



RISK MANAGEMENT REPORT



FRAMEWORK

Risk management is considered by the Board to be a key business discipline, designed to balance risk and reward and to protect the Group against uncertainties that could threaten the achievement of business objectives.



The Board has approved a corporate risk management policy that defines the objectives of and commitment to risk management. The policy is based on principles of the International Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework and complies with the requirements of King III. It involves continuous risk identification at both a strategic and operational level, as well as the evaluation of mitigating controls.

 The full King III application table is available on our website at www.rclfoods.com

RISK ASSESSMENT PROCESS

Formal risk assessments are performed bi-annually where existing risks are re-assessed and new and emerging risks are identified through a combination of facilitated workshops and interviews with Group Executives and management, the detail of which is illustrated below.

STEP 1



CONTEXT SETTING AND RISK IDENTIFICATION

Through interviews, facilitated workshops, surveys and industry benchmarking, executives and management identify and define risks that would impact the achievement of strategic goals which may include operational, financial, regulatory and strategic risks.

STEP 2



RISK ANALYSIS AND EVALUATION

Risks are assessed, (both quantitatively and qualitatively) rated and ranked by management, as defined in the RCL FOODS risk assessment criteria, based on probability, impact and control effectiveness.

STEP 3



RISK RESPONSE

Risks are reviewed and appropriate treatment methods, that would manage risks to an acceptable level aligned with strategy, are approved by management. Management may decide to avoid the risk by eliminating risk through preventative processes, accept the risk by maintaining the risk at its current level, share the risk with an independent counterparty or manage the risk by implementing policies and procedures to lower risk.

STEP 4



RISK REPORTING AND MONITORING

The relevant operating Boards and Risk Committee are periodically updated on management's assessment of existing and emerging risks, risk response strategies and mitigating controls in place to manage risks to an acceptable level. Assurance on controls is provided through the combined assurance model.

KEY RISKS

The table below provides a brief description of the key strategic and operational risks to which the Group is exposed and the mitigating controls in place to manage these risks. Opportunities for further enhancement are evaluated on an ongoing basis.

Risk – material issues	Risk – mitigation activities	Key activities for 2016	Strategic objectives				
			Grow through strong brands	Partner with strategic customers	Expand into Africa	Extend our leading value chain	Inspire great people
PRICING PRESSURE							
Oversupply in the chicken market primarily due to increased imports, increased competition, customer pressures and changes in government regulations restrict and put pressure on the Group's ability to increase prices.	<ul style="list-style-type: none"> Regular management forecasts and reviews that focus on actions required to deliver desired performance. Building RCL FOODS' brands through innovation and marketing programmes. Emphasis on cost reductions and operational effectiveness. 	<ul style="list-style-type: none"> Focus on innovation and the launch of new products. Continuous focus on cost reduction and operational efficiencies. 	●	●		●	
COMMODITY PRICE FLUCTUATIONS							
The cost of the Group's products is affected by the cost of the underlying commodities and materials. Fluctuations in these costs cannot always be passed onto the consumer.	<ul style="list-style-type: none"> A clear procurement strategy is prepared which is guided by the Procurement Policy. The RCL FOODS Commodity Procurement Committee meets monthly to review strategy, prices and mandates. Comparison of raw material prices against SAFEX market prices and competitors, are reported monthly. Limitations are in place on trades in terms of tonnage requirements. 	<ul style="list-style-type: none"> The exposure to raw material price volatility, due to currency exchange rates and drought during the reporting period, was managed through the purchase of forward cover instruments. For detail on commodity price activity for F16 refer to the CFO review on pages 56 to 58 of the Abridged Integrated Annual Report available on our website www.rclfoods.com. 				●	



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CLIMATE CHANGE RISK							
<p>Extreme weather conditions are likely to occur more frequently and at a greater scale, the effects of which will be pervasive across the environment, economic performance, social behaviour and infrastructure.</p>	<ul style="list-style-type: none"> Recognising that failure to address climate change impacts will constrain growth and challenge ongoing operations (specifically with reference to water and energy), the Group has a dedicated sustainability team which drives our sustainability agenda. It forms part of the RCL FOODS strategy, and targets and performance are considered by the executives and RCL FOODS Risk Committee. 	<ul style="list-style-type: none"> Continual focus on waste water reduction, introduction of water re-use systems and research into ways to reduce energy consumption and alternative energy sources. Key sustainability initiatives and progress is detailed in the Sustainability Report available on our website at www.rclfoods.com. 	●	●	●		
SUPPLY CHAIN BUSINESS INTERRUPTION							
<p>The Group's supply chain network is exposed to potential adverse events such as physical disruptions, environmental and industrial accidents or supplier ineffectiveness which would impact on the Group's ability to deliver orders to its customers.</p>	<ul style="list-style-type: none"> Business continuity and disaster recovery plans are in place to deal with major incidents or crises. The Group works closely with external risk assessors and insurers to ensure that all facilities have the highest level of fire detection and prevention. The Group adheres to good farming practices and extensive precautionary measures are in place to ensure the health of the flocks. Strike action plans in place. The Group's key suppliers are either internally and / or externally certified and the quality of material is regularly monitored. 	<ul style="list-style-type: none"> Continued focus on forging strong relationships with the unions of the different business units across the Group. Disaster recovery plans in place for key suppliers. 	●	●	●	●	



KEY RISKS CONTINUED

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CUSTOMER RELATIONS AND BRAND PREFERENCE							
Establishing, monitoring and enhancing relationships between the Group’s brands, its customers and consumers is key to the ongoing success of RCL FOODS to prevent loss or decrease in demand of key customers or market share.	<ul style="list-style-type: none"> • Continuous monitoring of external market trends and collation of consumer and customer insight to develop category and brand strategies. • Continuous investment in R&D and product/brand development. • Building and maintaining trading relationships across all customers. • Development of joint engagement plans with key customers that include innovation development and customer service objectives. 	<ul style="list-style-type: none"> • Partnering with key customers remain priority for the Group. • Focus and emphasis on optimising customer service levels. • Innovation and value added launches to drive and enable growth and differentiation. • Commissioning of a new Beverages plant in Centurion to introduce a Ultra High Temperature (UHT) range. 	●	●	●	●	
FOOD AND PRODUCT SAFETY							
Products could potentially be subjected to food or product hazards if not managed within the supply chain. As a result the Group may be subject to product liability claims and product recalls.	<ul style="list-style-type: none"> • The Group’s product quality processes and controls are comprehensive and well embedded. They are verified annually and regularly monitored. 	<ul style="list-style-type: none"> • The Group demonstrates its commitment to food and product safety through the implementation of national and international management systems. The Group’s application of such systems can be found in the Sustainability Report on our website at www.rclfoods.com. 	●	●	●	●	



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NON-COMPLIANCE WITH LAWS AND REGULATIONS							
<p>The Group's operations are subject to legislation and regulations by authorities that oversee, including but not limited to:</p> <ul style="list-style-type: none"> • Financial standards; • Food labelling requirements; • Facility and product requirements; and • Safety, health and environmental requirements and standards for staff, consumers and customers. <p>The inability to manage compliance may impact the Group's reputation and result in fines and penalties.</p>	<ul style="list-style-type: none"> • Training and awareness is continuously provided on a targeted basis across the business. • Appropriate policies, systems, procedures and reporting. • Appointment of skilled technical resources and consultation with subject matter experts. 	<ul style="list-style-type: none"> • Refer to legal compliance on page 6 of the Corporate Governance report available on our website at www.rclfoods.com. 	●	●	●	●	●
STRATEGIC ACQUISITIONS, MERGERS AND DIVESTITURE							
<p>RCL FOODS may not successfully identify or complete strategic acquisitions, joint ventures or divestitures. This could materially and adversely affect the Group's financial condition and operating results.</p>	<ul style="list-style-type: none"> • Sound due diligence disciplines are used in all mergers, acquisitions and joint ventures. • These projects are resourced by dedicated and qualified personnel. 	<p>For more detail refer to the strategic thrusts section on pages 20 to 31 and CEO report on pages 47 to 49 of the Abridged Integrated Annual Report available on our website at www.rclfoods.com.</p>			●	●	

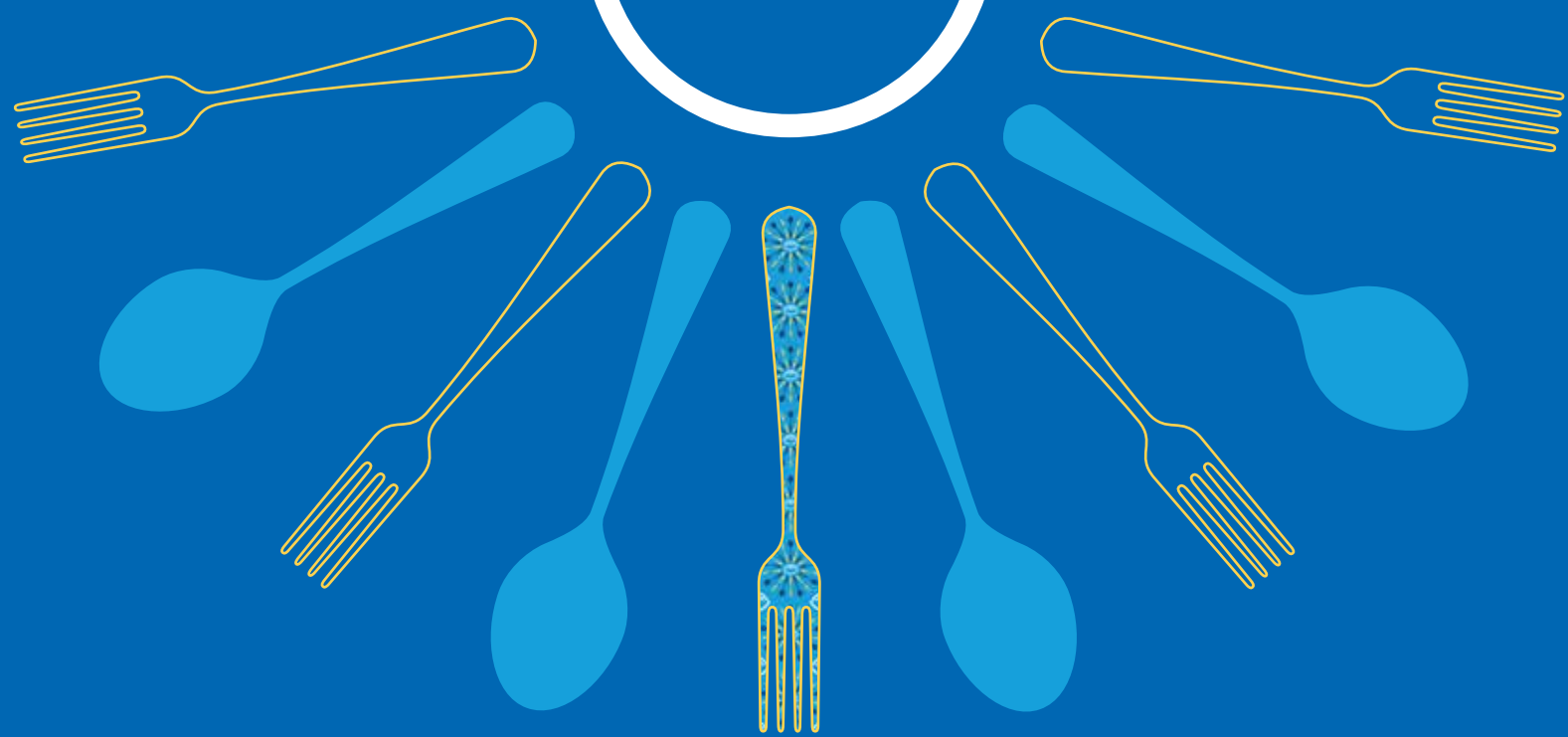


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MANAGING TALENT AND SKILLS SHORTAGE							
<p>As the Group expands its operations into Africa, the loss of management or other key personnel, or the inability to identify, attract and retain qualified personnel could make it difficult to manage the business adversely affecting operations and financial results.</p>	<ul style="list-style-type: none"> Talent management and skills shortage is key on the agenda of the RCL FOODS executive committees. Development of a positive, progressive and high performance “way of operating” is the culture fostered by RCL FOODS. The recruitment strategy which includes building a talent pipeline through the Graduate Recruitment Programme, is to ensure that the right people are attracted to the organisation. Specific processes support retention, employee development, leadership and “high potential employee” development and performance management. 	<ul style="list-style-type: none"> RCL FOODS continually invests in empowering and developing its employees with the objective of driving a high performance culture through key leadership and management programmes. Progress on talent management and skills shortage can be found in the Sustainability Report available on our website at www.rclfoods.com. 		●		●	
INFORMATION SECURITY RISK – CYBER ATTACKS AND DATA PRIVACY RISKS							
<p>The merger of physical and digital worlds also means a growing reliance on technology which is accompanied by a number of new operational, security and strategic risks for businesses. This includes cyber attacks, unauthorised access and misuse of sensitive information</p>	<ul style="list-style-type: none"> RCL FOODS Group controls include, but is not limited to: <ul style="list-style-type: none"> – Malware protection; – Network security; – Secure configuration; – Incident management; – Managing user privileges; – Education and training; and – Disaster recovery plans and back up strategies. 	<ul style="list-style-type: none"> In response to the emerging threats of cyber and data privacy risks, the Group continuously seeks to apply best practices: <ul style="list-style-type: none"> – Security awareness training for employees; and – Group IT together with internal and external audit continuously reviews and enhances the effectiveness of IT controls. 		●		●	



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FRAUD AND CORRUPTION							
With increasing unemployment, economic challenges, fraud and corruption on the rise, this remains an agenda item for the RCL FOODS Social and Ethics Committee.	<ul style="list-style-type: none"> • Corporate Code of Conduct and Ethics policy govern the behaviour of employees, suppliers etc. • Tip-off anonymous hotline in place with follow up on all allegations. • Standard financial, logical and physical access controls in place over cash and assets. 	<ul style="list-style-type: none"> • The Group's focus is on further embedding an integrated fraud and corruption risk management process, i.e. appropriate fraud and corruption prevention policies, awareness of the current fraud and corruption risk areas. • A total of 63 fraud allegations were reported and investigated over the last financial year via the tip-off anonymous hotline. 	●	●		●	



MORE FOOD TO
MORE PEOPLE,
MORE OFTEN



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