

Risk Overview

Enterprise Risk Management

The Group operates in the food industry and is exposed to a variety of risks and uncertainties. The Group’s Enterprise Risk Management Framework is designed to identify, assess and mitigate key risks to ensure the achievement of the Group’s objectives.

Overall responsibility for establishing, reviewing and adapting the company-wide governance, risk management, compliance and control processes lies with the Board of Directors (Board). The Board has delegated responsibility to the Audit, Finance, Risk, Quality and Compliance Committee (AFRQCC) for evaluating the Group’s risk and control environment.

Implementation and execution of the risk management processes is delegated to the Executive Committee (ExCo) and its regional and functional management.

Group Risk Management facilitates the enterprise risk assessment process, to identify and understand the Group’s key risks, to allocate ownership to drive specific actions and take the relevant measures to address them. Annually Group

Risk Management presents the key risks to the ExCo and the AFRQCC. Regional and functional management ensures that risks are managed appropriately, that the existing measures and controls are operating effectively and that the additional mitigation actions are implemented as deemed appropriate. Ongoing monitoring of the Group’s key risks and its respective risk management activities are embedded in management information channels and in dedicated committees. The AFRQCC meets as often as necessary in order to deal with any significant issues reported by Management, Assurance functions (Group Risk Management, Compliance, Internal Audit etc.) and/or External Regulators.

While it is acknowledged that the Group faces many risks, the Board has identified the key risks that could potentially impact the achievement of the Group’s objectives. These are outlined in the table below.

Key Risks	Risk Description	Measures
Strategic		
Long-term sustainable supply of cocoa	The Group is dependent on the sustainable supply of quality cocoa beans so that the Group is able to produce high-quality cocoa and chocolate products. Risk factors such as declining productivity attributable to ageing trees, ageing farmers and little interest from the next generation in becoming farmers, the conversion of cocoa bean fields to other, more attractive crops, and also the long-term impacts of climate change could lead to a shortfall in high-quality cocoa beans in the mid- to long-term.	Under the umbrella of its overall sustainability strategy Forever Chocolate, the Group aims to improve the productivity and livelihood of farmers. Long-term measures also include the continuous evaluation and diversification of supply sources in origin countries, developing improved agricultural practices for cocoa plantations and maintaining industry dialogue with key stakeholders in origin countries.
Rapidly shifting consumer trends	Rapidly shifting consumer trends may disrupt market and industry dynamics that could impact the future growth of the Group’s business.	Trend analysis by the Group’s marketing and customer insight teams, together with cross-functional commercial teams working closely with customers, aim to identify trends early in the marketplace, both positive and negative. The Group constantly invests in R&D as part of a well-structured process, enabling the Group to develop products which proactively address new trends and changing demand patterns.
Business transformation, acquisition and divestiture	Insufficient due diligence, inaccurate business plan assumptions, failure to successfully execute business plans due to ineffective post-merger integration processes or changes in market conditions can all have negative consequences. These can include an underperforming base business, reduced synergies, or higher costs than expected. In turn, these can negatively affect return on investment and potentially the share price.	The Group has a dedicated team with significant experience and capability in this area. This team maintains constant close collaboration with functional and regional experts, external advisors, and the Group’s Executive Committee. A clearly defined process with regard to the evaluation, execution and integration of major acquisitions is employed. A similar process is employed for the execution of major divestitures or business transformations.



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External political and economic environment	Uncertain political and economic conditions could result in reduced demand for chocolate and cocoa products and may affect expansion plans and profitability in our regions.	The Group has a presence in both developed and emerging markets with a well-diversified business and operations portfolio in different market segments such as confectionery, ice cream, biscuits, powder beverages, etc. The global operations and innovations network is able to rapidly respond to customer requests and provide flexible, optimized recipes to adapt to changing market conditions. The Group regularly monitors the political and economic situations and developments in the regions with higher uncertainty in order to prepare for various scenarios which may arise.
Long-term outsourcing agreements and strategic partnerships	The Group has entered into a number of important, long-term outsourcing agreements and strategic partnerships with customers. Failure to renew, early termination of existing long-term outsourcing agreements or strategic partnerships, failure to enter into new agreements or failure to negotiate terms that are attractive to us, could have a material impact on the result of operations.	The Group has a largely diversified global customer base representing a healthy mix of small, medium and large customers. For global strategic customers, the Group has established long-term supply agreements governing mutual co-operation, addressing standards for quality, quantity commitments, pricing, service levels, innovation and ethics. For these customers, the Group has appointed dedicated teams that develop and maintain a close relationship in order to respond to customer needs professionally and promptly and to provide high-quality services. These teams have expertise in customer relationships, service and innovation, as well as commercial and pricing matters.
Talent management	Failure to attract, retain and develop creative, committed and skilled employees could impact the Group's ability to achieve its strategic objectives.	Every effort is made to ensure optimal processes and policies are in place to attract, select, develop, reward and retain talent with the right capabilities and skills needed to achieve the Group's strategic objectives. Succession planning, talent reviews, remuneration bench-marking, long- and short-term incentive plans, training and leadership development programs are all employed, as well as the tools to support and measure the success of all these processes.
Operational Quality & food safety	Products not meeting quality and food safety standards expose the Group to litigation, product liability and recall claims. This may lead to loss of revenue, loss of market share and could negatively impact the Group's reputation. There is also a risk that raw materials are accidentally or maliciously contaminated throughout the supply chain or that other product defects occur due to human error, equipment failure or other factors.	The Group's quality management system consists of robust policies, guidelines, standards, and procedures. The Group's quality assurance function performs regular site and supplier audits to ensure compliance with the Group's quality management system and takes corrective action when gaps are identified. In addition, a quality engagement program is in effect across the full Group to ensure all employees of the Group maintain a zero-defect mindset.
Operations and supply chain	The Group's supply chain network for raw materials could be disrupted by adverse weather conditions, climate change, disease (human or crop), natural disaster, political instability and other factors which could impact the ability to produce and deliver products to customers.	The Group's Global Sourcing department is continuously monitoring weather, harvest, political risk and other indicators to timely anticipate potential supply shortages or interruptions. Short-term mitigation measures include adequate levels of safety stocks and a diversified regional supply network.



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Information technology

The Group's business processes and its interaction with customers and suppliers is highly dependent on reliable and secure information systems. Physical damage to data centers, successful cybercrime attacks, a global wide area network breakdown or any other significant security incident could lead to a business interruption, loss of confidential data, non-compliance with data protections laws or misappropriation of assets.

The Group's Information Management and Technology Department has implemented various preventive structures for the Group's business-critical applications and locations. In the event of a major incident, disaster recovery solutions, plans and procedures are in place. A mid-term plan to enhance information security is regularly defined and improvements are being implemented continuously.

Financial

Raw material price volatility

Market prices for raw materials and the structure of the terminal markets could have an influence on the Group's operational results. To manage exposure to raw materials, foreign currency and interest rate fluctuations, the Group extensively uses derivative financial instruments and forward physical commitments. If hedging strategies are not fully effective, the operational result may be affected. Furthermore, the Group's profitability can be affected by its exposure to the volatility of the Combined Cocoa Ratio, which expresses the combined sales prices for cocoa butter and cocoa powder in relation to the cocoa bean price and our cost structure.

The Group's commodity risk management and treasury policies require that all risk exposures are hedged back-to-back in accordance with the related limit framework from the moment such exposures are entered into. For its contract business, namely the Food Manufacturers Product Group, which accounts for the majority of the business, the Group attempts to mitigate the impact of volatility in raw material costs through a "cost-plus" pricing model, where exposures arising at contract signing are immediately hedged. In the Gourmet & Specialties Product Group, the Group applies a price list model whereby forecasted sales are hedged and price lists are adapted on a regular basis. In the Cocoa Product Group, market prices are applied with the result that profitability is affected by the development and volatility of the Combined Cocoa Ratio. The Group attempts to mitigate these effects by means of a central global management system which monitors the positions and exposures related to cocoa products globally, taking into account both internal and external demand.

The Group's financial risk management framework related to commodities, foreign currencies and interest rates is further described in more detail in note 26 to the Consolidated Financial Statements.

Treasury

The Group's operations are exposed to liquidity risks, foreign currency and interest rate risks. Volatility in raw material prices affects the Group's working capital requirements and could result in liquidity issues. Failure to deliver on key parameters including cash flow could result in a downgrade of the Group's credit rating and restrict its access to financial markets.

The Group has established a robust financial risk management framework and governance structure. The Group's liquidity is ensured by means of regular Group-wide monitoring and planning of liquidity coordinated by the Group's centralized treasury department. Financing needs are covered through a combination of adequate credit lines with financial institutions and short- and long-term debt capital market products. The Group's financial risk management framework related to financing and liquidity is further described in more detail in note 26 to the Consolidated Financial Statements.



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Compliance

Legal and regulatory

The Group is subject to both international and national laws, regulations and standards in such diverse areas as product safety, product labeling, environment, health and safety, intellectual property rights, antitrust, anti-bribery, employment, trade sanctions, data privacy, corporate transactions and taxes in all the countries in which it operates in as well as stock exchange listing and disclosure regulations in an ever-changing regulatory environment. Failure to comply with applicable laws and regulations could expose the Group to investigations, litigation, administrative and/or criminal proceedings potentially leading to significant costs, fines and/or criminal sanctions against the Group and/or its employees with possible reputational damage.

Dedicated regional and local functional managers, supported by specialized corporate functions and external advisors, ensure compliance with applicable laws and regulations. The Group has robust policies and procedures in place in the relevant areas. The Group's Legal Department oversees the Group's compliance program, which ensures awareness of the compliance risks and the Group's compliance standards. The Code of Conduct and other Group policies set out the legal and ethical standards of behavior expected from all employees working within the Group.