RISK MANAGEMENT

RISK MANAGEMENT PROGRAMME

We have established and put in place a holistic Enterprise Risk Management Programme (ERM), which complies with the Risk Governance Guidelines for Listed Boards, to ensure that the Group's capabilities and resources are employed in an efficient and effective manner to manage both opportunities and threats.

ERM FRAMEWORK

Our ERM framework, modelled largely on the ISO 31000:2009 Risk Management – Principles and Guidelines, covers the key strategic, operational, financial, compliance and information technology risks. The ERM framework is supported by appropriate risk policies and procedures and provides guidance to our business units on managing risks.

RISK GOVERNANCE

Our Risk Management Programme and internal controls are reviewed on a regular basis and, where appropriate, refined by Management with guidance from the Board Risk Committee (BRC) and the Board of Directors (Board).

The Board, through the BRC, has the overall responsibility for risk governance and ensures that Management maintains a robust system of risk management and internal controls to safeguard stakeholders' interests and the company's assets. In addition, the BRC sets the tone on the appropriate risk culture and provides guidance on the risk management system, policies and procedures. The BRC currently comprises three independent Board members and CEO. The BRC meets three times a year and additional meetings may be convened as and when necessary. The meetings are also attended by key Senior Management staff.

The Enterprise Risk Appetite Statement addresses the key risks and sets out the risk appetites and tolerance for the Group. The Board regularly reviews the high-level risk appetite statements, taking into account the Group's strategic objectives and priorities and balancing the aforementioned against the requirements of various stakeholders, including the regulatory framework in which SPH operates. Guided by these high-level risk appetite statements, each business unit establishes its respective risk appetite statement to govern its operations. Key Risk Indicators are identified, measured, monitored and reported to BRC and Management. To ensure that risks are adequately and effectively managed in a rapidly evolving business environment, we adopt a forward-looking risk culture and the industry best practices by embedding processes to scan the environment for new and emerging risks and opportunities and concomitantly, maintain an understanding of existing risks.

It is our risk governance requirement to monitor risks, proactively seek assurance and ensure that inadequacies are addressed through the scrutiny of the Board. The aforementioned requirements facilitate the Board in satisfying its duties and obligations in relation to reviewing, concluding and disclosing the adequacy and effectiveness of risk management and internal control systems across SPH.

RISK MANAGEMENT PHILOSOPHY AND APPROACH

Our risk management philosophy and approach is set out below:

- Our overarching ERM principle is that risks can be managed, but cannot be totally eliminated. Accordingly, our risk exposures are mitigated to acceptable levels by continuous and iterative process at the respective business units.
- ERM is aligned with and driven by business values, goals and objectives.
- BRC shall be consulted on material matters relating to the various key risks and development of risk controls and mitigation processes.
- Risk Management is the responsibility of all staff. As such, risk awareness among staff is critical and we promote such awareness through constant communication and education.
- Risk management processes are integrated with other business processes such as budgeting, mid/long-term planning and business development.
- Where possible, risks are shared and transferred via relevant insurance policies such as Industrial Special Risks, Media Industry Professional Indemnity, Public Liability, Work Injury Compensation, Group Personal Accident, Cyber Liability and Fidelity Guarantee policies.

The key outputs of our Risk Management Programme are:

- Identify key risks affecting business objectives and strategic plans.
- Identify and evaluate existing controls and develop additional plans required to treat the identified risks (mitigate, reduce, transfer, etc)

- Implement measures and processes to enable ongoing monitoring and review of risk severity and treatment effectiveness.
- Identify changes to risks or emerging risks and promptly bring these to the attention of the Board where appropriate.

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

ECONOMIC AND BUSINESS RISK

Adverse macroeconomic conditions in the global and domestic environment have a significant impact on our principal business segments. Although the domestic economy is seen to perform reasonably with official GDP growth forecast at 2.5 to 3.5 per cent for 2018^, external headwinds such as rising interest rates and trade conflicts could present uncertainties and downside risks. We proactively manage risk exposure on the economic front by making efforts to diversify into new growth markets locally and overseas, streamlining our business processes for cost optimisation and adopting prudent financial management practices.

A rapidly evolving multimedia landscape poses challenges to SPH's core business with media convergence providing alternative choices for readers and advertisers. In order to stay ahead of such developments and meet customers' evolving needs, we continue to sharpen our media capabilities, constantly assess the risks affecting our business and strive to harness available opportunities to improve our existing products and services as well as creating new ones.

As we expand into new growth verticals such as properties and aged care to reduce reliance on print revenue, we are mindful of associated risks such as execution and reputational risks. To manage such risk exposure, we adopt appropriate business practices that facilitate effective execution whilst ensuring that our values and reputation are not compromised.

TECHNOLOGY AND CYBER RISK

In order to sustain our competitive edge in the media industry amidst rapid technology changes, we strive to stay on top of technological trends and implement adequate and effective IT controls to address potential exposures and threats. During the year, we have worked with professional consultants such as Booz Allen Hamilton to conduct a cyber security review. Arising from the review, we have identified various measures to further strengthen our cyber security posture. As cyber attacks become more organised and sophisticated, we will continue to invest heavily to strengthen our cyber defences given the increased threat level. For example, to safeguard the personal data that is in the Group's possession, security of systems containing personal data had been strengthened with enhanced measures.

We further recognise that human faults present a most fundamental threat to cyber and information security. In order to ensure the efficiency and integrity of IT systems, the Group's Information Technology Acceptable Usage Policy is put in place to guide all staff on appropriate and acceptable use of computing resources such as hardware, software and data. Cyber security awareness education is a continuous, cultural initiative implemented to strengthen the corporate defence behaviour against potential hacking, phishing, malware and other cyber-crimes.

REGULATORY/COMPLIANCE RISK

Our newspaper business is dependent on the annual renewal of printing licence and newspaper permit licence for each newspaper, pursuant to the provisions of the Newspaper and Printing Presses Act (Chapter 206, Singapore Statutes). The Group's online publications and radio business are also subject to the Broadcasting Act and its relevant Codes of Practice. Failure to comply with the relevant Acts and Codes may subject SPH to significant liabilities, such as fines, suspension, or the revocation of the licence. In addition, SPH is also required to comply with other statutory and regulatory requirements such as the Singapore Exchange Listing Manual requirements, the Companies Act, Monetary Authority of Singapore regulations, the Securities & Futures Act, the Competition Act and market practice codes prescribed by the Info-communications Media Development Authority of Singapore. As we expand into new growth verticals such as aged care, we are also subject to the applicable statutory and regulatory requirements.

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

We have put in place formal processes for Workplace Safety and Health compliance for our office, warehouses, business and public services.

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^ Source: Ministry of Trade and Industry Press Release dated 13 August 2018.

We have a policy and process in place to comply with the requirements of the Personal Data Protection Act 2012 (PDPA) and the European Union General Data Protection Regulation (GDPR), where applicable.

OPERATIONAL RISK

Operational risk relates to the risk of business operations failing due to human error and inadequate and ineffective controls in systems or processes, and is always inherent in organisations with multiple functions.

Effective operational risk management has always been one of the fundamental elements of our risk management programme, and we have designed and implemented our system of internal controls with a view to mitigate such operational risk.

NEWSPRINT COST RISK

One of our main cost drivers is newsprint prices. A significant spike in newsprint price or a reduction in newsprint availability can result in higher production costs and adversely impact our operating margins. To mitigate the risk, we have adopted measures such as advance purchasing and developing a core group of reliable, sustainable and responsible suppliers.

BUSINESS CONTINUITY RISK

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

We recognise our organisation's exposure to internal and external threats and seek to increase our resilience to potential business interruptions and to minimise the impact of a crisis on business operations, people and assets. Putting in place effective prevention and recovery measures will ensure that we continue to maximise value for our stakeholders.

Towards this end, we have a comprehensive Business Continuity Planning programme (BCP) to minimise any disruptions to our 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 latest annual Disaster Recovery Exercise which included simulation training for the newsroom and major business units like Integrated Marketing and Finance was conducted successfully in August 2018.

FRAUD RISK

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 behaviour, 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. We seek to promote and foster a strong risk culture by making the Code of Conduct accessible to employees via the staff portal and new staff are made aware of the guidelines through the staff induction programme. **We also have in place a Whistle-blowing Policy which staff and any other persons may, in confidence, raise concerns about possible improprieties including matters involving fraud, corruption and employee misconduct.** The policy is published on the local network and internet (http://www.sph.com.sg/corporate-governance/whistleblowing-policy-procedure/) for staff and public information with a hotline made available for complaints and any observations to be raised.