NAVIGATING UNCERTAINTY: STRATEGIC RISK MANAGEMENT FOR SUSTAINABLE SUCCESS

Understanding and Responding to Risk

In today's environment, having an effective and strong process for managing risks is crucial to achieving strategic objectives. To understand risk, an organization must identify, assess, and analyse the potential risks associated with its activities, decisions, and objectives. This involves evaluating the likelihood and impact of different risks and considering the organization's risk appetite. Any business activity is exposed to risk, and the sustainability of a company over time is marked, among other things, by how it manages those risks and anticipates possible positive or negative events. This can only be achieved through an efficient risk management model focused on meeting the company's objectives.

Our ability to identify, handle, and reduce risk within our organization is fundamental to our success. We acknowledge that risk is inherent in the operational and strategic decisions made across FIVE, and we cannot avoid it. Instead, we actively manage and leverage risk to pursue our business goals.

The Board has ultimate accountability for risk management across the organization and determines the types and levels of risk we are willing to undertake. Our Audit and Risk Committee is responsible for overseeing the risk management and internal control systems and conducts an annual evaluation of their effectiveness through internal audits and management testing on internal controls over financial reporting.

A comprehensive top-down risk assessment captures the Board and Executive Committee's perspectives on the key risks facing the Group and our appetite for risk. This enables us to remain informed of changes in our risk profile and adjust our approach as necessary. We monitor and review actions required to manage risks on a regular basis and adapt out risk management strategies as the business environment changes or new risks emerge.

Risk Identification

We consider the continual development and flexibility of our risk management process to be of utmost importance. This ensures that we can accurately recognize and evaluate risks that may impact our ability to achieve our objectives and strategy. Once identified, we take measures to reduce the risks to an acceptable level. As risks can often be interconnected, changes to one risk can affect several existing risks or create new ones. Our Risk and Compliance team closely monitors these interdependencies and identifies associated risks by gathering information from across the business, analyzing the findings, and presenting them to the Audit and Risk Committee. Risk Management is handled through the three lines of defense model supervised by the Board and its Committees –

➢ **1st line of defense** – Respective departments and corporate office directly responsible for risk management. Management teams have day-to-day responsibility for identifying and managing risk within key decisions, programs and transactions and escalating where appropriate

➢ **2nd line of defense**– Risk and Compliance team responsible to ensure policy, procedural and regulation compliances. They provide expertise, support, monitoring, and challenge decision makers on risk related matters

➢ **3rd line of defense** – Internal audit through the development of a risk-based work plan that aligns with the principal risk register to provide assurance over our highest risk activities. They evaluate the culture and capability to identify risks across management teams and providing assurance throughout the year to the Audit and Risk Committee

In addition to the above, we have developed a comprehensive ERM framework which supports the pursuit of our objectives through enabling informed and calculated risk-taking, while protecting our financial strength and reputation. This helps us identify and assess existing key risks along with identifying emerging risks in the entire business landscape. Our assurance approach includes:

▶ Self-assessment outlines the assessment of the existing status of risks, existing controls and new mitigation plans by risk owners and mitigation plan owners
▶ Independent assurance outlines the mechanism of obtaining independent assurance through formal internal audit and ERM integration
▶ Coordinated assurance indicates the integration of various assurance functions with the risk management process (such as HSE, Business Continuity, and Internal Controls)

Risk Appetite

Risk appetite is defined as the level of risk we are willing to accept in pursuit of our strategic priorities. It also outlines the broader level of risk that FIVE can assume and successfully manage for an extended period. Our risk management approach is geared towards being efficient by ensuring that our tolerance for risk is consistent with our strategic goals. Our risk governance structure and management procedures outline specific responsibilities to guarantee clear accountability.

Risk Assessment

Our risk assessment process is an ongoing exercise. It enables us to scan the external business environment or perceive a change in the internal context of the business. All identified risks are regularly assessed to anticipate and manage relevant risks. Across operations, we monitor and assess risk impact including our stakeholder groups. This includes the process of understanding the nature, sources, and causes of the risks that have been identified and to estimate the level of risk. Risk evaluation is done subsequently which is the process that is used to compare risk analysis results with risk criteria in order to determine whether or not a specified level of risk is acceptable or tolerable.

Risk Prioritization

Our risk prioritisation approach helps us identify the most effective areas where we must deploy our resources to mitigate risks. Based on the risk assessment results, risk prioritisation is done, taking into account the potential impact and likelihood of these risk events. We have defined an internal grid to assess the criticality of such risks, based on the business impact (financial and operational) and the likelihood of the risk materializing, a risk rating is identified which eventually helps us determine which risks shall be prioritized for implementation of mitigation plans.

Risk Response

Once risks are assessed and prioritised, an appropriate risk response strategy is determined. Risk response strategies are categorized as 'Mitigate', 'Avoid', 'Transfer', 'Monitor', and 'Accept'. Based on the nature, severity, and risk priority, we devise a response to reduce the risks' likelihood and impact to an acceptable level and identify a contingency plan. Our risk mitigation systems require our risk owners to identify mitigation plan owners for each respective risk. In consultation with mitigation plan owners, risk owners assess the effectiveness of existing mitigation action plans or controls. This helps reduce the likelihood and impact of the risks to an acceptable level.

Risk Monitoring

Continuous risk monitoring is critical to determine the frequency of occurrence and assess the effectiveness of the defined mitigation plans. At FIVE, we capture assessed and prioritized risks in a pre–defined risk register template for monitoring and reporting. We review these risks on a periodic basis with the oversight of the Audit and Risk Committee and the Board to take appropriate steps where required. Further, progress on implementation of the identified action plans is reviewed and followed up on as a part of the risk monitoring process.

RISK MANAGEMENT REPORTING FRAMEWORK

RISK AND COMPLIANCE TEAM
Ensuring internal audits are performed, performing risk assessment and ensuring implementation of processes across key business teams, reporting to the Audit and Risk Committee

AUDIT AND RISK COMMITTEE
Oversight and challenge of the effectiveness of risk management and mitigating controls

BOARD
Overall accountability for strategic risk management including the assessment of risk appetite, and ensuring a robust system of internal control and risk management is in place

Risk Reporting

As a part of quarterly meetings held by the Audit and Risk Committee, all results of internal risk assessments, audits, identified mitigation plans will be reported to the Committee and the Management.

LINKAGE AND INTEGRATION

The linkage and integration of risks highlight the critical aspects of building a fully integrated ERM framework, as mentioned below:

- ▶ Strategic business planning and performance elements stress the importance of integrating the risk management process with the strategic business planning process.
- ▶ ESG element provides formal principles of integrating ERM with ESG-related risks.
- ▶ The capital allocation and investment elements outline the process of linking the risk management process with the capital allocation and investment governance mechanism. This helps facilitate riskinformed and risk-adjusted decision-making while reviewing and approving capital allocation

ERM ENABLERS

- ▶ The ERM Enablers facilitate the implementation of the risk management process consistently across businesses. The key enablers are as follows:
- ▶ ERM policy establishes the standard ERM principles by setting key expectations for the employees
- ▶ ERM standard introduces and elaborates structured approach, benchmarked with global risk management standards (such as COSO 2017 and ISO 31000)
- ▶ ERM process standardises how risks are assessed, prioritised, monitored and reported across FIVE
- ▶ ERM technology enables the assessment, monitoring, and reporting of risks in an efficient, centralized, and integrated manner to provide real-time insights

INTERNAL CONTROLS AND SYSTEMS

The Board acknowledges that it has overall responsibility for monitoring the Group's systems of risk management and internal control, ensuring that they comply with the Code, and for reviewing their effectiveness, at least annually.

There are ongoing processes and procedures for identifying, evaluating, and managing the principal and emerging risks faced by the Group. Internal control procedures are designed to manage rather than eliminate risk. They can only provide reasonable and not absolute assurance against material misstatement or loss. The processes are regularly reviewed by the Board and include an annual review by the Directors of the operation and effectiveness of the system of internal control as part of its year end procedures and a robust assessment of the Company's emerging and principal risks.

The company also performs internal audits periodically to identify and assess any key process and system risks to ensure timely mitigation of risks and implementation of best practices across the organisation.

RISK MANAGEMENT FRAMEWORK

Our robust risk management framework can be illustrated as follows –

Risk Governance
The Board is responsible for risk management supported by the Audit and Risk Committee who oversee and advise the Board on the Group's risk exposure, risk appetite and future approach to risk

Risk Management Process
We have created a Risk and Compliance team to oversee the Risk function, ensure robust implementation of best practice processes in line with the industry standards. Current and emerging risk identification, assessment, prioritization, reporting, and monitoring. The output of this process is reviewed and challenged by the Audit Committee on a quarterly basis

Risk Assurance
Assurance that risks are both identified and wellmanaged is obtained from various sources including: Compliance / Health and Safety Consultants / Internal Audit / External Audit / Other third party assurance providers

From a governance perspective, the detailed roles and responsibilities of the Board and Audit and Risk Committee can be detailed as follows:

Board of Directors

▶ Ensure effective ERM systems are established within our Company and maintain supervision of its deployment in a consistent manner
▶ Review and approve ERM policy, framework, and any updates therein, as proposed by the Audit and Risk Committee
▶ Review top entity level risks that may threaten the existence of our Company and review mitigation plans that define setting effective risk response strategies periodically (at least bi-annually)

Audit and Risk Committee

▶ Set the tone at the top to foster a corporate risk-aware culture
▶ Ensure adequate resource allocation for effective implementation of ERM Framework
▶ Oversee formal alignment of performance and risktaking to balance the achievement of short-term and long-term business objectives
▶ Promote transparent and consistent communication of enterprise risk profile and best ERM practices, to stress the importance of risk management across FIVE
▶ Review top enterprise-level risks along with defined mitigation plans to provide guidance and feedback to the risk owners

Risk and Compliance Team

Internal Audits

We have engaged a Big 4 organization for performing internal audits across business processes and support functions. Results of these audits are discussed with the organization and new process improvements have been recommended. We have developed a comprehensive risk-based audit plan for 2023 covering all our core processes across the Group to ensure continuous monitoring and management of risks. In addition, we conduct periodic reviews internally and externally to review policy and process compliance across our facilities for all key functions (including health and safety, human rights, environment) to assess, manage and monitor risks to implement best practices.

Compliance Management tools

For ensuring regular compliance to regulatory requirements, policy adherence across core business units and support functions, we have implemented a compliance tool to automate compliance tracking and reporting. It helps provide us with integrated modules to map regulatory compliances with policies, litigations, incidents, and training requirements along with a dashboard to track status of such compliances.

We have assigned owners and approvers along with the periodicity and nature of compliances across the tool. Based on the nature of applicable regulations, the owners are required to confirm compliance along with appropriate evidence which is overseen by the Risk and Compliance team for ensuring timely adherence.

We have also implemented third-party due diligence screening tools for the purpose of screening our customers and vendors for any potential money laundering, associated political risks, bribery, and corruption risks at the time of transactions and on a yearly basis. With the combination of multiple such tools and our ERM exercise, we have developed a framework to constantly monitor any existing risks and identified some emerging risks which are relevant to our business landscape.

EMERGING RISKS

Future threats that cannot at this present time be clearly or fully understood in terms of their nature or value but could have a material impact on the business in the future are considered alongside existing risks with a view to improving our response plans and exploit potential opportunities.
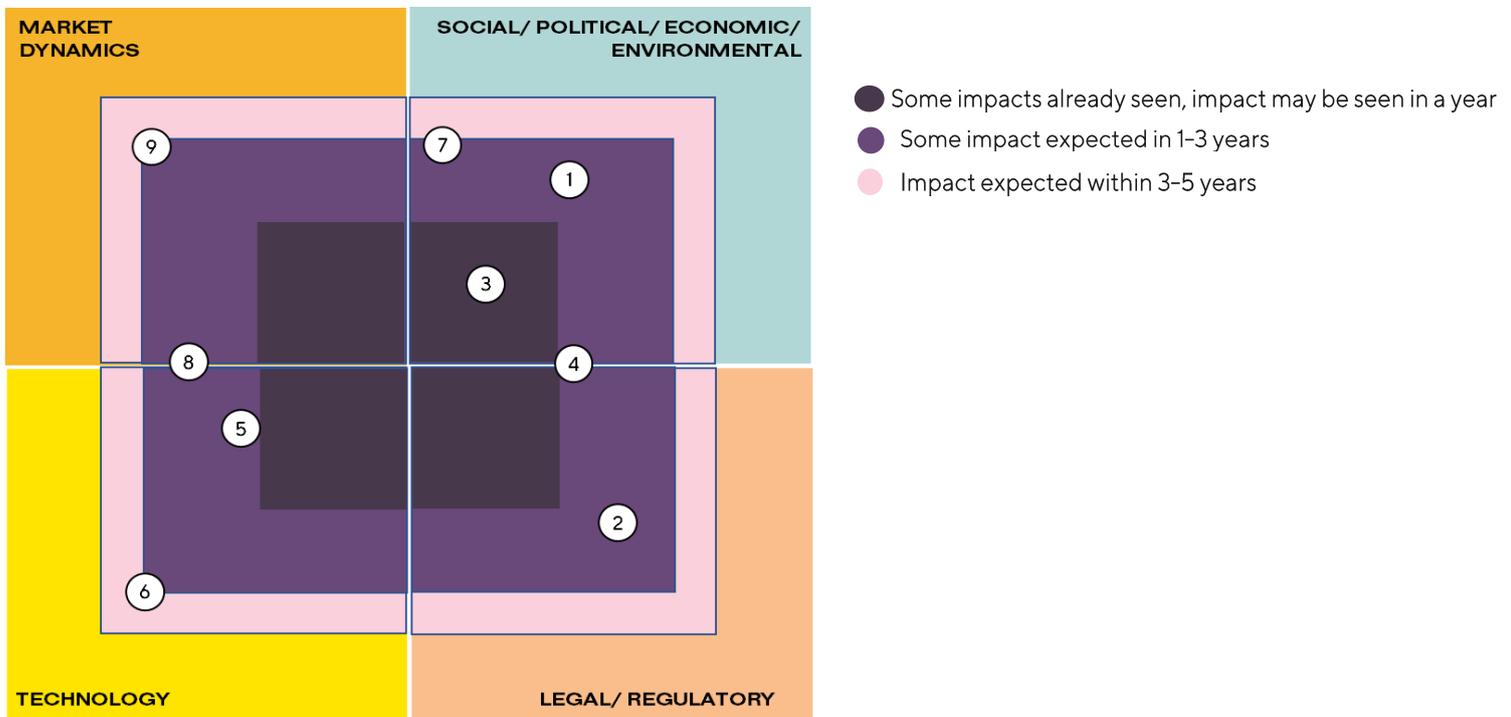
Emerging risks may be new risks not previously identified, or changes to existing risks that are currently difficult to quantify. To identify emerging risks at the earliest opportunity, risk themes and trends from industry and professional bodies, and peer networks, are collated and monitored within the functional areas and reviewed regularly by the Audit and Risk Committee and managed through the risk management framework as appropriate.

With the world now largely adjusted to the disruption caused by the pandemic, the extent to which existing global and economic climate risks have been exacerbated by the fractured international response to the pandemic is becoming clear. As our business returns to normal operating capacity, there is opportunity for previously unforeseen risks to emerge, meaning that it is too early to move away from the heightened risk state adopted during the pandemic. We have utilized the knowledge gained from the past two years to handle and assess the ongoing effects of COVID-19. By staying attentive and responsive to the pandemic situation in the UAE, Switzerland and abroad (considering changing customer preferences), we aim to recognize and decrease related risks as soon as possible. It is this capacity that enables us to maintain a sturdy business that is well-positioned to reach our strategic objectives.

Many topics and potential risks to longer term viability and sustainability are considered as part of our ongoing management decision making, as well as Board and management presentations, enabling escalation of emerging risks where appropriate. These combined elements have also enabled us to react to uncertainties and changing circumstances as the Covid-19 crisis evolved. The management anticipates certain topics as emerging risks in the current business landscape –

FIVE's EMERGING RISK LANDSCAPE

- Some impacts already seen, impact may be seen in a year
- Some impact expected in 1–3 years
- Impact expected within 3–5 years

1. Global or regional disruption through future pandemics, conflict or social unrest or environmental disasters
2. Increased regulatory and compliance requirements across areas such as corporate governance and controls; external disclosure; and sustainability which may have a substantial impact on anything property related or time bound pressures to meet targets

3. Geo-political conflicts may result in business disruption, impact the customer outreach; they have the potential to both create new previously unforeseen risks, and affect existing risk in areas which could have a significant impact
4. Growing importance of sustainability with consumers may result in increased regulatory compliances, reporting and process changes. These concerns if not addressed, may result in reputational damage, reduced demand, and legal penalties
5. The hospitality industry is vulnerable to cyberattacks that could compromise customer data, financial information, and sensitive company information. The UAE is a hub for international business, and hotels and resorts could be targeted by cybercriminals seeking to exploit vulnerabilities in the hospitality industry.
6. Speed of digital change and movement towards robotics, robotic processes, and Artificial Intelligence in the service sector
7. Rapid changes in labour market and expectations of the younger generation may result in labour shortage and talent retention challenges
8. New working arrangements and changing patterns in corporate travel and corporate meetings and events
9. Shift towards experiential travel with immersive experiences, connect with local culture and community, luxury glamping, etc. through changing consumer preferences may require innovation in business offerings

FIVE'S PRINCIPAL RISKS AND UNCERTAINTIES

Our assessments are weighted towards impact to encourage prioritization of high impact risks. We have several areas of active risks with ongoing changes in the business set-up moving towards maturity, for which the response and oversight will continue to be our primary focus. The table below details our principal risks and uncertainties which is tagged to our Strategic Focus Areas. These are the most significant threats to the achievement of our objectives but are not an exhaustive list of all risks identified and monitored through our risk management process, which includes the consolidation of risk registers reported to the Board along with the results of periodic audits in the risk management framework.

Strategic Focus Areas

1   Expanding our business internationally

2   Increase profitability and intensifying growth

3   Decarbonising development and operations

4   Becoming a global entertainment platform

5   Accelerating digital adoption

Risk Priority

Our risk priority is decided through an assessment of the likelihood of the risk and its impact should it materialize. We have bifurcated our risk priorities based on financial, operational, reporting, compliance and safety parameters:

↑ HIGH   ↔ MEDIUM   ↓ LOW

Key Risks and Mitigation Measures

Strategic Focus Areas	Principal Risk Description	Risk Priority	Mitigation Measures
1 2 4	**Adverse Macro-Economic Conditions** Macro external factors like political and economic instability, actual or threatened acts of terrorism or war, and natural or man-made disasters may impact our capacity to function and grow	↔	▶ This external risk has significant dependency on political changes and the economic environment. The overall impact of this risk is reduced considering our financial stability, high operating margins, strong cash flows, and agile operating model. ▶ We have built our resilience to both economic and market forces through the following: 　○ We have a strong budgetary control forecasting process across all our properties. Over the years, we have met/exceeded our budgets. 　○ We adopted a flexible business model during COVID-19, controlled costs, managed employees, and guest safety, and were quick to recover. This seems to be the strongest parameter to evaluate our ability to perverse cash and stress test our capability during the most adverse time. Constant monitoring of the global economic scenarios and their impact on our revenues. Insurance to cover the possibility of disruption due to political violence and terrorist acts.
1 2 4	**Reduction in Market Demand** A significant and prolonged decline in global travel and market demand due to either change in customer preference or increased competition may result in lower occupancy and walk-in guests, impacting our revenue and margins	↑	▶ We have imbibed an agile and flexible operating style, enabling us to adapt quickly to changing business scenarios. ▶ Our unique value proposition and services pertaining to our high energy and immersive entertainment business segment enable us to significantly manage this risk. ▶ We closely monitor our customer preferences and competitors' offerings and quickly adapt our marketing tactics and pricing model. ▶ Our robust DJ/Artist engagements and distinctively curated theme parties uplift our F&B and entertainment segment as compared to our Comp-Sets
4 5	**Compromise on Data Privacy** Any unauthorized access, disclosure, or use of our clients' or guests' personal data could damage our reputation and result in legal consequences	↑	▶ We have fortified our overall IT controls and environment, resulting in a reduced likelihood of a large-scale data privacy breach, and our processes ensure any incidents are dealt with in compliance with our IT policies. ▶ Our controls include the following: 　○ Comprehensive Information Security and Data Privacy policies and procedures specifying internal awareness, communications and training, incident management processes, and hotlines numbers 　○ In-house IT team with experienced people to manage the process and third-party experts for support and testing

Strategic Focus Areas	Principal Risk Description	Risk Priority	Mitigation Measures
			o Regular IT audits to assess vulnerabilities and data integrity o Possess adequate IT infrastructure and Firewall Security Policy for Data Protection
1 4 5	**Cybersecurity Risks** Cyber-attacks due to compromised IT security landscape may lead to cyber security breaches, business disruption and loss of critical/ confidential business information	↑	▶ We have strengthened our cyber security and response mechanism. We conducted a comprehensive assessment of existing infrastructure, security threats and implemented enhanced security controls, new threat management tools and improved disaster recovery procedures. ▶ Our mitigating actions include the implementation of the following: o New threat management solution o Cyber security awareness training o Email protection and end-point protection and detection controls o Network Security Systems/Network Access Control solution o Virtual Private Network (VPN) connections for securing remote connections to the corporate network o IT security policies and procedures o Third-party reviews and testing o Phishing security tests o Identity Access Management tool o Formal cyber resilience assessment framework
5	**Not Updated With Contemporary Technology** Most of our visitors are Gen Z and millennials, who are adept with technology. Any weakness in our digital competitive advantages could harm our smooth online reservations and active social media presence. This can result in losing customers to competitors.	↔	▶ We engage on numerous social media platforms, including Facebook, LinkedIn, YouTube, Spotify, Instagram, and TikTok, that provide content suited to various audiences ▶ We leverage user-generated content to enhance guests' online engagement ▶ We utilise the power of our effective digital marketing plan to increase bookings through the FIVE Holdings websites to about 55% ▶ We have deployed an expert digital marketing team that understands the needs and expectations of our guests and ensures our digital footprints keep increasing
1 2	**Employee Retention and Motivation Risk** Employee satisfaction is essential to maintain a positive reputation because they act as brand ambassadors for us. Our people deal directly with our guests, so the quality of service provided by FIVE Holdings could easily be compromised if our employees are not motivated or retained.	↔	▶ We ensure robust performance review cycles and performance rating programs to reward employees ▶ We use well-curated reward programs and variable pay cycle and structure to facilitate superior employee motivation and performance ▶ We maintain a fair and transparent work environment where each employee has access to raising their concerns to the Senior Management ▶ We organize need-based and structured training and development programs enabling our employees to enhance their service levels

Strategic Focus Areas	Principal Risk Description	Risk Priority	Mitigation Measures
			▶ We explore opportunities to attract skilled people from esteemed universities ▶ We ensure the multi–skilling of our existing team members to improve the flexibility of our workforce
1	**Business Resilience Risk** The absence of a formal business resilience framework (including BCP, DR, Crisis Management taskforce and plan) may potentially disrupt business operations. This could lead to inadequate/delayed response to uncertain events (such as a pandemic, terrorist attack, or other black swan events)	↑	▶ We have prepared a detailed 'Perform Business' impact analysis. ▶ We have prepared a business continuity and disaster recovery plan to secure employees safety, business operations and critical business information from getting impacted to avert any disruption. ▶ We have developed and implemented an emergency response, and crisis management plan. ▶ We conduct training and awareness workshop regularly
4	**ESG Risk** ESG risks such as climate impact, environmental management practices, social impact, health and safety are not managed impacting future growth and company reputation	↑	▶ We are committed to providing high–quality services without compromising on sustainability. All our properties are LEED and SPIRE certified, highlighting our emphasis on ESG. ▶ We have defined sustainability targets and initiatives. ▶ We have formulated a Green Bond Framework which lays down the mechanism and defines a host of sustainability targets, fund utilisation, objectives and how the company will ensure adherence to the defined targets. ▶ We have formed a sustainability committee to track and monitor our sustainability targets and initiatives

As a part of our continuous risk management process, we shall continue to review our risks and take mitigating actions for our strategic focus areas and objectives to be met.