

## RISK MANAGEMENT

Risk management is an important and integral part of the Group's strategic planning and decision making process. While risks cannot be eliminated completely, an effective risk identification and management process reduces the uncertainties surrounding the achievement of the Group's business objectives and allows the Group to take advantage of opportunities that may arise.

The Group's approach to risk management is underpinned by several key principles:

- The risk management process is a continuous, iterative and developing one, as the Group's businesses and their operating environments are dynamic. Risk identification and assessment and risk management practices are updated regularly to manage risks proactively in line with the changes in the markets.
- We promote and inculcate risk awareness among all our employees by embedding risk management processes into day-to-day business operations. Regular exercises, continuous education and training, as well as communications through various forums on risk management promote a risk-conscious staff across the Group.
- Ownership of the risk management process is clearly defined and assigned to the business units, departments and individuals. Managers at each level have intimate knowledge of their businesses and assume ownership of risk management, with stewardship retained at Senior Management.

The different business units have different risk profiles and they have different programmes to manage the risks. These programmes are tested and stressed periodically to ensure that they remain relevant and meet changing business requirements. Some of the key risks faced by the Group, the relevant mitigating factors and how they are managed are set out below.

### FINANCIAL RISKS

The Group has established internal control systems to safeguard its assets and regularly reviews the effectiveness of these controls to improve and fortify financial discipline. All policies and procedures on financial matters, including approval limits and authority, are clearly defined in the Group's Financial Procedures Manual.

### Financial Authority Limits

Comprehensive and specific financial authority limits are put in place for capital expenditure, operating expenses, treasury matters, direct investments, revenue tender participation and disposal and write-off of assets. These authority limits are delegated based on the organisational hierarchy from the Board down to the Chief Executive Officer (CEO) and the Heads of Business Units/Departments, with the Board retaining the ultimate authority. Any expenditure exceeding the highest authority limit is referred to the Board for approval. To ensure that the Group's funds continue to be managed prudently, the Board periodically reviews the mandate that it delegates to Management.

### Budgetary Control

A robust and challenging Annual Budget is prepared and approved by the Board prior to the commencement of each new financial year. Material variations between actual and budgeted performance are reviewed on a monthly basis and explanations provided. Specific approvals are required for unbudgeted expenditures exceeding a relevant threshold. The capital expenditure budget is approved in principle by the Board as part of the Annual Budget. Each capital expenditure is still subjected to rigorous justification and review before it is incurred in accordance with the Group's financial authority limits. Tight control on hiring is exercised through headcount budget.

### Financial Risk Management

The Group recognises that prudent management of financial risks is an important aspect in the creation of shareholder value. The main areas of financial risks faced by the Group are interest rate risk, credit risk and liquidity risk. It is the Group's policy not to participate in speculative financial instruments. Sensitivity analysis and reviews of the Group's exposure to financial risks under changing market conditions are carried out regularly.

A detailed description of the financial risks and how the Group manages them are set out in the Notes to the Financial Statements on pages 85 to 86.

### **Economic Cycle**

Macroeconomic conditions may impact the businesses in terms of customer demand and the cost of providing the services. We manage these risks by continuously scanning and monitoring political and economic issues. We monitor demand trends and operating margins closely. Expenses are managed in the light of revenue patterns and changing market environments. Revenue risks are also mitigated by diversifying revenue streams.

### **OPERATIONAL RISKS**

Operational risks may arise from failures in internal controls, operational processes or the supporting systems. The Group has put in place operating manuals, standard operating procedures, authority guidelines and a regular reporting framework to manage these risks.

### **Safety**

Managing the safety and security of our customers, our staff and the public is the cornerstone of the Group's safety and security plan. We run safety awareness programmes to instil a safety and security conscious culture in employees at all levels. Safety audits are conducted regularly as part of the management and review process to ensure that safety standards are maintained.

### **Environmental**

Accidents and natural events can cause pollution or other environmental risks. To limit these risks, we engage in active environmental risk management, ensuring that we target the problems that could arise and implement preventive measures. Ways in which the Group works to protect the environment can be found in the Sustainability Report section of this Annual Report.

### **Human Resource**

The Group's ability to continue to develop and grow the business depends on the quality of its employees. We have in place various programmes and processes that focus on several key areas, including succession planning, building management bench strength and talent management, recruitment and retention, performance management, compensation and benefits, training and development, employee conduct and supervision, as well as occupational health and safety. We ensure that employees are selected based on merit, they understand their responsibilities and are given access to necessary training. At all times, a positive, constructive

and productive working climate based on strong tripartite relations is fostered. All terms and conditions of employment, along with policies and procedures, comply with the relevant regulations.

### **Information Technology**

Information technology system failures are key risks for the Group as the businesses rely heavily on information technology. This can take the form of a major system failure which can result in disruption of the business, loss of data or a security breach of our information technology systems. Information security means protecting information and information systems from unauthorised access, use, disclosure, disruption, modification or destruction. The Group's information technology security management framework complies with current industry standards. We have put in place various controls and data recovery measures to mitigate the risks, including the use of intrusion prevention systems, multi-level firewalls and data loss prevention controls to manage Internet security and cyber threats.

### **Property and Liability**

The Group's exposure to property damage, business interruption and other liability risks is constantly monitored and reviewed. Together with external risk management consultants, we ensure sufficiency of insurance coverage and maintain an optimal balance between risks that are retained internally and risks that are placed out with underwriters.

### **Business Continuity**

Operating in an environment with potential threats of terrorism, epidemic outbreaks and information system failures, we have put in place Business Continuity Plans (BCPs) to mitigate the risks of disruption and catastrophic loss to our operations, people, information database and other assets.

The BCPs include identification and planning of alternate recovery centres, operational procedures to maintain communication, measures to ensure continuity of critical business functions and recovery of information database. We update and test the BCPs regularly. Drills and emergency response exercises are conducted to familiarise employees with the various incident management plans. The BCPs enhance the Group's operational readiness and resilience to potential business disruptions.

## COMPLIANCE RISKS

The Group operates in a regulated environment in that vehicle inspection may only be carried out by persons authorised by the LTA. Any change in vehicle inspection policy may affect the Group. We work closely with the regulatory authorities in the respective countries as part of our risk management process to keep abreast of developments and policies that may affect our businesses and the competitive landscape.

## STRATEGIC RISKS

We evaluate each new investment proposal to ensure that it is in line with the Group's strategy and investment objective and it can meet the relevant hurdle rates of return. This assessment includes macro and project specific risks analysis covering feasibility study, due diligence, financial modelling and sensitivity analysis of key investment assumptions and variables. To ensure that the rate of return on any new investment or business opportunity commensurates with the risk exposure taken, the new investment opportunity is evaluated in terms of (a) profitability; (b) return on investment; (c) pay back period; (d) cash flow generation; (e) potential for internal and external growth; and (f) investment climate and political stability of the country. The investment proposal has to be approved according to the financial authority limits approved by the Board.

## AUDIT PROCESS

The Internal and External Auditors conduct reviews in accordance with their audit plans to assess the adequacy of the internal controls that are in place. Non-compliance and recommendations for improvements are reported to the Audit and Risk Committee, which reviews the effectiveness of the actions taken to mitigate the risks. In the course of their audits, the Internal and External Auditors highlight to the Audit and Risk Committee and Management areas where there are material deficiencies and weaknesses or the occurrence or potential occurrence of significant risk events and propose mitigating measures and treatment plans. The recommendations are followed up as part of the Group's continuous review of the system of internal controls.

## CODE OF BUSINESS CONDUCT AND WHISTLEBLOWING POLICY

The Group has adopted a Code of Business Conduct, which sets out the principles and policies upon which our businesses are conducted, as well as implemented a Whistleblowing Policy to provide a mechanism for employees to raise concerns, through well-defined and accessible confidential disclosure channels about possible improprieties in financial reporting or other

improper business conduct. Employees are given a Company handbook detailing how they can go about raising their concerns. Incidents can also be reported through a direct link to the CEO, the ComfortDelGro Group Human Resource Officer or the ComfortDelGro Group Internal Audit Officer on the Group's Intranet.

All cases are investigated and dealt with promptly and thoroughly. A committee, headed by an officer appointed by the CEO, will oversee all investigations. In cases where the laws have been infringed, the relevant regulatory authorities will be informed. The Audit and Risk Committee will also be informed of the outcome of all investigations. Where appropriate, internal control measures are improved or additional measures put in place to prevent recurrence of the incidents.

## OPINION OF THE BOARD

Risk management is an important and integral part of VICOM's strategic planning and decision making process. Key risks are identified and presented to the Board annually. Ownership of the risk management process is clearly defined and cascaded to the executive and functional level, with stewardship retained at Senior Management. Action plans that are necessary to manage the risks are in place and closely monitored. The adequacy of the internal controls in place is also assessed as part of the process. Based on these reviews, the Board is of the view, with the concurrence of the Audit and Risk Committee, that there are adequate internal controls in place within VICOM to address its financial, operational, compliance and information technology risks.