

RISK MANAGEMENT

ENTERPRISE-RISK MANAGEMENT PROGRAMME

The Del Monte Pacific Group has an established enterprise-wide risk management programme that aims to provide a structured basis for proactively managing financial, operational, compliance, information technology and sustainability risks in all levels of the organisation.

Risk management is a regular board agenda item.

PRINCIPAL RISK	SPECIFIC RISK WE FACE	MITIGATION
COVID-19 Pandemic	<p>The coronavirus pandemic could affect our business and results of operations. The Group may experience volatility in demand for and supply of our products due to pantry-loading, supply chain challenges, lockdown restrictions, closing of businesses and unemployment, among others.</p> <p>The pandemic presents a risk to our employees' health and well-being and may reduce employee productivity due to illness, government restrictions, lack of reliable internet access and public transport.</p>	<ul style="list-style-type: none"> • Capitalise on the Group's offering of health, wellness and nutrition, and long shelf-life culinary products suited for home consumption as consumers stay at home and prepare more meals and snacks • Leverage improved momentum of new products catering to health and wellness • Leverage the trust in the Group brands' reputation for safety and reliability to sustain demand • For fresh business, develop contingency plans, customer base and optimise market mix • Marketing, including digital campaigns, highlighting the functional health benefits of the Group's products • Foodservice to shift from dine-in to take-out business • Increase sales in e-commerce channel and direct to customer deliveries <ul style="list-style-type: none"> • Implement safeguards and protocols to minimise operational disruption, while adhering to government regulations on health and safety: <ul style="list-style-type: none"> – Implement the Business Continuity Plan (BCP) – Provide work-from-home arrangement based on mandated quarantine levels with technology support allowing employees to have continuous access to the ERP network, various applications, emails, files and other necessary information – Implement a travel ban and leverage the use of videoconferencing technology – Release updates such as health advisories, status of operations, action plans to all employees on the status of operations, and plans when employees can go back to work on site – Use personal protective equipment such as face masks, face shields and sanitisers provided by the company to employees; conduct temperature checks, maintain physical distancing, disinfect facilities, encourage frequent hand washing and other safety protocols – Partner with third party medical providers in case there is a need to test if employees are infected – Implement guidelines of global and national health agencies, including the Centre for Disease Control and Prevention, Department of Health, Department of Labour and Employment and Inter-Agency Task Force to protect our employees

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Profitability	Del Monte Foods generates more than 70% of the sales of Del Monte Pacific Group and has yet to generate profits.	<ul style="list-style-type: none"> • Sustain sales momentum amidst the pandemic anchored on health, nutrition, plant-based portfolio, shelf-stable and trusted brand • Optimise transformed supply chain and production to meet demand • Improve sales mix, increase branded business, rationalise low-margin and unprofitable businesses • Sustain innovation and improve profitability • Grow emerging channels including e-commerce • Reduce costs by leveraging Asset-Light Strategy and other cost savings initiatives • Increase operating margins • Optimise best results from a strengthened leadership team • Deliver Annual Operating Plan (AOP) goals
Product Supply	<p>There are challenges in planning our operations during the pandemic. Disruptions may increase our operating cost and impact the results of operations.</p> <p>Adverse weather conditions and competing crops could limit raw product supply and increase prices.</p>	<ul style="list-style-type: none"> • Optimise production facilities to meet demand • Pack early season products and purchase early season products and prior year packs to increase inventory cover • Develop alternate raw product sourcing and implement a global sourcing strategy • Improve supply planning capability to match demand
Financial Leverage and Capital Structure	<p>The Group has a long-term financing in relation to its acquisition of Del Monte Foods in 2014, resulting in a leveraged balance sheet.</p> <p>Risks would arise if there is a general economic or industry slowdown that may impact the Group's performance, which subsequently may affect the Group's ability to service its interest and principal obligations.</p>	<ul style="list-style-type: none"> • The Group strengthened its balance sheet by raising new financing of US\$1.3 billion at Del Monte Foods consisting of a US\$500 million five-year bond issue, a new three-year Asset Based Loan of US\$450 million, and equity of US\$378 million from DMPL • Del Monte Pacific completed a private equity investment in Del Monte Philippines for US\$120 million for a 12% stake. Proceeds were used for repayment of bank loans • The Group expects to meet its financial obligation by generating more cash flows through the following: <ul style="list-style-type: none"> – Improved cash flows in the US, which accounts for more than 70% of Group sales, with better sales mix and cost management – Expected cost savings from the Asset-Light Strategy, selling, general and administrative expense reduction initiatives, managing working capital, production levels, productivity enhancements and operational efficiencies – Expected sales and profit growth in the Asian business with the growth of the Philippine business, the most profitable business of the Group, through its market leadership position, and expansion of the S&W brand in Asia and the Middle East, especially in the fresh business, the second most profitable business of the Group

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Sales	<p>The Group has in place an AOP to meet sales and profit objectives. Our results depend highly on the performance of our products in the categories where we compete.</p> <p>The Group's food product categories are highly competitive. New market trends emerge and young consumers have evolving consumption habits. The younger demographics prefer healthy, environment friendly and socially responsible brands. How we delight our customers and adapt to new and emerging consumer trends are critical to deliver our sales and profitability targets.</p> <p>A very limited number of customer accounts form a substantial portion of our sales. Sales would be adversely affected if we lose any of our largest customers if they incur financial difficulties, bankruptcy, change their purchasing practices or encounter other disruptions.</p> <p>In the US, trade promotion activity is still significant and requires proactive monitoring and analysis. More than 70% of the Group's sales are generated in the US.</p>	<ul style="list-style-type: none"> • Ensure that the Group's products are well-positioned to address changing consumer preferences and does well during recession • Manage and monitor price gaps • Enhance sales processes to improve forecasting and a new profit mindset to increase gross margin • Implement brand rationalisation to improve profitability and increase market share • Adjust price brackets to cover logistics cost • Continuously cultivate and manage relationship with customers by providing better service levels and improve product supply • Establish new capabilities to expand the Group's presence in growing channels such as e-commerce through online retail sites • Enhance relevance of existing portfolio through consumer communication and marketing strategy • Implement a quarterly review of the business with executive management to address challenges and gaps in attaining the plan • Carry out international expansion using the Group's S&W brand
Supply Chain	<p>The Group implemented its Asset-Light Strategy by reducing its manufacturing facilities and entered into supply agreements with third-party co-manufacturers which are subject to a number of regulations.</p> <p>Disruptions may happen if these co-manufacturers encounter allegations of compliance failure, quality issues or financial difficulties.</p>	<ul style="list-style-type: none"> • Manage production and supply of co-manufacturers to increase speed-to-market introduction, introduce new capabilities, ensure consistent product quality and adhere to production and delivery schedules • Implement a robust transformation programme that instills ownership and accountability across the supply chain and support function to deliver the plans • Manage relationships with growers and renegotiate contracts to meet requirements

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Working Capital Management	<p>The Group's profit performance affects the ability to manage working capital. Working capital management impacts the Group's ability to manage vendor payments.</p> <p>Increases in material and operating cost such as raw and packaging materials, labour and fuel will impact the Group's profitability.</p> <p>Aging inventories may be sold at a lower price or may incur inventory write-offs.</p>	<ul style="list-style-type: none"> • Execute the Group's AOP to improve profitability and cash flow by strengthening the core business • Implement a rigorous transformation programme that ensures accountability and ownership across the supply chain • Embed new processes and procedures to control supply and costs, produce to sell, minimise waste and optimise supply chain • Strategically seek cost savings via procurement • Manage logistics cost and use other modes of transportation if feasible • Assess creative ways to ensure labour availability during packing operations
Innovation	<p>The Group's branded business in the US, the Philippines and the Indian subcontinent through the Del Monte brand, and in Asia and the Middle East through the S&W brand, is affected by evolving consumer preferences and trends.</p> <p>Product innovation is one of the Group's strategic pillars. The success of new product launches is a major driver to the attainment of the Group's strategic plan.</p>	<ul style="list-style-type: none"> • Develop new products that capitalise on category trends, especially health and wellness, and generate growing sales and profits • Ensure new product launches and platform criteria are met to improve likelihood of new product success and breakthrough by implementing the following measures: <ul style="list-style-type: none"> – Shift to branded, value-added and packaged products by limiting private label business – Leverage brand heritage for growth and position new products that address consumer needs and preferences – Fast track innovation projects that have oversight from the Executive Leadership Team – Prioritise effective execution and project management to improve margins, profitability and cash flow
Talent Management	<p>The Group's capability to acquire and retain talent has an impact on the execution of the strategic plan.</p> <p>New labour regulation in the Philippines on regular and hired employees, and occupational health and safety increases the direct labour cost of manufactured goods.</p>	<ul style="list-style-type: none"> • In the US, the Group has strengthened its leadership by hiring new talents in Supply Chain and Operations, Sales, Finance, Research and Development, Human Resources, and Corporate Communication • Long-term incentives and retention plans are in place for key positions • Good execution of the strategy is ensured to significantly improve results and the ability to reward talent • Compliance with new labour legislation is ascertained and proactive development of productivity-enhancing and efficiency-generating work practices and strategies is established to reduce the impact of these new regulations • Employee engagement and regular communication are instituted to create a positive culture and retain talent

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Cybersecurity	<p>The increasing global incidence of cyberattacks demonstrates the need to strengthen and improve security of the Group's systems and avoid breach.</p> <p>Cyberattacks can disrupt operations by exploiting weaknesses in network devices and servers, corrupting information and stealing confidential data which can lead to financial losses, among others.</p> <p>A good number of the Group's employees work from home during the pandemic. This poses a risk due to unsecured home networks and personal devices. There is a need to constantly update the employees' operating system and applications. Email scams increase the risk on the employees' devices to be infected with a computer virus.</p>	<ul style="list-style-type: none"> • The Group develops and implements the following measures to counter and eliminate cyberattacks from outside sources: <ul style="list-style-type: none"> – Adopt industry best practices to strengthen network security such as updating security patches to the system and encrypting workstations – Continue to monitor progress, emerging risks and control and prioritise improvements by the Data Protection and Privacy Security Task Force – Amplify the use of the endpoint firewalls and design and implement security policies and control at each local site – Implement cybersecurity awareness and training for all employees – Deploy effective security governance to outside sites • The Company made significant progress in the roll-out of Advanced Persistent Threat protection for end point systems, Encryption and Data Loss Protection systems to key end user devices and pilot departments, respectively • The Group has engaged a third party to audit its systems and mitigate such risks • Mitigate cybersecurity risks to address the vulnerabilities that were identified during the Vulnerability Assessment and Penetration Testing of key company websites • Implement policies that are deployed and enforced in Data Loss Prevention • Regular management, monitoring and periodic maintenance are also being carried out to the other cybersecurity implementations on network access control, network segmentation, advanced persistent threat protection and encryption
Tax	<p>The Group may be exposed to additional losses from write-offs of deferred tax credits should the operations in the US continue to incur losses.</p> <p>The Group may lose certain tax incentives should it fail to comply with the conditions or through new tax legislation rationalising incentives.</p>	<ul style="list-style-type: none"> • Execute the Group's strategic and AOP to meet its projected income in the US <ul style="list-style-type: none"> – Work on cost savings from sales, general and administrative expense reduction initiatives, management of working capital, production levels, productivity enhancements and operational efficiencies • Implement measures to comply with conditions related to the tax incentive

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Operations	<p>As an integrated producer of packaged, frozen and fresh fruit products for the world market, the Group's earnings are inevitably subject to certain other risk factors, which include general economic, market and business conditions, especially amidst the coronavirus pandemic, change in business strategy or development plans, international business operations, production efficiencies, input costs and availability, disruption of logistics and transportation facilities, litigious counterparties, insurgent activities and changes in government regulations, including environmental regulations.</p>	<ul style="list-style-type: none"> • Execute a long-term strategic plan and AOP with clear targets and accountabilities, supported by a BCP, especially in relation to the pandemic, risk management and a corporate sustainability programme • Enhance relevance of existing products across key brands and segments through marketing strategy and consumer communication • Implement price adjustments to cover cost inflation • Optimise packing operations, procurement, logistics and transportation cost • Pursue productivity-enhancing and efficiency-generating work practices and capital projects • Continue to comply with new legislations on the environment, taxation and labour that affect operations and proactively develop strategies to reduce the impact of these regulations • Manage security risks in operating units in the Philippines by strengthening security measures and improving stakeholder relations in local communities
Environmental Risks	<p>Production output is subject to certain risk factors relating to weather conditions, catastrophes, crop yields, crop diseases, contract growers and service providers' performance, leasehold arrangements and changes in regulations.</p> <p>There is no assurance that natural catastrophes or climate change will not materially disrupt the Group's business operations in the future or that the Group is fully capable to deal with these situations with respect to all the damages and economic losses resulting from these risks.</p> <p>Our business in the US contractually grows food where water availability may be at risk due to drought and limited water supply, new regulations on fresh water use and grey water discharges and increasing cost.</p> <p>New regulations in packaging format, recyclability of the materials or packaging taxes may increase product cost, impact our reputation and perception of the brand and reduce consumption of our products.</p>	<ul style="list-style-type: none"> • The Group develops and executes a long-term strategic plan and AOP, supported by risk mitigation measures • The Group also has in place disaster recovery plans and BCPs and has implemented programmes and initiatives to mitigate the effects of climate change • The Group has Good Agricultural Practices certifications and complies with agricultural standards • To manage any impact from heavy rainfall and floods, plantings are done in various locations to minimise tonnage loss and towing units have been augmented to ensure continuity of harvest during wet conditions • A strategic plan is developed to address possible changes in regulations on packaging • The Group also works with insurance brokers to assess the risk exposure and secure adequate insurance coverage, if cost effective
Group Assets	<p>Group assets are exposed to various risks relating to the assets of, and the possible liabilities from, its operations.</p>	<ul style="list-style-type: none"> • To safeguard its assets, the Group assesses its risk exposure annually with its insurance brokers and insurance companies • Assets are generally insured at current replacement values • Additions during the current year are automatically included with provision for inflation protection • During the financial year in review, all major risks were adequately covered, except where the premium costs were considered excessive in relation to the probability and extent of a loss