

# RISK MANAGEMENT

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The Del Monte Pacific Group has an established enterprise-wide risk management framework that sets out the governance structure to proactively manage risks, including financial, operational, information technology, compliance and sustainability risks in all levels of the organization, and mitigate the potential impact on people, the environment, corporate performance and reputation.

The framework provides the following considerations for the Board with respect to its risk oversight responsibilities: strategy and goal setting, performance and value creation, governance and policies, culture and practices, communication and reporting.

The Board, with the assistance of the Audit and Risk Committee (ARC), is responsible for the risk governance of the Group. The Board reviews the adequacy and effectiveness of the Group's risk management and internal controls system to safeguard shareholders' interest and the Group's assets. Internal controls are discussed under Principle 9, while the terms of reference of the ARC are outlined under Principle 10 of the Corporate Governance section of the Annual Report.

The Board reviews the principal risks as well as emerging risks. Based on their potential impact and probability, the top risks are mapped and categorized as critical, urgent or pre-emptive and are reviewed accordingly.

The assessment of risks includes actions taken to date and further action to mitigate the risks based on objectives, goals, strategies and measures, management responsible,

timeline, an estimate of the potential impact, and an evaluation of whether the risks are rising or declining.

Risk assessment and mitigation are aligned with strategy and form an integral part of the annual planning and budgeting process. Risks are identified and managed to reduce the uncertainty associated with executing business strategies and to maximize opportunities that may arise. The Board believes that risk management provides the framework for management to assess risk and embrace a mindset of resilience.

## RISK APPETITE

The risk appetite framework ensures that the Group's risk profile remains within tolerable boundaries as it maximizes opportunities. The risk appetite sets out the nature and extent of risks the Group is willing to take and capable to manage as it seeks to achieve its strategic and business objectives.

- The Group is committed to delivering value to our shareholders through sustainable growth
- Markets where it has brand ownership and competitive advantage are the main focus expansion

- Innovation initiatives and new investments are in line with the Group's vision and strategic objectives
- Due diligence is undertaken for new investments to prevent potential losses that may have a significant impact
- Market, operational and technological risks are minimized
- Actions that may negatively affect reputation and brand image are avoided
- Compliance with laws and regulations, including those with respect to health and safety of people, the environment and good corporate governance, is a core principle
- Shareholder value creation is pursued while financial prudence is exercised

The risk appetite framework recognizes the importance of balancing risks and rewards to achieve the optimal level of risk that the Group can tolerate in its pursuit of its strategic, business and sustainability objectives.

The following are the principal risks and mitigation measures of the Group.

		PROBABILITY		
		Low	Medium	High
IMPACT	High	Urgent	Critical	Critical
	Medium	Pre-emptive	Urgent	Critical
	Low	Pre-emptive	Pre-emptive	Urgent

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Principal Risk	Specific Risk We Face	Mitigation
<b>Cost Increases and Inflationary Pressures</b>	The Del Monte Pacific Group's subsidiaries are experiencing cost increases on raw materials, packaging and other inputs, including tin plate, fuel and labor. Inflation, geo-political conflict, the pandemic and supply chain challenges put pressure on the company's margins.	<ul style="list-style-type: none"> <li>• Cost reduction initiatives, productivity improvements and price adjustment</li> <li>• Socialize inflationary cost increases with customers and private labels to mitigate the risk on price actions to address inflation</li> <li>• Expand plant direct shipment to minimize freight cost and explore giving incentives for customers who can pick-up their orders</li> <li>• Expand the global sourcing strategy focusing on fruits</li> <li>• Collaborate value engineering initiatives with cross-functional teams</li> <li>• Renegotiate supplier contracts, vendor bidding and contracts by collaborating with a cross functional team and prioritize strategic sourcing</li> <li>• Rationalize trade spending where gross margins are not in accordance with strategy</li> <li>• Reduce conversion cost by 3% year-on-year</li> <li>• Fast-track base weight reduction through down gauge and downsize, and carton optimization</li> <li>• Minimize increases in overhead spending</li> </ul>
<b>Workforce Management – Labor Shortage</b>	<p>In the U.S., seasonal labor is scarce and the minimum wage is high, especially in California and Washington State. Capabilities and skills need to be sustainable. Wages including overtime and training cost increases need to be addressed.</p> <p>Challenges abound in locating, retraining and managing seasonal labor.</p>	<ul style="list-style-type: none"> <li>• Implement people strategy in the supply chain to address recruitment, retention, training and development, and identify areas to minimize reliance on seasonal workforce</li> <li>• Ensure labor availability during pack season by improving the workforce plan and measure achievement by monitoring seasonal labor metrics</li> <li>• Shift to year-round labor and centers of excellence to minimize overall labor</li> <li>• Address cost inefficiencies through labor contract negotiation and management, and improve Human Resources systems to monitor costs and compliance</li> <li>• Ensure labor standards and processes are at par with competitors to address inefficiencies and waste</li> <li>• Automate work processes to reduce dependence on seasonal labor</li> <li>• Roll out standardized work and visual factory methodologies to reduce inconsistencies</li> </ul>

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<b>Supply Chain Optimization and Excellence</b>	<p>The Group entered into supply agreements with third-party co-manufacturers which are subject to a number of regulations.</p> <p>Unanticipated and unbudgeted cost increases on material, labor factory overheads, transportation, raw produce and tin plate cost exacerbate the risks.</p> <p>Lower cost may not be realized due to organization culture, resources and capabilities of co-manufacturers.</p>	<ul style="list-style-type: none"> <li>Put in place new plant management with strong leadership and transformation skills in most locations</li> <li>Implement a robust transformation program that instills ownership and accountability across the supply chain and support function to deliver the plans</li> <li>Standardize and simplify processes and procedures where appropriate, and embed new processes and procedures to control supply and costs</li> <li>Seek strategic partnerships with co-manufacturers to maximize production, introduce new capabilities, increase speed to market and find less seasonal options</li> <li>Improve planning, forecasting and communication with Demand Planning and Sales to ensure products are at the distribution centers to meet customer demand</li> <li>Optimize transportation rates through third parties</li> <li>Maximize rail transportation to realize savings</li> <li>Monitor inventory issues on quality, aging, slow moving and damaged products regularly to proactively provide solutions through the Waste Task Force</li> <li>Conduct regular contract review to seek cost saving opportunities and assess creative ways to ensure labor availability during the pack season</li> <li>Put in place a process with clear performance expectations and targets, and benchmarking per plant</li> </ul>
<b>Market Trends and Commercial Excellence</b>	<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>Volume loss due to price increases, reduced promotional and marketing activities, category growth assumptions, acceptance of new products, private labels, customer service and execution are market challenges the Group needs to hurdle to deliver the objectives.</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>Trade promotion activity is still significant and requires proactive monitoring and analysis.</p>	<ul style="list-style-type: none"> <li>Monitor and manage price gaps</li> <li>Increase trade funding to reinstate price gaps by monitoring competitive price points</li> <li>Adjust customer price brackets to cover transportation cost based on weight and semi-annual analysis</li> <li>Enhance sales processes to improve forecasting and a new profit mindset to increase gross margin</li> <li>Enhance relevance of existing portfolio and brands through consumer communication and marketing strategy</li> <li>Identify categories and products that perform well</li> <li>Improve new products forecast accuracy from added knowledge from customers, velocities and marketing support needed</li> <li>Implement brand rationalization to improve profitability and increase market share</li> <li>Limit private labels to select strategic customers only in areas of excess capacity</li> <li>Establish new capabilities to expand the Group's presence in growing channels such as e-commerce through online retail sites</li> <li>Implement a quarterly customer business review with executive management to address challenges</li> <li>Minimize customer service issues</li> <li>Monitor market trends and vaccine distribution leading to reopening of schools, offices and food service businesses</li> <li>Drive distribution in new channels</li> <li>Build Latin America customer base by expanding distribution to all channels and countries, and improve profitability</li> </ul>

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<b>Effective Systems and Automation</b>	<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>New systems and systems enhancements are complex and resource intensive. Inability to realize return on investment on these new systems and system enhancements, security upgrades and management processes may hamper the Group's digitization and transformation.</p>	<ul style="list-style-type: none"> <li>• Build and stabilize a high performance Information Technology organization and assess systems, processes, risks, and develop people resources</li> <li>• Initiate an IT Steering Committee to provide oversight</li> <li>• Establish IT Governance to rationalize and prioritize systems enhancements and project demand funnel to focus on business value, protect the overall IT environment, and simplify and harmonize business processes</li> <li>• Implement digitization and transformation Initiatives and priorities: <ul style="list-style-type: none"> <li>– Warehouse Management System with harmonized business processes and integrated with SAP</li> <li>– Procurement report analysis</li> <li>– One planning solution for sales and promotion planning, supply and demand planning</li> <li>– Toll manufacturing process</li> <li>– Production grower payments</li> <li>– Quality documents</li> <li>– Maintenance management</li> <li>– Digital asset management upgrade</li> </ul> </li> <li>• SAP 2.0 implementation to address key activities within the Supply Chain: <ul style="list-style-type: none"> <li>– Improve fill rate between plants and distribution centers, reduce supply chain cost and manual effort in deployment</li> <li>– Establish new supply chain metrics on safety stocks, reorder points and logistics</li> <li>– Reduce inventory costs and waste</li> <li>– Synchronize planning between production and supply planning</li> <li>– Enable asset light business strategy</li> </ul> </li> <li>• The Group develops and implements the following measures to counter and eliminate cyberattacks from outside sources: <ul style="list-style-type: none"> <li>– Use of software protection across all Del Monte regions</li> <li>– Implement a dedicated Security Incident Monitoring and Operations group to address and monitor malicious activities identified by our system and vulnerability scans</li> <li>– Security Information and Event monitoring</li> <li>– Enhance firewalls at every site to protect traffic logs which are sent to our system for monitoring</li> </ul> </li> <li>• Routine employee Security and Privacy training</li> </ul>
<b>Talent and Culture</b>	<p>The Group's capability to recruit and retain diverse talents have an impact on the execution of the strategic plan and critical in enhancing organization success.</p> <p>Organizational changes can cause employee fatigue, increase workload and job uncertainty.</p>	<ul style="list-style-type: none"> <li>• Recruit and retain talents who can execute corporate strategies: <ul style="list-style-type: none"> <li>– Rally behind the New Employee Value Proposition through all internal and external channels</li> <li>– Rebrand DMFI Careers Website as well as Talent Network to generate candidate pipelines</li> <li>– Improve recruitment and retention metrics</li> </ul> </li> <li>• Continue the positive momentum on corporate inclusion and diversity</li> <li>• Assess the risk of the global Great Resignation phenomenon to the Group</li> <li>• New employee onboarding and training and development programs.</li> </ul>

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<b>Product Supply</b>	<p>Insufficient product inventory to meet consumer demand may affect the Group's revenue and profitability.</p> <p>Permanent loss of shelf space and non-acceptance of new products are possible consequences.</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"> <li>• Improve supply planning capability to match demand</li> <li>• Reduce promotional spend and increase weeks supply to targeted levels</li> <li>• Pack early season green bean products</li> <li>• Supplement fresh pack supplies of certain vegetables with Individually Quick Frozen (IQF) – peas, peas and carrots, cream corn and whole kernel corn</li> <li>• Develop alternate raw product sourcing and implement a global sourcing strategy</li> <li>• Extend the growing season to improve plant capacity and utilization</li> <li>• Identify alert fields</li> <li>• Intensify soil conservation measures</li> <li>• Convert the plantation to 50% big planting materials in five years</li> <li>• Sustain better root health thru better pest and plant disease management</li> <li>• Install grubs traps and fast-track alternative safe chemicals to control pest and disease</li> </ul>
<b>Effective Third Party Risk Management</b>	<p>DMFI has strategic relationships with a number of key third parties. The frequency and scale of use by the company raises 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> <p>The Group may not have the tools, guidance and time to effectively manage and monitor third-party risks. Current monitoring, risk assessment and communication may not be effective to elevate third-party risks to the leadership.</p>	<ul style="list-style-type: none"> <li>• Ensure secondary or back-up suppliers are in place or pursued where business continuity or relationship risks have a material impact to the Group</li> <li>• Negotiate a win-win approach for long-term relationship</li> <li>• Conduct regular contract review to seek cost savings</li> <li>• Perform a risk assessment of key strategic partners and communicate the risks and action plans</li> <li>• Implement a robust due diligence process for new or significant third parties</li> <li>• Consider a third party due diligence vendor for broader and deeper due diligence process</li> <li>• Conduct quarterly business reviews with clear key performance indicators addressing our priorities</li> <li>• Implement regular benchmarking to measure competitiveness</li> </ul>
<b>Efficient and Effective Processes</b>	<p>Efficient and effective processes ensure the Group makes sound business decisions, overcomes challenges and disruptions and sustains its growth and profitability.</p> <p>Certain processes may be inconsistent and/or not optimized. This could lead to poor business decisions on cost, regulatory compliance and business interruptions.</p>	<ul style="list-style-type: none"> <li>• Effective and energized leaders were put in place in Sales, Operations, Information Technology, Finance and plant management to drive results and improvements</li> <li>• Implement a more rigorous review process along with performance rating alignment to incentivize and reward results</li> <li>• Include cost reduction and improvement initiatives in employees' key objectives</li> <li>• Fix the basics, enhance process improvements and include functional goals in several departments</li> <li>• Use Information Technology and SAP functionality to drive process improvements</li> <li>• Reduce variations through a revised packaging strategy and assessment to eliminate complexity and waste</li> </ul>

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<b>Operations</b>	<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>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Enhance relevance of existing products across key brands and segments through marketing strategy and consumer communication</li> <li>• Implement price adjustments to cover cost inflation</li> <li>• Optimize packing operations, procurement, logistics and transportation cost</li> <li>• Pursue productivity-enhancing and efficiency-generating work practices and capital projects</li> <li>• 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</li> <li>• Manage security risks in operating units by strengthening security measures and improving stakeholder relations in local communities</li> </ul>
<b>Environmental Risks</b>	<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"> <li>• The Group develops and executes a long-term strategic plan and Annual Operating Plan, supported by risk mitigation measures</li> <li>• The Group also has disaster recovery plans and a Business Continuity Plan in place and has implemented programs and initiatives to mitigate the effects of climate change</li> <li>• The Group has Good Agricultural Practices certifications and complies with agricultural standards</li> <li>• Execute soil conservation initiatives and work on achieving Rainforest Alliance certification</li> <li>• Increase renewable energy sources by implementing solar power</li> <li>• Develop a strategic plan to address possible changes in regulations on sustainable packaging</li> <li>• Implement phase-out program for hazardous materials through replacement with alternative materials</li> <li>• Conduct safety training drills and chemical handling training which covers earthquake, firefighting, evacuation, medical response and chemical response drills</li> <li>• Work with insurance brokers to assess the risk exposure and secure adequate insurance coverage, if cost effective</li> <li>• Monitor and reduce carbon emissions</li> </ul>
<b>Innovation</b>	<p>The Group's branded business in the US, the Philippines and the Indian subcontinent through the Del Monte and other brands, and in Asia and the Middle East through the S&amp;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 achieve the Group's strategic plan.</p>	<ul style="list-style-type: none"> <li>• Develop new products that capitalize on category trends, especially health and wellness, and generate sales</li> <li>• 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"> <li>– Shift to branded, value-added and packaged products and limit private label business</li> <li>– Leverage brand heritage for growth and position new products that address consumer needs and preferences</li> <li>– Fast track innovation projects that have oversight from the Executive Leadership Team</li> <li>– Prioritize effective execution and project management to improve margins, profitability and cash flow</li> </ul> </li> </ul>

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<p><b>COVID-19 Pandemic</b></p>	<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 poses 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"> <li>• Capitalize on the Group's offering of health, wellness and nutrition, and long-shelf life culinary products suitable for home consumption as consumers stay at home and prepare more meals and snacks</li> <li>• Leverage improved momentum of new products catering to health and wellness</li> <li>• Leverage the trust in the Group brands' reputation for safety and reliability to sustain demand</li> <li>• Marketing, including digital campaigns, highlighting the functional health benefits of the Group's products</li> <li>• Foodservice take-out business apart from dine-in</li> <li>• Increase sales in e-commerce channel and direct to customer deliveries</li> <li>• Implement safeguards and protocols to minimize operational disruption, while adhering to government regulations on health and safety: <ul style="list-style-type: none"> <li>– Implement guidelines of global and national health agencies, including the Department of Health, Department of Labor and Employment and Inter-Agency Task Force to protect our employees</li> <li>– Increase the Company's booster vaccination roll-out</li> <li>– Use personal protective equipment such as face masks and sanitizers provided by the company to employees; conduct temperature checks, maintain physical distancing, disinfect facilities, encourage frequent hand washing and other safety protocols</li> <li>– Partner with third party medical providers to test if employees are infected</li> <li>– 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</li> <li>– Leverage the use of videoconferencing technology</li> </ul> </li> </ul>