Risk **Management**

ENTERPRISE-RISK MANAGEMENT PROGRAMME

The 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
Working Capital Management	Working capital management impacts the Group's ability to manage vendor payments.	• Execute the Group's strategic plans to improve cash flow and profitability by strengthening the core business • Streamline manufacturing footprint to improve inventory management • Monitor receivables and payables to improve working capital • Support affiliate companies with credit lines to fund working capital requirements
Supply Chain Optimisation	Network manufacturing and distribution capacity is not optimised, resulting in increased costs.	• Rationalise the Group's manufacturing and distribution footprint • Use co-manufacturers to variabilise manufacturing assets, increase speed to market and introduce new capabilities • 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
Operations	As an integrated producer of packaged 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, 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.	• Develop and execute a long-term strategic plan and annual operating plan with clear targets and accountabilities, supported by a business continuity plan, risk management and a corporate sustainability programme • Enhance relevance of existing products across key brands and segments through consumer communication and marketing strategy • Transform operational processes by streamlining, simplifying and standardising processes and procedures where appropriate • 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

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Financial Leverage and Capital Structure	The Group has long-term acquisition financing resulting in a leveraged balance sheet. 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.	• The Group successfully completed the offering and listing of about US$300 million Preference Shares in the Philippines in April and December 2017, with a coupon rate of 6.625% p.a. and 6.5% p.a., respectively. Proceeds of the capital-raising were used to repay debt. • To date DMPL has purchased about US$231 million of Second Lien Term Loans (as of April 2019) at a discount in the secondary market, providing the Group with significant principal and interest savings • The Group expects to meet its financial obligation by generating more cash flows through the following: – Improved cash flows in the US which accounts for approximately 70% of Group sales – Expected cost savings from 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 continuous expansion of the *S&W* brand in Asia and the Middle East, especially in the fresh business, and growth of the Philippine business through its market leadership position • The Group manages its interest rate risk by swapping variable with fixed interest rates – The majority of the term acquisition loans in the USA had been swapped to fixed rates in February 2014, which took effect beginning February 2016 until 2021
Innovation	The Group's branded business in the USA, 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. Product innovation is one of the Group's strategic pillars. The success of new product launches is key to the attainment of the Group's strategic plan.	• Develop new products that improve category trends, expand into new channels and white space, generate sales growth and profitability • Execute and fast-track the Group's innovation strategy by prioritising projects • Ensure new product launches and platform criteria are met to improve likelihood of new product success and breakthrough by implementing the following measures: – Increase resources on innovation – Establish new capabilities to extend reach of portfolio into new growing channels – Prioritise effective execution and project management to improve profitability and cash flow • 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

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Talent Management	The Group's capability to acquire and retain talent has an impact on the execution of the strategic plan. New labour regulation in the Philippines on regular and hired employees and occupational health and safety, increase the direct labour cost of manufactured goods.	• In the US, the Group has strengthened its leadership by hiring new talent in Sales, Marketing, Finance, Human Resources, Research and Development and Operations • Long-term incentives and retention plans are in place for key positions • Employee engagement and regular communication create a positive culture and help retain talent • Good execution of the strategy will significantly improve results and the ability to reward talent • Comply with new labour legislation and proactively develop productivity-enhancing and efficiency-generating work practices and strategies to reduce the impact of these new regulations
Tax	In the Philippines, the government passed a new regulation in 2018, Tax Reform for Acceleration and Inclusion (TRAIN), which applies a tax on beverages with added sugar, petroleum products and coal, among others, which impact the cost of goods. Sixty percent of the Group's beverage products, namely 100% juices, are not subject to this tax. The Group may lose certain tax incentives should it fail to comply with the conditions, or through new tax legislation rationalising incentives. 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.	• Reduce the impact of the sugar tax by spreading the price adjustment across categories in order to temper the beverage price adjustment and protect consumption and volume • Optimise production of 100% juice which is exempt from the sugar tax and work on product reformulation to mitigate the impact • 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 • Proper execution of the Group's strategic and annual operating plan to meet its projected income in the US
Environmental Risks	Production output is subject to certain risk factors relating to weather conditions, catastrophes, crop yields, crop diseases, contract growers and service providers' performance and leasehold arrangements. 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. Our business in the US operates and contractually grows food in the United States 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.	• The Group develops and executes a long-term strategic plan and annual operating plan, supported by risk mitigation measures • The Group also has in place disaster recovery plans and business continuity plans and has implemented programmes and initiatives to mitigate the effects of climate change • The Group has Good Agricultural Practices (G.A.P.) 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 • The Group also works with insurance brokers to assess the risk exposure and secure adequate insurance coverage, if cost effective

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Cyber Security	The increasing global incidence of cyberattacks on Company servers and websites demonstrates the need to strengthen and improve security of the Group's systems and avoid breach. Cyberattacks can disrupt operations such as exploiting weaknesses in network devices and servers, corrupting information and stealing confidential data which can lead to financial losses.	• The Group develops and implements the following measures to counter and eliminate cyberattacks from outside sources: – Adopt industry best practice to strengthen network security such as updating security patches to the system and encrypting workstations – Incidence response strategy – Continue to monitor progress, emerging risks and control and prioritise improvements by the Data Protection and Privacy Security Task Force – Design and implement security policies and control at each local site – Implement cybersecurity awareness and training to all employees – Deploy effective security governance to outside sites • The Group has engaged a third party to audit its systems and mitigate such risks
Group Assets	The Group assets are exposed to various risks relating to the assets of, and the possible liabilities from, its operations.	• 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