KCG Corporation

Creating pleasure for your taste

KCG E-Newsletter
September 2026

Transforming the Food Business in the Era of Climate Change Overcoming the Challenges of El Niño



Climate change has become a critical factor affecting the resilience and security of global food supply chains. In particular, forecasts from the National Oceanic and Atmospheric Administration (NOAA) indicate that the world is entering an El Niño phase, with the phenomenon potentially intensifying and possibly developing into a Super El Niño or a Very Strong El Niño. Such an event could rank among the most severe El Niño episodes recorded since 1950.

The effects of this phenomenon are expected to become more pronounced in the second half of 2026 and may persist into 2027. Potential consequences include an increased risk of extreme weather events, such as droughts, heatwaves, flash floods, and fluctuations in agricultural production across various regions worldwide. These conditions could directly affect the food and beverage industry, particularly in terms of raw material availability, production costs, and supply chain continuity.

KCG Corporation Public Company Limited ("KCG") manufactures and distributes food products using raw materials sourced from both domestic and international markets, including butter, cheese, dairy products, grains, wheat flour, sugar, vegetable oils, and livestock-derived ingredients. Consequently, climate change may affect the long-term security of raw material supplies, production costs, and supply chain efficiency.

What Is El Niño?

El Niño is a natural climate phenomenon arising from fluctuations in atmospheric circulation and ocean currents across the Pacific Ocean. One of its defining characteristics is the weakening of the trade winds, which allows warm water that would normally accumulate in the western Pacific, near Asia and Oceania, to shift eastward toward the eastern Pacific and the coast of South America.
Individual El Niño events typically last approximately 9-12 months and recur at intervals of around 2-7 years.

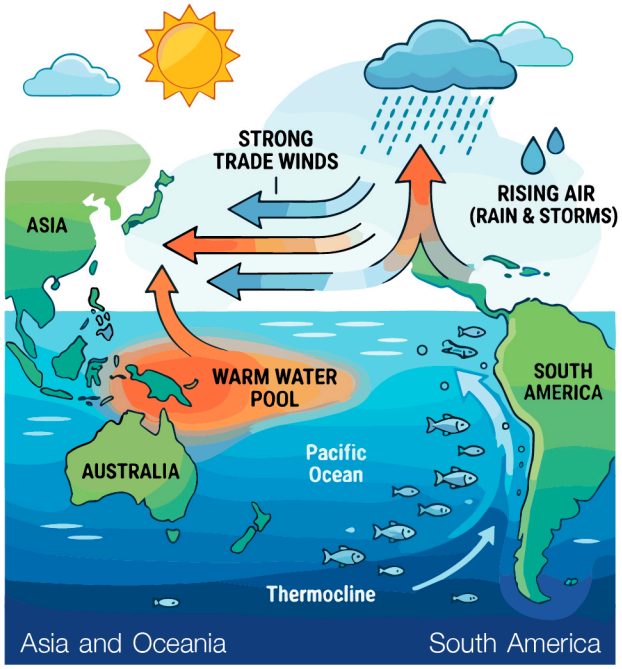


Normal Conditions

Strong Trade Winds

Under normal conditions, trade winds blow strongly from east to west, pushing warm surface water toward Asia and Oceania, including Thailand and Australia. This contributes to seasonal rainfall and supports productive ecosystems in these regions.
Meanwhile, along the western coast of South America, cold, nutrient-rich water rises from deeper ocean layers through a process known as upwelling, supporting abundant marine fisheries. This region generally experiences less rainfall and drier conditions than Asia and Oceania.

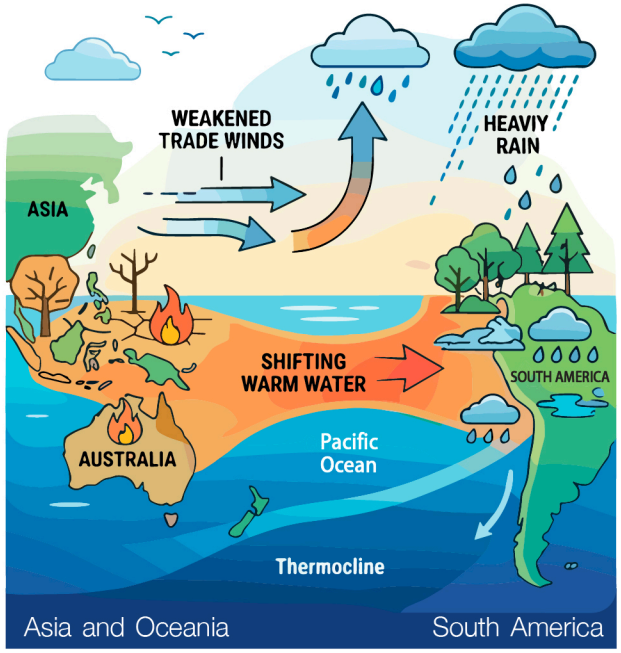
Warm Water Accumulates in Asia and Oceania



El Niño Conditions

Weak Trade Winds

During El Niño, trade winds weaken or may temporarily reverse direction, allowing warm water to shift eastward toward South America and altering regional climate patterns. As a result, parts of South America often experience heavier-than-normal rainfall and flash flooding, while Asia and Oceania may face higher temperatures, droughts, reduced rainfall, prolonged dry spells, and an increased risk of wildfires. However, localized heavy rainfall and flash floods may still occur in some areas.



Warm Water Shifts Back Toward South America

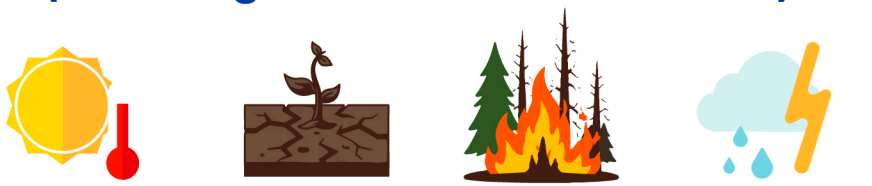
Impacts of El Niño

The impacts of El Niño vary by region. Southeast Asia and Australia are more likely to experience below-average rainfall, droughts, heatwaves, and heightened wildfire risks, while the western coast of South America may experience heavy rainfall, flooding, and landslides.

Potential Hazards

- **Drought and Water Scarcity:** Reduced water levels in natural water sources and reservoirs may affect both the agricultural and industrial sectors.
- **Heatwaves:** Rising temperatures increase water and energy demand and raise the costs of temperature control in factories and warehouses.
- **Declining Agricultural Yields:** Heat stress and water shortages may reduce the yields of food crops and crops used for animal feed.
- **Wildfire and Air Quality Risks:** Wildfires may affect ecosystems, transportation, and business operations, while potentially worsening PM2.5 air pollution.
- **Weather Variability and Flash Floods:** Although total annual rainfall may decline, storms or monsoon troughs can still trigger intense rainfall over short periods. This may cause flash floods or sudden runoff in certain areas, affecting agricultural land, logistics, goods transportation, and supply chain operations.

Impacts in Asia and Oceania (Including Thailand and Australia)



Impacts in South America



Challenges for KCG's Business

Increasing weather variability associated with El Niño presents significant challenges to the global food manufacturing industry, particularly in terms of raw material availability, quality, and costs. KCG therefore recognizes the importance of assessing potential impacts and strengthening preparedness to maintain product quality and long-term supply chain resilience.

Dairy Products

KCG imports key raw materials from New Zealand and Australia, both major global dairy-producing countries located in regions that may be directly affected by El Niño.

- **Australia:** El Niño typically brings below-average rainfall and drought to some dairy-producing areas, affecting the growth of pasture and other animal feed crops. This may increase feed costs and reduce milk production. These impacts could become more pronounced in 2027 if dry conditions persist.
- **New Zealand:** The impacts differ across the country. Eastern regions may experience earlier-than-usual dry conditions, potentially affecting pasture quality and milk production. This is particularly significant during September to November, a period that accounts for approximately 40% of annual milk production.

These developments may increase cost volatility for KCG's dairy-based products, particularly butter and cheese.



Challenges for KCG's Business

Food and Bakery Ingredients (FBI)

This product category includes both products manufactured in Thailand and products imported from overseas. Consequently, it may be affected by El Niño in several ways, including fluctuations in the volume and quality of agricultural and seafood production, as well as higher procurement costs for imported products.

Drought and rising temperatures may reduce agricultural yields, disrupting the continuity of raw material supplies and placing additional cost pressures on the supply chain as a whole.



Biscuits

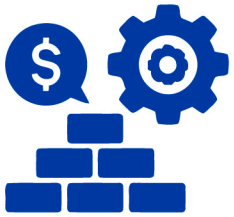
Key raw materials potentially affected by El Niño include wheat flour, sugar, and palm oil. Sugar and palm oil production may be affected by dry conditions and rising temperatures across Southeast Asia.

Wheat production may also be affected by similar climate-related factors in major producing regions worldwide, particularly Australia, North America, and Europe. These risks could reduce agricultural output, increase raw material costs, and create greater price volatility, affecting the production of KCG's cookies, crackers, and wafers.



Key Business Challenges for KCG

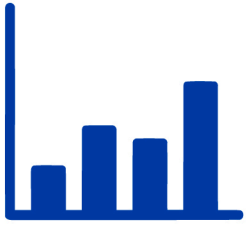
El Niño conditions may have the following impacts on KCG:



Higher Raw Material Costs:
Reduced agricultural and dairy production in major producing countries may increase procurement costs.



Higher Energy Costs:
Increased demand for refrigeration and temperature control in factories, warehouses, and logistics operations may raise energy expenditure.



Raw Material Security Risks:
Uncertainty in agricultural production and volatility in commodity markets may affect the availability and reliability of raw material supplies.



Supply Chain Disruption:
Production constraints, transportation challenges, and disruptions to international logistics may affect the continuity of supply.



Operating Cost Volatility:
Fluctuations in operating expenses may affect the Company's competitiveness and financial performance.

Strengthening Climate Resilience Through **Risk Management**

To mitigate the impacts of these risks, KCG adopts a proactive risk management approach by:

- Enhancing supply chain resilience and diversifying raw material sourcing.
- Proactively managing procurement by planning purchases of key raw materials in advance and closely monitoring climate-related information and global market trends.
- Optimizing transportation routes and consolidating shipments.
- Managing costs and expenses while ensuring the efficient use of resources.

These measures aim to strengthen KCG's ability to maintain business continuity amid the challenges posed by climate change



Climate Change
A Natural Force That Businesses
"Cannot Afford to Ignore"

Join us in our journey to create sustainability for our world and society
and stay turned for more inspiring stories
about KCG's journey towards sustainability in other dimensions...



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