

Risk Report continued

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are summarised below. Given that we cannot currently predict the ultimate impact that COVID-19 will have on the UK economy, these risks may change over the short to medium term.

STRATEGIC PILLAR			RISK LEVEL			RISK TREND		
			 High	 Medium	 Low	 Risk increased	 Risk unchanged	 Risk decreased
High Quality Products	Operating Excellence	Sustainability	The low, medium and high risk levels are the Group's estimate of the net risk after mitigation.					

RISK AREA	DESCRIPTION OF RISK	MITIGATION	NET RISK	DIRECTION
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COMMERCIAL				
Consumer demand 	<p>A significant deterioration in the UK economy or a change in food consumption patterns could lead to a fall in demand for the Group's products.</p>	<p>The Group works closely with its key customers to adapt to changing consumer requirements and constantly reviews emerging trends in consumer eating habits. The Group offers a range of products across premium, standard and value tiers which it is able to flex accordingly. Pork and poultry remain extremely competitively priced and sought-after products which are manufactured in an environmentally friendly manner.</p>	 <p>Whilst the risk in this area has not changed, following the COVID-19 outbreak, the Group is experiencing a change in the mix of sales from eating out-of-home to retail sales, which going forward will be monitored.</p>	
Pig meat – availability & price 	<p>The Group is exposed to issues associated with the pricing and availability of pig meat. An increase in pig prices or a lack of availability of pig meat could adversely impact the Group's operations and the ability to supply our key customers.</p>	<p>The Group has a trusted long-standing farming supply base which is complemented by supply from the Group's own farms, and has been increased following the recent acquisition of Packington Pork Farms and White Rose Farms. These arrangements help to mitigate the risks associated with pig price volatility and the availability of supply.</p>	 <p>The risk has stayed the same.</p>	
Reliance on key customers & exports 	<p>A significant proportion of the Group's results are generated from a small number of major customers and export sales. Loss of all or part of the Group's business with one or more of these customers, or loss of an export licence, could adversely impact the Group's operations.</p>	<p>The Group continually pursues opportunities to expand its customer base across all product categories and works closely with UK and export customers to ensure service, quality, food safety and new product developments are of the highest standard.</p>	 <p>The risk in this area has not changed. However, the Group is mindful of the specific issues associated with exports to China such as the implications of the loss of the UK's export licence or potential changes in Chinese Government policy following the COVID-19 outbreak.</p>	

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OPERATIONAL				
Health & safety 	A significant breach of Health & Safety legislation could lead to reputational damage and regulatory penalties, including restrictions on operations, fines or personal litigation claims.	The Group has robust Health & Safety processes and procedures in place which have been independently reviewed during the course of the year and which conform to all relevant standards and regulations as well as pursuing industry best practice across its sites. All sites are subject to frequent audits by internal teams, customers and regulatory authorities to ensure standards are being adhered to.	 Whilst the risk in this area has not changed, following the COVID-19 outbreak the Group is mindful of the need to continue to ensure the operational safety of our production staff and all other employees, e.g. through the introduction of social distancing measures.	↔
Brexit disruption 	Failure to prepare for the UK's departure from the EU and future trading relationships could result in disruption to Group operations, and potentially affect financial performance and impact on our ability to supply our customers.	The Group has a longstanding Brexit Taskforce in place which ensures Brexit risks and issues are effectively identified and addressed. Working with a leading third-party specialist, a detailed analysis of the potential implications and costs of leaving the EU without Free Trade Agreements together with appropriate mitigating actions is being developed.	 This is a new risk. Elements of Brexit were previously embedded within other principal risks.	↑
IT systems & cyber security 	The Group relies heavily on information technology and key systems to support the business. In common with other businesses the Group is susceptible to cyber-attacks resulting in the risk of a financial loss and threat to the overall confidentiality and availability of data in systems. Whilst no material cyber security breaches have occurred over the course of the year, the Board is mindful of the ongoing risks in this area given the increasing sophistication and evolving nature of this threat.	The Group has a robust IT control framework in place, which is reviewed and tested on a frequent basis by internal teams and specialist third parties. Detailed procedures are also in place to reduce the potential risk of fraudulent payment requests being processed, together with cyber insurance which provides specialist technical and legal support in the event of a significant cyber incident.	 Whilst the risk in this area has not changed following the COVID-19 outbreak the Group is mindful of the risks in this area due to the global unprecedented level of phishing attempts and cyber-attacks. In addition the changing working environment such as employees working from home, presents new risks and issues.	↔
Food scares & product contamination 	In common with other food manufacturers the Group is subject to the risks of product and / or raw material contamination and potential health related industry-wide food scares. Such incidents could lead to product recall costs, reputational damage and regulatory penalties.	The Group ensures that all raw materials are traceable to original source and site manufacturing, storage and distribution systems and our suppliers are continually monitored by experienced and appropriately trained internal teams. In addition, the Group has in place established crisis management procedures to reduce potential impacts and improve communication to key stakeholders.	 The risk has stayed the same.	↔
Disease & infection within livestock 	A significant infection or disease outbreak such as African Swine Fever or Avian Influenza could result in the loss of supply of pig or poultry meat or affect the free movement of livestock which could impact the supply of key raw materials into the Group's sites.	The Group's pig farming activities, and other farms from which third party pig meat is sourced, have a broad geographical spread to avoid reliance on a single production area. The Group's own poultry flock is housed indoors therefore reducing the risk of disease. In addition, robust vaccination and bio-security procedures mitigate the risk of disease and infections within pig and poultry farms.	 The risk in this area has increased due to the spread of African Swine Fever from China across Eastern Europe.	↑
Climate change 	The Group operates within the context of having to evaluate the effects that both climate change/sustainability issues from its operations and regulatory requirements will have on both its financial performance and operational activities to include: supply chain, operations both farming and manufacturing, communities and customers.	The Group has enhanced its Second Nature programme with a focus on improving production efficiency, reducing carbon footprint, reducing weight of packaging, investing in the development of alternative proteins to respond to growing demands for plant-based diets and identifying alternative options to decrease reliance on imported soya for feed.	 This is a new risk. Elements of climate change / sustainability were previously embedded within other principal risks.	↑
Disruption to Group operations 	The Group faces the risk of significant incidents such as fire, flood or loss of key utilities, together with the risk of disruption to day to day operations from issues such as poor operational management or the breakdown of key equipment. Such issues could result in the prolonged disruption to site processes.	Robust business continuity plans are in place across the Group and appropriate insurance arrangements exist to mitigate financial loss. Potential business disruption is minimised through multi-site operations across many of the Group's core product lines. Following the commissioning of the Eye poultry processing facility, a business continuity plan has been developed given the importance of the site to the Group's poultry processing capabilities.	 The risk has stayed the same.	↔

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PEOPLE				
Recruitment & retention of key personnel 	As the Group continues to pursue its growth strategy, the success of the Group is dependent on attracting and retaining quality, skilled and experienced staff particularly in Senior Management roles.	Across the Group robust recruitment processes, competitive remuneration packages and ongoing training and development plans are in place. Specifically, for Senior Management, formalised succession planning is also in place.	 The risk has stayed the same.	↔
Labour availability & cost 	Due to political and economic pressures, there is a risk that the Group's operations could be adversely impacted by either the lack of availability of labour or the associated increased cost.	The Group is continually reviewing and improving its recruitment processes and relationships with third party agency providers to reflect changing market conditions. In addition, the Group is actively progressing options to employ more permanent members of staff and to consider alternative methods of production which embraces emerging technological developments.	 Whilst the risk in this area has not changed, the Group over the course of the year has continued to experience pressures on the availability of labour and specific skills shortages at various sites.	↔
FINANCIAL				
Interest rate, currency, liquidity & credit risk 	In common with other businesses, the Group is exposed to interest rate risk on borrowings and, in specific areas, foreign currency fluctuations. In addition, the Group needs continued access to funding for both current business, future growth and acquisitions.	The Group uses currency hedging arrangements to mitigate risks associated with foreign currency movements. Sites have access to the Group's overdraft facility and bank balances are monitored on a daily basis by Group Treasury. All bank debt is arranged centrally, and appropriate headroom is always maintained.	 The risk in this area has increased due to the increased potential for customer bad debts and the general tightening of liquidity within the banking sector.	↑
STRATEGIC				
Competitor activity 	The Group operates in highly competitive markets. Product innovation and changing consumer trends provide a constant challenge to the future success of the Group and its ability to compete effectively with its competitors.	The Group maintains and develops strong working relationships with its customers which are underpinned by delivering high levels of service, quality products and by continued focus on product development and innovation. Emerging trends and risks associated with competitor activity are regularly discussed by the Board with appropriate actions being developed.	 The risk has stayed the same.	↔
Growth & change 	The Group continues to pursue growth strategies through securing contracts with new customers, obtaining additional contracts with existing customers and through reviewing acquisition opportunities. In addition, the Group also has to navigate both internal and external change such as changes in regulation which present operational and compliance challenges and issues.	The Board receives regular updates on the contractual position of all key customers and where required implements necessary actions. Regarding business acquisitions, rigorous pre-acquisition due diligence reviews are carried out. Internal and external change are appropriately considered to ensure operational excellence and compliance with performance is monitored by Senior Management and operational staff.	 The risk in this area has not changed. However, following the COVID-19 outbreak the Board is reviewing both the Group's medium term strategy through monitoring changes to customer behaviour and potential strategic acquisition opportunities.	↔