

# RISK MANAGEMENT

## WE UNDERTAKE ONLY APPROPRIATE AND WELL-CONSIDERED RISKS, CONSIDERING THEIR IMPACT TO OUR BUSINESS, STAKEHOLDERS, AND LONG-TERM CORPORATE SUSTAINABILITY.

Keppel adopts a balanced approach to risk management to optimise business returns while considering their holistic impact on corporate sustainability. Managing risk is integral to how we develop and execute our business strategies. It is grounded in our operating principles and belief that a balanced and holistic risk-reward methodology is key to our commitment to environmental, social and governance (ESG) issues, and to delivering long-term value for our stakeholders.

Our Risk-Centric Culture and Enterprise Risk Management (ERM) Framework enable the Group to respond to the dynamic business environment and shifting business demands, and to seize new value-added opportunities.

### RISK-CENTRIC CULTURE

Mindsets and attitudes are key to effective risk management. The Group fosters a risk-centric culture through several aspects.

### ENTERPRISE RISK MANAGEMENT FRAMEWORK

Relevant and material risk issues are surfaced for discussion with the Board Risk Committee (BRC) and the Board to keep them apprised in a timely manner. Through the BRC, the Board advises management in formulating and implementing the risk management framework, policies and guidelines.

The terms of reference for the BRC are disclosed on pages 99 and 100 of this report. The Board has defined three risk tolerance guiding principles for the Group which determine the nature and extent of the significant risks which the Board is willing to take to achieve business goals.

These principles are:

1. Risk taken should be carefully evaluated, commensurate with rewards and be in line with the Group's core strengths and strategic objectives;

2. No risk arising from a single area of operation, investment or undertaking should be so huge as to endanger the entire Group; and
3. The Group does not condone safety breaches or lapses, non-compliance with laws and regulations, as well as acts such as fraud, bribery and corruption.

Keppel's risk governance framework, set out on pages 92 to 96 under Principle 9 (Risk Management and Internal Controls), allows management and the Board to determine the adequacy and effectiveness of the Group's risk management system.

As a group, we are cognisant of the dynamic environment in which we operate. We constantly enhance the framework and systems where necessary, to ensure risk management remains an integral part of decision-making and operations.

Keppel's ERM framework, a component of Keppel's System of Management Controls, provides the Group with a systematic approach to identify and manage risks. It outlines the requirement for each business unit (BU) to recognise key risk areas affecting its operations and to classify the impact and likelihood of these risks in a register for prioritisation and management. The ERM framework also provides the reporting structure, monitoring mechanisms, processes and tools used, as well as any policies,

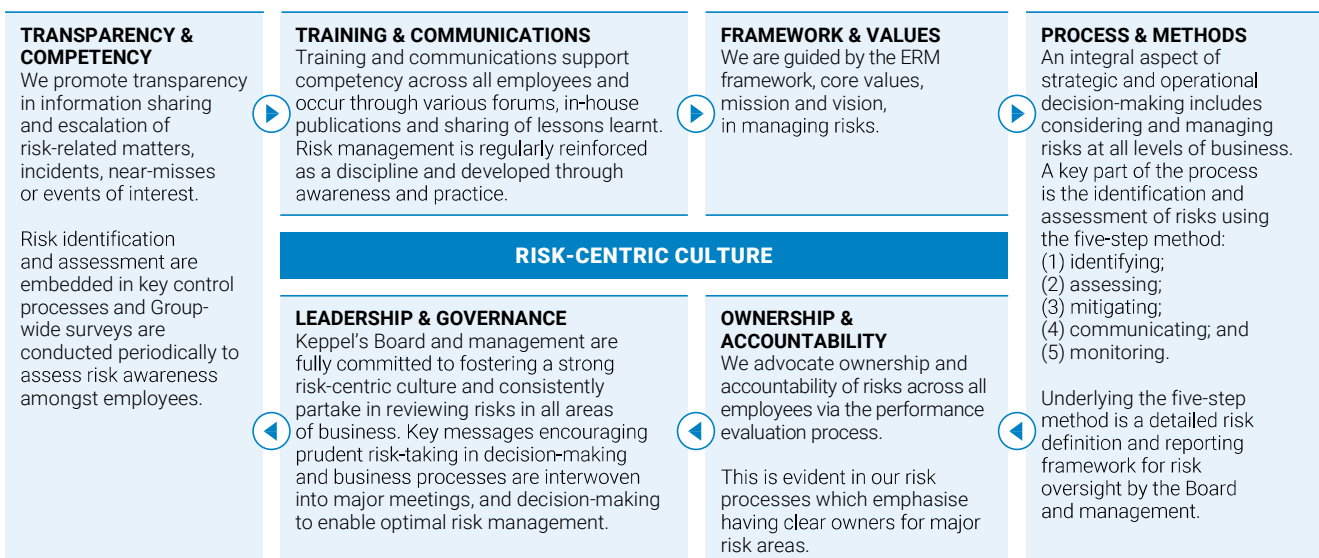


Figure 1



standards or limits to be applied in managing some of the Group's key risk areas.

Our ERM framework is also constantly refined to ensure it remains relevant in our operating environment and where required, is tailored to the requirements of each BU. The framework takes reference from the Singapore Code of Corporate Governance, the COSO Enterprise Risk Management – Integrated Framework, ISO 22301:2012, ISO 31000 and the Guidebook for Board Risk Committees.

Both management and risk leads across BUs drive and coordinate Group-wide activities and initiatives. These are facilitated by regular meetings to ensure that pertinent risks are identified, assessed and mitigated in a timely manner. Beyond operational activities, we continually improve on our risk practices taking reference from the latest industry developments and best practices.

2020 was a transformative year for Keppel. This was not only due to the impact of COVID-19, but also the launch of Vision 2030, which defines our roadmap into the next decade.

The key risks identified for FY 2020 encapsulate mainly our existing businesses and the transformation we have chosen to undertake. We remain committed to addressing each issue as they arise, in line with our philosophy of undertaking only appropriate and well-considered risks to optimise returns in a balanced and holistic manner, to deliver long-term value for all our stakeholders.

#### STRATEGIC RISKS MARKET & COMPETITION

A large part of the Group's strategic risks include market-driven forces, evolving competitive landscapes, changing customer demands and disruptive innovation. We remain vulnerable to other external factors including volatility in the global economy, implications of geopolitical developments, intense competition in core markets and disruptive technology. For example, the COVID-19 pandemic impacted the Group's operations in nearly all our key markets. Despite the many COVID-19 challenges faced by our businesses, including difficult economic and market conditions, mandated office closures and travel restrictions, the Group continued to operate resiliently, and remained focused on reviewing our business strategies, as well as formulating responses and taking pre-emptive actions against emerging risks.

During the year, the Board and management oversaw the launch and execution of Vision 2030 and the establishment of the Transformation Office to oversee and coordinate Vision 2030-related activities. As the Group transforms, risk management policies and principles will be continually refined to support our business objectives.

#### STRATEGIC VENTURES, INVESTMENTS & DIVESTMENTS

We have an established process for evaluating investment and divestment decisions including strategic ventures. We ensure that these endeavours are well monitored and aligned with the Group's strategic intent, investment objectives and desired returns. Where required, we may recalibrate some strategies in response to the changing business environment.

Together with the Board, the Investment and Major Project Action Committee guides the Group to ensure that risks taken are considered and controlled in a manner that exercises the spirit of enterprise and prudence to earn the best risk-adjusted returns on invested capital across our businesses.

The evaluation of risks for strategic ventures involves rigorous due diligence, feasibility studies and sensitivity analyses of key

assumptions and variables. Critical factors considered include alignment with the Group's strategy, financial viability, country-specific political and regulatory developments, contractual risk implications, as well as previous lessons learnt. In 2020, we introduced an internal shadow carbon pricing in the evaluation of major investment decisions. The Group's investment portfolios are constantly monitored to ensure that performance is on track to meet our strategic intent and returns.

#### SUSTAINABILITY & CLIMATE CHANGE

Sustainability covers a broad range of key material issues, many of which have been identified and managed according to the Group's ERM framework. In particular, risks and opportunities relating to sustainability, climate change and the environment are fundamental to the Group. These relate to both physical and transitional risks. The Group supports the Taskforce on Climate-related Financial Disclosures and has worked towards incorporating its recommendations in our reporting framework. Details on sustainability-related material issues to the Group can be found on pages 22 to 27 of this report.

As part of Vision 2030, we place sustainability at the core of our strategy. The Group's Sustainability Risk Management Framework is integrated with our ERM framework (Figure 1) and guides Group companies on the specific processes and methods applied in identifying, assessing and managing sustainability-related risks and opportunities. This includes third-party risks from vendors and suppliers. As part of Sustainability Risk Management, we assess opportunities for the Group in its sustainability strategy and are committed to strengthening our organisational capabilities in responding to climate-related risks and opportunities. More details will be provided in our Sustainability Report, which will be published in May 2021.

#### CUSTOMER & STAKEHOLDER EXPERIENCE

The Group operates in many geographies and has multiple customer touchpoints, including retail consumers in the telecommunications, retail electricity, e-commerce and gas businesses. Beyond customers, other stakeholders include regulators, partners, investors, employees and the local communities in which we operate. We place utmost importance on Customer and Stakeholder Experience as such matters have direct bearing on trust and brand reputation. As such, we consistently monitor our products and services for safety, quality and reliability. We respect customer/stakeholder feedback and post-sales support; and are committed to uphold personal data privacy, product safety and related matters including our responsiveness to

## RISK MANAGEMENT

inputs from stakeholders across various engagement channels.

### HUMAN RESOURCES

We place a strong emphasis on attracting and developing a wide pool of talent. To ensure we have the necessary skillsets to enable Keppel's transition into its next phase of growth, we have considered both internal and external development programmes. This includes nurturing employees, maintaining good industrial relations and fostering a conducive work environment. We are committed to strengthening succession planning and bench strength, as well as building or acquiring new organisational capabilities to drive business growth, whilst maintaining our status as an employer of choice.

In our talent development programmes, we emphasise the importance of having a risk-centric mindset to inculcate the ability to identify and assess risks, develop and implement mitigating actions, and monitor residual risks. The Keppel Leadership Institute helps to inculcate this mindset by embedding risk management in its key leadership courses.

### OPERATIONAL RISKS PROJECT MANAGEMENT

From project initiation through to completion, risk management is an integral part of project management activities to facilitate early detection and proactive management of operational risks. We adopt a systematic assessment and monitoring process to help manage key project risks. Attention is given to technically challenging and high-value projects, including greenfield developments, the deployment of new technology and/or operations in new geographies.

During project execution, we conduct project reviews and quality assurance programmes to address issues involving cost, schedule and quality. Project Key Risk Indicators are used as early warning signals to determine if remedial actions are required. A Project Operational Set-up Guide detailing the key risk areas is available for BUs looking to implement large projects. We also conduct knowledge-sharing workshops to share best practices and lessons learnt across the Group.

These processes help to keep project delivery on time and within budget, without compromising on safety, quality, regulatory and contractual obligations.

### HEALTH, SAFETY & ENVIRONMENT

We uphold high standards of safety, and this translates into constant vigilance to foster a strong HSE-centric culture across

the Group, particularly at the ground level where the risks are greatest. With the outbreak of COVID-19, the Group has placed high emphasis on staff health by ensuring that measures are taken and government regulations properly followed, so as to protect employees from potential exposure. Efforts have been made across BUs to manage staff movement and ensure relevant precautions, such as the use of personal protective equipment and temperature screening.

Other key HSE initiatives include our Zero Fatality Strategy with a roadmap focused on aligning High Impact Risk Activities standards across our global operations, enhancing competency of employees performing safety-critical tasks, strengthening operational controls, deploying Root Cause Analysis investigation standards across the Group, as well as developing more proactive and leading risk indicators/matrices to monitor HSE performance standards.

Environmental management is also a major area of focus and key operating sites are closely monitored for compliance with environmental standards.

In 2020, the Group clinched 21 awards at the Workplace Safety and Health (WSH) Awards for exemplary safety performance, implementation of strong WSH management systems and efforts to create solutions that improve workplace safety.

### BUSINESS & OPERATIONAL PROCESSES

The Group is connected by common shared services and platforms which enable us to better manage our processes and costs while enhancing efficiency, productivity, compliance and controls. We have adopted ISO standards and certifications in major business areas to standardise processes and keep up with industry best practices. In addition, procedures relating to defect management, operations, project control and supply chain management continue to be refined to improve the quality of deliverables.

We continue to embark on digitalisation and automation to optimise our processes while taking a risk-based approach. We also continually evaluate procedures, policies and authority limits to ensure that they remain relevant in meeting business needs.

### BUSINESS CONTINUITY

We are committed to maintaining operational resilience with Business Continuity Management (BCM) standards that equip us with the capability to respond effectively to business disruptions. We are cognisant of major risks of natural disasters, fire, pandemics, terrorism and cyber-attacks as well as the failure of critical equipment/

systems and industrial accidents. On major incidents, the Group Incident Reporting and Crisis Management operating standard guides us in management and response, while our Business Continuity Plans address post-event mitigation. These are coordinated by management and the Group BCM Steering Committee, which provide sponsorship, direction and guidance to ensure a constant readiness-to-respond state. We continually extend and strengthen our capabilities in responding to major incidents/crises with the aim of safeguarding our people, assets, stakeholders' interests and the Company's reputation.

In 2020, the COVID-19 pandemic resulted in the activation of Group-wide business continuity plans to protect employees and other stakeholders, whilst maintaining key operations. A COVID-19 Taskforce, comprising key senior management across the Group, was formed to coordinate centralised and timely responses, as well as review scenarios to ensure stability of the Group's operations and supply chains. In 2020, the Group focused on the well-being of staff and stakeholders, ensuring that safe management measures are in place across facilities.

We also recognise cyber threat as an emerging area of potential business disruption and maintain a Group Cyber Incident Response plan, which references local and international standards, and details our response and recovery protocols. Table-top exercises are also organised to validate the effectiveness of these protocols.

We continue to monitor key disruptive threats to our business operations and adapt our plans to ensure operational resilience.

### CYBER SECURITY, DATA PROTECTION AND TECHNOLOGY

As technology increasingly dominates business activities, we recognise the importance of cyber threats globally. Technology and data security risks, including outsourced services, are an integral part of the Group's business risk. We have established a technology governance structure and risk framework to address both general technology and data security controls, covering key areas such as cyber security, business disruption, theft/loss of confidential data and data integrity.

The Group continued to implement the Technology and Data Risk Management Programme in 2020. This involves the identification, assessment and management of critical technology and data assets according to leading industry guidelines such as those by the Cyber Security Agency

of Singapore (CSA) and the US National Institute of Standards and Technology. The programme not only seeks to improve technology and data security standards but also to inculcate a culture of cyber awareness amongst employees.

In 2020, the Group also embarked on various initiatives to continually strengthen our technology security, governance and controls through the refinement and alignment of our policies, processes and systems, as well as the consolidation of servers and storage. We worked closely with industry professionals to define a cyber security governance structure and enhance our information technology policies and practices to ensure alignment with industry standards. Extensive training and assessment exercises were conducted during year to heighten overall awareness of technology and data threats. These include the safeguarding of critical corporate data assets against the loss of availability of critical systems to disruptions.

In terms of use of technology, technical teams and experts from across the Group enable us to keep abreast of evolving technology. The response is either calibrated at each BU or managed strategically at the Group with the assistance of Keppel Technology and Innovation, which drives Group-wide adoption of new technology and innovation. The Keppel Technology Advisory Panel, comprising leading academics, researchers and advisors from a wide range of related industries, also regularly advises the Group in areas of technological innovation.

## **COMPLIANCE RISKS LAWS, REGULATIONS & COMPLIANCE**

Given the geographical diversity of our businesses, we closely monitor developments in relevant laws and regulations of countries where the Group operates to ensure compliance. We regularly keep updated on changes to laws and regulations, ensuring that we can assess our exposure and risks effectively, recognising that non-compliance with laws and regulations may have a detrimental effect on both the financial performance and reputation of Keppel.

Significant risk areas, such as those relating to potential corruption, are surfaced by management and where applicable, assessed by the Board. With respect to corruption, significant risks include areas where external agents are used for business development.

We are committed to enhancing our regulatory compliance policies and procedures to ensure that the Group maintains a high level

of compliance and ethical standards in the way we conduct our business. Our emphasis is clear and consistently emphasised. We have zero tolerance for fraud, bribery, corruption and violation of laws and regulations.

In 2020, we continued to make improvements to our regulatory compliance programme, refining our processes, broadening employee understanding, and ensuring that compliance awareness and principles are entrenched in all activities. We also recognise the importance of sanctions risks owing to the escalation of trade and other sanctions in many countries. More details of our Compliance programme can be found on pages 114 to 116 of this report.

## **FINANCIAL RISKS FRAUD, MISSTATEMENT OF FINANCIAL STATEMENTS & DISCLOSURES**

We maintain a strong emphasis on ensuring that financial statements are accurate and presented fairly in accordance with applicable financial reporting standards and frameworks.

Regular external and internal audits are conducted to provide assurance on the accuracy of financial statements and adequacy of the internal control framework supporting the statements. Where required, we leverage the expertise of the auditors we have engaged in the interpretation of financial reporting standards and changes. We also conduct regular training and education programmes to enhance the capabilities of the Group's finance managers.

In 2020, we enhanced our internal control framework to support a more data-driven approach to control assessments. Deployment of the eCSA tool allowed all covered BUs to better review and report key control assessments and assurance activities, improving accuracy and transparency in the annual assurance process.

Keppel's System of Management Controls framework outlines our internal control and risk management processes and procedures. For more details, please refer to pages 93 and 94 of this report.

## **FINANCIAL MANAGEMENT**

Financial risk management relates to our ability to meet financial obligations and mitigate credit, liquidity, currency and interest rate risks. Details can be found on page 69 of this report. In this area, policies and financial authority limits are reviewed regularly to incorporate changes in the operating and control environment.

We are focused on financial discipline and seek to deploy our capital to optimise risk-adjusted returns for shareholders, while maintaining a strong balance sheet to seize new opportunities. In 2020, as global economies faced stresses from the economic impact of COVID-19, the Group maintained a proactive approach to liquidity management and averted short-term funding stresses that were affecting many organisations across markets.

Our procedures include the evaluation of counterparties and other related risks against pre-established internal guidelines. We conduct impact assessments and stress tests to gauge the Group's potential financial exposure to changing market situations, to enable informed decision-making and the implementation of prompt mitigating actions. We also regularly monitor our asset concentration exposure in countries where we operate, to ensure that our portfolio of assets, investments and businesses are diversified against the systemic risks of operating in a specific geography.

## **PROACTIVE MANAGEMENT OF RISKS & OPPORTUNITIES**

Effective risk management is a dynamic approach and encompasses the evaluation of both risks and opportunities. Managing risk is an inherent part of seizing opportunities. Hence, we do not fear risks but recognise the need to proactively manage them as part and parcel of business operations. The marrying of risks and opportunities allows us to take a business-centric approach to risk management, aligning business activities with risk considerations, and discussing issues in an open and transparent manner, enabling us to pursue optimal risk-return initiatives.

We continually evolve our framework and processes to ensure effectiveness and relevance. Much of these depend on our ability to remain connected and vigilant to emerging risks or opportunities. Across the Group, we identify and review these in various meetings throughout the year. Where applicable, these are further developed and discussed at various governance committees to determine action or response. We recognise that our systems and processes provide reasonable but not absolute assurance and hence continually improve to ensure that our ability to manage and respond to risks and opportunities remains relevant and effective.