

RISK MANAGEMENT

Risk Management Programme

SPH has, wherever applicable, complied with the Risk Governance Guidelines for Listed Boards in relation to the management of the company's risks and mitigation strategies and controls. The Board, through the Board Risk Committee (BRC), is overall responsible for the governance of risk within the Group and ensures that Management maintains a sound system of risk management and internal controls to safeguard stakeholders' interests and the company's assets. In the process, the Board determines the nature and extent of the significant risks which the company is willing to take in achieving its strategic objectives.

SPH advocates a continuous and iterative process for enhancing risk awareness across the organisation through an enterprise-wide risk management framework (ERM) framework. The framework provides the operating units and support functions (Business Units) a consistent approach for risk identification and institutes a common platform to discuss and manage risks. Together with the various Business Units, the Risk Management Department (RMD) identifies, manages and reports the key risks faced by the company to the BRC, which then updates the Board. RMD is also responsible for ensuring that the risk management framework is effectively implemented and that risk registers are maintained by the respective Business Units.

All Business Units carry out a risk review every quarter to ensure that risk registers are up-to-date and risk controls are enhanced and kept current. RMD makes quarterly reports on the company's risk management activities which include operational, financial, compliance, information technology management, internal controls and risk management systems to the BRC.

SPH's risk management philosophy is built on a culture where risk exposures are mitigated by calibrating risks to acceptable levels whilst achieving the organisation's business plans and goals. As part of the company's efforts to ensure that risk management practices are firmly established at all levels, nominated risk coordinators from each Business Unit closely monitor and promptly flag risk events. Risks are systematically managed and reviewed at strategic, operational and project levels. Wherever possible, SPH practises risk transfer by purchasing relevant insurance policies such as Industrial Special Risks, Media Industry Professional Indemnity, Public Liability, Work Injury Compensation, Group Personal Accident and Fidelity Guarantee policies.

In pursuit of SPH's risk management philosophy, the following ERM principles apply:

- Risks can be managed, but cannot be totally eliminated.
- ERM is aligned with, and driven by, business values, goals and objectives.

- Managers at each level must assume ownership of Risk Management.
- Engagement of BRC on material matters relating to the various types of risks and development of risk controls and mitigation processes.
- Risk management processes are integrated with other processes including budgeting, mid/long-term planning and business development.

The key outputs of SPH's Risk Management are:

- Defining a common understanding of risk classification tolerance.
- Identifying key risks affecting business objectives and strategic plans.
- Identifying and evaluating existing controls and developing additional plans required to treat (mitigate, reduce, transfer, etc) these risks.
- Implementing measures and processes to enable ongoing monitoring and review of risk severity and treatment effectiveness.

The following sections outline the risk environment that may impact the financial status and operational effectiveness of SPH's businesses and the approaches to managing these risks.

Economic and Business Risks

Adverse macroeconomic conditions, globally and locally, have a significant impact on SPH's principal business segments. SPH actively manages its risk exposure on the economic front by proactively streamlining its business processes and adopting prudent fiscal controls.

A rapidly evolving multimedia landscape creates challenges to SPH's core business with media convergence providing alternative choices for readers and advertisers. In order to stay ahead of such developments, SPH constantly assesses the risks affecting its business and plans to harness available opportunities to improve its existing products and services as well as creating new ones in response to customer needs.

In addition, SPH has diversified into other business areas such as properties, events and offering digital platforms to reduce its dependency on print revenue.

Operational Risks

As a large organisation with many functions and processes, SPH faces the risk of business operations failing due to human error.

SPH's system of internal controls is designed and operated to support the identification, evaluation and management of risks

affecting the group at all operational levels. This system of internal controls focuses on the financial reporting process and the preparation of consolidated accounts and extends across all areas of operations. Operational risk management is integrated into the daily operations of all Business Units. These Business Units are provided with guidance by RMD in the identification, assessment, mitigation and monitoring of risks in their operations.

Regulatory/Compliance Risks

SPH's newspaper business is subject to the annual renewal of its printing licence and newspaper permit licence for each newspaper, pursuant to the provisions of the 'Newspaper and Printing Presses Act' (Chapter 206, Singapore Statutes). Failure on its part to comply with the Act may subject SPH to significant liabilities, such as fines, suspension, or the revocation of the licence. In addition, SPH is also obligated to comply with other statutory and regulatory requirements such as the Singapore Exchange Listing Manual requirements, the Companies Act, the Competition Act, and market practice codes prescribed by the Media Development Authority of Singapore.

In response to such statutory and regulatory requirements, SPH has also implemented compliance frameworks that include instructional tools and processes to monitor the level of compliance and minimise any lapses.

Since September 2011, SPH has extended Workplace Safety and Health compliance to all offices, warehouses, business and public services. In accordance with the new Energy Conservation Act, SPH will put in place controls at the main printing plant, to reduce energy consumption over the next five years using the energy consumption for 2013 as a base-line.

Newsprint Cost Risks

One of the main cost drivers in SPH business is newsprint prices. The cyclical fluctuation of newsprint prices has a substantial impact on newspaper publishing costs. A significant spike in newsprint price or a reduction in the availability of newsprint can result in higher production costs and impact on its operating margins.

To mitigate against this, SPH adopts measures such as advance purchasing and developing a core group of reliable, sustainable and responsible suppliers.

Business Continuity Risks

The availability and safety of its printing facilities, editorial functions and data centres are of paramount importance to SPH as its readers rely on SPH to provide them with timely and essential news via its suite of newspapers, online and mobile news and other services.

SPH recognises the organisation's exposure to internal and external threats and seeks to increase the resilience of the Group to potential business interruptions and to minimise the impact of a crisis on business operations, people and assets. The effective prevention and recovery for the organisation will ensure that SPH continues to maintain its competitive advantage and maximise value for its stakeholders.

Towards this end, SPH has a comprehensive Business Continuity Planning programme (BCP) to minimise any disruptions to its critical business activities and ensure that the populace continues to be informed in the face of crisis. Simulation exercises are conducted, on location, periodically. Front-line staff, as well as operating and supporting Business Units are involved to ensure operational preparedness. The Group continues to scan for possible threats and establish plans to enhance its BCP.

Fraud Risks

Every organisation faces some risk of fraud incidents from within. SPH has a Code of Business Ethics and Employee Conduct (Code of Conduct) which states that the company does not tolerate any malpractice, impropriety, statutory non-compliance or wrongdoing by staff in the course of their work. The Code of Conduct covers areas such as fraud, business and workplace behavior, safeguarding of assets, proprietary information and intellectual property. Any breach of the Code of Conduct may result in disciplinary action including dismissal or termination of the employment contract. A WhistleBlower Policy is published on the local network and internet (http://www.sph.com.sg/whistleblowing_policy.shtml) for staff and public information with a hotline number made available for complaints and any observations to be raised.