



Risk management

The group is exposed to credit, liquidity and market risks (interest rate, exchange rate and other risks) in its ordinary operations. There have been no changes in the group's risk policy or in the management of these risks compared with the preceding year.

Credit risk

The group is exposed to a variety of credit risks connected with its operations. In the case of the food retail activities, EM-TÉ Supermarkten sells only for cash or guaranteed payment methods and so there is essentially no credit risk. The largest credit risk for the group is concentrated among supermarket franchisees in that, for some of the group's customers, in addition to the usual suppliers' credit terms, there is a credit risk associated with the financing of independent store operators. This can take the form of direct loans, included in financial assets, or guarantees/repurchase commitments for credit lines provided by financial institutions. The risks are minimised by assessing the profitability of individual stores and their independent operators. A store's assets also provide security. Each project is carefully considered in Executive Board project meetings and the outstanding receivables are monitored daily. Periodic assessments of the viability of stores are also performed. As at year-end 2008, the receivables from food retail customers included in financial assets and in trade and other receivables totalled approximately €13 million (2007: €13 million).

The ageing of these receivables is as follows:

(x €1 million)

	<i>< 1 month</i>	<i>1 - 3 months</i>	<i>3 - 12 months</i>	<i>> 12 months</i>	<i>Total</i>
	10		1	2	13

In the case of the foodservice activities, some supplies are made without guaranteed advance payment. However, payment for goods and services is largely by direct debit and customers only initiate payments to a limited extent. Direct debit does not, of course, guarantee payment if a customer does not have sufficient funds available. Experience has shown, however, that, owing to the diversification provided by a large customer base and the short payment period allowed, the credit risk in relation to the volume of foodservice supplies made on credit is relatively small and remains fairly steady. As at year-end 2008 receivables from foodservice customers totalled approximately €67 million (2007: €64 million).

The ageing of these receivables is as follows:

(x € miljoen)

	<i>< 1 month</i>	<i>1 - 3 months</i>	<i>3 - 12 months</i>	<i>> 12 months</i>	<i>Total</i>
	61	4	1	1	67

As at year-end 2008, the group had receivables from suppliers totalling €41 million (2007: €30 million) relating mainly to annual sales figure targets agreed with the suppliers, which are not paid until after the end of the year. If a supplier should default on these payments, the group would generally be able to recover the amount receivable by setting it against accounts payable to the supplier concerned.

Liquidity risk

The group aims to hold sufficient liquid funds (including in the form of commitments by financial institutions) to meet its financial liabilities at any time. This is achieved in part by financing operations to a relatively large extent by medium and long-term credits with different repayment schedules. With a view to the changes in credit market conditions in 2008, the availability of certain short-term facilities was made legally enforceable.



Given below is an analysis of the financial liabilities, including estimated interest payments.

(x €1 million)

	<i>Carrying amount</i>	<i>Contractual cash flows</i>	<i>< 1 year</i>	<i>1 - 5 years</i>	<i>> 5 years</i>
Long-term liabilities	184.6	(211.1)	(35.3)	(120.5)	(55.3)
Current liabilities	230.5	(230.5)	(230.5)		
Total	415.1	(441.6)	(265.8)	(120.5)	(55.3)

Market risk (interest rate, exchange rate and other market risks)

The risk of volatility in exchange rates and interest rates is in part hedged by means of derivatives.

Interest rate risk

As noted in the accounting policies for the consolidated financial statements under heading G, the group attempts to ensure that any interest rate exposure is roughly equally divided between long and short-term rates. This is achieved partly by the use of interest rate swaps. In addition to the notes already referred to, note 22 provides an analysis of the long-term financing and the associated interest rate terms. The level of interest rates on the capital market also affects the pension obligation.

Exchange rate risk

The group is exposed to an exchange risk on loans and on goods purchases. This mainly concerns the American dollar. As mentioned in the accounting policies under heading G, the exchange risk on the loans is entirely hedged. The group also hedges a proportion of its dollar purchase obligations by means of forward currency contracts. The policy is to hedge transactions where settlement will be more than two months ahead and not to hedge transactions due for earlier settlement. The annual dollar purchase volume is approximately USD 35 million, with an average term of approximately two months. Hedge accounting is not applied to forward currency contracts for purchase obligations. The effect of exchange rate movements is included in the cost of sales.

Sensitivity analyses

Interest rates

As at 27 December 2008, it is estimated that a general increase in the Euribor rate by one percentage point would have the effect of reducing the profit before tax by in the order of €1.1 million. An increase or decrease in the discount rate by one half of a percentage point would result in a decrease or increase in the pension obligation of approximately €8.6 million or €10.2 million, respectively. The effect this has on the result is some €1 million, excluding the opposite effect on plan assets.

Exchange rates

The effect of the dollar exchange rate vis-à-vis the euro is relatively minor since movements in the value of the euro can be reflected fairly simply and rapidly in the selling prices.

Labour costs/Energy

The effect of a general increase of half a percentage point in direct labour costs is estimated to reduce the result before tax by €1 million. The effect of a general increase in energy prices by 5% is also approximately €1 million.

Capital management

The group attempts to make maximum use of its available credit lines for funding purposes, provided the stipulated ratios can be comfortably met. In the group's estimation, the ratios agreed with the providers of credit are relatively conservative. The group does not have a specific target return on capital employed. The aim is to achieve average growth in net profit which at least keeps



pace with the 10% target average rate of revenue growth. The approach did not change in 2008, but availability of short-term liquid funds has been improved as noted above, while, in view of the changes in credit market conditions, there has also been an attempt to reduce the credit requirement more than has been usual.

Fair value

The carrying amount of financial instruments is almost the same as the fair value.

Other risks

General

Like any other business, the group faces the usual risks associated with its commercial activities. Those risks which affect the group more particularly are considered in greater detail below.

The business cycle and competition

Since the group's activities are primarily concerned with the basic human need for food, it is food products which account for the bulk of the sales and demand for them is not particularly cyclical, although there can be shifts of emphasis between the group's two business lines of foodservice and food retail. A process of consolidation is taking place in the markets in which the group sells and, to an even greater extent, among the suppliers in those markets, with direct customers, wholesale distributors and supermarket chains supplied by the group all becoming bigger. And there is evidence of the same trend among suppliers to the group. These and other factors mean that the group operates in highly competitive markets and is not always able to pass on its cost increases to its customers in full. Cost increases therefore largely have to be absorbed by efficiency improvements in order to maintain profitability, let alone lift profits. In 2008 wage costs accounted for more than 50% of the cost base, with over 5% fairly heavily dependent on energy prices.

In the food retail business in particular, periods of intensified competition occur on a regular basis, generally known in the industry as price wars. The effects are also felt in the foodservice market, albeit usually to a lesser extent. The Dutch market went through such a phase in the years 2004–2006.

Acquisitions

The group's plans for expansion include growth through acquisitions as well as organic growth. In recent years, it has been the group's endeavour to make a relatively large acquisition, meaning a takeover resulting in an increase in sales of more than 5%, once every one or two years. In 2006, two such transactions took place. There were no large acquisitions in 2007 or 2008. Although we have a great deal of experience with takeovers and the various associated financial, integration and other risks, there is still, despite all the proper due diligence procedures beforehand, a greater level of risk attendant on growth through acquisitions than is the case with organic growth. In principle we try to include newly acquired companies in the information system operated by the group as quickly as possible to bring them rapidly under central management and control.

Information systems

The group is highly dependent on its independently developed IT systems, which are maintained and upgraded by a team of experienced specialists. Comprehensive measures are in place to safeguard the continuity of data processing. The high level of integration of the group's activities means that a systems failure would bring a large part of the activities to a standstill within a few days.

Food safety

Since the group is primarily engaged in the food supply and processing chain, food safety is crucial. The group observes strict food safety practices as regards both food processing and the products themselves throughout the various links in the organisation. Compliance with external quality standards is a given. In the event of threats to public health, in the form of health hazards, we have documented detailed procedures in place for minimising the possible consequences. Failure to abide by these principles could have serious implications for the group's market position.



Non-returnable packaging

In the foodservice business in particular, many drinks are supplied in non-returnable cans or plastic bottles. In order to combat the problem of litter, the government is considering including such packaging in the schemes under which returnable deposits are charged on packaging. Experience in other countries has shown that such a move can have the effect of severely depressing sales of this kind of product, especially if proper arrangements for collection points are not made. There is accordingly a risk that sales could be adversely affected in the future if such a scheme is implemented.