

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, monitors and reports on key risks, encourages open communication and escalates issues in a timely manner. The objective is to safeguard the interests of shareholders, while taking into account interests of other stakeholders, to achieve long-term sustainable performance.

The Sustainability & Risk Management Committee (“SRMC”) assists the Board in overseeing the Group’s risk management framework and policies. It:

- provides strategic direction in managing sustainability-related risks and opportunities, taking into account the Group’s risk appetite and risk tolerance; and
- guides the development of risk and sustainability frameworks, policies, guidelines and initiatives to ensure that sustainability issues, including environmental, social and governance (“ESG”) related issues, are effectively managed and integrated into business operations and corporate objectives.

RISK MANAGEMENT PROCESS

F&N adopts a cohesive risk management system to manage risks in a sustainable, structured and consistent manner. It takes into account sustainable business practices, as well as identifying risks from various sources, including ESG sources, in formulating strategies and decisions to ensure that the Group remains resilient and competitive.

The Group’s risk management system encompasses the 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 has the primary responsibility for identifying and evaluating risks and material ESG factors, as well as monitoring and reporting to the SRMC the status and effectiveness of risks mitigation measures, sustainability practices and strategy implementation. Management conducts such reviews regularly.

The key risks of various business units and updates on sustainability projects

are reviewed by Chief Executive Officers (“CEOs”) of the Group’s business divisions and Sustainability Development Committee, respectively, 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 as required.

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 for 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 FY2021 are disclosed on Page 76 of this report.

KEY RISKS IN FINANCIAL YEAR 2021

As at 30 September 2021, 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 Sustainability Risks

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 connected while following COVID-19 related distancing measures. In addition to traditional channels, the F&B business division has stepped up its efforts to engage customers on digital and e-commerce platforms. The division aims to further expand its e-commerce presence with enhancements to F&N Life, its e-commerce platform. The Publishing & Printing (“P&P”) business division accelerated its digital push through various third-party e-commerce platforms for both retail and distribution. For its Education Publishing, P&P accelerated its blended learning model with initiatives such as conversion of print to e-books, as well as bundling of and supplementing digital contents with print titles. It also launched an Educator’s Professional Development Portal with NTU aimed at providing courses and certification for teachers.

With increasing ESG concerns, the Group closely tracks developments in the Food & Beverage (“F&B”) and P&P industries and reviews the effectiveness of its strategies.

The key ESG-related risks facing the Group include:

- changing regulatory and consumer trends; and
- the impact F&N products have on the environment

From June 2022, drinks with high sugar or saturated fat content are required to display a Nutri-Grade label in Singapore. 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. F&N would comply with the above regulations. In the longer term, the Group continues to educate consumers on the effects of sugar while developing more healthy products.

In F&N, we remain committed to minimising our impact on the environment through finding new innovative ways in waste reduction, water and energy

conservation and the use of renewable energy (refer to *F&N Sustainability Report 2021 on the Group's sustainability initiatives*). To reduce the environmental impact of packaging, 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. More recently, F&NHB has partnered nine other fast moving consumer goods companies under the Malaysian Recycling Alliance to focus on improving the collection and recycling of post-consumer packaging.

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 a cross-functional project team. This ensures that the potential investment is in line with the Group's vision, and required returns, whilst addressing underlying risk factors.

Reputational – Food Safety Risks

Food safety remains a key risk to the F&B business division due to the potential reputational and financial 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 growing social media influence and proliferation of applications for social networking and messaging, the spread of false and misleading information globally has increased significantly. 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, increased natural disasters, heightened political tensions, epidemic infectious diseases threats and risk of terrorism reinforce the need for F&N to remain vigilant and respond promptly to unexpected changes in its operating environment.

The Group regularly engages 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 staff readiness to cyber attacks.

In addition to reviewing Business Continuity Plans (“BCP”) and flood prevention measures on a regular basis, the Crisis Management programme has been updated to address new crisis scenarios. The Group continued 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.

Shortage of vessels, containers and workers during the pandemic have resulted in higher freight costs and longer delivery lead time. Proactive measures such as switching to air freight, where economically feasible, were taken by P&P to manage cost escalation. For F&B, it continued to seek out other sources for raw materials and strengthen domestic sourcing.

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 promoted healthy work living by supporting activities such as health screenings, health and wellness talks and sponsors sports and community events like SGX Cares Bull Charge Charity Run and National Steps Challenge™.

Country Risks

The Group recognises the importance of maintaining a consistent and cohesive ERM programme across the 11 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.

Insurance programmes are 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, new staff are briefed on these subjects. Refresher sessions are organised when required. Following the set up of a e-learning committee, F&N policy e-learning programmes were successfully rolled out to entities in Singapore.