

## STRATEGIC RISK

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## FISH AND SEAFOOD COMPETITIVE LANDSCAPE

Risks associated with a rapidly changing fish and seafood industry landscape can present strategic challenges for Thai Union as one of the world's largest seafood producers.

Although the global fish and seafood industry has been growing steadily over the past few years, there are some mature markets, especially Europe and the US, where fish consumption per capita was stagnant in 2014 and 2015, lower than the global average. Similarly, in terms of product segments, the canned fish market is also facing a slower growth rate than other seafood product segments globally.

This has compelled Thai Union Group to adapt to these changes and build differentiated capabilities to create a competitive advantage and mitigate the risk.

Being in a competitive environment, Thai Union Group has shown flexibility in our strategy to align with the changing industry landscape.

To achieve organic growth, we have gradually diversified our product segments by establishing a Marine Ingredients unit to commercialize high value-added products, and expanded to other geographies by establishing an Emerging Markets unit to drive the go-to-market strategy, especially in Asia-Pacific, the fastest growing region. In addition, we set up a Food Service unit to expand our sales channel direct to customers.

These strategic initiatives will help the company gain additional sales and increase our margins to achieve our revenue goal of USD 8 billion by 2020.

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<b>NON-TARIFF BARRIERS</b>	
<p>The global seafood industry confronts numerous non-tariff trade barriers relating to the environment and social sustainability which can impact trading conditions or cost competitiveness.</p> <p>Thai Union Group's key trade barrier challenges are posed by:</p> <ul style="list-style-type: none"> <li>• EU - Illegal, Unregulated and Unreported (IUU) fishing yellow card issued against Thailand</li> <li>• US - Trafficking in Persons report grading given to Thailand</li> <li>• Legislation requiring greater transparency and detail of information on supply chain practices, such as the introduction of the US Trade Facilitation and Enforcement Act 2016, the entering into force of the reporting requirements under the UK Modern Slavery Act 2015 and the review of the US IUU Rules to combat Illegal Fishing.</li> </ul>	<p>Sustainability is not only 'the right thing to do'; it's imperative to Thai Union Group's business strategy as it gives us a competitive advantage within the seafood industry. In 2016, we made extensive progress in sustainable development through our global sustainability strategy, called SeaChange®, which covers every aspect of our business: from how we look after the oceans to how we manage our waste; from the responsibility we take for our workers to building brighter futures for the communities around our key sites. Many initiatives are implemented under four programs</p> <ol style="list-style-type: none"> <li>1. Responsible Sourcing</li> <li>2. Responsible Operations</li> <li>3. Safe and Legal Labor</li> <li>4. People and Communities</li> </ol> <p>Key achievements in 2016 included:</p> <ul style="list-style-type: none"> <li>• Being listed to the Dow Jones Sustainability Index for Emerging Markets for the third year in a row, and inclusion in the FTSE4Good Emerging Index, as well as receiving many other awards for our sustainability programs.</li> <li>• Our Business Ethics and Code of Conduct: In 2015 we updated our stringent Business Ethics and Labor Code of Conduct and in 2016 started rolling this out to suppliers globally. It is applied to all of our group companies and business partners, and has a focus on the protection of workers' health and workplace safety <a href="http://www.thaiunion.com/en/sustain/tu-sustainability/code-of-conduct.ashx">http://www.thaiunion.com/en/sustain/tu-sustainability/code-of-conduct.ashx</a></li> <li>• Auditing the European fleet: We initiated an external audit process of the fleet supplying tuna to our European markets, which will be completed in 2017. The audit will check against compliance with regulations by the European Union (EU) and the International Seafood Sustainability Foundation (ISSF) around Illegal, Unreported, Unregulated (IUU), quality and food safety, and Thai Union's own sustainability policy and code of conduct.</li> <li>• Protecting pre-processing workers: In 2016 we brought the pre-processing of shrimp in-house at our factory in Samut Sakhon, Thailand, contracting workers directly so we can guarantee safe and legal employment</li> <li>• Conducting an extensive global stakeholder consultation that informed the refinement of our sustainability strategy, SeaChange®, and the launch of its new website <a href="http://seachangesustainability.org/">http://seachangesustainability.org/</a></li> <li>• Developing and announcing our commitment to sourcing 100 percent of our branded tuna from fisheries that are either Marine Stewardship Council (MSC) certified or engaged in Fishery Improvement Projects to move them toward MSC certification. We aim to achieve a minimum of 75 percent by the end of 2020.</li> </ul>

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## POST-MERGER INTEGRATION RISKS

The company has successfully completed many strategic acquisitions over the last couple of years. All transactions have enabled us to vertically shift along value chains and expand into new product categories and/or sales markets. The challenge is to manage the risk of missing synergy realization and value capture during the post-merger phase. Our business operations are spread around the global, and as a Group we need to effectively manage the integration of newly acquired businesses into Thai Union and ensure that benefits get realized as anticipated at the time each transaction has been closed.

After a change of control at every transaction, we intend to take immediate action on establishing corporate governance and policies at the acquired company. Otherwise we are not able to ensure ongoing compliance with Corporate rules, policies and commitments. Our "First 100 days" integration guidelines and dedicated synergy tracking process is there to manage related risks.

For the purpose of a seamless business transition and integration, there is no standard approach. We believe that the degree and success of business integration depends on determinants that can vary by transaction. Every time, the strategic rationale and type of expected synergies are different, like the size and culture of acquired businesses. We engage in joint ventures in the same way we do with complete takeovers. With that in mind, we define every integration approach anew and thus feel comfortable to realize synergies and capture deal value as best we can.

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## COMPETITIVE INNOVATION

Our business relies on continued global demand for our brands and products. Achieving our business results depends, in part, on successfully developing, introducing and marketing new products and on making significant improvements to our equipment and manufacturing processes. The success of such innovation depends on our ability to correctly anticipate customer and consumer tastes, preferences and behaviors, which are constantly changing.

The company must be able to successfully respond to technological advances made by, and intellectual property rights granted to, competitors. Failure to continually innovate, improve and respond to competitive moves could compromise our competitive position and adversely impact our results.

The company realizes consumer trends are changing, with customers more interested in product & process innovation and expect the market to be more competitive in regards to innovation.

Realizing that innovation is the foundation for our future, the company has positioned innovation as one of the six key corporate values to which we align every business decision. The company has been active in innovation with our culinary development team of more than 200 food scientists, chefs, recipe developers and other cuisine and food processing experts who develop a range of more than 4,000 different recipes and products each year. We regularly conduct customer satisfaction surveys to understand the needs of our consumers. Surveys based on statistically relevant sample sizes provide us the insights into consumer perceptions towards Thai Union and their satisfaction for our products or service.

The company launched the Global Innovation Incubator, a world-class research and development facility, in December 2014. As of December 2016, the company has invested more than THB 600 million and employed about 100 scientists who are purely dedicated to research, developing new ideas, creating new products and new product categories.

Revenue from products and service innovations originating from the GII are projected to contribute as much as 10 percent of Thai Union's top-line revenue by 2020.

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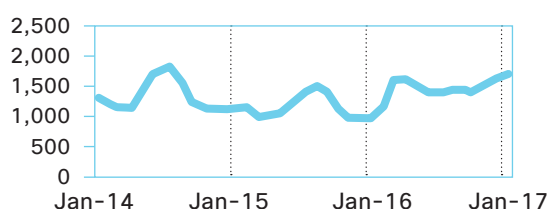
## RAW MATERIAL PRICES RISK

In 2016, Thai Union Group's profitability was under pressure from higher raw material tuna and salmon prices.

**Tuna**

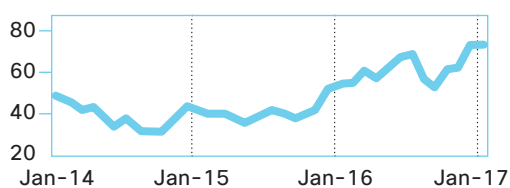
Skipjack tuna raw material price was higher than expected in the last 6 months of the year (Q416 up 23.4% vs. PY) presented a challenge to our Thailand-based tuna export business as well as our branded ambient seafood business in Europe.

Skipjack tuna raw material prices  
(USD/ton)

**Salmon**

The chilled entities were confronted exceptional price increases in raw material farming Salmon (Salmon price up +50%). Our subsidiaries that historically were buying at spot have been impacted earlier and stronger than the competition.

Salmon raw material prices  
(NOK/kg)

**Tuna**

The position of the company as one of the world's largest tuna purchasers has provided it with bargaining power over tuna prices; and the company has procurement units globally that are well equipped with extensive experience in the seafood business which is responsible for purchasing key raw materials from various sources around the world.

Our long-term track record shows that non-speculative procurement, careful inventory management of raw materials and timely adjustment of the selling price has helped us minimize most impacts from such volatility. Our selling prices, particularly for the private label business, are normally set on a (raw material) cost -plus (processing fees) basis.

Therefore, the company focuses more on: Its ability to adjust prices, manage costs and concentrate more on value-added items in order to accommodate volatile tuna prices.

A stable supply of tuna raw materials at acceptable price levels to ensure normal buying by our private label customers and our ability to exercise cost-plus pricing for those accounts.

For tuna price hedging, there is no proven or good proxy to hedge tuna prices directly and from detailed study there are several factors affecting tuna prices directly and indirectly.

The company also prepares a selected number of scenarios, dealing with a category slowdown and profitability pressure.

**Salmon**

In this very challenging context, the company has moved to contract strategy (either physical or financial) achieving almost 50% of coverage.

This coverage level could vary according to:

- Customer assessment risk
- Market assessment risk (ie volume risks)
- "Filières" specificities risk (ex/ organic)
- Supplier willingness to contract

## OPERATIONAL RISK

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#### INVENTORY MANAGEMENT

Managing a company's inventory is an important element for Thai Union Group. In 2016, the company's inventory value was 40,528 million baht, which accounts for 28.47% of its total assets. Such a sizeable inventory is a challenge to manage, as it is stored in different countries around the world. Without proper management, risks can occur, such as excessive or inadequate inventory, carrying costs, fluctuating market prices that can decrease the value of inventory, inventory becoming obsolete, and fraud. These risks can impact the company's financial statement and asset value.

Moreover, our key raw materials like tuna, shrimp and salmon are more or less like commodity prices, with no direct hedging instruments and market prices can decrease or increase rapidly and without control. This can have a significant effect on our stock value as has happened in the past and may be repeated in the future.

The company performs a detailed review of its inventory each fiscal quarter that considers multiple factors including demand forecasts, product life cycle status, product development plans, current sales levels, and component cost trends. This ensures that the company can fulfill customer orders while optimizing our financial position.

Since 2015, the company has conducted the Global Inventory Management Assurance Project. In 2016, a new standard operating procedure (SOP) of physical stock taking was released to all subsidiaries. The objective was to improve physical inventory management to reduce losses from fraud, damage, and to improve the quality of the inventory process.

## LEGAL & COMPLIANCE RISKS

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#### OVERSEAS LAWS AND REGULATIONS

As one of the world's largest seafood producers, with operations domestically in Thailand and overseas, the company has to deal with the laws and regulations of various countries as well as our internal policy, which all entities under Thai Union Group are required to comply with. Therefore, non-compliance or partial compliance of either external laws or regulations or internal policy could negatively affect the organization's reputation and result in significant penalties and fines or loss of business opportunities. Legal processes can be protracted and costly.

Adapting operations to changes in laws and regulations is an ongoing process and is achieved by monitoring regulatory changes, through analysis and training, and by producing policy documents. Our global legal and compliance function, entity legal unit and external advisors monitor the development of laws and regulations, analyze impacts and factors related to the company, and train management and employees in important matters. The company also regularly updates supervisory authorities about new laws and regulations, as well as keeping them informed about the Group's operations and to ensure compliance with laws and regulations.

The Company commits to operate business compliant with laws and regulations and ensure that Directors, Executives and Staffs are perform their duties in accordance laws and business ethic as follows:

- Perform their duties with honesty as well as deciding on any action in good faith and fairness to the shareholders of both major and minor as well as to the country that Company operates its business.
- Perform to comply with Company's Regulations.
- The company established whistleblowing system for stakeholders and other parties to report complaints of unfair treatment by Thai Union Group. The Chairman of the Audit Committee (AC) is designated as the point of contact. The AC will review and provide a summary report to the Board of Directors.
- In-house training for managements and executives on important legislations/laws such as anti-trust, anti-bribery laws have been carried out in Thailand, Europe and the U.S.

## FINANCIAL RISKS

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## INTERNATIONAL AND LOCAL TAX CHANGES

For international companies that operate in a number of countries, tax management can be especially difficult. Each year, many countries make a number of policy changes which may affect income taxes, sales tax rates, VAT or goods and services taxes (GST), payroll taxes, customs duties and special sales taxes, environmental taxes, property taxes, and so on.

Additionally, longstanding international tax norms that determine each country's jurisdiction to tax cross-border international trade are evolving as a result of the Base Erosion and Profit Shifting project ("BEPS"). The final report on BEPS was released in October 2015 by the G20 and Organization for Economic Cooperation and Development ("OECD") and over 100 countries and jurisdictions are collaborating to implement and tackle BEPS measures. BEPS project focuses on 15 areas which all have direct/indirect impacts on our group. One of the key areas which has significant impact is "Transfer Pricing" on our intercompany transactions.

As a result of BEPS, many countries will release new tax regulations/requirements which will be a burden for the Group. However, these should be considered as manageable compliance issues.

Apart from BEPS, U.S. tax reform is another important area for consideration since it can have a significant impact on our financial results and commercial plans.

Given the unpredictability of these possible changes and their potential interdependency, it is very difficult to assess the amount of risk but it should be significant, which we have to closely monitor.

To proactively deal with changes in tax systems, we constantly seek expert advice from specialized law or tax advisory firms. We closely monitor changes in legislation in order to properly adopt regulatory requirements regarding customs and taxes. In addition, our internal legal, customs or tax departments advise our operational management teams to ensure appropriate and compliant business practices.

In 2016, the company initiated a project to understand and prepare readiness for BEPS implementation with advice from tax advisory firms.

The potential impact of BEPS to Thai Union Group is analyzed and the company prepares work plans to manage this risk.

In this regard, Group transfer pricing policies are under review and they will be documented to support our current position. Moreover, transfer pricing three-tiered documents (i.e. Master File, Local Files and Country-by-Country Report) will be prepared to ensure compliancy with the new requirements.

Related to U.S. tax reform, there are many uncertainties in these areas. However, the tax department is now keeping their eye on these changes and will update operational management teams to handle this.

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## EXCHANGE RATE

The global presence of Thai Union Group, with manufacturing and trading in a large number of countries plus Group borrowings in foreign currencies, offsets the exchange rate effects to a certain degree. Fluctuation or change in rates is likely to have an impact on transactional exposures within the businesses and to translation exposures when the assets, liabilities and results of overseas entities are translated into Thai Baht upon consolidation.

Although the company is aware that exchange rate fluctuations can have either a positive or negative impact on financial results, the company does its best to minimize this risk through

1. Natural hedge. The company matches the revenue from product sales mostly in USD, to the main raw material, which is tuna, and other expenses.
2. Consideration of derivative financial instruments.



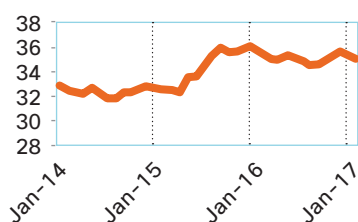
The largest exposures are denominated in USD, EUR, JPY and GBP according to our sales distribution by markets.

In 2016, there was additional uncertainty from Brexit and the U.S. presidential election.

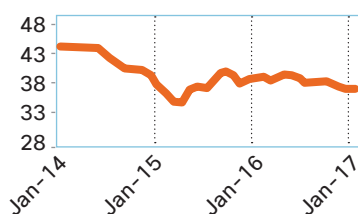
The Brexit referendum led to currency fluctuations for the GBP against the EUR and USD and impacted John West's import costs and product pricing as well as translation effects.

The monetary and other administration policies of the new U.S. president could impact on foreign exchange of USD currency against other key currencies the company has businesses in ie. EUR, JPY, GBP and THB

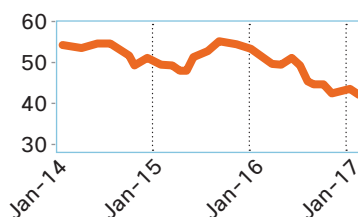
**Exchange rate**  
USD/THB



**EUR/THB**



**GBP/THB**



The company's financial risk management and treasury policy objective is to manage all financial risks including currency risk and execute derivative financial instruments for supporting the businesses' hedging purposes, not for speculative purposes, as well as for fixing and stabilizing future earnings.

The policy on managing exchange rate risks can be categorized in two areas:

#### 1. Foreign exchange from trading activities

1.1 For Thailand Operations where the operations are mostly for OEM business, sales in foreign currency, and the pricing setting is on a spot deal basis. The risk starts from when we pay the FX raw material invoices within 3-5 days of ordering while we still need more time to produce and deliver the product and collect payment. Therefore, the company has set at 25 - 75 percent of hedging percentage over the inventory level as the approved range.

1.2 For EU and U.S. Operations, where the branded business share is a greater portion of their revenue. Fixing pricing with wholesalers or retailers could be for a bit longer tenor than customers of their OEM business which has a smaller portion. Foreign exchange risks could happen from revenue arising from sales to overseas customers, or costs and expenses from purchasing offshore, or pricing directly linking to the FX rate. To have an appropriate hedging policy for different natures of business, therefore, the company has set three main categories:

- 1.2.1 For OEM business - hedging is set at 60-100 percent
- 1.2.2 For Branded business - hedging is set at 50-100 percent
- 1.2.3 For Premium Branded business - hedging is set 40-100 percent

Financial derivative products to be used for hedging, forward contracts are mostly considered. Currency options could be an alternative.

#### 2. Foreign exchange from financing/investing activities

For all borrowing, or lending, or placing deposits in other currencies that the currency at the final use of money, 100 percent hedging on foreign exchange risks is a must, both with external parties and inter-company transactions where we have certainty of the amount of FX risk. This is to ensure that there is no impact from foreign exchange gains or losses on the Group's borrowing cost.

As for equity investment where the return can be expected from dividend payments or the recapitalization, the uncertainty and tenor cannot be precisely estimated and may not be stable. Also, in most cases, the funding for equity investment is made directly from the parent. Therefore, the decision of hedging on equity investment will be decided by the Group Treasury Committee.

Financial derivative products to be used for hedging could be Cross Currency Swap, or Plain Vanilla Swap, or Non-deliverable Forwards (NDFs), depending on the nature of foreign exchange risk and future cash flow. Financial derivative instruments which have the value linking to the Proxy which is not related to the underlying are not allowed to be used.