagement with all employees on
 cybersecurity matters to help maintain
awareness. This year, additional mandatory
e-learnings covering topics such as
ransomware and password control have
been introduced. Mock phishing exercises
were also conducted to assess the cyber
awareness of staff.

As part of the Crisis Management
maintenance programme, the Group
continues to conduct call notification
exercises, walk-through/desktop exercises,
mock product recalls, IT disaster recovery
exercises and business continuity simulation
exercises. All employees involved in crisis
management have been trained on key
aspects of crisis management.

Operational – People Risks
People are the most important asset of
the Company. The Group recognises the
importance of identifying and growing its
talent pool to successfully transform its
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 operations in Singapore have
been awarded with Singapore’s bizSAFE
certificates. Plants have been surveyed to
identify potential fire hazards and non-
compliance of fire safety standards. F&N also
promotes healthy work living by supporting
activities such as mass run, inter-company
badminton tournament, health screenings,
and health and wellness talks.

Country Risks
The Group recognises the importance
of maintaining a consistent and cohesive
ERM programme across the 12 countries
where it has a presence. It 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 cybersecurity and terrorism risks,
pandemic, epidemic and adverse climate
situations, to ensure that its ERM, BCP and
insurance programmes remain adequate
and effective.

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

Sustainability report pages 66 to 68 on the
Group’s initiatives). F&N is constantly looking
at alternative and sustainable packaging
solutions. The effectiveness of these
sustainable packaging is regularly assessed
in conjunction with changing consumers
preferences.

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