ENTERPRISE RISK MANAGEMENT

The Board of Directors is tasked to oversee the risk management system of the Company through the Audit Committee, until such time as the Board sees the necessity to create a separate Board Risk Oversight Committee under its Manual of Corporate Governance.

Information on the Company's Risk Management system is reported on the Annual Corporate Governance Report submitted to the Philippine Securities and Exchange Commission and the Philippine Stock Exchange.

Risks Relating to the Business

Non-availability or any disruption in the supply of raw materials may materially disrupt the Company's operations.

The Company sources its sugar cane and other relevant raw materials requirements primarily from planters in Batangas and Negros Occidental. Volume and quality are among the main considerations in the sources of such products. The risk of supply shortage, however, poses a threat to the continuity of the business operations of the Company.

For its bioethanol business, on the other hand, the Company sources its molasses requirements from CACI and other planters and traders in Negros Occidental. Based on the Biofuels Act of 2006, such feedstock may only be procured from locally-produced sources. The supply of locally-produced molasses however may not be enough to meet the demands of the market. The risk of shortage poses a risk to the Company's bioethanol operations.

To mitigate this risk, the Company ensures that it maintains good relationship with planters and traders. At the same time, the Company has adopted an aggressive strategy in sourcing cane and molasses, to ensure independence from any particular source of raw materials.

Cyclicality in the supply of raw materials may adversely affect or materially disrupt the Company's operations.

The milling season for sugar cane in Nasugbu, Batangas runs from December until May, while the milling season in Negros Occidental runs from September until March each year. Any material adverse change in the crop yield, availability of raw materials, and/or disruption in the milling and refining operations of the Company may pose a risk in its financial and business prospects. To address this risk, the Company ensures, to the extent possible, the consistency and timeliness of the supply of raw materials. The Company also implements cost reduction programs, such as but not limited to reducing plant downtime, lower fuel cost by using cheaper alternative sources, and improving plant facilities to enable efficient plant utilization.

Natural or other catastrophes, including severe weather conditions may materially disrupt the Company's operations.

The country has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions, landslides, and earthquakes that may materially disrupt and adversely affect the Company's business operations. Moreover, weather and climate conditions, including its inherent volatility and the occurrence of extreme weather events due to global climate change, impacts the performance and management of the Company's operations and prospects.

The Company's expansion plans and capital expenditure outlays may not result profitably or achieve the expected benefits.

The strategic initiatives of the Company may include the expansion of its sugar milling and bioethanol facilities, development of a co-generation facility, or acquiring assets or businesses. These types of projects require substantial capital expenditures. There can be no assurance however that such projects will be completed on time and at the estimated cost, or at all. In addition, new projects involves a number of other risks, such as the diversion of the Company's attention from the existing business to integrating with the new project, possible adverse effects on the results of operations during the integration process, inability to achieve the intended objectives of the expansion or new project, and the potential unknown liabilities associated with the expansion or new project.

To address this risk, the Company seeks to adopt a business strategy that incorporates a conservative approach as to budget allocation and, at the same time, seeking competent and efficient contractors that can finish the projects on time and at the most reasonable cost.

The Company operates in a competitive market.

The market in which the Company operates is highly competitive and is served by a variety of established companies. Aside from domestic competition, the Philippines has historically had periods wherein there were significant imports of sugar from foreign-based producers. Another imminent risk is the gradual tariff reduction on imported sugar, which will go down to only 5%. This exposes the sugar industry as a whole to global competition. These, as a result, may cause the Company to lose market share, lower revenues, reduce its profit margins and adversely affect its operations and prospects.

To address this risk, the Company seeks to expand its business domestically and also strengthen its competitive position to adapt to the full implementation of the tariff reduction. It is the only sugar company that operates a refinery closest to Metro Manila and boasts of complementary production bases in Batangas and Negros Occidental which enable the Group to reach out to a wider network of customers all over the country and retain its top industrial clients despite stiff competition.

Continued compliance with environmental laws and regulations may adversely affect the results of operations and financial condition of the Company.

The Company's operations and products are subject to environmental laws, regulations and standards set forth by the government and various regulatory agencies, such as but not limited to, the SRA and the DOE, which may introduce new rules and policies or implement changes in the enforcement of existing laws and regulations, which in turn, could directly affect the 23 operations and profitability of the Company. These regulations empower such government authorities to impose penalties on non-compliant companies, including the standard monetary fines and penalties. There can be no assurance that the Company will at all times be in full compliance with the laws and regulations in respect of environmental protection. In addition, the promulgation of any new environmental laws or regulations which require the Company to acquire equipment or incur additional capital expenditure would inevitably increase costs and affect its profitability and prospects. Continued compliance, on the other hand, also entails additional costs for the Company.

To mitigate this risk, the Company adopts a strong compliance culture and maintains good relationship with key regulatory agencies and local government agencies.

The Company's business could be harmed by strikes or work stoppages by its employees.

If a strike or work stoppage were to occur in connection with negotiations of the Company's significant collective bargaining agreements, or as a result of disputes under its collective bargaining agreements with labor unions, the Company's business, financial condition and results of operations could be materially and adversely affected.

To mitigate this risk, the Company seeks to maintain a good relationship with its employees.

The Company may face financial risks with its investments.

The Company and its subsidiaries are exposed to a variety of financial risks in relation to financial instruments that it holds under its investment portfolio. The Company's risk management is coordinated with its Board of Directors and focuses on actively securing the Company's short-to-medium term cash flows by minimizing the exposure to financial markets. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The Company's financial investments are largely in the form of short-term time deposits.

The Company's reputation will be adversely affected if its products do not meet customers' requirements.

If any of the Company's customers or clients experience significant delays in supply, quality control issues or otherwise, this could have a negative effect on the Company's reputation and make it more difficult to attract new customers and clients. The Company cannot provide any assurance that such events will not occur in a manner that would adversely affect its results of operations or financial condition.

To address this risk, the Company's overall business strategy is geared to deliver on time and with top quality its products to its clients. The Company also maintains a good feedback mechanism with its clients.

The Company's existing indebtedness could adversely affect its financial health and ability to withstand adverse developments and prevent the Company from declaring dividends.

The Company has a significant amount of indebtedness and substantial debt service obligations.

The Company's substantial indebtedness could have important consequences. For example, it may, among other things:

- require the Company to dedicate a substantial portion of its operating cash flow to making periodic principal and interest payments on indebtedness, thereby limiting the Company's ability to take advantage of business opportunities and placing the Company at a competitive disadvantage compared to competitors that have less debt;

- make it more difficult for the Company to satisfy its obligations with respect to indebtedness;

- restrict the Company's ability to declare dividends;
- require the Company to agree to additional financial covenants; and
- restrict the Company's ability to incur additional capital expenditures, except in pursuance of its sugar expansion and ethanol project.

Any of the above listed factors could materially and adversely affect the Company's results of operations, financial condition, and cash flow.

In order to mitigate this risk, the Company takes a prudent approach in its debt and capital structure. Moreover, it maintains a good relationship with various banks.