



# **ENTERPRISE-WIDE RISK MANAGEMENT**



<p><b>BRIEF OVERVIEW OF ECC'S RISK MANAGEMENT</b></p>	<p>Eagle Cement Corporation, in line with the best practice in business processes, instills high priority on risk management across the company. This is evident on the company's effort to educate their employees on risk concepts and theories, and encourages active participation of all departments when it comes to assessment of risks being faced by the company.</p> <p>Even before the formation of the Business Risk Oversight Committee composed of the BODs, employees immersed themselves on risk awareness through series of orientation and activities such as preparation of HIRADCs for IMS purposes.</p> <p>Currently, the Company has a solid risk management system when it comes to occupational and operations hazards, and it aims to strengthen the risk management system by fortifying the current risk set-up with disaster recovery and business continuity management plan.</p>
<p><b>ECC RISK MANAGEMENT PROCEDURES AND PROCESSES</b></p>	<p><b><i>Enterprise Risk Management</i></b></p> <p>The Company formally established the ERM starting with a series of orientations to drive awareness to each employee. With the establishment of the Integrated Management System, the employees are becoming more and more involved in risk awareness and management. Late last year, ECC's comprehensive risk universe which covers 4 risk categories (strategic, financial, operational and compliance) were established as a joint activity between the CRO and each Department units. The Company has not yet adopted any formal risk management methodologies but risk management activities are already being mobilized such as risk-based internal audit, regular monitoring of the occupational/operations hazard, establishment of a formal DRP/BCP and the continuous updating of the risk universe as necessary.</p> <p>The Board Risk Oversight Committee regularly convenes to review the accomplishments and highlight of the risk activities.</p> <p><b><i>Risk-Based Internal Audit Planning and Execution</i></b></p> <p>To better plan out and allocate company resources when it comes to the internal audit function, best practice dictates audit prioritization based on a sound risk-based audit methodology. The company adopted this year the risk-based audit planning (business risk assessment) and risk-based audit execution (usage of Risk and Control Matrices). Risk-based audit planning entails risk assessment with inputs from all levels within the company, the results of which will be used in the preparation of a risk-based annual audit plan.</p> <p>Risk-based audit execution on the other hand, ensures that the limited audit man-days allocated per audit engagement are concentrated on testing controls with highest risk priorities to support the risk management objective of the company</p>



	<p><b>Hazard Identification Risk Assessment and Determining Controls (HIRADC)</b></p> <p>Aside from enterprise risks, the company also monitors operational/occupational hazards per Department. This is being reviewed on a regular basis (annual) for changes in risk assessment. Each risks assessed as “<b>VERY HIGH</b>” in terms of impact and likelihood are mitigated with corresponding management control plans/programs, the status of which are being monitored by the Integrated Management System (IMS) team at the Plant.</p> <p><b>Disaster Recovery and Business Continuity Management</b></p> <p>This project enjoins the participation of all employees in formalizing the existing recovery and resumption practice. The project entails synergizing the documented emergency preparedness and responses with the identified risk scenarios’ continuity management. The resulting procedure aims to minimize the resulting losses by reducing the recovery and resumption period through the detailed step-by-step standard procedures per instance of disaster.</p>	
<p><b>KEY RISKS THAT THE COMPANY IS FACING AND THE CORRESPONDING CONTROL PLANS</b></p>	<p><b>RISK DESCRIPTIONS</b></p>	<p><b>MANAGEMENT CONTROL PLAN</b></p>
	<ul style="list-style-type: none"> <li>• <u>Major and prolonged operational disruptions at the Bulacan Cement Plant</u></li> </ul> <p>Potential major operational disruptions at the Bulacan Plant are enumerated as below:</p> <ul style="list-style-type: none"> <li>- Failure to dispatch cement due to various reasons</li> <li>- Failure to produce clinker and cement due to various reasons</li> </ul> <p>Reasons for failure to produce or dispatch cement</p> <ul style="list-style-type: none"> <li>- Natural disasters such as flood, earthquake, typhoon</li> <li>- Man-made disasters such as fire, explosions, terror attacks etc.</li> <li>- Prolonged power interruption</li> <li>- Employee strikes</li> <li>- Insufficient logistical support</li> <li>- Depleted raw materials</li> <li>- Unavailability of critical spares during repair</li> </ul>	<p>The company recognizes the significance of the risks related to operational disruptions hence they decided to establish the <i>disaster recovery and business continuity management plan</i>. This will entail all the alternative measures that can be done in case of business disruptions, including the recovery aspect to ensure minimized financial and operational impact.</p> <p>For disruptions resulting to replacement of spare parts, Management ensures availability of critical spares at the Warehouse to avoid delay in repair and ultimate resumption of operations.</p> <p>Projects intended to boost avoidance of disruptions are being funded by Management and are being implemented by each responsible unit.</p> <p>To establish accountability on the avoidance of operational disruptions, various key performance metrics were set per Department (Maintenance, Health and Safety, Production, Logistics etc.) to support the current overall control plans in place. These are defined in their respective Department and Individual balanced scorecards which in turn are tied up to the Company’s rewards and recognition program.</p>



	<ul style="list-style-type: none"> <li>Market sustainability that is dependent on the growth of industries considered as key customers</li> </ul> <p>Cement industry is heavily reliant on the booming growth of the construction industry (infrastructure, real estate etc.). Any resulting slowdown in the aforementioned will likely result in parallel effect to the Company. Any plans for expansion needs have careful analysis of the construction trend and correct projections must be made to ensure sustainability and return on investment.</p>	<p>The Company strategically positions itself in the forefront of the so-called Golden Age of Infrastructure. Likewise, the Company is sensitive to upcoming news, trends, forecasts related to the market to be able to react in a timely manner.</p> <p>Results of Sales operations including challenges being faced per area is being addressed in a regular Sales and Marketing meeting, whilst the analysis of the results and review of the historical sales trend for the past month is being discussed in the monthly MANCOM meeting.</p> <p>The CEO and the Head of Sales and Marketing interacts directly with their key customers which in turn is an effective market feeler strategy.</p>
	<ul style="list-style-type: none"> <li>Potential significant decrease in selling price due to uncurtailed cement importation</li> </ul> <p>With rising demand in the country whilst the cement industry couldn't keep up, it served as an invitation to overseas cement manufacturers with oversupply of goods to peddle their wares within our borders. With the entry of these cement imports banking on their low production and distribution costs, the playing field for the local cement players has changed.</p>	<p>The Company boasts of a very good costing structure/strategy which allows for price flexibility which in turn is very effective in competing with the lower selling price of the import players. The Company is also cleverly allocating resources in the right places hence the cost of sales is quite manageable allowing flexibility and competitiveness in pricing. This allows the Company to compete with the import players, something that the local competitors are having a hard time in doing.</p> <p>While costing/pricing strategies may be one of the major factors being considered in competing with the cement imports, the Company is also enhancing other business aspects such as maintaining good distribution network, above-average product quality, sound and effective marketing strategy, established brand equity, etc.</p>
	<ul style="list-style-type: none"> <li><u>Foreign exchange risk</u></li> </ul> <p>The Company deals with foreign suppliers for major Plant components, equipment and various raw materials, to which arises the risk of adverse effect of unfavorable foreign exchange rate to the Company.</p>	<p>The Company uses hedging as a means of mitigating the negative effect of unfavorable forex rate of dollar-denominated transactions.</p>



		<p>In addition, the potential gains and losses as a result of the foreign currency transactions are being monitored on a real-time basis through SAP system for real-time response.</p>
	<ul style="list-style-type: none"> <li>• <u>Non-compliance to regulatory requirements</u></li> </ul> <p>Non-compliances can be classified as follows:</p> <ul style="list-style-type: none"> <li>- Mining</li> <li>- Environmental</li> <li>- Labor</li> <li>- Tax</li> <li>- Legal</li> <li>- Corporate Governance</li> <li>- LGUs</li> <li>- Statutory Agencies</li> <li>- Other Govt. Bureaus</li> </ul>	<p>The Company has established and maintains strong lines of communications with various government and regulatory agency counterparties to ensure that the company is being informed of emerging compliances and related risk factors in a timely manner to be able to respond in a proactively.</p> <p>In addition, the Company has also created a comprehensive compliance checklist of which is being used to ensure that all requirements are being noted of, well ahead of deadline. The Legal and Compliance Department is dedicated to monitoring the compliance of each responsible unit, and provides reminders before the deadline as necessary.</p> <p>To establish accountability on the avoidance of regulatory non-compliances, various key performance metrics were set per responsible Department (Legal and Compliance, Finance, Mining and Sustainability, Human Resources, Environment, Health and Safety etc.) to support the current overall control plans in place. These are defined in their respective Department and Individual balanced scorecards which in turn are tied up to the Company's rewards and recognition program.</p>
	<ul style="list-style-type: none"> <li>• <u>Unprofitable ventures, acquisitions, and expansions outside existing market coverage</u></li> </ul> <p>With rising demands for cement in the market, the Company is mandated to grow and expand to accommodate the market needs. Premium locations for expansion were already identified and corresponding legal and business requirements are being complied with. Massive resources were allocated to fund this expansion. However, due to uncontrollable circumstances, challenges are inevitable with growth.</p>	<p>With every expansion plans, acquisitions or JVs, comprehensive due diligence is being conducted as part of mandatory procedures before execution of the transactions. The results of the DD is being reviewed by the highly-seasoned senior management team along with their technical consultants.</p>



	<p>In addition to challenges in setting up the business expansion, the venture/acquisition/expansion may not be profitable enough to sustain the operations after a few years.</p>	
	<ul style="list-style-type: none"> <li>• <u>Adverse effect of the price increases on fuel and electricity on company profitability and sustainability</u></li> </ul> <p>Due to the effectivity of the newly-implemented TRAIN law, rising prices on fuel and electricity are to be expected. Included in the heavily affected goods are coal, which is part of the main materials in cement production of ECC.</p> <p>These rising prices can significantly and negatively affect the profitability of the company by raising the product costs. Without corresponding raise in selling prices per bag of cement, the margin per bag will be adversely affected.</p>	<p>The Company has tied up with major power distributors to ensure availment of the best price for electricity consumption. This entails careful and effective consumptions costing/planning to be able to negotiate better prices without incurring losses due to unutilized resources.</p> <p>To minimize the effect of high dependency on the expensive external electricity providers, the Company had installed a waste heat recovery facility in the Bulacan Cement Plant to lower down the overall production costs related to electricity.</p> <p>This cost reduction strategy also has a significant impact in reduction of carbon and heat emissions related to usage of non-renewable source of energy such as coal.</p>
	<ul style="list-style-type: none"> <li>• <u>Lack of qualified technical personnel for operations</u></li> </ul> <p>Industry-specific skills required in operations of a cement plant is hard to come by due to various factors such as non-compete clauses, competitive recruitment from each side of competing companies, undesirable work location etc.</p> <p>Competent technical people in Operations comprise the heart of the organization.</p>	<p>The Company implements a competitive benefits package for all employees including an attractive rewards and recognition program which focuses on performance at all levels (corporate, departmental and individual). In overall, these set of employee benefits aim to attract competent and qualified employees in all aspect of the business (operations and business support).</p> <p>The benefits package is being reviewed on a regular basis to ensure competitiveness, and is being adjusted per employee as necessary.</p> <p>The Recruitment team also adopts a cadetship program to forge new grads into qualified technical personnel trained specifically for ECC operations.</p>

