

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 of the organisation.

Risk management is a regular board agenda item.

Principal risk	Specific risk we face	Risk mitigation
Financial Leverage	<p>The Group has long-term acquisition financing 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 raised approximately US\$150 million in March 2015 from the oversubscribed Rights Issue in Singapore and the Philippines, and used the proceeds to partially pay down the acquisition bridge financing • US\$350 million of bridge financing had been extended for two years to February 2017 • The Group plans to launch a preferred share offering of up to US\$350 million in the Philippines, subject to regulatory and market conditions, which would refinance the bridge financing • The Group also expects to meet its financial obligation by generating more cash flows through the following: <ul style="list-style-type: none"> – Expected sales and profit growth in the US, which accounts for approximately 80% of Group sales, by strengthening the core business and expanding the product portfolio and markets – 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 – Expected cost savings from selling, general and administrative expense reduction initiatives, managing working capital, production levels and capital spending, productivity enhancements and operational efficiencies • The Group manages its interest rate risk by swapping variable with fixed interest rates <ul style="list-style-type: none"> – The majority of the term acquisition loans in the USA have already been swapped to fixed rates in February 2014 – The swap rates became effective beginning February 2016
New ERP system in USA	<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> • The Group is in the process of transitioning to a new global service provider for finance and accounting • The Group will manage 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 with SAP • Refocus IT support to effectively manage the project implementation which includes prioritising SAP enhancements and alignment of key business processes with functional groups • Transition plan in place

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Branded and Non-Branded Business	<p>The Group's branded business in the USA, the Philippines and the Indian subcontinent through <i>Del Monte</i>, and in Asia and the Middle East through S&W, is affected by a number of factors, including, but not limited to, competition, product innovation and acceptance of new products, industry trends, distribution expansion, penetration and business partners' risks.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> • Strengthen the core business and expand the product portfolio and markets • Shift to branded value-added, packaged products with emphasis on innovation, health and wellness, convenience, quality, competitiveness and consumer appeal of the categories • Reinforce consumption-driven marketing strategies such as consumer advertising • Focus resources on growing categories – Broth and Single-serve Fruit snacks • Market and customer diversification: increased penetration of high-growth channels such as foodservice and e-commerce • Building on closer working relationships with trade partners • The Group is reassessing its non-branded business in its long-term strategic plan
Compliance with Regulatory Changes	<p>Changes in legislation and government regulations affect the Group's business, including food safety, labelling, labour and environmental matters.</p>	<ul style="list-style-type: none"> • The Group has a compliance programme in place that aims to monitor and ensure the Group's compliance with laws and regulations to manage any risks related to regulatory developments • Our US business is converting to BPA free cans for our branded and non-branded fruit, vegetable and tomatoes • Compliance is a regular board agenda item
Operations Integration in the United States	<p>Acquisition of Sager Creek resulted in excess capacity and labour, breakdown of production equipment and different manufacturing operations.</p>	<ul style="list-style-type: none"> • Standardisation of all US manufacturing operations • SAP implementation at Sager Creek's Arkansas plant and monitoring of inventory balances • Closure of Sager Creek's North Carolina manufacturing facility in FY2016, in addition to the closure of the Wisconsin plant of Sager Creek a year earlier; Consolidation of production capacity in other plants
Trade Concentration	<p>A relatively limited number of customers account for a large percentage of the Group's total sales.</p> <p>In FY2016, DMFI's top customer accounted for more than 20% of Group sales.</p>	<ul style="list-style-type: none"> • Leverage market leadership position in packaged Vegetable, Fruit and Tomato and growing categories – Broth and Fruit Cups • The Group has a dedicated sales team in the US and Asia to service these major accounts and maximise growth opportunities • Diversify customers and channels, including foodservice and e-commerce

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Environmental Risks	<p>Production output is subject to certain risk factors relating to weather conditions, catastrophes, crop yields, contract growers and service providers' performance, and leasehold arrangements.</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 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.</p> <p>During the fiscal period, the Group experienced the El Niño weather phenomenon in certain areas of its operation. This affected crop yield.</p> <p>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.</p>	<ul style="list-style-type: none"> • The Group develops and executes a long-term strategic plan and annual operating plan, supported by a contingency plan and risk management measures • 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 Niño • The Group also works with insurance brokers to assess the risk exposure and secure adequate insurance coverage, if cost effective • The Group has Global Agricultural Practices (GAP) certifications, and complies with proven agricultural practices • The Group is exploring sourcing peaches from foreign sources <ul style="list-style-type: none"> – Higher peach product costs are expected to be offset by lower costs from productivity enhancements and operational efficiencies • To minimise water risks, the Group needs to: <ul style="list-style-type: none"> – Invest in technologies to improve water conservation and encourage the business culture of saving water – Reuse and/or recycle water in operations as many times as possible before discharging to grey water – Improve the quality of grey water discharges using source point pollution control and new raw product processing methods that discharge less pollutants of concern – Work with growers to encourage the use of more water-efficient irrigation systems and techniques • 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 • Long-term land leases with staggered expiry terms are also secured
Trademark Use and Intellectual Property Rights	<p>While the Group holds the <i>Del Monte</i> trademark rights for packaged food products in the USA, South America, Philippines, the Indian subcontinent and Myanmar, the <i>Del Monte</i> trademark is licensed to other companies that are independent of the Group.</p> <p>Acts or omissions by any of such companies or any of the licensees of the <i>Del Monte</i> trademark may adversely affect the value of the <i>Del Monte</i> trademark and demand for the Group's products.</p>	<ul style="list-style-type: none"> • The Group relies on trademark, trade secret, patent and other intellectual property laws, as well as non-disclosure and confidentiality agreements and other methods, to protect its proprietary information, technologies and processes • However, the Group may also be subject to intellectual property infringement or violation claims

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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.	<ul style="list-style-type: none"> • The Group develops and implements measures to counter and eliminate cyber attacks from outside sources • 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.	<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
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.	<ul style="list-style-type: none"> • 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 • It also pursues productivity-enhancing and efficiency-generating work practices and capital projects • 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
Product Recall and Litigation	<p>The Group may be exposed to product recall, including voluntary recalls or withdrawals, and adverse public relations if the Group's products are alleged to cause injury or illness, or if the Group is alleged to have mislabeled or misbranded its products or otherwise violated governmental regulations.</p> <p>The Group may also voluntarily recall or withdraw products that the Group considers below standards, whether for taste, appearance or otherwise, in order to protect its brand reputation.</p>	<ul style="list-style-type: none"> • The Group has in place a robust Quality Management and Food Safety System that is designed to meet high global standards in product quality, food safety, hygiene and service • Manufacturing programmes have been established to identify and control hazards that impact on food safety and product quality <ul style="list-style-type: none"> – These programmes' effectiveness is periodically verified by various third-party certification bodies following well established and accepted quality systems and standards such as ISO 9001:2008, GMP, HACCP, GLP, GAP, BRC, IFS, GFSI and FSSC • The Group has established a system to effectively manage incidents that may require immediate action to protect its brands, including procedures to manage emergency situations that may impact consumer safety, product quality or regulatory compliance • The Group maintains Accidental Contamination, Recall and Adverse Publicity coverage • In the event that a product withdrawal or recall is activated, a well documented traceability procedure is initiated <ul style="list-style-type: none"> – A complete identification of production lots from all raw and packaging materials used up to distribution is accomplished within eight hours – Effectiveness of these procedures is tested by a periodic conduct of mock recalls