

RISK MANAGEMENT REPORT

For the year ended 30 June 2015

RISK MANAGEMENT REPORT

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.

OUR RISK MANAGEMENT FRAMEWORK



The Board has documented 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 www.rclfoods.com

RISK ASSESSMENT PROCESS

Formal risk assessments are performed biannually in May and November 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 on the following page.

Risk reviews are proactive in not only determining negative areas but also identifying areas of opportunity where effective risk management can be turned into competitive advantage.

The Group risk register summarises the significant risks faced by the Group, which are assessed both quantitatively and qualitatively, by taking into account the likelihood of occurrence, the potential impact, related mitigating factors and compensating controls. Management's treatment of risks are aligned to the risk appetite and tolerance approved by the Board.

Appropriate risk response strategies in relation to the Group's major risks have been developed and implemented. The adequacy and effectiveness of these strategies are reviewed on an on-going basis to ensure that they are responsive to changes in the dynamic environment in which the Group operates.

RISK ASSESSMENT PROCESS






RISK MANAGEMENT REPORT CONTINUED

KEY RISKS

The table below provides a brief description of the key operational and strategic 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 2015	Grow through strong brands	Partner with strategic customers	Expand into Africa	Extend our leading value chain	Inspire great people
COMMODITY PRICE FLUCTUATIONS							
<p>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.</p>	<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; and • Limitations are in place on trades in terms of tonnage requirements. 	<p>The exposure to raw material price volatility, due to currency exchange rates and crop damage speculation during the reporting period, was managed through the purchase of forward cover instruments. For detail on commodity price activity for F15 refer to the CFO review on pages 36 to 38 of the Integrated Annual Report available on our website www.rclfoods.com.</p>					
PRICING PRESSURE							
<p>Competition, customer pressures, increased imports into South Africa and changes in government regulations may restrict and put pressure on the Group's ability to increase prices.</p>	<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; • Working with government to adopt a responsible approach to new regulations; and • Emphasis on cost reductions and operational effectiveness. 	<ul style="list-style-type: none"> • Despite the very competitive environment, consumer lifestyle changes and private labels gaining momentum that all divisions operate in, most divisions achieved pleasing margins and strong market share growth to regain market share lost during the year; • With Rainbow's injection levels being one of the lowest in the local industry, the impact of the injection cap by government will have little impact to the Rainbow business; and • After a lengthy negotiation process, a decision was finally reached on the agreement with the USA regarding the renewal terms of the contentious AGOA agreement which allows the US to access the local market, with 65 000 tons of leg quarters per annum, partly duty free as they will be subject to the normal tariff implemented by ITAC last year. <p>Refer to the Chairmans statement for detail on page 27 of the Integrated Annual Report available on our website www.rclfoods.com.</p>					
SUPPLY CHAIN DISRUPTIONS							
<p>The Group's supply chain network is exposed to potentially 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; and • The Group's key suppliers are either internally and/or externally certified and the quality of material is regularly monitored. 	<p>Rainbow went through a successful wage negotiation process, however the threat of industrial action impacted the Speciality business unit of the Consumer division and Vector. Continued focus is on forging strong relationships with the unions of the ex-Foodcorp business units and some newer unions that have emerged.</p>					

RISK MANAGEMENT REPORT 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; and • Development of joint engagement plans with key customers that include innovation development and customer service objectives. 	<ul style="list-style-type: none"> • The Group invested in new plants which included commissioning of a fourth Speciality plant in Worcester in April 2015, a Nola and Yum Yum Polyethylene Terephthalate (PET) plant. Refer to the CEO report on page 32 of the Integrated Annual Report available on our website www.rclfoods.com. • Partnering with customers such as Woolworths, Massmart and KFC remain priority for the Group. Refer to page 37 of the sustainability report available on our website www.rclfoods.com. 	●	●	●	●	 
FRAUD AND ETHICS							
Acting in an ethical manner, consistent with the expectations of customers, consumers and other stakeholders, is essential for the protection of the reputation of the Group and its brands.	<ul style="list-style-type: none"> • Corporate Code of Conduct and Ethics policy govern the behaviour of employees, suppliers etc.; • Tip-offs anonymous hotline in place with follow up on all allegations; and • Standard financial, logical and physical access controls in place over cash and assets. 	The RCL FOODS Tip-Offs hotline was introduced to the Sugar division during the year, with 40 tip-offs being reported and followed up.	●	●	●	●	●
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.	The Group's product quality processes and controls are comprehensive and well embedded. They are verified annually and regularly monitored.	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 the RCL FOODS website www.rclfoods.com .	●	●	●	●	
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; • Safety, health and environmental requirements and standards for staff, consumers and customers; and <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; and • Appointment of skilled technical resources and consultation with subject matter experts. 	Focused training and awareness around the CPA and Competition Act was carried out during the course of the year with staff in the Sales and Customer departments.	●	●	●	●	

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ENERGY AND WATER SECURITY AND PRICING							
<p>The Group is aware of the need to reduce the usage of both water and electricity in light of constrained availability and supply and recent price increases. Non availability of either has a significant negative impact on operations.</p>	<ul style="list-style-type: none"> • A sustainability framework is in place for defining and reviewing environmental objectives and targets; and • Continual focus on waste water reduction, introduction of water re-use systems and research into ways to reduce energy consumption and alternative energy sources. 	<p>Key sustainability initiatives and progress, detailed in the sustainability report at www.rclfoods.com include:</p> <ul style="list-style-type: none"> • The reduction of energy consumption throughout the supply chain with specific targets to reduce heat and power consumption; * Water consumption and discharge management; and • Initiating waste to value opportunities. 					🌐
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 Groups 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; and • These projects are resourced by dedicated and qualified personnel. 	<p>Further investment into Zamhatch. For more detail refer to the Strategic Thrusts and Progress section on page 12 of the Integrated Annual Report available on our website www.rclfoods.com.</p>	●		●		🌐
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 and could adversely affect 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; and • Specific processes support retention, employee development, leadership and “high potential employee” development and performance management. 	<ul style="list-style-type: none"> • A new organisation structure has been implemented in response to the restructure. For more detail refer to the Chairmans Statement on page 26 of the Integrated Annual Report available on our website www.rclfoods.com; and • Progress on talent management and skills shortage can be found on pages 15 and 16 of the sustainability report available on our website www.rclfoods.com. 					🌐
IT SYSTEMS AND INFORMATION RISK							
<p>The Group’s operations are dependent on reliable, secure, effective and efficient IT systems. Disruptions to the Group’s IT systems could inhibit the Group’s business operations including disruptions to sales and production. There is also a risk of unauthorised access and misuse of sensitive information.</p>	<ul style="list-style-type: none"> • Formal disaster recovery plans and backup strategies are in place and steps are taken to ensure these plans are tested regularly and updated accordingly; • Key applications are hosted out of genuine data centre facilities accompanied by appropriate power and network redundancy; and • Physical security at the data centre facilities are robust with the required access and environmental monitoring in place. 	<p>Analysis of differing IT landscapes has been performed with the aim of leveraging opportunities and minimising risk exposure. Refer to the CEO report on page 35 of the Integrated Annual Report available on our website www.rclfoods.com.</p>	●	●	●	●	🌐

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