# 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 | RISK MITIGATION |
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| Branded and Non-Branded Business | 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 a number of factors, including, but not limited to, competition, product innovation and product acceptance, industry trends, distribution expansion, penetration and business partners' risks.<br><br>The Group's core categories in the US – Canned Vegetables, Canned Fruits and Canned Tomato – are large categories that generate strong cash flows but are slowing down.<br><br>Certain non-branded business of the Group (including the USDA and certain private label) requires a competitive bidding process which does not guarantee the outcome of the bid nor the profitability of such bids.<br><br>Organisational changes may hamper execution of the Group's strategic plan. | • Strengthen the core business, expand the product portfolio and markets<br>• The Group's joint venture with Fresh Del Monte Produce, Inc. will strengthen the US business through collaboration on new product innovations such as chilled juices, fruit snacks and avocado products<br>• Shift to branded value-added, packaged products with emphasis on innovation, health and wellness, convenience, quality, competitiveness and consumer appeal of the categories<br>• The Group is reassessing its non-branded business in its long-term strategic plan<br>• Expand growing categories – Broth and Single-Serve Fruit snacks in alternative packaging formats<br>• Market and customer diversification: increased penetration of high-growth channels, foodservice and e-commerce<br>• Reinforce consumption-driven marketing strategies such as consumer advertising<br>• Building on closer working relationships with trade partners<br>• Improve talent management and enhance selling, marketing and operational processes to support business goals |
| Inventory Management | Excess inventory due to challenges in demand planning, crop tonnage and order fulfillment. | • Improve demand planning and adjust production plan to manage inventories<br>• More focus and use of technology allows for better inventory management and visibility |
| Goodwill | Goodwill impairment in the US relies on improvement of our Net Operating Income in the near-term. | • To improve our income stream, the Group will strengthen the core business, expand the product portfolio and markets<br>• The Group's joint venture with Fresh Del Monte Produce, Inc. will strengthen the US business through collaboration on new product innovations such as chilled juices, fruit snacks and avocado products<br>• Shift to branded value-added, packaged products with emphasis on innovation, health and wellness, convenience, quality, competitiveness and consumer appeal of the categories<br>• Expand growing categories – Broth and Single-Serve Fruit snacks in alternative packaging formats |

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| Goodwill (Continued) | | • Market and customer diversification: increased penetration of high-growth channels, foodservice and e-commerce<br>• Reinforce consumption-driven marketing strategies such as consumer advertising<br>• Improved cash flow in the US, which accounts for approximately 75% of Group sales<br>• Expected cost savings from selling, general and administrative expense reduction initiatives, managing working capital, production levels and capital spending, productivity enhancements and operational efficiencies |
| Trade Spending | In the US, a large portion of sales expense is for trade promotion activities. Management of trade promotion activity is important. | • In the US, the Group will explore various programmes and tools to better manage trade promotion<br>• The Group will leverage the SAP software to address these challenges |
| Financial Leverage | The Group has long-term acquisition financing resulting in a leveraged balance sheet.<br><br>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$200 million Preference Shares in the Philippines in April with a coupon rate of 6.625% p.a.<br>• Net proceeds were used to partly refinance the US$350 million loan which was extended until February 2019<br>• Remaining balance of US$ 150 million of Preference Shares are issuable within 3 years<br>• The Group previously raised approximately US$150 million in March 2015 from the Rights Issue in Singapore and the Philippines, and used the proceeds to partially pay down the acquisition bridge financing<br>• The Group also expects to meet its financial obligation by generating more cash flows through the following:<br>  – Improved cash flows in the US, which accounts for approximately 75% of Group sales<br>  – Expected cost savings from selling, general and administrative expense reduction initiatives, managing working capital, production levels, productivity enhancements and operational efficiencies<br>  – Expected sales and profit growth in the Asian business with the continuous expansion of the *S&W* brand in Asia and the Middle East both in packaged and fresh products, and growth of the Philippine business through its market leadership position<br>• The Group manages its interest rate risk by swapping variable with fixed interest rates<br>  – The majority of the term acquisition loans in the USA have already been swapped to fixed rates in February 2014, which took effect beginning February 2016 until 2021 |
| Talent Management | The Group's capability to acquire and retain talent has an impact on the execution of the strategic plan. | • Employee engagement is one of the strategies used to attract and retain talent by the Group<br>• In the Philippines, we continue to monitor new legislations that affect labour and operations, and proactively develop strategies to reduce the impact of these regulations |

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| ERP/SAP Optimisation in USA | In January 2015, the Group implemented a new Enterprise Resource Planning system, SAP, in the US and outsourced its finance and accounting functions to a reputable global service provider in the Philippines.<br><br>Given the new systems and processes involved, there are risks to timely and accurate processing of documents, monitoring of expenditures, along with the change of service provider and decision-making associated with the steady flow of detailed quality information. | • The Group has transitioned to a new global service provider for finance and accounting<br>• The Group is managing the transition by retaining existing staff in its back office for a certain period, managing knowledge transfer to key members of the new staff, and solid training for all staff involved<br>• Refocus IT support to effectively manage the project implementation which includes prioritising SAP enhancements and alignment of key business processes with functional groups<br>• SAP enhancements were prioritised by management and a number of projects are underway |
| Tax | The Group may be exposed to additional losses from write-offs of deferred tax credits and impairment of goodwill should our operations in the US continue to incur losses.<br><br>The Group may lose certain tax incentives should it fail to comply with the conditions for the tax incentive. | • Proper execution of the Group's strategic and annual operating plan to meet its projected income in the US<br>• Implement measures to comply with conditions related to the tax incentive<br>• Ensure the Group's compliance with rules and regulations |
| 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 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, without limitation, environmental regulations. | • The Group develops and executes a long-term strategic plan and annual operating plan, supported by a business continuity plan, risk management and a corporate sustainability programme<br>• It also pursues productivity-enhancing and efficiency-generating work practices and capital projects<br>• To manage security risks in its operating units in the Philippines, the Group has strengthened security measures and improved its stakeholder relations in the communities where it operates |
| Environmental Risks | Production output is subject to certain risk factors relating to weather conditions, catastrophes, crop yields, contract growers and service providers' performance, and leasehold arrangements. | • The Group develops and executes a long-term strategic plan and annual operating plan, supported by a contingency plan and risk management measures<br>• The Group also has in place disaster recovery plans and business continuity plans to mitigate these incidents, and has implemented programmes and initiatives to mitigate the effects of El Nĩno and La Niña<br>• The Group has Global Agricultural Practices (GAP) certifications, and complies with proven agricultural practices |

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| Environmental Risks (Continued) | 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.<br><br>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.<br><br>During the fiscal period, the Group experienced the end of El Nĩno and the start of La Niña weather phenomenon in certain areas of its operation. This affected crop yield.<br><br>The drought in California has had an effect on fruit trees such as peaches, affecting quality, volume and pricing which could reduce consumer demand. The drought in southern Philippines impacted the pineapple supply in the first semester. | • The Group is exploring sourcing peaches from foreign sources<br>• Higher peach product costs are expected to be offset by lower costs from productivity enhancements and operational efficiencies<br>• To minimise water risks, the Group needs to:<br>– Invest in technologies to improve water conservation and encourage the business culture of saving water<br>– Reuse and/or recycle water in operations as many times as possible before discharging to grey water<br>– Improve the quality of grey water discharges using source point pollution control and new raw product processing methods that discharge less pollutants of concern<br>– Work with growers to encourage the use of more water-efficient irrigation systems and techniques<br>• 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<br>• The Group also works with insurance brokers to assess the risk exposure and secure adequate insurance coverage, if cost effective |
| Cyber Security | The increasing global incidence of cyber-attacks on Company servers and websites demonstrates the need to strengthen and improve security of the Group's systems.<br><br>Cyber-attacks 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 measures to counter and eliminate cyber-attacks from outside sources:<br>– Adopt industry best practice to strengthen network security such as updating security patches to the system and encrypting workstations<br>– Design and implement security control at each local site<br>• 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<br>• Assets are generally insured at current replacement values<br>• Additions during the current year are automatically included with provision for inflation protection<br>• 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 |