

MANAGING RISK IN THE AGRICULTURAL SECTOR

A dark horse continuing to emerge

Environmental risks continue to dominate the latest World Economic Forum’s (WEF) global risk report of 2021. Respondents to their Global Risks Perception Survey ranked extreme weather and related environmental issues as four of the top five risks in terms of likelihood.

In Senwes’ case, this is no different. The last time the agricultural sector saw somewhat of a normal or average season was arguably in 2012. During the period thereafter there were two record crop years, two record drought years and three very sporadic years ranging from record pre-season droughts to record post-season rainfall. The current summer crop production year is no different and saw lower than average rainfall until the end of November, followed by above average rainfall and localised flooding. The summer crops started the year on the back of the largest wheat harvest since 2008/09. The current summer crop indications point towards the second largest maize crop with a record soybean crop expected.

Globally commodity prices surged due to lower than initially reported stock levels and a surging Chinese demand. This was especially evident in the markets in the United States. The local commodity

production increased and higher global commodity prices had a positive impact on producer profitability, thereby reducing Senwes’ residual risk.

Senwes chooses to actively manage its risks by following an Enterprise-wide Risk Management (ERM) framework, which provides a framework for our management to effectively deal with uncertainty and associated risks and opportunities, thereby enhancing our capacity to create value.

No entity operates in a risk-free environment and ERM does not create such an environment. ERM rather enables management to operate more effectively in environments filled with risks. It cannot and does not operate in isolation within Senwes, but rather as an enabler of the management process.

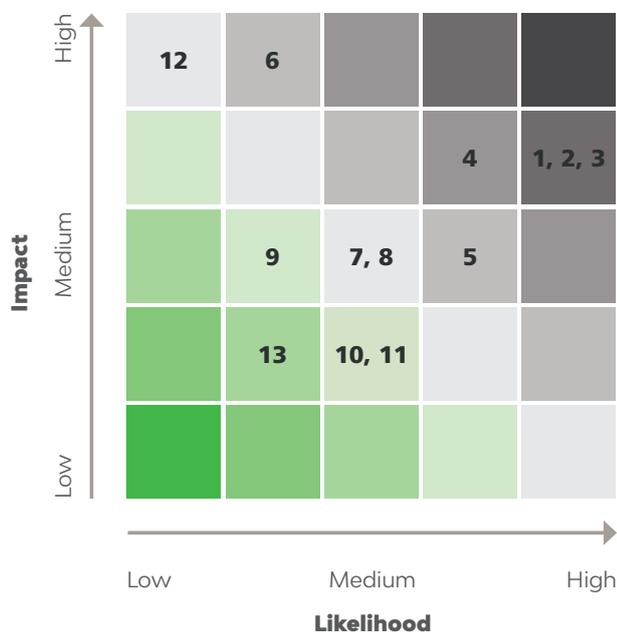
OUR ERM FRAMEWORK IS BASED UPON FOUR CRITICAL RISK ACTIVITIES

1 ENSURING RISK GOVERNANCE	2 ENHANCING THE RISK CULTURE	3 ENTERPRISE-WIDE RISK BASED STRATEGY	4 MANAGING THE RISK PROCESS
<p>ERM is interrelated with corporate governance by providing information to the board on the most significant risks and how they are being managed through the Risk Committee. It is therefore crucial that we utilise and optimise our risk resources which include our employees, risk management technology and liaison network.</p>	<p>Risk management is deeply rooted in the culture of Senwes and its strategic and tactical intent. The responsibility and accountability for risk management reside at all levels of the organisation, from its board down to each business manager and employee.</p> <p>Being risk aware requires that management considers information about internal and external environments, deploys precious resources and recalibrates enterprise activities to changing circumstances.</p>	<p>Management considers the entity’s risk appetite first in evaluating strategic alternatives, then in setting objectives which are aligned with the selected strategy. Thereafter, mechanisms are developed to manage the related risks.</p> <p>Risk appetite therefore guides resource allocation and assists us in aligning the organisation, people and processes in designing the infrastructure required to effectively respond to and monitor risks.</p>	<p>The group has a formal risk assessment process in place through which risks and mitigating management actions are identified, assessed, monitored and reported on.</p> <p>Our core strategic focus area as part of the risk management process remains the ability to respond to risks by ensuring multiple response plans per risk category.</p>

SENWES' MATERIAL RISKS

Senwes deems its risk management practices as being effective and fully acknowledges the volatile agricultural industry and our need to be more agile, smarter and more effective, proactive and forward-looking and, at the same time, being appropriately responsive.

All risks are residually quantified and the heatmap provides an overview of the risk rating in terms of impact and probability, considering the existing mitigating control measures.



Evaluation range	Matrix evaluation
Green	Low
Grey	Medium - High
Black	Critical

Rank	Risk name	Likelihood	Impact	Score
1	Environmental and health and safety risk	5	4	20
2	Political and economic climate risk	5	4	20
3	Market size and market share risk	5	4	20
4	Credit, liquidity and market risk	4	4	16
5	Commodity price risk	4	3	12
6	Weather and climate risk	2	5	10
7	Information technology risk - systems and cyber	3	3	9
8	Urbanisation, scarcity and retention of skills risk	3	3	9
9	Transition and customer risk	2	3	6
10	Diversification and agricultural industry risk	3	2	6
11	Unique competitor risk	3	2	6
12	Regulation and compliance risk	1	5	5
13	Theft and fraud risk	2	2	4

MATERIAL RISKS AND OPPORTUNITIES



ENVIRONMENTAL AND HEALTH AND SAFETY RISK

RISK TREND ▲

RISK EVENTS

- First and subsequent second wave of significant Covid-19 infections.



DESCRIPTION

South Africa experienced its first significant wave of Covid-19 infections from May 2020 to the end of August 2020. The second and more deadly wave of infections occurred from December 2020 to the beginning of February 2021. South Africa implemented various response plans during these periods, which included the various alert level lockdowns ranging from alert level 5 to alert level 1. The latest response strategy includes the three-phased approach and roll-out of the Covid-19 vaccines. Frontline health care workers are prioritised, followed by essential workers and vulnerable persons. The last phase focuses on the majority of the population aged eighteen and over.

The group is also subject to compliance re-

quirements regarding employee health and safety, environmental and quality assurance.

MITIGATION AND CONTROL

The Senwes Group implemented its own response plan relating to Covid-19, managed by a nominated committee, which includes the executive directors.

Operations, the safety of grain as a core product and the handling thereof are continuously assessed by Senwes through a hazard critical control point (HACCP) and quality management system. Senwes also incorporates a fully functional SHEQ department to enable the policy environment, effective structures, education and training, empowering employees to make judgement calls and enforcing rules and regulations.



OPPORTUNITIES

- Develop and optimise the group's environmental, health and safety compliance and assurance processes and systems, also through the utilisation of the latest technology in this regard.
- Strengthen the group's environmental and health and safety compliance culture through continuously upskilling and training personnel as well as optimising and adapting development programmes in this regard.

STRATEGIC FOCUS AREAS TRIGGERED

- Reorganisation of business models.



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POLITICAL AND ECONOMIC CLIMATE RISK

RISK TREND ▲

RISK EVENTS

- The Coronavirus (Covid-19) outbreak continued to hinder business confidence and economic growth.
- Continued and rapid increase in unemployment.
- Land Bank bailouts.
- Continued state-owned enterprise (SOE) bailouts.
- Insufficient power supply - loadshedding.
- Municipal service delivery deterioration.
- Change in US Presidency with resultant policy changes.
- Nearing finalisation of the proposed amendment of Section 25 of the Constitution.

DESCRIPTION

The group and the agricultural sector could be negatively impacted by political decisions, civil unrest, high unemployment rates, mismanagement of SOEs (electricity and water), volatile exchange rate movements and unsustainable growth. Various policy changes impacting the agricultural sector could severely impact the group's strategic intent.

The most significant political threat to the group and industry remains the policy of land expropriation without compensation. Furthermore, the impact of credit rating downgrades could be fuelled by the already

struggling local economy and agri-industry.

MITIGATION AND CONTROL

Senwes utilises agricultural land owned by producers to secure credit extension to these clients. In the event of agricultural land being nationalised or expropriated without compensation, the value of agricultural land will diminish and nullify the value of the security that Senwes holds against outstanding funds. This risk can only be accepted and cannot be mitigated.

OPPORTUNITIES

- Externalisation and/or diversification into new markets and/or lower risk jurisdictions.



- Engagement at political/government level to aid in the formulation and roll-out of sustainable solutions for South Africa's political and economic challenges.
- Development of solutions which aim to reduce the impact of political and economic challenges for both the Senwes Group and its customers (e.g., cost or risk sharing between Senwes and its customers with regards to selected products and/or services).

STRATEGIC FOCUS AREAS TRIGGERED

- Diversification, horizontal integration and consolidation.
- Reorganisation of business models.
- Increased investment in efficiencies within the value chain.
- Externalisation.



For more information on the group strategy, see p. 50



CREDIT, LIQUIDITY AND MARKET RISK

RISK TREND



RISK EVENTS

- Later than normal harvesting season with increased global commodity prices. The higher commodity prices and increased farmer profitability lowered the arrears, which had a positive impact on the risk profile.
- Landbank downgrade and subsequent repricing of the agricultural debt industry.
- National debt and liquidity crises impacting borrowing rates.

DESCRIPTION

The profile of the credit book with regards to concentration and geographical risk remains a risk factor. The improved outlook on farmer profitability would further mitigate credit and market risk.

The Senwes Group is also exposed to medium-term liquidity and volatile interest rate changes. Market risk includes the repricing of the South African economy with regards to credit ratings.

MITIGATION AND CONTROL

The potential credit concentration risk mainly

relates to debtors. Debtors consist of many clients, spread over different geographic areas. Credit is extended in accordance with the credit policy of the group. Prudent credit evaluation processes are strictly adhered to. The group is also naturally hedged against fluctuating interest rates to a large extent since interest-bearing debt is mainly utilised for interest-earning assets, both at floating interest rates. Contracts, however, are all linked to the prime rate.

OPPORTUNITIES

- Diversification and/or expansion into new,



lower risk and counter-cyclical markets or commodities.

- Formulation and roll-out of new and adapted solutions which aim to mitigate credit, liquidity and market risk.

STRATEGIC FOCUS AREAS TRIGGERED

- Diversification, horizontal integration and consolidation.
- Reorganisation of business models.
- Externalisation.

For more information on the group strategy, see p. 50



MARKET SIZE AND MARKET SHARE RISK

RISK TREND



RISK EVENTS

- Lowest national maize opening stock since 2013/14 with a delayed delivery season resulting in significant market volatility.
- Significant crop quality issues.
- Aggressive and unsustainable market penetration strategies by competitors.

DESCRIPTION

The agricultural industry is highly competitive with regards to inputs, commodity production, equipment and retail business. The limited local diversification opportunities increase the exposure to strong competition.

MITIGATION AND CONTROL

Senwes Grainlink's continued investment in technology and infrastructure at its silos remains a focus area in order to increase market share by means of offering a more attractive value proposition to clients. Similar investments are made throughout the group in order to grow market share.

The reorganisation of the market access channel and the subsequent closure of Tradevantage will add value in the future in order to grow market share.

The retail and equipment service offering survived one of the longest market size downturns and is well positioned to benefit from the increased farmer profitability due to higher global commodity prices.

OPPORTUNITIES

- Consolidation and/or expansion to achieve critical mass and market share growth.
- Continuous research, innovation, evalua-



tion and, where necessary, improvement of the group's core activities and solutions, to maintain a competitive advantage and grow market share.

STRATEGIC FOCUS AREAS TRIGGERED

- Diversification, horizontal integration and consolidation.
- Internal integration of the customer.
- Increased investment in efficiencies within the value chain.
- Externalisation.

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COMMODITY PRICE RISK

RISK
TREND



RISK EVENTS

- Surge in Brent crude oil price after record crashes.
- International trade agreements and the impact thereof. Record Chinese buying of United States corn and soybeans, leading to volatile and higher global commodity prices.

DESCRIPTION

Volatile commodity markets such as grains, oilseeds, fertiliser, steel and oil have an impact on input costs and the cost of capital goods for producers, creating trading risks.

MITIGATION AND CONTROL

The group uses derivative instruments to manage and hedge exposure to commodity price risk. In accordance with the group's risk

management policy, only minimal unhedged market positions exist from time to time. The hedging instruments used consist of soft commodity futures contracts as well as option contracts.

OPPORTUNITIES

- Continuous development and optimisation of the group's hedging instruments and price management strategies.



- Development and roll-out of tailor-made solutions which aim to manage/mitigate commodity price risk for producers and optimise their cash flow positions and profitability.

STRATEGIC FOCUS AREAS TRIGGERED

- Reorganisation of business models.

 For more information on the group strategy, see p. 50



WEATHER AND CLIMATE RISK

RISK
TREND



RISK EVENTS

- Extreme rainfall patterns leading to localised flooding and crop damage.

DESCRIPTION

The group is dependent on favourable weather conditions for sustainable agricultural production and producer profitability. The seasonality of weather and climate changes is not linked to a financial or calendar year and could therefore negatively impact the group over consecutive years.

MITIGATION AND CONTROL

Senwes is indirectly exposed to income volatility as a result of adverse weather and climate events. These events influence the volume of grain produced in the Senwes

area of operation, subsequently reducing storage income and producer profitability. The income volatility of a catastrophic climate event is mitigated by using certain derivative instruments and models.

OPPORTUNITIES

- Externalisation and/or diversification into new, counter-cyclical markets and/or lower risk jurisdictions.
- Fully understand and model the impact of weather and climate risk from the producer's point of view, and tailor the group's solution offering to mitigate



the impact of these risks.

STRATEGIC FOCUS AREAS TRIGGERED

- Diversification, horizontal integration and consolidation.
- Increased investment in efficiencies within the value chain.
- Externalisation.

 For more information on the group strategy, see p. 50





INFORMATION TECHNOLOGY RISK - SYSTEMS AND CYBER

RISK TREND



RISK EVENTS

- Various cyber related attempts (especially phishing) within the Senwes Group.

DESCRIPTION

The company relies heavily on technology and innovative system developments. The main risks relate to archiving, capacity, data integrity, relevance, integration and adaptability.

MITIGATION AND CONTROL

An IT-strategy and Management Committee is in place and formal change, project and integration management are applied. Furthermore, extensive business and IT-disaster recovery processes have been established.

Continuous focus is placed on IT-governance and improving the maturity of systems.

OPPORTUNITIES

- Continuous internal system development to ensure that clients are serviced effectively and cost-efficiently. In addition, system development could be structured in a manner which ensures long-term sustainability, strengthens cyber security and data integrity, enables effective integration and ensures effortless adaptability in



line with the group's strategic evolution.

STRATEGIC FOCUS AREAS TRIGGERED

- Reorganisation of business models.
- Unlocking value synergies.

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TRANSITION AND CUSTOMER RISK

RISK TREND



RISK EVENTS

- Continuous increase in market storage capacity.
- Clients focused on economies of scale resulting in fewer farmers with superior operations.

DESCRIPTION

The group is exposed to technological quantum leaps in agriculture, alternative storage solutions, customer needs and priorities which could all lead to a paradigm shift within the agricultural sector. The group's sustainability and reputation are at risk without transition and diversification.

MITIGATION AND CONTROL

Senwes still believes in strong client relationships and continuously attempts to better these relationships. Customer needs and our ability to fulfil those needs remain high on the company's agenda.

Senwes has further embarked on a project to develop comprehensive farm management solutions which will enhance our customers'

ability to make crucial business decisions based on key drivers. These solutions will integrate the various aspects of the Senwes business value chain in a seamless way, in order to enhance the overall customer experience.

Alternative storage structures are addressed by innovative market transactions and by investments in technology and infrastructure at the silos.

OPPORTUNITIES

- Expand and optimise customer research and the customer intelligence database of the group to enable the proactive development of solutions, to prevent the group from being bypassed in the process where a customer needs to seek a solu-



tion to fit his/her needs elsewhere in the market.

- Development of solutions (e.g., wealth planning and tax structuring services) that will enable the group to farm alongside its producers.

STRATEGIC FOCUS AREAS TRIGGERED

- Diversification, horizontal integration and consolidation.
- Internal integration of the customer.
- Reorganisation of business models.
- Unlocking value synergies.
- Increased investment in efficiencies within the value chain.
- Externalisation.

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DIVERSIFICATION AND AGRICULTURAL INDUSTRY RISK

RISK TREND



RISK EVENTS

- Input pillar risk mitigation over the past few years with diversification opportunities pursued such as Staalmeester, KLK Landbou and Falcon.
- Consolidation of the industry by means of the Suidwes merger immediately resulted in realised synergies with significant longer-term benefits.

DESCRIPTION

Senwes is exposed to limited growth opportunities, especially in the local agricultural sector. The company and industry could achieve a level of maturity that could increase the difficulties of volume and profit growth.

MITIGATION AND CONTROL

Senwes continues to work on a rolling 10-year strategy. The focus of our strategy is diversification, horizontal integration and local consolidation, increased investment in efficiencies in the value chain, business unit integration, joint venture repositioning and externalisation.

The reduction of risk in the current business models and geographical exposures therefore remains a high priority.

OPPORTUNITIES

- Upscaling through consolidation and/or expansion to ensure critical mass as well as value synergies which will position the group for growth and long-term survival.
- Diversification and/or externalisation into new markets or lower risk jurisdictions.
- Development and roll-out of solutions which will ensure growth of the client base (addition of new clients) and an increase in the share of wallet spent by current clients across the Senwes Group.



- Optimise value chain participation through investments aimed at increasing efficiencies.

STRATEGIC FOCUS AREAS TRIGGERED

- Diversification, horizontal integration and consolidation.
- Internal integration of the customer.
- Reorganisation of business models.
- Unlocking value synergies.
- Increased investment in efficiencies within the value chain.
- Externalisation.

For more information on the group strategy, see p. 50



UNIQUE COMPETITOR RISK

RISK TREND



RISK EVENTS

- Aggressive and unsustainable market penetration strategies by competitors.

DESCRIPTION

The group operates in a competitive environment. Innovation and market penetration strategies throughout the agricultural value chain on the part of our competitors (local and international), could have an adverse effect on market share and the group's results.

MITIGATION AND CONTROL

Senwes is exposed to competitors and innovative strategies and capital investments have been made to retain and grow market share.

solutions (products and services) which ensure a competitive advantage.

- Continuously evaluate partnerships (e.g., suppliers, joint venture partners, etc.) across the group and consider the impact on the group's competitive advantage if it decides to opt for a selection of key, preferred partners (a house of premium brands/partners).
- Optimise the balance between defensive and offensive strategies.
- Increased participation in the parts of the value chain where the group has never been involved and which could aid in mitigating unique competitor risk.



STRATEGIC FOCUS AREAS TRIGGERED

- Diversification, horizontal integration and consolidation.
- Internal integration of the customer.
- Reorganisation of business models.
- Unlocking value synergies.
- Increased investment in efficiencies within the value chain.
- Externalisation.

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URBANISATION, SCARCITY, AND RETENTION OF SKILLS

RISK TREND ▲

RISK EVENTS

- Certain areas of high employee turnover and scarcity of certain skills within the diverse operating areas of the group.

DESCRIPTION

The group is exposed to rural and/or agricultural areas, not only with regards to business operations, but also with regards to the scarcity of necessary skills in these areas.

The recruitment and retention of right-fit employees are challenges in the industry and for Senwes. The rural operating areas of Senwes add to the risk exposure.

MITIGATION AND CONTROL

Our integrated skills development framework guides proportionate, yet balanced, investment in various skills development categories

across all levels of the organisation. The framework sets clear guidelines for employees to acquire the full spectrum of training, ranging from technical to job-specific skills, without neglecting the need for personal growth, people skills and leadership development.

OPPORTUNITIES

- Optimisation of skills development and retention programmes as well as succession planning strategies.
- Define, develop and sell a work environment which balances the key attractive factors of urbanisation with the benefits



of living in rural areas.

STRATEGIC FOCUS AREAS TRIGGERED

- Diversification, horizontal integration and consolidation.
- Reorganisation of business models.
- Unlocking value synergies.
- Increased investment in efficiencies within the value chain.
- Externalisation.

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REGULATION AND COMPLIANCE RISK

RISK TREND ↔

DESCRIPTION

The risk describes the wide range of legislation that the group must comply with. The material acts are, inter alia, the Companies Act, relevant tax regulations, Competition Act, FICA, Financial Markets Act, FAIS, NCA, CPA, POPIA and OHSA.

MITIGATION AND CONTROL

The board accepts total responsibility for compliance with all applicable legislation and regulatory requirements. This is reported via the internal Compliance Committee and

then to the Risk Committee as well as the Audit Committee. Focused attention is being afforded to compliance aspects throughout the company. The board officially adopted the Group Compliance Coverage plan that involves a group-wide approach to compliance.

OPPORTUNITIES

- Continuously drive improvement and optimisation of the group's compliance coverage plan.
- Strive for a culture of compliance through cultivating an understanding of regula-



tory compliance requirements by means of continuously upskilling and training personnel in this regard.

STRATEGIC FOCUS AREAS TRIGGERED

- Reorganisation of business models.

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THEFT AND FRAUD RISK

RISK TREND ↔

DESCRIPTION

The economic climate gives rise to theft and fraudulent activities, especially involving high-value commodities such as grain. The diversified nature of the group's activities also increases the possibilities of theft or fraud. This is further increased by the complexity of certain activities which require special control measures.

MITIGATION AND CONTROL

A refocus of business processes, a culture programme, best practice appointment practices and the upgrading of physical con-

trol measures are some of the management actions implemented to mitigate the risk to an acceptable level. The code of conduct is embedded in the risk culture of the company, which contributes to the mitigation of this risk.

OPPORTUNITIES

- Develop and/or optimise the group's code of conduct and ethics processes, also by utilising the latest technology in this regard.
- Strengthen the group's anti-theft and fraud culture by means of continuously raising awareness and training personnel as well



as optimising and adapting response processes and penalty proceedings in this regard.

STRATEGIC FOCUS AREAS TRIGGERED

- Reorganisation of business models.

For more information on the group strategy, see p. 50