

RISK MANAGEMENT

ENTERPRISE-RISK MANAGEMENT PROGRAM

The Del Monte Pacific Group has an established enterprise-wide risk management program 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
Inflationary Pressures	Del Monte Foods (DMFI) generates more than 70% of the sales of Del Monte Pacific Group. Inflation and cost increase on raw materials, packaging, fuel, tin plates and labor may impact the company's margins unless these can be managed through cost reduction initiatives and the ability to adjust pricing.	<ul style="list-style-type: none"> Expand plant direct shipment to minimize freight cost and explore giving incentives for customers who can pick-up their orders Expand the global sourcing strategy focusing on fruits Collaborate value engineering initiatives with cross-functional teams Renegotiate supplier contracts, vendor bidding and contracts by collaborating with a cross functional team and prioritize strategic sourcing Rationalize trade spending where gross margins are not in accordance to strategy Reduce conversion cost by 3% year-on-year Down gauge and downsize
Supply Chain Optimization and Excellence	<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>Possible risks with these co-manufacturers include quality issues, productivity, safeguarding of assets, safety and environmental compliance. Unbudgeted costs on transportation, raw produce, weather and tin plate cost exacerbates the risks. Furthermore, the ability to hire seasonal and/or specialized labor has become a challenge.</p> <p>Sole source suppliers can cause business continuity, compliance and financial risks. Foreign suppliers may not have standards in place to meet the Group's requirements.</p> <p>Organization culture, resources, capabilities and resistance to change of the co-manufacturers, and unexpected cost increases may restrict DMFI from making necessary adjustments to its operations.</p>	<ul style="list-style-type: none"> Put in place new plant management with strong leadership and transformation skills Implement a robust transformation program that instills ownership and accountability across the supply chain and support function to deliver the plans Standardize processes and procedures to control supply and costs, produce to demand, minimize waste and optimize the supply chain footprint Seek strategic partnerships with co-manufacturers to maximize production and find less seasonal options Evaluate distribution centers (DC) through an optimization assessment Conduct regular contract review to seek cost savings Maximize rail transportation to realize savings Monitor inventory issues regularly to proactively provide solutions Ensure labor availability during seasonal packing season Put in place a process with clear performance expectations and targets, and benchmarking per plant

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Market Trends and Commercial Excellence	<p>The Group's results depend highly on the performance of our products in the categories where we compete. Inability to meet the plan may result to impairment of goodwill and the Group's ability to fund operations, manage obligations, and maintain its reputation.</p> <p>While the Group sales grew in FY2021 on home consumption, there is no assurance that this trend will continue after restrictions are loosened.</p> <p>Consumer dining trends are shifting to fresh, convenient products away from the center of store. Consumers have strong preference to healthy, nutritious and sustainably grown or produced products, especially the younger generation.</p> <p>Price increases, inflation, promotional activities, acceptance of new products, private labels, customer service and execution are other market challenges the Group needs to hurdle to deliver the objectives.</p> <p>Trade promotion activity is still significant and requires proactive monitoring and analysis.</p>	<ul style="list-style-type: none"> • Manage and monitor price gaps • Enhance sales processes to improve forecasting and a new profit mindset to increase gross margin • Implement brand rationalization to improve profitability and increase market share • Adjust price brackets to cover logistics cost • Innovate in new categories and on-trend snacking solutions • Limit private labels to select strategic customers • 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 and brands through consumer communication and marketing strategy • Increase trade funding to reinstate price gaps • Implement a quarterly review of the business with executive management to address challenges • Monitor market trends and vaccine distribution leading to reopening of schools, offices and food service businesses • Minimize customer service issues • Improve new products forecast accuracy from added knowledge from customers, velocities and marketing support needed • Drive distribution in new channels • Identify categories and products that perform well

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<p>Effective Systems and Automation</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.</p> <p>New systems and systems enhancements are complex and resource intensive. This and the high turnover of IT leadership, business priorities, and ad hoc projects make it difficult to develop a long-term IT road map.</p> <p>Limited data analytics and reporting skills and tools provide little help in decision making. Cost consciousness resulted in short-term decisions not linked to the business strategy.</p>	<ul style="list-style-type: none"> • Hired a new Chief Information Officer with extensive SAP, digitization and transformation experience to assess and develop a long-term IT road map • Prioritize IT systems and automation through an Executive Steering Committee • The Group develops and implements the following measures to counter and eliminate cyberattacks from outside sources: <ul style="list-style-type: none"> – Amplify the use of Sophos Endpoint protection which provides visibility to devices connected to the network and scans for compliance – Implement best-in-class e-mail protection to improve anti-spam protection, executive spoofing and malicious e-mail cyberattacks – Dedicate a Security Incident Monitoring Group to address malicious activities – Adopt industry best practices to strengthen network security in updating security patches to the system and encrypting workstations – Enhance firewalls at every site and install monitoring solutions that provides alerts from applications and network hardware – Implement data privacy and protection and cybersecurity, awareness and training for all employees – Train remote workforce on home Wi-Fi network security – Deploy effective security governance to outside sites • Address the vulnerabilities identified on the first batch of company that were subjected to Vulnerability Assessment and Penetration Testing (VAPT) • Ensure a second level of security and authentication in remote access to applications by integrating 2FA to key sites of Del Monte and other remote access applications • Reconfigure network resources to ensure that access to systems during remote work remains seamless even with the increase in work from home transactions • Create additional VPN channels to avoid the high utilization of VPN resources • The Group has engaged a third party to audit its systems and mitigate such risks • Maximize the use of SAP to address key activities in Supply Chain activities – warehouse management, deployment, inventory, supply and production planning • Implement solutions on Procurement reports, sales and promotion planning, toll manufacturing • Maximize CropTrak for growers' payment

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Workforce Management - Seasonal Labor	<p>In the U.S., seasonal labor is scarce and the minimum wage is high especially in California and Washington State. Challenges abound in locating, training, retraining and managing seasonal labor.</p> <p>Labor scheduling and availability during onsite packing scheduling is a challenge.</p>	<ul style="list-style-type: none"> Automate work processes to reduce dependence on seasonal labor. Reduce inconsistencies by rolling-out standardized work and visual factory methodologies.
Talent and Culture	<p>The Group's capability to acquire and retain talent has an impact on the execution of the strategic plan.</p> <p>Organizational changes can cause employee fatigue, increase workload and job uncertainty. Remote work in office-based roles may create a new sense of isolation and to some extent miscommunication among team members. These factors may result in a high turnover rate.</p>	<ul style="list-style-type: none"> Strengthened leadership by hiring new talents in IT, Operations, Sales, Finance, Supply Chain and Sustainability Institute employee engagement, regular communication and clear goals to create a positive culture and retain talent
Product Supply	<p>Challenges in planning our operations during the pandemic. Disruptions may increase our operating cost and impact the results of operations. Increased demand during the pandemic significantly reduced weeks supply and out of stock on fast moving items.</p> <p>Adverse weather conditions and competing crops could limit raw product supply and increase prices.</p> <p>Below plan pineapple tonnage brought about by climate change, pests and plant disease may affect our ability to meet our targets.</p>	<ul style="list-style-type: none"> Optimize 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 Manage plant nutrient by applying special doses of fertilizers to identified fields Sustain better root health thru better pest and plant disease management

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Effective Third Party Risk Management	<p>DMFI has strategic relationships with a number of key third parties. The frequency and scale of use by the company raising regulatory expectations as to how organizations manage third party risks.</p> <p>These third parties include packaging suppliers, co-manufacturers and co-packers, global sourcing partners, accounting and IT partners and outsourced transportation.</p>	<ul style="list-style-type: none"> • Pursue secondary or back-up suppliers where business continuity or relationship risks have a material impact to the Group • Negotiate a win-win approach for long-term relationship • Conduct regular contract review to seek cost savings • Perform a risk assessment of key strategic partners and communicate the risks and action plans • Implement a robust due diligence process for new or significant third parties • Consider a third party due diligence vendor for broader and deeper due diligence process • Conduct business reviews with clear key performance indicators addressing our priorities • Implement regular benchmarking to measure competitiveness
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 amid 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> <p>In the Philippines, the local government unit in Bukidnon sets a minimum rental of pineapple lands at PhP25,000 per hectare per year. Non-compliant leases are deemed to have been amended by fixing the same amount of minimum rental. Non-compliance will merit recommendation for cancellation of business permits, environmental compliance certificate.</p>	<ul style="list-style-type: none"> • Execute a long-term strategic plan and Annual Operating Plan with clear targets and accountabilities, supported by a BCP, especially in relation to the pandemic, risk management and a corporate sustainability program • Enhance relevance of existing products across key brands and segments through marketing strategy and consumer communication • Implement price adjustments to cover cost inflation • Optimize packing operations, procurement, logistics and transportation cost • Pursue productivity-enhancing and efficiency-generating work practices and capital projects • Implemented the P25K/Ha/yr for both new land acquisitions and renewal of contracts for areas in Bukidnon • Expand outgrowership programs • Improve current yield to reduce the need for higher land requirements • Continue to comply with new legislations on the environment, taxation and labor 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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Environmental Risks	<p>Production output is subject to certain risk factors relating to weather conditions, calamities, crop yields, crop diseases, contract growers and service providers' performance, leasehold arrangements and changes in regulations.</p> <p>There is no assurance that natural calamities 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>New regulations in packaging format, recyclability of materials or packaging taxes may increase product cost.</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 programs and initiatives to mitigate the effects of climate change • The Group has Good Agricultural Practices certifications and complies with agricultural standards • Implement phase-out program for hazardous materials through replacement with alternative materials • Conducted safety training drills and chemical handling training which covers earthquake, firefighting, evacuation, medical response and chemical response drills • A strategic plan developed to address possible changes in regulations on packaging • Execute soil conservation initiatives and work on achieving Rainforest Alliance certification • Increase renewable energy sources by implementing solar power projects in its facilities in the Philippines • The Group also works with insurance brokers to assess the risk exposure and secure adequate insurance coverage, if cost effective
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 capitalize on category trends, especially health and wellness, and generate growing sales and profits • Innovate and win in the frozen food category by addressing consumer needs • 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 and limit 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

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<p>COVID-19 Pandemic</p>	<p>The coronavirus pandemic could affect our business and results of operations. The Group may experience volatility in demand and supply of our products due to pantry-loading, supply chain challenges, lockdown restrictions, closing of businesses and unemployment, among others.</p> <p>In the Philippines, the slow vaccination roll-out may hamper the goal to jab 70% of its population to achieve herd immunity.</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"> • Capitalize 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 • 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 • Implement safeguards and protocols to minimize operational disruption, while adhering to government regulations on health and safety: <ul style="list-style-type: none"> – Hasten the Company's vaccination roll-out plan – 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 sanitizers 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 Labor and Employment and Inter-Agency Task Force to protect our employees