

# Risk Management

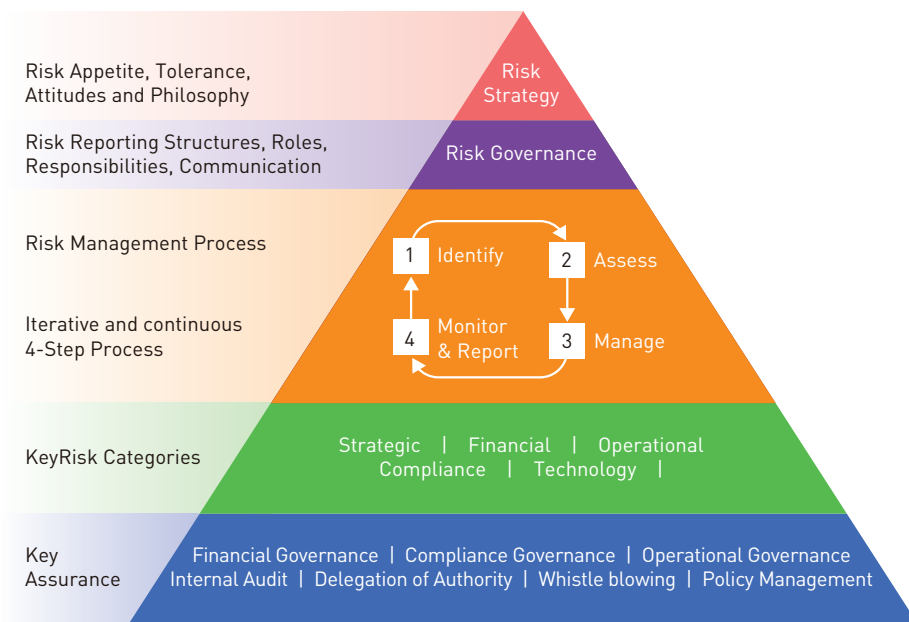
The Group takes a proactive approach in having a sound and robust risk management framework that ensures the Group is ready to meet challenges and seize opportunities through risk-informed decision-making. The risk management programme not only plays an integral part of our business, both strategically and operationally but also aims to create value for ESR's stakeholders. Our objective is not risk minimisation, but rather the optimisation of opportunities within the known and agreed risk levels set by the Board of Directors (Board).

The Group's Enterprise Risk Management ("ERM") Framework provides a holistic and systematic approach for the identification, assessment, monitoring and reporting of risks. It is designed to be dynamic with the intent of fostering the right risk culture and responds promptly and effectively in the constant evolving business environment. At ESR, the risk management culture involves both top-down oversight from the Board and management and bottom-up engagement from employees. This ensures a risk approach that is aligned with the Group's business objectives and strategies and also helps the organisation anticipating its risk exposure, putting mitigating controls in place to counter threats, while pursuing its objectives.

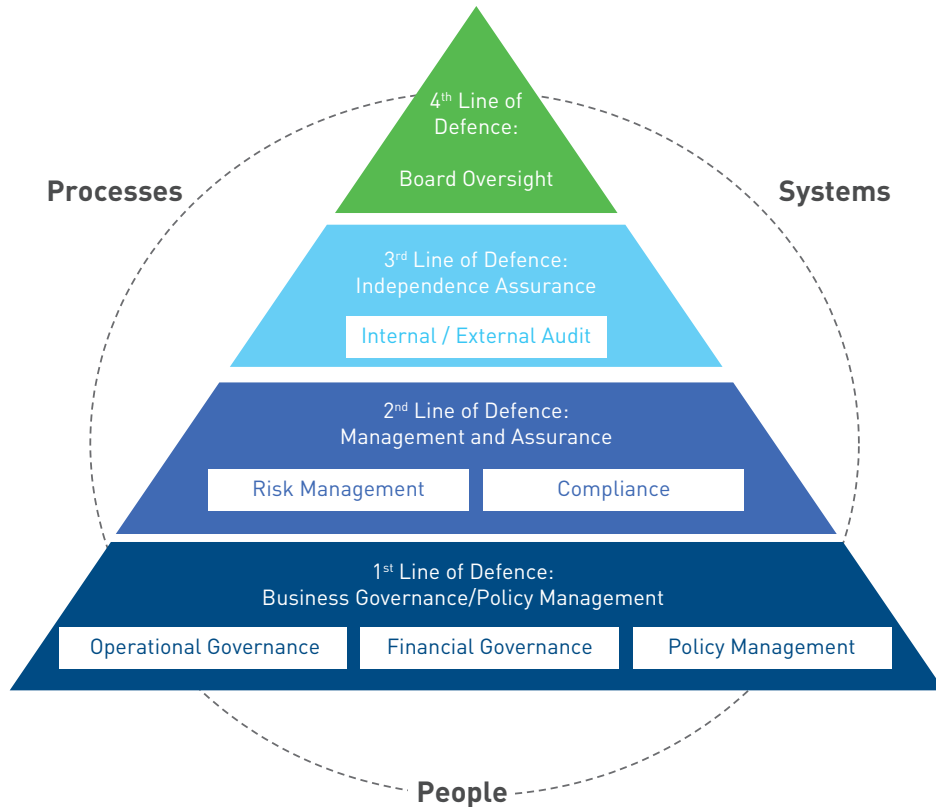
## STRONG OVERSIGHT AND GOVERNANCE

The Board is responsible for determining the Group's overall risk strategy and governance and maintenance of a sound system of risk management and internal controls in accordance to market practices and regulatory requirements. The Board also approves the risk appetite statements, which set out the nature and extent of risks that can be taken to achieve the Group's business objectives. The Board reviews the adequacy of the resources involved in establishing the risk management framework across the Group and monitors the independence of risk management function throughout the Group. The Board, which is supported by the Audit Committee, comprises directors, whose collective diverse experience and knowledge serve to provide guidance and strategic insights and oversees the design, implementation and monitoring of risk management within the Group. The Audit Committee comprises three Independent Non-Executive Directors and meets at least twice annually.

In establishing an organisation-wide risk governance structure, ESR adopts an ERM Framework which is adapted from ISO 31000 International Risk Management Standards, COSO Internal Control-Integrated Framework and the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations. It provides a holistic and consistent process for identifying, assessing, monitoring and reporting of risks. This framework aims to drive risk accountability and ownership at all levels of the organisation, at the same time maintaining the right level of commitment and segregation across stakeholder groups. The Group Risk Management department works closely with the management to continually review and enhance the risk management system in accordance with market practices and regulatory requirements, under the guidance and direction of the Audit Committee and the Board. Major changes to the ERM Framework, risk policies, risk parameters and terms of references are discussed with the Audit Committee.



In establishing an organisation-wide risk governance structure, ESR adopts the 'four lines of defence' model. This governance model aims to drive risk accountability and ownership at all levels of the organisation, at the same time maintaining the right level of commitment and segregation across stakeholders.



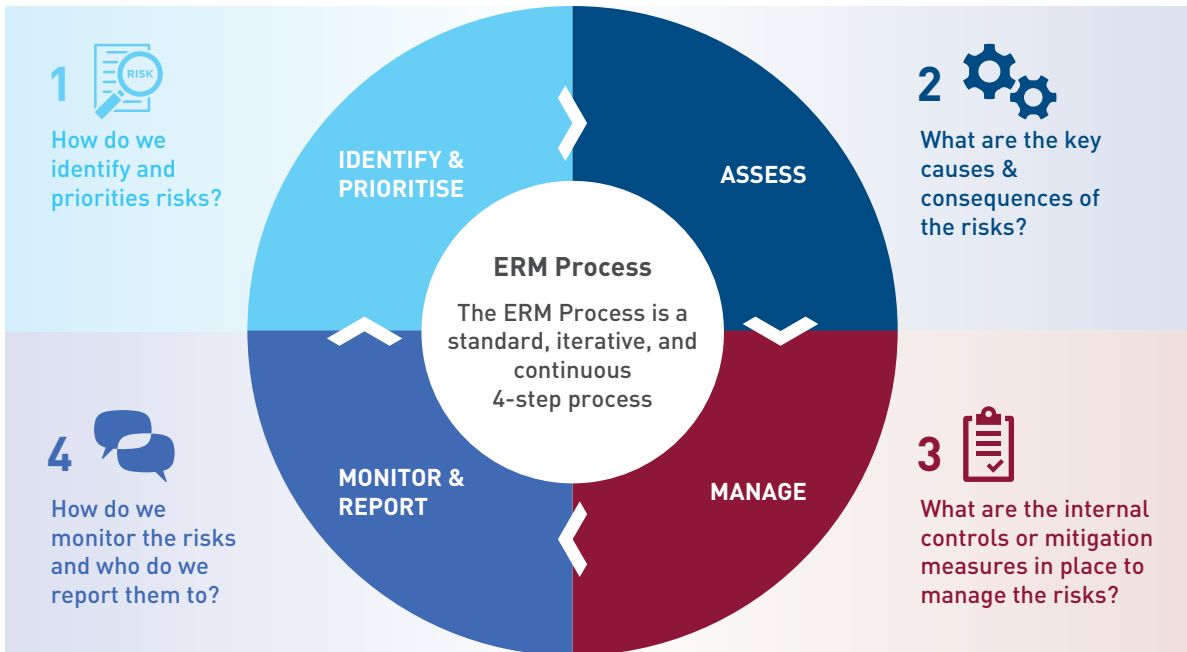
**Four Lines of Defence**

<b>1st Line of Defence: Business Governance/ Policy Management</b>	Processes, systems and risk owners constitute the first line of defence. Risk management should be embedded in day-to-day operations and governed by relevant established Group-wide policies and procedures that can manage risks to an acceptable residual level for the achievement of the business objectives.
<b>2nd Line of Defence: Management and Assurance</b>	This line of defence comprises of risk management and compliance related functions within the Group. The main role of these functions is to ensure risk management and compliance related frameworks are well defined and consistently applied across the organisation.
<b>3rd Line of Defence: Independence Assurance</b>	Functions in this line of defence primarily provide independent assurance over the effectiveness of risk management and internal control systems design and recommend changes or improvements in response to the evolving internal and external business and control environments.
<b>4th Line of Defence: Board Oversight</b>	The last line of defence against risks in any organisation is the Board of Directors. The Board, supported by the Audit Committee, is overall responsible for the governance and oversight of risk management and internal control systems within the Group to safeguard the interests of the Company and its stakeholders.

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## RISK MANAGEMENT PROCESS

The Group adopts a four-step iterative risk management process aimed at identifying, assessing, managing, monitoring & reporting different types of risk.



- **Risk Identification**

The Company adopts an integrated top-down and bottom-up risk review process to enable comprehensive identification and prioritisation of key risks throughout the Group. Key stakeholders within the organisation will come together to discuss the top-tier risks and examine any other risk issues and emerging risks that they consider important. This ensures a risk approach that is aligned with the Group's business objectives and strategies, and which is also integrated with operational processes for effectiveness and accountability. The risk identification process includes the establishment of risk context, identification of risk factors, analysis and evaluation of risk levels and their related likelihood and impact on the business performance of the Group. The Group's risk profile, including key risks, is reviewed and refreshed annually, or more frequently when the business environment warrants. The information is maintained and documented in a risk register, with risks sub-categorised into strategic, financial, operational, compliance and technology. Within the category of operational risk, the Group also considers climate-related risks which are relevant to our business.

A 5-by-5 risk matrix is used as the primary tool to facilitate the prioritisation of risks based on likelihood and impact. Risks are valued on the matrix based on the likelihood of occurrence and magnitude of impact should the risks materialise. The magnitude of impact includes consideration of financial, regulatory, reputational, operational and environmental effects. Parameters representing ESR's risk appetite and tolerance are also established to guide the evaluation of risks on the matrix. This risk identification exercise monitors any risk changes and trends as well as the effectiveness of the related control mechanisms and/or control activities within the overall risk profile. Group Risk Management department works closely with the risk owners to identify key risks, assess their likelihood and impact on the Group's business, and establish corresponding mitigating controls to manage these risks. The Group has also developed internal key risk indicators that serve as an early-warning system to highlight risks that have escalated beyond the agreed tolerance levels. In addition, the Management has established required follow-up actions to be taken when risk thresholds are breached. The key risks and key risk indicators are reviewed by management and Audit Committee before they are drawn to the attention of the Board.

- Risk Assessment and Management**

In-depth risk assessments are performed for key risks faced by the Group with the consideration of the potential drivers, likelihood of the risks occurring and consequences, as well as mitigating controls in place to manage them. These risk assessments are conducted with the risk owners from country and Group levels during facilitated risk prioritisation and training workshops during the year. Action plans are then identified to further manage risks as necessary. Risk assessments are also reviewed periodically to ensure continued relevance to the Group. The process and its outcomes are documented to facilitate communication and provide information for decision-making.

The Group has put in place various policies and procedures to mitigate key risks to an acceptable residual level based on the Board and management's risk appetite and tolerance. These policies and procedures aim to drive consistency in work processes and facilitate the understanding and effective implementation of controls within operations. All policies and procedures are reviewed on a periodic basis to ensure they remain relevant. Key updates and revisions to policies and procedures are approved by appropriate parties and communicated to all relevant parties.

- Risk Monitoring and Reporting**

To ensure that risk management remains focused and effective, the Group has set in place mechanisms to monitor and report risks on a regular basis. Appointed risk owners are responsible for the continuous monitoring of their respective risks. They undertake an iterative and comprehensive approach according to the established risk governance structure and process in identifying, assessing, managing, monitoring and reporting of key risks. Key issues noted are highlighted to appropriate parties in a timely manner. On a half-yearly basis, key updates on any material changes to Group's risk profiles, activities and controls are presented to the management, Audit Committee and Board for reviews and discussions.

**RISK CATEGORIES**
**Strategic Risk**

The Group strives to bring sustained value and growth to investors and shareholders by maintaining and strengthening its position as a leading logistics real estate platform. ESR's portfolio is subject to industry related market risks such as rental rate, occupancy volatilities and country specific risks such as competition, supply, demand and local regulations. Such risks are quantified and monitored for existing assets and prospective acquisitions, where applicable. Each new investment opportunity is subject to a rigorous, disciplined and thorough evaluation process including assessing the asset quality, market valuation, yield accretion, expected returns, professional third-party due diligence, future growth potential and sustainability of asset performance, taking into account the existing economic and financial market conditions. Each development project is subject to rigorous evaluation of land acquisition, review of the design and build of the assets and construction methods. Investment proposals are subject to rigorous scrutiny by ESR's Investment Strategy Committee and/or the Board in accordance with its approved delegation of authority. These risks which can directly impede the Group from achieving its strategic objectives are closely managed and monitored within the organisation. In addition, the Group ensures that there is effective communication with investors and business partners through regular dialogues to manage expectations, along with delivering excellent performance and track records.

Leveraging its strategically diversified network spanning key markets across Asia Pacific, coupled with a quality tenant base focusing on e-commerce and third-party logistics companies, ESR has remained resilient to market changes and disruption with its disciplined capital management and robust fundraising for its third-party vehicles. In addition, ESR actively monitors macroeconomic trends, policies and regulatory changes which affect its operating markets, while assessing its investment projects.

The Group provides a suite of private real estate fund and REIT products that embrace every stage of the asset life cycle in the New Economy and prime commercial sectors. It also develops and manages a network of superior logistics, data centre and commercial assets across

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APAC's dynamic growth markets. The Group continues to drive strategic long-term growth in establishing new REITs, private real estate funds and investments in various real estate sectors, including the New Economy. In addition, the Group is committed to integrate ESG into every aspect of its business, investments and operations due to gaining in tractions from investors seeking green solutions from ESR's portfolio of assets and an increased expectation on ESG compliance and requirements.

### Financial Risk

The Group believes that financial prudence is integral to business sustainability and adopts a disciplined financial management by maintaining a strong balance sheet and robust capital management. Financial risks such as liquidity, credit, currency and interest rate risks are closely managed and monitored by management which are mitigated by a well-staggered debt maturity profile, close monitoring of credit spread and interest rate volatility, hedging strategies and maintain a low gearing ratio. Management also maintains a robust cash flow position and ensures that there are sufficient working capital lines to meet financial obligations. Reports monitoring financial metrics and indicators are submitted to the Board at least on a half-yearly basis.

### Operational Risk

The Group has established a set of comprehensive policies and procedures designed to identify, manage, monitor and report operational risks associated to the day-to-day activities and to facilitate the understanding and implementation of different work processes. These operational procedures and guidelines are reviewed regularly to ensure relevance and effectiveness. In addition, compliance with SOPs is assessed through training of employees and regular reviews by the Group Internal Audit department to provide recommendations on any gaps that are identified. As part of the business continuity procedures, incident reporting and escalation protocols are established and communicated to all staff for emergencies. This is to ensure the Group is able to respond effectively to disruptions resulting from internal and external events, while continuing its critical business function and minimising impact on its people, assets and operations. ESR also recognises that human capital is key to the business and has put in place measures to manage the attraction and talent management, including succession planning, periodic benchmarking of staff remuneration, performance-based rewards, among others. The Group has established a performance management framework to review all employees' performance annually. A rating will be given

to each of the employees depending on their performance and remuneration will be rewarded accordingly based on the rating. In addition, a regular review of career and development plans will be conducted with all employees. Within the Group, business units' staff are required to achieve a minimum number of training hours as part of their formal job-specific training targets and fulfilling the staff's individual development plan for the year.

With climate change and the associated changes in climate regulations, in addition to the increased focus on the reduction of carbon footprint, ESR evaluates the environmental performance of its existing and assets under development, where feasible, and the potential financial implications such as direct damage to assets and indirect impacts from supply chain disruptions. The objective is to build a resilient portfolio and achieve its sustainability efforts, while incorporating environmental risks as part of its due diligence process. ESR has adopted the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations as a framework for assessing and managing climate-related risks. The TCFD provides recommendations on how to assess, identify, understand, adapt and/or mitigate climate-related risks and opportunities (both physical and transition) which will have medium and long-term effects on ESR's business, including potential financial impacts, through scenarios analysis and climate risk assessments.

As the world transitions to a low carbon future, ESR will continue to increase its exposure to renewable energy solutions, explore innovative technologies and attain green building certifications, where feasible. ESR proactively engages with its tenants, contractors, and vendors on ESG best practices to help drive a sustainable economy.

The Group monitors evolving changes in climate regulations under every country's jurisdiction that it operates due to the more stringent regulations, disclosures and increased expectations from stakeholders. As Asia Pacific's leading real asset manager powered by the new economy, ESR is focused in raising the bar in its sustainability efforts as a competitive advantage against its peers.

### Compliance Risk

The Group is committed to comply with the applicable laws and jurisdictions in its day-to-day business processes and does not tolerate any breaches in regulatory compliance. Non-compliance may result in litigation, penalties, fines or revocation of business licenses which have potential reputational and financial impact. The Group has

established a compliance framework that covers training, monitoring, reporting for any non-compliance including screening, investigations, enforcement and disciplinary actions. New and impending changes to regulations are closely monitored to ensure that the Group is adhering to regulatory requirements with material non-compliance or regulatory breaches escalated to the Board and management for follow-up.

A comprehensive corporate governance framework has been established to maintain responsible and transparent business practices and adopt a zero-tolerance approach to fraud, bribery and corruption of any form in the conduct of business. All employees are committed to acting professionally, transparently and fairly with integrity in all business dealings and relationships with our stakeholders at all times. The framework includes policies on code of conduct & business ethics, conflict of interest, whistle blowing, anti-money laundering and counter terrorist financing, prohibition of bribery, acceptance or offer of gifts and entertainment and employee trading & handling of insider information to ensure that all business activities are conducted with honesty, fairness and high ethical standards. Compliance with policies and procedures is required at all times. Group Internal Audit will conduct a review of compliance such policies, including ethical standards, once every three years. In addition, there are mandatory annual ethics and compliance training, employee trading and code of conduct attestation by employees, including contract staff who has at least 12-months employment contract. Ethics training include completing mandatory courses on topics such as awareness on anti-money laundering, anti-bribery and anti-corruption via third party training platform whereby employees are required to pass an assessment in order to complete the course. The training will help new joiners and existing staff to understand the compliance policies and procedures which guide employees' behaviour to meet the required standards and requirement, and also reinforce the employees' compliance knowledge and related protocols, as part of their ongoing business activities to minimize the compliance risks. Through the Company's Code of Conduct and whistle blowing policy, employees are encouraged to report control deficiencies, ethical issues or suspicions of impropriety to the local Compliance Officer, Group Compliance Officer or Group General Counsel, when applicable, through various whistle blowing channels. All reported cases will be preliminary reviewed to understand the circumstances surrounding the allegation based on the information provided by the whistle blower. The Management treats all misconduct and

dishonesty seriously and seeks to conduct independent investigation and take appropriate disciplinary action on concerns raised, including termination of employment, if required. All independent investigations will be reported to the Audit Committee accordingly. Separately, a grievance, which vary in complexity and severity, can be brought up by an employee to his/her manager, Head of Department or directly to the Human Resources Department. In situations where the matter involves disciplinary action being taken against an employee, the Human Resources Department will proceed with the necessary measures leading to the required action in accordance with the Disciplinary Action provision with the Management's approval.

### Technology Risk

The Group acknowledges the rising threats posed by cyberattacks which have become increasingly more prevalent and sophisticated. ESR is continuously assessing the adequacy of the computer systems and implement improvements to the platforms due to the increased reliance on technology to improve operational efficiency and provides high quality internal governance. ESR has put in measures to protect itself against technology-related risks which may arise from both internal and external sources. In addition, ESR has in place a comprehensive set of information technology policies and procedures governing information availability, confidentiality and security to prevent any leakages of confidential information. Training on IT security awareness is conducted regularly to remind employees to keep abreast of any potential security breaches and phishing scams. On top of the constant monitoring of internet gateways to detect potential security events, network vulnerability assessment and penetration testing are also conducted regularly to identify any potential security gaps because weak IT security within the Company may result in adverse reputation image and lead to loss of stakeholder confidence. A Security Operations Centre ("SOC") has been established and monitored by a third-party service provider, together with Group IT, to observe external events which may have an impact on ESR's network and data. The SOC continuously monitors and improves ESR's security posture while preventing, detecting, analysing and responding to any potential cybersecurity incidents.

An information technology disaster recovery plan is in place and tested annually to ensure that ESR's business recovery objectives are met in the event of a disaster including ensuring the information proprietary is kept safe and secured.