

Risk Management

Risk management is one of the key responsibilities of the Board of Directors (“the Board”). The Group’s principal risks and uncertainties – whether under our control or not – are highly dynamic and Acomomo’s assessment of and responses to them are critical to the Group’s future business and prospects. Acomomo’s approach towards risk management is framed by the ongoing challenge of understanding the risks that the Company is exposed to, what the Company’s risk appetite is and how these risks change over time. The Board assesses and approves Acomomo’s overall risk appetite, monitors the Group’s risk exposure and sets the Group-wide limits, which are reviewed on an ongoing basis. This process is supported by the non-executive directors of the Board.

Risk management within the Group is carried out on the basis of procedures which have been approved by the Board. The Group’s overall risk management focuses primarily on the unpredictability of commodity and financial markets and is aimed at minimizing the potential impact of negative market developments on Acomomo’s financial position and results. Identifying, evaluating and hedging risks are primarily done by the operating companies. The Board and the operating companies’ management apply procedures which cover specific risk areas including exchange rate risks related to foreign currency, interest rate and credit risk exposure, and the use of financial instruments such as derivatives and liquidity management.

To the extent that any of these risks are realized they may affect, among other matters, the Group’s current and future business and prospects, financial position, liquidity, asset values, growth potential, reputation and sustainable development (including the impact on food safety, the environment and aspects of social responsibility). The diversification of Acomomo’s portfolio of commodities, geographies, currencies, assets and liabilities is a source of mitigation for many of the risks the Company faces. In addition, through Acomomo’s governance processes and its proactive management approach the Company seeks to mitigate, where possible, the impact of certain risks should they materialize. In particular:

- The Group’s finance policy requires Acomomo to maintain sufficient cash and cash equivalents and other sources of committed funding available to meet anticipated and unanticipated funding needs.
- Acomomo makes use of credit enhancement products, such as letters of credit, insurance policies and bank guarantees, and imposes limits on open accounts extended.

Description of Risks

The following is a selection of important risks that have been identified and for the management of which strategies, controls and/or mitigating measures have been put in place as part of Acomomo’s risk management practices. They nevertheless involve uncertainties that may lead to the actual results differing from those projected. There may also be current risks that the company has not yet fully assessed and that are currently qualified as ‘minor’ but that could have a material impact on the company’s performance at a later stage. The company’s risk-management and internal-control system has been designed to signal and respond to these developments on time, but 100% assurance can never be achieved of course. The top risks and other important risks as derived from these categories during the year under review (and the corresponding mitigating factors) are described in the Annual Report 2019.

(N.B.: These descriptions are to be considered as an elucidation of the Annual Report; they will not be updated during the year.)

Strategic risks

Sustainability of our strategy

Strong shifts in the success and credibility of our products in the niche segments we operate in, and Acomomo’s ability to respond to these adequately. In case there are external or internal developments negatively affecting the credibility of our products and/or segments, Acomomo’s strategy and reputation could be adversely affected, leading to a poorer overall financial position.

Increased competition and vertical integration

Competition and vertical integration of Acomomo’s customers may put pressure on market share, volumes and prices which could have an adverse effect. Operating in attractive markets may attract new entrants to the

market. On the one hand this means more attention for the area we work in, on the other hand it could result in increased pressure on our market share, and potentially affect our revenue and profitability.

Operational risks

Agricultural developments

Agricultural developments, including weather conditions, harvests, long-term planting cycles and so on, may affect the availability, quantity and quality of the products.

Climate change

Changes in temperature and rainfall patterns, with more droughts, are affecting yields, product quality and prices of natural food commodities. Commodities as spices, nuts and tea are highly sensitive to changes in growing conditions. These commodities can only be produced in narrowly defined agro-ecological conditions and, hence, in a limited number of countries.

Fluctuations in the supply of, or demand for, and prices of commodities

Price volatility both long-term and short-term, of the various food products, depending on supply and demand. Long-term or short-term price volatility, in terms of both scale and speed, has a direct impact on the value of the subsidiaries' product positions (long or short). Counterparty risk and price fluctuations also affect the behaviour of contract counterparties, particularly with regard to the correct execution of signed, but not yet delivered contracts.

Fluctuations in currency exchange rates

Particularly fluctuations of the US dollar, in which most of the world's commodities are traded. The vast majority of our purchase transactions are denominated in US dollars, while operating costs are mainly in euro, the currency of which fluctuates against the US dollar.

Sourcing, freight, storage, infrastructure and logistics

Logistical factors relating to the availability and cost of transport and storage capacity. Increases in the costs of freight, storage, infrastructure and logistics support, or limitations or interruptions in the supply chain (including any disruptions, refusals or inability to supply), may adversely affect our business.

Human rights

It is our responsibility as a company to respect human rights. We have to prevent and address any negative impacts we may have on the rights of those whom we employ, do business with or interact with along our supply chain. Labour rights – including child labour, excessive hours with low wages, and human trafficking – are often the leading human rights concerns for agriculture companies.

Geopolitical risks

Political and economic developments in producing countries, usually tropical countries, which can affect both the availability of products and the reliability of supply. We operate in a number of geographic regions and countries, some of which are categorized as developing, complex or having unstable political or social climates. As a result, we are exposed to a wide range of political, economic, regulatory and tax environments. Policies or laws in these countries may change in a manner that may be adverse for us. Also, some countries with more stable political environments may nevertheless change policies and laws in a manner adverse to us. We have no control over changes in policies, laws and taxes.

Food safety and recall risks

Food safety aspects and recall risks with regard to imported and delivered products. Our operations are subject to food safety and environmental laws along with compliance with our corporate sustainability framework. Food safety laws may result in increased costs or, in the event of noncompliance or incidents, in significant losses, including arising from (1) litigation and imposition of penalties and sanctions and (2) having licenses and permits withdrawn or suspended.

Cyber risks

A cyber security breach, incident or failure of Acomo's IT systems could disrupt our business, result in the disclosure of confidential information, damage our reputation and create significant financial and legal exposures.

Fraud, corruption and bribery risks

Fraud is a deception that is deliberately practiced to secure unfair or unlawful gain and include deceit, concealment, skimming, forgery or alteration of (electronic) documents. Acomo maintains a zero-tolerance approach for its companies, employees and business partners with regard to fraud. Bribery is illegal, and it can cripple Acomo's long-standing reputation of conducting business with integrity.

Inability to attract, develop and retain trading staff

Availability of experienced and professional traders and other staff. If we are unable to attract, develop and retain the right people, our ability to operate our business successfully may be significantly impaired.

Financial risks

Liquidity risks

Availability of financing and interest rate developments. Our failure to access funds (liquidity) would severely limit our ability to engage in desired activities. Liquidity risk is the risk that we are unable to meet our payment obligations when due, or are unable, on an ongoing basis, to borrow funds in the market on an unsecured or secured basis at an acceptable price to fund actual or proposed commitments. While we adjust our minimum internal liquidity threshold from time to time in response to changes in market conditions, this minimum internal liquidity target may be breached due to circumstances we are unable to control, such as general market disruptions, sharp movements in commodity prices or an operational problem that affects our suppliers, customers or ourselves.

The Group operates in international commodity trading and is exposed to a variety of market and financial risks (including foreign exchange risk, interest rate risk and price risk), credit risks and liquidity risks. The Group's overall risk management focuses on the unpredictability of commodity and financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain foreign currency risk exposures. Risk management is carried out under policies approved by the Board. Risks are identified, evaluated and hedged in close cooperation with the Group's operating units. The Board and the management of the operating companies apply policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

Compliance risks

Government – laws and regulations

New government measures, including increased regulations on food safety, may have a major impact on our business and financial position, and can present a threat to activities within a relatively short time frame.