Risk and Compliance Governance

Beam Inc.'s Journey

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Beam

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Background

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- David Fleury
  - Background/Experience
  - Contact Info:
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- Beam's transition from Fortune Brands to the current pure-play spirits company that is Beam, Inc.
- What do ***you*** want to accomplish today?

Today's Objectives

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- Learn how Beam approached risk and compliance governance in preparation for "Day One" as a public company
- Discuss integration of risk and compliance governance with enterprise governance.
- Discuss the linkage of Beam's compliance, SOX and ERM requirements to the overall risk and compliance governance structure
- Share insights related to critical success factors and lessons learned in Beam's risk and compliance governance journey

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Risk and Compliance Agenda was Central to "Day One Readiness"

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Driving Shareholder Value

↑

Market Beating Performance

↑

Beam External Story – Our Value Proposition

Consistent Story, Consistent Results

Risk & Compliance

Pure Play Project

↓

Focus Areas

1. Governance Structure
2. Compliance and SOX Activities
3. Enterprise Risk Management

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From Fortune to Beam…
Risk and Compliance workstreams

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1. Design and implement risk and compliance governance at Beam.
   - Governance Structure
   - Governance Operating Model
2. Enhance the Compliance program.
3. Enhance the SOX program.
4. Enhance the ERM program.
5. Implement Beam Internal Audit function.
6. Implement a mechanism for reporting risk and compliance results

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1. Risk & Compliance Governance

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Area	September 2010	March 2012
1. Risk and Compliance Governance Structure	• Key members of the Executive Leadership Team (ELT) at Beam setting 'tone at the top' and driving top-down risk and compliance programs	• Formal risk and compliance governance structure at Beam with a mission of **'Global guidance – local execution'** – Led by Global Risk and Compliance Committee, chaired by the CEO – Regional Risk and Compliance Committees co-chaired by each region's President & CFO – Bottom-up risk management approach in addition to top-down – Active risk management dialogues a key part of business review framework

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1. Risk and Compliance Governance Structure

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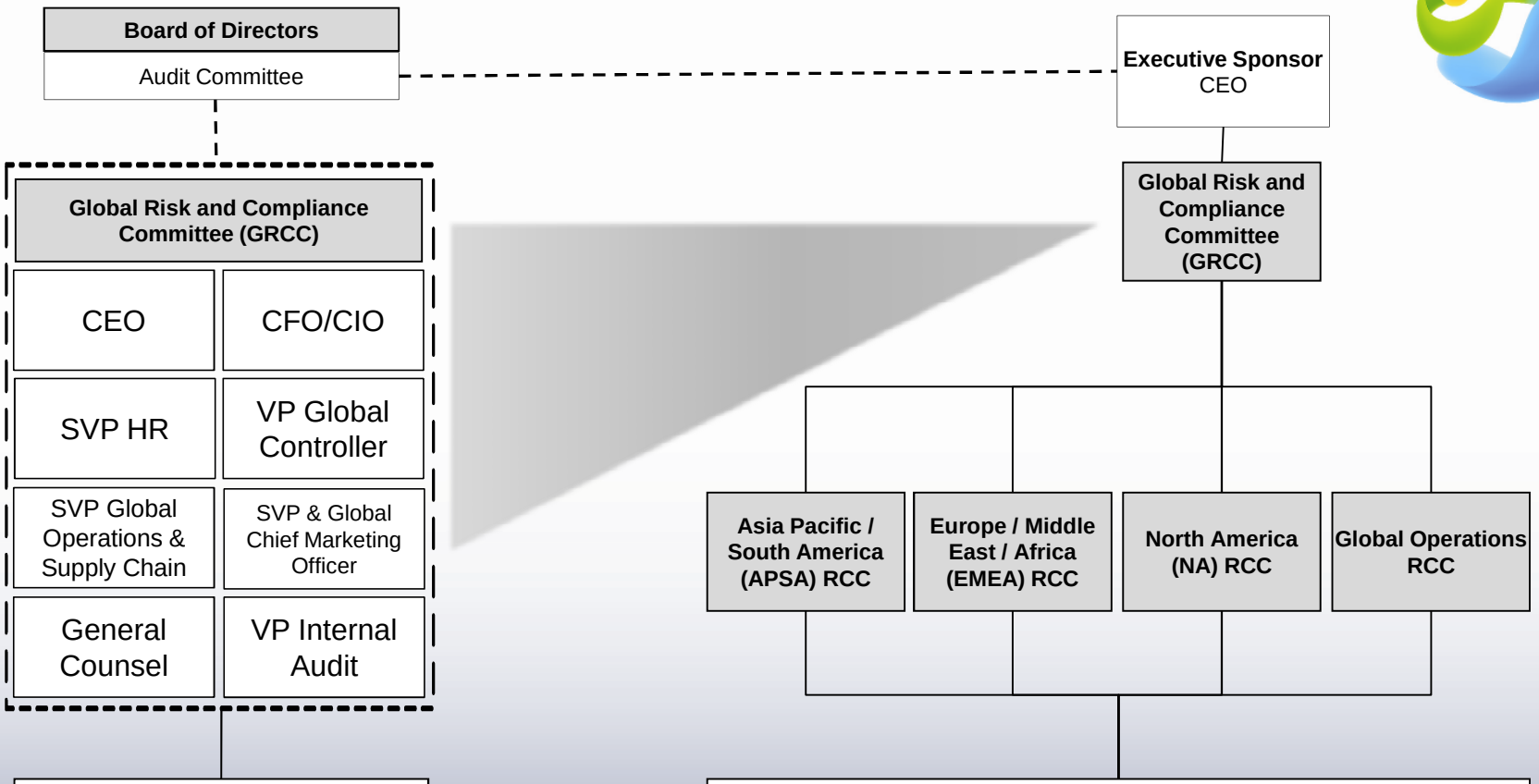

Key Objective:
Provide structure and governance for the Risk and Compliance processes

Key Objective:
Execute daily operations with a Risk and Compliance mindset from a functional, regional, and process point of view

1. Risk and Compliance Governance Operating Model

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Governance Operating Models answer the questions "What?" "How?" and "When?"

It provides the framework by which members of the Governance Structure operate.

Includes the following:

- High-level policies, standard operating procedures, decision trees
- Action plans, issue trackers, reporting dashboards, scorecards

1. Risk and Compliance Governance

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Key Takeaway: Align Risk and Compliance Governance with the existing Corporate Governance model

Why?

- Ensures the objectives of the risk and compliance program are aligned with the objectives of the enterprise (we don't want competing agendas)
- Natural Fit: those charged with corporate governance should also be charged with risk and compliance governance

Practical Application at Beam: The implemented risk and compliance governance structure aligns with current executives' committee involvement (both regional and corporate) and was a natural evolution of their roles and responsibilities.

2. Compliance

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Area	September 2010	March 2012
2. Compliance Activities	• Compliance program met standards as part of Fortune Brands	• Compliance program enhanced to focus on Beam's risk and compliance needs: Code of Conduct refresh, Foreign Corrupt Practices Act training, compliance training curriculum
	• Compliance assessments performed as needed	• Deep dives performed in high risk markets: Russia, India, Mexico, Eastern Europe/Africa, Singapore
	• Resources at Corporate to support compliance	• Resources embedded in the regions to support compliance activities: Asia Pacific/South America, Europe/Middle East/Africa, North America and Global Operations
	• Fortune Brands defined monitoring of risk and compliance activities	• Beam Risk and Control Scorecard designed and implemented – discussed as part of Monthly Business Review meetings
	• SOX program defined as part of Fortune Brands	• SOX program defined by Beam as a stand alone entity – lower materiality, more in-scope locations

2. Compliance Initiatives

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- Enhancing Global Compliance policies (Anti-Corruption / Anti-Bribery, Global Competition Law policies)
- Designing and implementing Global Compliance training program
- Conducting in-market assessments to identify & prioritize risks
  - In-market assessments follow our internal financial review procedures that go deeper than a typical SOX review. Focus is on financial processes that include fraud risks.

3. SOX

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Area	September 2010	March 2012
3. SOX Activities	• Resources at Corporate to support SOX activities	• Resources embedded in the regions to support SOX activities: Asia Pacific/South America, Europe/Middle East/Africa, North America and Global Operations
	• Fortune Brands defined monitoring of risk and compliance activities	• Beam Risk and Control Scorecard designed and implemented – discussed as part of Monthly Business Review meetings
	• SOX program defined as part of Fortune Brands	• SOX program defined by Beam as a stand alone entity – lower materiality, more in-scope locations • SOX Optimization project (refer to next slide)

3. SOX Optimization

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SOX Optimization is a two-year effort, beginning prior to the spin-off to prepare for Beam becoming a stand-alone public company.

- 2011:
  - Developed improved, standardized SOX templates and integrated newly identified in scope SOX locations
  - Added process and controls documentation for newly formed Beam corporate functions into the overall SOX program such as Treasury, Tax and SEC Reporting
  - Provided training on SOX awareness and Beam's SOX approach

3. SOX Optimization

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- 2012:
  - For 2012, the team is now focused on improving the SOX program by evaluating opportunities to:
  - Identify global best practices for processes and controls across Beam
  - Add efficiency by eliminating redundancies, inconsistencies and increasing automation of controls, when possible.
  - **GOAL: Minimum control requirements while maintaining SOX Compliance.**

4. ERM

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Area	September 2010	March 2012
4. ERM Activities	• ERM from a Fortune Brands perspective included risks from all business units, Beam included.	• Overhaul of the ERM process to start with a Beam-centric risk universe.
		• Implemented new ERM methodology with a bottom-up risk management approach in addition to top-down
		• Bottom-up approach now regionally driven while corporate committee drives enterprise risk management.
		• Beam Risk and Control Scorecard designed and implemented – discussed as part of Monthly Business Review meetings

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4. ERM – Beam's Methodology

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1. **Approach: Beam's ERM approach is a bottom-up and top-down process**

   - Considers risk exposure (impact / likelihood) and management preparedness (controls)
   - Regional committees drive region-specific risk identification, monitoring, and mitigation planning while the global committee provides enterprise level risk management. Each risk is sponsored by an ELT member (risk owners).

4. ERM – Beam's Methodology (cont.)

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2. **Prioritization: Beam's risks are prioritized in a three-tiered structure**

   - Tiers 1 and 2 are dynamic risks and actively managed through ERM defined risk action plans
   - Tier 3 are inherent business risks and managed within day-to-day business processes

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4. ERM – Beam's Methodology (cont.)

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3. **Measurement: Execution of risk mitigation plans is monitored through the monthly business review process**

   - Progress is measured through a control scorecard relevant to each region
   - Where possible, quantify risk to performance vs. risk to value
   - Accountability for management of key risks to be incorporated into 2012 individual performance objectives

Mechanisms for Successful Governance

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Action Planning – Outputs/actions items from each risk and compliance activity should be developed with clear roles and responsibilities, measurable results, and timelines. An "Issue Tracker" can be utilized to log action items and drive ownership.

Metrics – Key performance indicators (KPI's) should be identified for each action item and tracked via back-end reporting (control scorecard).

Internal Audit – Internal audit department (or similar role) should audit action items for compliance with defined requirements. Enables transparency of results those charged with Governance.

Accountability – KPI's and audit results for risk and compliance action items should be linked to the company's performance management program; this helps drive behavior change.

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Example: Risk and Compliance Scorecard

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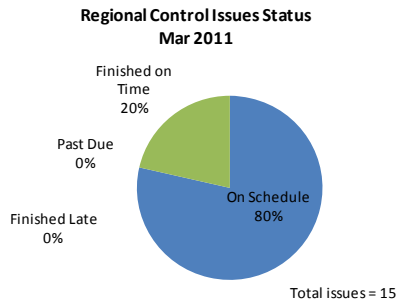
Controls and compliance scorecard
Region
Date Completed: 3/23/2011
Owner: Regional CFO and MD
Overall score: Medium

1. Controls capabilities dashboard (based on Finance Responsibilities document)

Category:	Self-rating:	Comments:
General control stewardship	Green	
US GAAP financial statements	Green	
Global shared services	Yellow	
Joint ventures	Yellow	
Regional IT	Need to evaluate	
Summary score	**Green**	

3. Control issues tracking



Comments:

Summary score **On schedule**

2. ERM risk actions register status

Global ERM risk categories:		Comments:
Restructuring/reorganization		
Brand erosion		
Government & industry reg's		
Excise taxes		
Rum incentives		
Region-specific risk categories:	**Self-rating:**	
Foreign Currency	Delayed	
Corporate Compliance/FCPA	On schedule	
Pricing	Delayed	
Supply Chain	On schedule	
Personnel	On schedule	
Summary score	**On schedule**	

4. Compliance dashboard

Leadership	Self-rating:	Comments:
Region Committee Operations	On schedule	
Country compliance leaders	Delayed	
Processes		
Code of Conduct & Policies	Delayed	
Communications & training	On schedule	
Monitoring / Auditing / Response	On schedule	
Risk mitigation		
Anti-bribery	On schedule	
India policies & procedures	On schedule	
Operating licenses	On schedule	
Sales & marketing	On schedule	
Conflicts of interest	On schedule	
Environment & safety	On schedule	
Cases		
Issues reported/ resolved/open	4	
Summary score	**Delayed**	

Insights and Lessons Learned

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- Communicate early and often
  - A combination of formal and informal AND frequent communication was a secret to the success of the program – lots of "hand holding"
  - A monthly Risk and Compliance Update keeps stakeholders current on upcoming events and expectations

- Engage a 'high touch' approach
  - Across all functions (not just Finance)
  - Made personal visits to key locations to facilitate ERM meetings, conduct SOX work and discuss details of the compliance program
  - Met with key leaders in finance, commercial, IT and operations to speak to their function-specific concerns and listen to their point of view

- Walk the talk of "global guidance and local execution"
  - Provided global guidance from the center and allowed the regional nuances to drive local execution
  - Focused on providing a high level of 'client service' recognizing that risk and compliance is sometimes an addition to their day job

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