



## Risk Overview

### Enterprise Risk Management

The Group operates in the food industry and is exposed to a variety of risks and uncertainties. These are monitored through management processes and overseen by the Group’s enterprise risk management framework.

Overall responsibility for the Group’s Enterprise Risk Management lies with the Board of Directors (BoD). The BoD has delegated responsibility to the Audit, Finance, Risk, Quality and Compliance Committee (AFRQCC) for evaluating the Group’s risk and control environment.

The Group Risk Management and the Internal Audit teams support these bodies in identifying, prioritizing and reporting key risks affecting the Group’s strategic objectives and the evaluation of the effectiveness of risk mitigation activities. These include regular assessment of internal control procedures. Regional and functional management ensures that risks are managed appropriately, that existing measures and controls are operating effectively and mitigation actions are implemented.

Ongoing monitoring of the Group’s key risks and its referring risk management activities are embedded in regular management information channels and dedicated committees.

The AFRQCC meets as often as necessary to deal with any significant issues reported by Management, Internal Audit, Group Risk Management and/or External Regulators.

Group Risk Management, together with Internal Audit, facilitates the annual enterprise risk assessment process and presents the key risks to the Executive Committee (ExCo) and the AFRQCC. To ensure the Group achieves its strategic objectives, these bodies consider the appropriateness of the strategy and actions taken to mitigate these risks.

While it is acknowledged that the Group faces many risks, the BoD has identified the key inherent 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		
Sustainable supply of suitable quality cocoa	Lack of a sufficient supply of suitable quality cocoa beans so that the Group may not be able to produce high-quality cocoa and chocolate products to deliver to its customers. Risk factors such as declining productivity attributable to aging trees, ageing farmers with little interest from the next generation to become farmers and the conversion of cocoa bean fields to other, more attractive crops could lead to a shortfall in high-quality cocoa beans in the mid- to long-term.	Under the umbrella of its overall sustainability strategy, 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.
Product development and innovation	Changing market trends and consumer habits 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 than expected costs. 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 & regional experts, external advisors, and the Group’s Executive Committee. A clearly defined process is employed with regard to the evaluation, execution and integration of major acquisitions as well as the execution of major divestitures or business transformations.



## Risk Overview

<p>External economic environment</p>	<p>Uncertain economic and political conditions may result in reduced demand for chocolate and cocoa products and may affect expansion plans and profitability in our regions.</p>	<p>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 changed market conditions.</p>
<p>Long-term outsourcing agreements and strategic partnerships</p>	<p>The Group has entered into a number of important, long-term outsourcing agreements and strategic partnerships with customers. Failure to renew, or early termination of existing long-term outsourcing agreements or strategic partnerships, or failure to enter into new agreements or failure to negotiate terms that are attractive to us, could have a material impact on the results of operations.</p>	<p>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 the 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 maintain and develop a close relationship in order to respond to these customers' needs in a fast and professional manner and to provide high-quality services. These teams have expertise in customer relationships, service, innovation, as well as commercial and pricing matters.</p>
<p>Talent management</p>	<p>Failure to attract, retain and develop creative, committed and skilled employees could impact the Group's ability to achieve its strategic objectives.</p>	<p>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 skill levels needed to achieve the Group's strategic objectives. These include succession planning, talent reviews, remuneration benchmarking, long- and short-term incentive plans, training and leadership development programs as well as the tools to support and measure the success of all these processes.</p>
<p>Operational</p>		
<p>Quality &amp; food safety</p>	<p>This risk is inherent to the Group's operations within the food industry: products not meeting quality and food safety standards expose the Group to litigation, product liability and recall claims. This may also lead to loss of revenue and loss of market share and negatively impact the Group's reputation. The 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 cannot be completely ruled out.</p>	<p>The Group's quality management system is built on 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.</p>
<p>Operations and supply chain</p>	<p>The Group's supply chain network for raw materials can be disrupted due to adverse weather conditions, climate changes, diseases (human or crop), natural disasters, political instability and other factors which could impact the ability to produce and deliver products to customers.</p>	<p>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.</p>



## Risk Overview

<p>Information technology</p>	<p>The Group's business processes and its interaction with customers and suppliers is highly dependent on reliable and secure Information Systems. Physical damage or cybercrime activities including unauthorized access to confidential data could have an adverse impact on the business and its operations, including e.g. the breakdown of global data centers or the breakdown of global-wide area networks.</p>	<p>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.</p>
<p>Financial</p>		
<p>Raw material price volatility</p>	<p>Market prices for raw materials and the structure of the terminal markets can have an influence on the Group's operational results. To manage exposures to raw materials as well as foreign currency and interest rate fluctuations, the Group extensively uses derivative financial instruments and forward physical commitments. If related hedging strategies are not fully effective, this may affect the operational result. 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.</p>	<p>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, whereas exposures arising at contract signing are immediately hedged. In the Gourmet &amp; 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 note 26 to the Consolidated Financial Statements.</p>
<p>Treasury</p>	<p>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 might result in liquidity risks. 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.</p>	<p>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 on the one hand and short- and long-term debt capital market products on the other hand. Refer to note 26 to the Consolidated Financial Statements.</p>



## Risk Overview

### 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 and taxes in all the countries 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 for the Group.