

## Enterprise-Wide Risk Management

The Board and senior management of the Group promote a strong risk management culture through having sound risk management processes and operating procedures. F&N actively monitors the business environment for risks and opportunities and puts in place strategies and measures to mitigate these risks and seize opportunities as they emerge. Within the Group, management also proactively monitors and reports on key risks, communicates openly 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, 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. F&N takes into account sustainable business practices in formulating strategies and decisions to ensure the Group remains resilient and competitive. The Group identifies risks from various sources, including ESG sources.

The system encompasses the review of vision statement, risk appetite and risk tolerance statements, strategies, risks identification, risk impact assessment, response and recovery processes using a top-down and bottom-up approach. This year, F&N formalised its position and commitment to achieve net-zero emissions (for Scope 1 and 2 Greenhouse gas emissions) by 2040.

Management has the primary responsibility for identifying and evaluating risks and material ESG factors as well as monitoring and reporting to the SRMC and Board 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 recommendations on sustainability initiatives are reviewed by the CEO of the Company and the CEOs of the Group’s strategic business divisions (“CEOs”), heads of 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 chief financial officers or financial controllers, and other key management personnel who are responsible for each of the Group’s business divisions, and the Director, Group Finance of the Company provide assurances 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 FY2022 are disclosed on Page 78 of this report.

### KEY RISKS IN FINANCIAL YEAR 2022

As at 30 September 2022, 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.

#### (1) Strategic – ESG Risks Including Risks Arising from Climate Change

The Group periodically reviews its business model and strategies to ensure its continued relevance to its stakeholders. Management recognises the growing importance of ESG and climate related factors on business operations and pro-actively tracks developments in the F&B and P&P industries and reviews the effectiveness of its strategies.

#### (i) Rising Regulatory Enforcement

From 30 Dec 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. At F&N, the Group has started labelling some of its products, and is on track to fully comply with the requirements before Jan 2023. In the longer term, the Group continues to educate consumers on the effects of sugar and continues to develop healthy products.

SGX has mandated Taskforce for Climate related Financial Disclosure (“TCFD”)-aligned climate reporting for all listed entities in Singapore, prioritised based on TCFD-identified industries, beginning financial year 2023. F&N supports such initiatives and has started adapting the reporting enhancement, ahead of the SGX stipulated timeline.

**(ii) Increasing Importance of ESG**

F&N has put in place additional measures to strengthen the Group’s climate resilience against natural disasters, such as flooding, which may result in loss of lives and damage to properties. This included enhanced flood mitigating measures for a factory in Malaysia. Solar panels have also been installed at five factories in Malaysia and Thailand as part of the Group’s efforts to reduce energy cost and greenhouse gas emission. The Group plans to install more solar panels in 2023 at factories in Singapore and Myanmar. To further minimise our impact on the environment, the Group has also started replacing its transport fleet with electric vehicles.

We continue to find new innovative ways in waste reduction, water and energy conservation and the use of renewable energy. In our efforts to reduce carbon footprints and conserve resources, the F&B business division has launched low-carbon plant-based products and products that are certified with low carbon footprint by the Thailand Greenhouse Gas Management Organisation. Likewise for P&P, it utilises sustainable soy-based inks, as opposed to petrochemical based inks, as they are derived from biological materials with lower carbon footprint. Soybean oil is also naturally renewable. The use of these inks would indirectly reduce the carbon footprint associated with the F&N’s printing business.

F&N also aims to protect biodiversity and eliminate deforestation from our supply chain. F&N sources ingredients such as sugar, palm oil and paper from sustainably certified sources, including palm oil that is certified by the Roundtable on Sustainable Palm Oil, and paper that is Forest Stewardship Council certified, whenever possible.

F&NHB partners nine other fast moving consumer goods companies under the Malaysian Recycling Alliance to focus on improving the collection and recycling of post-consumer packaging. 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 consumer preferences. To encourage recyclability and increase the circularity of packaging materials, the Group has recently launched Green Lab in our print business in Singapore as the one-stop production plant for premium eco-friendly packaging products. Green Lab’s offerings include customisable biodegradable paper bags, fully compostable plant-based alternative for plastic carrier bags, an extensive range of fully-compostable F&B packaging and cutlery supplies, eco-packaging boxes and eco-pouches, all of which are printed on environmentally friendly soy-based printing ink. F&N is exploring the switch to such sustainable packaging for its products.

Refer to F&N Sustainability Report 2022 on the Group’s sustainability initiatives.

**(2) Operational - Risks Associated With Rising Input Costs**

The spike in oil price arising from the Ukraine-Russia war and the COVID-19 pandemic have resulted in higher energy costs, disruptions to supply chain and inflation. Where possible, the Group hedges prices of raw materials till June 2023, maintains multiple sources of suppliers,

extends the supply of raw materials at current or lower prices, keeps higher levels of inventories and reduces office space to minimise rental. Warehousing, freight and other expenses were reviewed by all business divisions, with a view to saving costs and further enhancing economies of scale. Proactive measures such as converting, where possible, from air freight to ocean freight were taken by P&P business division to manage the cost escalation. Selective and gradual price adjustments were put in place to partially offset cost increases. Management continues to review the effectiveness of mitigating measures to protect margins.

**(3) Operational - Cyber Risks**

Cyber threats, such as ransomware and cyber supply chain attacks, are multiplying acutely all over the world. As F&N increases dependence on digital systems to drive business outcomes, it may encounter cyber incidents that can cripple business operations and cause monetary and reputational damages. Cybersecurity is managed by the F&N Board and senior management. To ensure resilience of network and data, risk mitigations such as classification and labelling of confidential data, vulnerability assessment, privileged access management, mandatory cybersecurity awareness training and mock phishing exercises have been implemented, and the effectiveness of said measures are reviewed regularly.

**(4) Operational - Risks Arising From COVID-19 Pandemic**

At the onset of the COVID-19 pandemic, the Group adopted digital measures to ensure it could continue operations and keep people connected. We have also formally instituted hybrid work arrangement across the Group. In addition to traditional channels, the F&B has stepped up its efforts to engage customers on digital and e-commerce platforms. P&P accelerated its expansion 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, and launched an Educator’s Professional Development Portal with NTU aimed at providing courses and certification for teachers.

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## (5) Strategic – Slowdown In Regional And Global Economy

The global growth for the next two years is predicted by The International Monetary Fund to slow – from 6.1% in 2021 to 3.2% in 2022 and 2.9% in 2023. This slowing growth is related to higher-than-expected inflation, the Russia-Ukraine conflict and China's economic slowdown due to the COVID-19 lockdowns. These factors have a direct impact on the Group's profitability, liquidity and cash flow position.

The Group has remained resilient through adequate control measures in place to ensure risks and its exposures are reviewed regularly and mitigated. Business plans and strategies are also reviewed regularly and measured against actual performance. The Group is also focused on proactive risk and capital management to positively position itself in the face of global uncertainty.

## (6) 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. F&N also reviews the performance of our investments post acquisition.

## (7) Operational and 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,

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

## (8) 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.

## (9) 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.

## (10) Interest Rate Risks

The Group manages its interest rate risks by maintaining a portfolio of fixed and floating rate debt. The Group has hedged most of its debt on fixed rates for the next 3 years. More information can be found on page 59 of the Capital Resources section.

## (11) 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 health screenings, health and wellness talks and sponsors sports and community

events like the SGX Cares Bull Charge Charity Run and National Steps Challenge™.

All employees involved in crisis management have been trained on key aspects of crisis management, and participated in call notification exercises, walk-through/desktop exercises, mock product recalls, IT disaster recovery exercises and business continuity simulation exercises. These exercises focus primarily on safety of employees and customers, at the same time enable the organisation to remain resilient in times of crises.

## (12) 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/seizing climate related risks/opportunities, cybersecurity and terrorism risks, pandemic and epidemic 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 setup of a e-learning committee and successful roll out of F&N policy e-learning programmes to entities in Singapore, the plan is to roll out the e-learning to overseas entities.