

ENTERPRISE-WIDE RISK MANAGEMENT

The Board and senior management of the Group actively promote a strong risk management culture by implementing sound processes and operating procedures.

F&N continuously monitors the business environment for risks and opportunities, develops strategies to mitigate risks and seizes emerging opportunities. Within the Group, management diligently tracks and promptly reports key risks, fostering open communication and ensuring timely issue resolution. Our primary objective is to safeguard the interests of shareholders, while also considering the 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, as well as strategies for risk identification, risk impact assessment and response and recovery processes. F&N employs both top-down and bottom-up approaches in this endeavour. F&N updated its vision

statement to reflect our commitment to become a stable, sustainable, and profitable leader in the ASEAN food and beverage sector.

The responsibility for identifying, evaluating and monitoring risks and material ESG factors lies with the management team. They also report regularly to the SRMC and Board the status and effectiveness of risk mitigation measures, sustainability practices and strategy implementation.

Key risks of various business units and recommendations on sustainability initiatives are reviewed by the Company’s CEO, the CEOs of the Group’s strategic business divisions (“**CEOs**”), division heads, and the Sustainability Development Committee. These assessments are conducted three times a year and shared with the SRMC. 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 manager to conduct risk analyses with the Management. Risk managers 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 CEO and Senior Director, Group Finance of the Company and the CEOs and key management personnel who are responsible for each of the Group’s business divisions 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 FY2023 are disclosed on Page 87 of this report.

KEY RISKS IN FINANCIAL YEAR 2023

As at 30 September 2023, 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 – Potential Slowdown in Regional and Global Economy

The International Monetary Fund predicts a fall in global growth rate from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024. This slower growth can be attributed to ongoing monetary tightening measures implemented by central banks to control inflation. China’s slower-than-expected post-Covid recovery and ongoing regional conflicts in Europe and the Middle East are expected to continue exerting a negative impact on global economic growth.

As the Group predominantly operates within the ASEAN region, it plans to leverage its distribution networks and brand equity to maintain and capture market shares. The Group’s interest costs for 2024 are predominantly on fixed rates with an average tenure of 2 years, and thus unlikely to be materially impacted by any sudden increases in central bank interest rates.

More information can be found on page 65 of the Capital Resources section.

(2) Operational - Rising Input Costs

Regional conflicts and climate change will keep input costs elevated in 2024. Where possible, the Group enters into forward purchase arrangements for raw materials, maintains multiple sources of suppliers, and keeps higher levels of inventories to optimise input costs. 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. Energy cost, another key input cost component for P&P was lowered through successful renegotiation of contracted rates. In addition, the Group has harnessed solar power as a strategy to mitigate the impact of rising energy costs. Lastly, selective and gradual price adjustments have been introduced to partially offset input cost increases.

(3) Strategic - ESG Risks

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 proactively tracks developments in the F&B and P&P industries and reviews the effectiveness of its strategies.

(i) Increasing Importance of ESG

F&N has put in place additional measures to strengthen the Group's resilience to natural disasters, such as flooding, which may result in loss of lives and damage to properties. These measures comprise a range of actions including enhancing flood mitigation measures in Malaysia and Thailand, relocation of a facility to a less flood-prone site, the installation of solar panels at multiple locations across Malaysia, Singapore and Thailand, and active transition of the Group's transport fleet to electric vehicles.

We continuously explore innovative ways to reduce waste, conserve water and energy, and promote the use of renewable energy. In our commitment to reduce carbon footprints and conserve resources, the F&B business division has launched low-carbon plant-based products. Our Carnation Extra Evaporated Creamer has also been certified by the Thailand Greenhouse Gas Management Organisation as having low carbon footprint. For the P&P business division, sustainable soy-based inks, which have a lower carbon footprint as compared to the more common petrochemical-based inks, are used. These inks are derived from biological materials and are naturally renewable. Additionally, P&P also encourages its clients to use Forest Stewardship Council ("FSC") certified paper, Programme for the Endorsement of Forest Certification ("PEFC") certified paper or recycled paper. The Group is also implementing equipment upgrade programmes, such as for the chiller plant system, to further reduce carbon emission.

F&N is also committed to protecting biodiversity and eliminating deforestation from our supply chain. The Group sources ingredients like sugar, palm oil and paper from sustainably certified sources, including palm oil certified by the Roundtable on Sustainable Palm Oil, and paper certified by FSC.

In Malaysia, F&NHB partnered with 11 other fast-moving consumer goods companies through the Malaysian Recycling Alliance to enhance the collection and recycling of post-consumer packaging. In Singapore, F&N is also working with major producers in Singapore and the National Environment Agency to introduce the Beverage Container Return Scheme ("Scheme") in 2025. Under this Scheme, pre-packaged

beverage in plastic bottles and metal cans, ranging from 150ml to 3L will have a refundable deposit of 10 cents. The Scheme aims to boost beverage container recycling rates, reduce waste disposal, cut carbon emissions and promote recycling habits among Singaporeans. This initiative will also aggregate clean recyclables, increasing the supply and quality of materials available for recycling, thereby supporting the development of Singapore's recycling industry.

To further reduce the environmental impact of packaging, F&N constantly explores alternative and sustainable packaging solutions. The Group is exploring the switch to such sustainable packaging options, such as paper-based eco-pouches for secondary packaging materials. The effectiveness of these sustainable packaging is regularly assessed in conjunction with changing consumer preferences.

(ii) Rising Regulatory Enforcement

The Group remains committed to educating consumers about the effects of sugar and developing healthy products. F&N has set a target to ensure that 72% of beverage and dairy products (based on formulation), excluding canned milk and cordials, comply with the Nutritional Guidelines set by relevant authorities by 2025. With the successful rollout of healthy beverages and dairy products, we have met this target ahead of schedule. F&N is dedicated to maintaining this target.

In compliance with SGX's mandate for all listed entities in Singapore to incorporate climate reporting based on the Task Force on Climate-related Financial Disclosure ("TCFD") recommendations, on a 'comply or explain' basis in their sustainability reporting, F&N acted proactively by publishing a qualitative TCFD narrative last year in 2022, ahead of

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the SGX's stipulated 2023 timeline last year. This year, we had completed a quantitative assessment for three climate-related physical and transition risks. The qualitative TCFD narrative, first published in the F&N Sustainability Report ("F&N SR") 2022 last year, will be updated with the outcome of this quantitative assessment in the F&N SR 2023. The Group now has better visibility regarding the estimated future financial impact of these three climate-related risks, and would prepare mitigation and adaptation plans where needed.

F&N has also pledged to achieve net-zero Scope 1 and 2 greenhouse gas emissions by 2040, in alignment with ThaiBev's net zero ambition. Furthermore, we have formalised a climate risk appetite statement which provides guiding principles for managing climate-related risks and opportunities.

Refer to the F&N Sustainability Report 2023 for more details on the Group's sustainability initiatives.

(4) Operational – Cyber Risks

The proliferation of cyber threats, including ransomware and cyber supply chain attacks, is a global concern. As F&N increasingly relies on digital systems to drive business operations, the risk of cyber incidents that could disrupt business operations and lead to financial and reputational damage becomes more acute. In F&N, cybersecurity is managed by the F&N Digital Solutions and Technology ("DST") team. To ensure resilience of network and data, various risk mitigation measures had been implemented. These included the classification and labelling of confidential data, vulnerability assessments, privileged access management, mandatory cybersecurity awareness trainings, simulated phishing exercises and penetration testing. The effectiveness of these measures are reviewed regularly. DST also reports any cybersecurity breaches within the Group to the SRMC.

(5) 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.

(6) Reputational 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 social media and periodically review the effectiveness of policies and procedures that are in place to deal with any potential negative impact social media has on the Group.

(7) Operational – Workplace Safety and Health Risks

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 supports activities such as health screenings, health and wellness talks and sponsors sports and community events like the SGX Cares Bull Charge Charity Run.

(8) 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 claims. Property, plant and equipment are revalued annually to ensure adequacy of insurance coverage.

The Group is exposed to currency risks 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.

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.