RISK MANAGEMENT GUIDELINES AND PROCEDURES

Duty Free Philippines Corporation

1 Purpose

This policy establishes the methodology for the management of risks faced by DFPC. The purpose of this document is to guide Duty Free Philippines Corporation (DFPC) and its personnel to manage risks in order to minimize if not avoid their negative effects on DFPC operations. This will help DFPC to:

- attain its strategic objectives;
- aid in realizing its full potential;
- support decision making by utilizing structured planning method; and
- gain stakeholders' trust and confidence.

2 Organizational Scope

This guideline covers all key employees responsible in the sustainability, productivity, profitability and the overall general welfare of the company, its employees and its stakeholders as well as all activities and processes involved in the day to day operation of DFPC.

3 Definitions

For purposes of this guideline, unless otherwise stated, the following definitions shall apply:

Key Personnel - identified but are not limited to DFPC Board of Directors, Executives, Division/Department Managers, Committee Head, Project Managers.

Risk - is a situation or condition that may pose a possibility of harm/detriment.

Risk Factor - issues, influences, and event that may affect DFPC operations.

Stakeholders - person or group with interest in the company such as but not limited to the Management and staff of DFPC, Government Officials/Offices, Partner Agencies, Suppliers, Contractors, Customers, etc.

SWOT - is an acronym for Strengths, Weaknesses, Opportunities, and Threats

4 Risk Factor

Several Risk factors which may affect DFPC are identified but are not limited to the following:

a. State of the Global Travel and Tourism Industry

Economic cycles including those brought about by the political instability or outbreak of an epidemic, in the different regions affect the country's tourism and travel industry. This type of risk is generally less predictable and may significantly affect the corporation's financial condition. To sustain the demands of its operations in such occasions, DFP has kept its inventory costs at a reasonable level so as not to seriously strain its financial resources.

b. Calamities and other Natural Disasters

Natural disasters such as earthquakes, typhoons and floods as well as acts of terror, infection and other factors beyond the control of DFP could adversely affect operations. The development of disaster contingency plans is intended to minimize losses.

c. Foreign Exchange Fluctuations

The company transacts business in different currencies. As a result, our financial statement/condition is affected by fluctuations in foreign exchange rates. Reduction on the effects of exchange rate fluctuations can be achieved through exchange rate futures contracts, and for reportorial purposes, the effect in the translation of foreign exchange transactions is summarized under one account.

d. Restrictions imposed by National and Local Laws and Regulations

Our operations are subject to restrictions both locally and on a national level. Local government regulations such as "no plastic policy" and "smoking bans" affect the demand for DFP products. On the national level, additional burden imposed by laws such as the Sin Tax and other regulatory requirements drive our costs up. To remain competitive in the travel retail market, supply contracts include a mechanism for review of the pricing policy.

e. System Security Breach

Unauthorized intrusions in DFP computer systems may compromise data and/or applications critical to the operations of the corporation. As best practice, we have installed security solutions and tools to protect the networks, the operating systems, the servers and enterprise data. Backup and recovery methodologies are also contained in the IT Business Continuity Plan (BCP).

f. Trade Liberalization

Import trade liberalization reduces the competitive advantage of the duty free business that may affect the profitability of the operations. Costs for importation for the domestic market can be brought down to more reasonable levels on account of its volume. Adjustments in pricing policies, increase in product value offers and development of specialized categories and/or exclusive product lines intended to serve a specific need of the market are among the measures that are undertaken to mitigate the effects of liberalization.

5 RESPONSIBILITIES

Risk management is a principal management requirement and essential part of day-to-day tasks and processes of DFPC. As part of an organization, each members have its own part in managing risks. Likewise, all are responsible for the identification of risk and proper implementation of the risk management procedures.

All key personnel are responsible in applying the set risk management policy and strategies in their respective area of responsibility and are expected to uphold the following:

a. Ensure that risk management is included in corporate planning processes and considered in the day-to-day activities at all levels of DFPC

b. Identify and evaluate the potential risks that may influence the achievement of the DFPC's strategic objective.

c. Designate accountability for managing risks subject to defined limitations

d. Set in place a risk based approach and ensure proper information dissemination to all level

e. Comply with DFPC and Government standards in relation to the particular types of risk

f. Define acceptable levels for risk taking and set mitigating standards where necessary

g. Set in place internal control and monitor the effectiveness of the system of risk management

h. Set in place preventive measure by identifying and monitoring weaknesses or incidents and bring it to the attention of executive management

i. Provide regular progress report to Management.

6 PROCEDURE

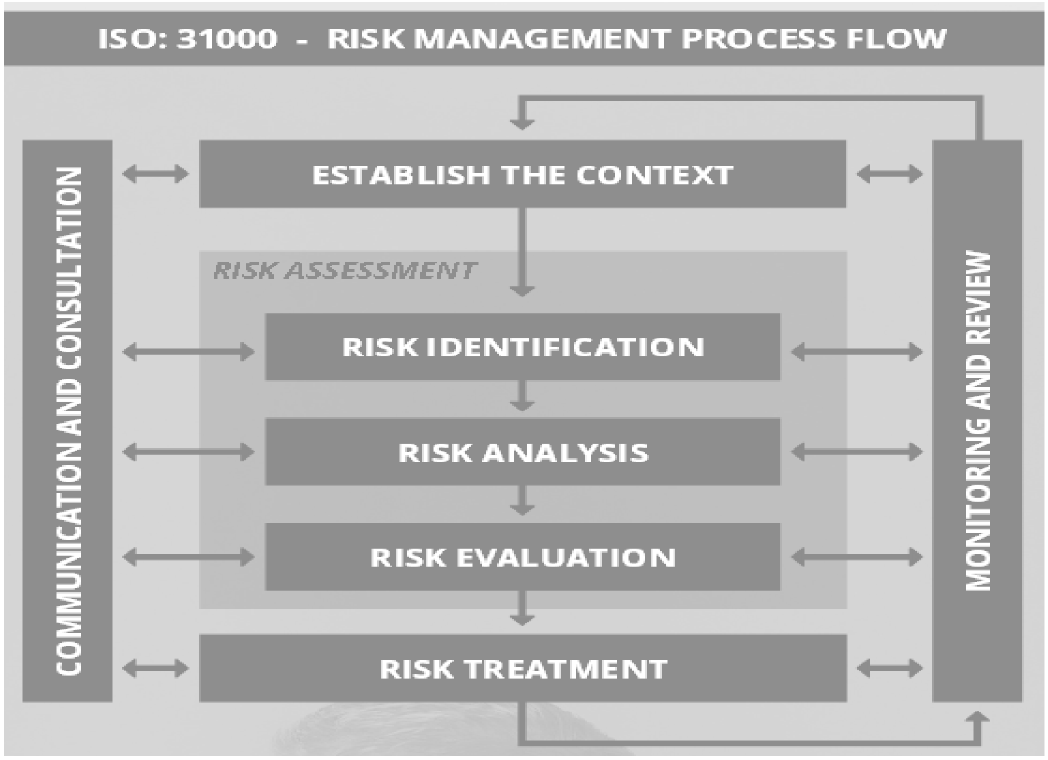

Figure 1: ISO 31000 Risk Management Process

Using the ISO 31000 Risk Management Process [1] as guide. The key personnel should:

a. Establish the framework associated with projects undertaken by the organization

Key personnel assigned must create an outline in order to keep track of the project as well as identify and monitor critical tasks and project timeline.

b. Identify the risks associated with the organization and to each project/tasks

Identify the factors that may affect DFPC such as but not limited to those enumerated in Item No. 4 of this document. Likewise, identification of risk is not only limited to the factors that may be detrimental but also consider factors that may enhance the ability to meet set objectives. Risks are classified as:

- Project Risk
- Business Risk
- Production System Risk
- Benefits Realization Risk
- Personal Risk

Risks in relation to DFPC operations are further identified but are not limited to the situations listed in Annex A.

The following questions may be used to identify possible risks:

- When, where, why and how would the risk be likely to occur?
- What are the possible outcome which may arise from the particular risk?
- What are the possible risks in the event the undertaking is achieved/not achieved?
- Stakeholder that may affect the undertaking?

c. Analyse the risks

Analyse the risk by determining the possibility, probability and possible causes/trigger for the risk to occur as well as the potential impact it will create on DFPC. In order to get a general idea of the risk involved, the team should create a risk overview which must be performed by stakeholder/s to identify the possible risks which may arise based on their own point of view or area of interest. The results of which must be shared and explained accordingly. The table below may be followed:

Example:

ISSUE	SIMPLE	AVERAGE	COMPLEX
a) Software / program requirement		✓	
b) Contract	✓		
c) Limitations due to legislation			✓

d. Assess and prioritize the risks

Set in place a scale to determine the risk impact and the level of importance in order to address the risk and apply the necessary solution.

PRIORITY	LOW	MODERATE	HIGH	ESCALLATION
Manpower requirement			✓	
Procurement of Goods		✓		
Payment of Interest/ Penalties				✓

e. Treat the risks

Treat the risk by utilizing industry best practices/methodologies as well as various analytical tools including a cost/benefit analysis of the treatment options. While there may be issues where treatment can be performed at ground level, the team should create an escalation plan to effectively address issues that cannot be immediately resolved.

The escalation plan should be able to address the issue by addressing the following:

- Mode of communication for informing and updating stakeholders (Example: website, incident tracking system, email, etc.)
- Procedure to follow prior, during and after posting the issue
- Information to be included in the posted issue such as the status, consequence, point person, urgency, etc. as may be defined relevant.
- Mobilization plan to address the issue. (Example: Set emergency meeting, mobilize contingency plan (if any), etc.)

f. Constant monitoring and review of the risks and treatments

Set in place the submission of a regular report to be submitted to Management in order to monitor identified risks and review the effectiveness of the actions/solutions applied for future references.

g. Documentation

Each stage of the risk management process shall be appropriately documented. The extent of documentation required is dependent on the nature of the risk. Documentation will be controlled so as to inform part of an auditable quality management process.

7 REFFERENCES

- ISO 31000 Risk Management Process (Figure 1)
  [1]https://www.goodelearning.com/downloads/preview/itil_poster_23_-_risk_management_process-preview.pdf
- https://en.wikipedia.org/wiki/ISO_31000
- Project Definition and Start-up Project Management Methodology
  http://www.mais.umich.edu/methodology/project-management/M1000BPMM-methodology-process-flow.pdf
- Understanding Risk Management Process
  https://iaonline.theiia.org/understanding-the-risk-management-process
- Risk Management - Types of Risks
  http://martinbauer.com/Articles/Risk-Management/Types-of-Risks
- Creating a Risk Management Plan
  https://in.dfp.com.ph/Training Center/Project Management Fundamentals/3 - Planning a Project/3-9 Creating a risk management plan.mp4
- Collection of Free Project Management Templates and Forms

  http://www.brighthubpm.com/templates-forms/124740-collection-of-free-project-management-templates-and-forms/
- Defining an Escalation Plan

  https://technet.microsoft.com/en-us/library/cc961221.aspx
- Risk Management - Risk Management in Practice

  http://martinbauer.com/Articles/Risk-Management/Risk-Management-in-Practice

APPENDIX A

CATEGORIES OF RISK

Threats may arise from any of, but is not limited to, the following factors:

A. Project Risk

1. Project Approval (Board of Directors, Head of Corporation)
2. Budget Constraint
3. Procurement Process
4. Timeline
5. Government (National/Local) Laws, regulations, compliance requirements
6. 3rd Party Complications (Suppliers, Contractors, Service providers, etc.)
7. Project/System/Requirement Complexity
8. Information Availability
9. Environment (Scenario, situation, location, settings)
10. Manpower requirement or availability

B. Business Risk

1. Legal requirements
2. Supply and Demand
3. Quality of Merchandise
4. Compliance Requirement

C. Production System Risk

1. Commitment of Partners (Suppliers, Customs, Brokers)
2. Merchandise Delivery
3. Support and Maintenance
4. Availability of Required Documents (Operations Manual, Operating Guidelines and Procedures)

D. Benefits Realization Risk

1. Number of stakeholders involved
2. Level of Acceptance/Consumer Patronage
3. Timeline (Purchase Order to Delivery of Merchandise)

E. Personal Risk

1. Effect on Personal Life
2. Effect on Professional Life
3. Skills limitation
4. Physical and Emotional Impact
5. Legal Implications