ENTERPRISE-WIDE RISK MANAGEMENT (ERM)

Enterprise-wide Risk Management (ERM) is an essential part of the business strategy of FCL and its subsidiaries (collectively, the Group). The Group maintains a risk management system to proactively manage risks both at the strategic and operational level to support the achievement of its business objectives and corporate strategies. Through active risk management at all levels, the management of the Company (the Management) creates and preserves value for the Group.

The Board of Directors (Board) is responsible for the governance of risks across the Group and ensuring that the Management maintains a sound system of risk management and internal controls. It is assisted by the Risk Management Committee (RMC) to oversee the Group's ERM framework, determine the risk appetite, assess the Group's risk profile, material risks, and mitigation plans, as well as to ensure the adequacy and effectiveness of risk management policies and procedures. The RMC comprises members of the Board who meet quarterly to review material risk issues and the mitigating strategies. All material risks and risk issues are reported to the RMC for review.

The RMC, on behalf of the Board, approves the Group's risk tolerance statements, which set out the nature and extent of the significant risks that the Group is willing to take in achieving its strategic objectives. The risk tolerance statements are supported by the risk thresholds which have been developed by the Management. These thresholds set the risk boundaries in various strategic and operational areas and serve as a guide for the Management in their decision making. The risk tolerance status is reviewed and monitored closely by the Management. Any risk that has escalated beyond its threshold will be highlighted and addressed, and together with its associated action plan, will be reported to the RMC.

RISK MANAGEMENT PROCESS

To facilitate a consistent and cohesive approach to ERM, a risk management framework and process have been developed. FCL adopts a robust risk management framework to maintain a high level of corporate discipline and governance. The risk management process is implemented by Management for the identification and management of risks of the Group. The process consists of risk identification, risk assessment and evaluation, risk treatment, risk monitoring and reporting.

The ERM framework links the Company's risk management process with the Group's strategic objectives and operations. Risks are identified and assessed, and mitigating measures developed to address and manage those risks. The ERM framework and process are summarised in an ERM policy for employees.

The risk management process is integrated and coordinated across the businesses of the Group. The ERM framework and processes apply to all business units in the Group. The risk ownership lies with the heads of the respective business units who consistently review risks and ensure the control measures are effective. They are responsible for the development, implementation and practice of ERM within the business unit. Emerging risks that have a material impact on the business units are identified and assessed. The risk exposures and potential mitigating measures are tracked in a risk register maintained in a web-based Corporate Risk Scorecard system. Where applicable, Key Risk Indicators are established to provide an early warning signal to monitor risks. Key material risks and their associated mitigating measures are consolidated at the Group level and reported to the RMC.

The Group proactively manages risks at its operational level. Control self-assessment, which promotes accountability and risk ownership, is implemented for several key business processes. The Group also has in place a Comfort Matrix framework, which provides an overview of the mitigating strategies, and assurance processes of key financial, operational, compliance and information technology risks.

An ERM validation is held at the Management level annually. The heads of business units provide assurance to the Group Chief Executive Officer and Chief Financial Officer that key risks at the business unit levels have been identified and the mitigating measures are effective and adequate. The result of the ERM validation for the financial year ended 30 September 2017 was reported and presented to the RMC. At this annual ERM validation, the Management provided assurances that the risk management system implemented in the Group is adequate and effective to address risks that are considered relevant and material to the Group's operations.

The Group enhances its risk management culture through various risk management activities. Risk awareness briefings are conducted for all levels during staff orientation. Refresher sessions are also organised for existing staff when required. Periodic discussions of risk and risk issues are held at the business unit level where emerging risks are identified and managed.

FCL seeks to improve its risk management processes on an ongoing basis. The Group's risk management system is benchmarked against the market practice. During the financial year, the Group improved its business continuity management capability by enhancing its Crisis Management Plan at the FCL Corporate level. Business continuity plans for the corporate departments were also developed to guide the departments in the event of a business interruption. The business continuity effort is overseen by the Business Continuity Management Committee comprising members from the key heads of department.

KEY RISKS

The Management has been actively monitoring the key material risks that affect the Group. Some material risks include:

Country Risks (Economic, Political and Regulatory Risks)

With diversified worldwide operations, FCL is exposed to developments in major economies and key financial and property markets. The risk of adverse changes in the global economy can reduce profits, result in revaluation losses and affect the Group's ability to sell its residential development stock.

Inconsistent and frequent changes in regulatory policies as well as security threats may also result in higher operating and investment costs, loss in productivity and disruptions to business operations.

The Group adopts a prudent approach in selecting locations for its investment to mitigate these risks. Measures are in place to monitor the markets closely, such as through maintaining good working relationships and engaging with local authorities, business associations and local contacts, and reviewing expert opinions and market indicators, keeping abreast of economic, political and regulatory changes as well as stepping up the crisis preparedness of FCL's properties. Emphasis is placed on regulatory compliance in the Group's operations.

Financial Risk

FCL has global operations and has exposure to financial risks such as foreign exchange risk, interest rate risk and liquidity risk. The Group uses derivatives, a mix of fixed and floating rate debt with varying tenors as well as other financial instruments to hedge against foreign exchange and interest rate exposure. Policies and processes are in place to facilitate the monitoring and management of these risks in a timely manner.

To manage liquidity risk, the Group monitors cash flow and maintains sufficient cash or cash equivalents as well as secures funding through multiple sources to ensure that financing, funding and repayment of debt obligation are fulfilled. The Group's financial risk management is discussed in more detail in the notes to the financial statements on pages 273 to 280.

Human Capital Risk

The Group views its human capital as a key factor for driving growth. As such, talent management, employee engagement, the retention of key personnel and maintenance of a conducive work environment are important to the Group. In view of these considerations, the Human Resources team has developed and implemented effective reward schemes, succession planning, corporate wellness programs and staff development programs. Details on the various programs and initiatives can be found in the Sustainability Report section of the Annual Report on pages 102 to 105.

Fraud and Corruption Risk

The Group does not condone any acts of fraud, corruption or bribery by employees in the course of its business activities. The Group has put in place various policies and guidelines, including a Code of Business Conduct and an Anti-Bribery Policy to guide the employees on business practices, standards and conduct expected while in their employment with the Group. A Whistle-Blowing Policy has also been put in place to provide a clearly defined process and independent feedback channel for employees to report any suspected improprieties in confidence and in good faith, without fear of reprisal. The Audit Committee reviews and ensures that independent investigations and appropriate follow-up actions are carried out. More details can be found in the Corporate Governance Section on pages 149 to 151.

ENTERPRISE-WIDE RISK MANAGEMENT (ERM)

Information Technology (IT) Risk

The Group places a high priority on information availability, IT governance and IT security. It has put in place group-wide IT policies and procedures to address evolving IT security threats, such as hacking, malware, mobile threats and data-loss. Disaster recovery plans and incident management procedures are developed and tested annually. Measures and considerations have also been taken to safeguard against loss of information, data security, and prolonged service unavailability of critical IT systems. Periodic training is also conducted for new and existing employees to raise IT security awareness. External professional services are engaged to conduct independent vulnerability assessment and penetration tests to further strengthen the IT systems.

Environmental, Health & Safety (EHS) Risks

FCL places importance in managing EHS risks in its international operations. It has put in place an EHS policy and EHS Management Systems in key operation areas to manage the risks. The Group has achieved OHSAS 18001 and ISO14001 certification for some of its key operations. During the financial year, the Singapore Retail Mall Management has been certified OHSAS 18001, while the Singapore Office Building Management has achieved the ISO14001 (Environment) and ISO50001 (Energy) certification. The Group will continue to extend the coverage of EHS Management Systems to a wider scope of operations in the future.

FCL manages the environment risks by setting targets in reducing greenhouse gas emission, energy usage and water consumption within its investment portfolio. More details can be found in the Sustainability Report section of the Annual Report on pages 80 to 119.