

FRESH DEL MONTE PRODUCE INC
Form 10-K
February 23, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 1, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 1-14706

FRESH DEL MONTE PRODUCE INC.
(Exact Name of Registrant as Specified in Its Charter)

The Cayman Islands (State or Other Jurisdiction of Incorporation or Organization)	N/A (I.R.S Employer Identification No.)
c/o Intertrust SPV (Cayman) Limited 190 Elgin Avenue George Town, Grand Cayman, KY1-9001 Cayman Islands	N/A
(Address of Registrant's Principal Executive Offices)	(Zip Code)
(305) 520-8400 (Registrant's telephone number including area code)	

Please send copies of notices and communications from the Securities and Exchange Commission to:

c/o Del Monte Fresh Produce Company
241 Sevilla Avenue
Coral Gables, Florida 33134
(Address of Registrant's U.S. Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

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Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares, par value \$0.01 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of Ordinary Shares held by non-affiliates at June 26, 2015, the last business day of the registrant's most recently completed second quarter, and was \$1,328,520,199 based on the number of shares held by non-affiliates of the registrant and the reported closing price of Ordinary Shares on June 26, 2015 of \$39.49.

As of February 12, 2016, there were 51,387,300 ordinary shares of Fresh Del Monte Produce Inc. issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the 2015 Annual General Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year are incorporated by reference in Part III of this report.

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Forward-Looking Statements

In this Annual Report (the “Report”), references to “\$” and “dollars” are to United States dollars. References in this Report to “Fresh Del Monte”, “we”, “our” and “us” refer to Fresh Del Monte Produce Inc. and its subsidiaries, unless the context indicates otherwise. Percentages and certain amounts contained herein have been rounded for ease of presentation. Any discrepancies in any table between totals and the sums of amounts listed are due to rounding. As used herein, references to our results for 2013, 2014 and 2015 or for the years ended 2013, 2014 and 2015 are to fiscal years ended December 27, 2013, December 26, 2014 and January 1, 2016, respectively.

This Report, information included in future filings by us and information contained in written material, press releases and oral statements, issued by or on behalf of us contains, or may contain, statements that constitute forward-looking statements in particular, information in Item 1. Business and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Trend Information, contained in this Report. In this Report, these statements appear in a number of places and include statements regarding the intent, beliefs or current expectations of us or our officers (including statements preceded by, followed by or that include the words “believes”, “expects”, “anticipates” or similar expressions) with respect to various matters, including our plans and future performance. These forward-looking statements involve risks and uncertainties. Fresh Del Monte’s actual plans and performance may differ materially from those in the forward-looking statements as a result of various factors, including (i) the uncertain global economic environment and the timing and strength of a recovery in the markets we serve, and the extent to which adverse economic conditions continue to affect our sales volume and results, including our ability to command premium prices for certain of our principal products, or increase competitive pressures within the industry, (ii) the impact of governmental initiatives in the United States and abroad to spur economic activity, including the effects of significant government monetary or other market interventions on inflation, price controls and foreign exchange rates, (iii) the impact of governmental trade restrictions, including adverse governmental regulation that may impact our ability to access certain markets, (iv) our anticipated cash needs in light of our liquidity, (v) the continued ability of our distributors and suppliers to have access to sufficient liquidity to fund their operations, (vi) trends and other factors affecting our financial condition or results of operations from period to period, including changes in product mix or consumer demand for branded products such as ours, particularly as consumers remain price-conscious in the current economic environment; anticipated price and expense levels; the impact of crop disease, severe weather conditions, such as flooding, or natural disasters, such as earthquakes, on crop quality and yields and on our ability to grow, procure or export our products; the impact of prices for petroleum-based products and packaging materials; and the availability of sufficient labor during peak growing and harvesting seasons, (vii) the impact of pricing and other actions by our competitors, particularly during periods of low consumer confidence and spending levels, (viii) the impact of foreign currency fluctuations, (ix) our plans for expansion of our business (including through acquisitions) and cost savings, (x) our ability to successfully integrate acquisitions into our operations, (xi) the impact of impairment or other charges associated with exit activities, crop or facility damage or otherwise, (xii) the timing and cost of resolution of pending and future legal and environmental proceedings or investigations, (xiii) the impact of changes in tax accounting or tax laws (or interpretations thereof), and the impact of settlements of adjustments proposed by the Internal Revenue Service or other taxing authorities in connection with our tax audits, and (xiv) the cost and other implications of changes in regulations applicable to our business, including potential legislative or regulatory initiatives in the United States or elsewhere directed at mitigating the effects of climate change. All forward-looking statements in this report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements.

The forward-looking statements are not guarantees of future performance and involve risks and uncertainties. It is important to note that our actual results may differ materially from those in the forward-looking statements as a result of various factors. The accompanying information contained in this Report, identifies important factors that could cause our actual results to differ materially from those in the forward-looking statements.

The volume data included in this Report has been obtained from our records. Except for volume data for Fresh Del Monte, the market share, volume and consumption data contained in this Report have been compiled by us based upon data and other information obtained from third-party sources, primarily from the Food and Agriculture Organization of the United Nations (the "FAO"), and from our surveys of customers and other company-compiled data. Except as otherwise indicated, volume data contained in this Report is shown in millions of 40-pound equivalent boxes.

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PART I

Item 1. Business

History and Development of Fresh Del Monte

Our legal name is Fresh Del Monte Produce Inc., and our commercial name is Del Monte Fresh Produce. We are an exempted holding company, incorporated under the laws of the Cayman Islands on August 29, 1996. At January 1, 2016, the close of our most recent fiscal year, members of the Abu-Ghazaleh family directly owned approximately 35.9% of our outstanding Ordinary Shares.

Our principal executive office is located at 190 Elgin Avenue, George Town, Grand Cayman, KY1-9001, Cayman Islands. The address of our U.S. executive office is Del Monte Fresh Produce Company, 241 Sevilla Avenue, Coral Gables, Florida 33134. Our telephone number at our U.S. executive office is (305) 520-8400. Our Internet address is <http://www.freshdelmonte.com>. The electronic version of this Annual Report on Form 10-K, along with other information about us, our operations and our results and other documents filed with the Securities and Exchange Commission (“SEC”) can be found on our Web site. Information on our Web site is not a part of this Report on Form 10-K.

Our global business, conducted through our subsidiaries, is primarily the worldwide sourcing, transportation and marketing of fresh and fresh-cut produce together with prepared food products in Europe, Africa and the Middle East. We source our fresh produce products (bananas, pineapples, melons, tomatoes, grapes, apples, pears, peaches, plums, nectarines, cherries, citrus, avocados, blueberries and kiwi) primarily from Central and South America, Africa, the Philippines, North America and Europe. We source our prepared food products primarily from Africa, Europe and the Middle East. Our products are sourced from company-owned operations, through joint venture arrangements and through supply contracts with independent producers. We distribute our products in North America, Europe, Asia, the Middle East, Africa and South America.

Our capital expenditures totaled \$131.6 million in 2015. Approximately \$59.1 million of our 2015 capital expenditures were related to the banana segment. Banana segment capital expenditures consisted primarily of approximately \$26.1 million for improvements and expansion of our production operations in Central America and approximately \$21.6 million for expansion of our production operations in the Philippines. The remainder of our banana segment capital expenditures of approximately \$11.4 million were principally for additional ripening room capacity and other improvements to our distribution centers in North America and Asia. Approximately \$46.6 million of our capital expenditures were related to the other fresh produce segment. This consisted principally of \$30.0 million for expansion and improvements to our fresh-cut fruit operations in North America, the Middle East and Asia and our production operations in Chile. Also, included in our capital expenditures related to the other fresh produce segment was \$16.6 million for improvements and expansion of our pineapple operations in Costa Rica and the Philippines. Approximately \$25.9 million of our capital expenditures in 2015 were related to the prepared food segment, consisting principally of \$13.5 million for improvements to production facilities in Kenya and Greece, \$6.9 million for a juice plant in Costa Rica and \$5.5 million for improvements to our production facilities in the Middle East. Included in the capital expenditures above were approximately \$5.5 million for information technology systems.

Our capital expenditures totaled \$149.1 million in 2014. Approximately \$75.8 million of our capital expenditures were related to the other fresh produce segment consisting principally of expansion of our tomato operations in the United States, a new fresh-cut fruit facility in Japan, and expansion and improvements to production facilities in Costa Rica, Chile, the Philippines and the Middle East. Approximately \$48.2 million of our 2014 capital expenditures were related to the banana segment, consisting primarily of expansion of our production operations in the Philippines, improvements and expansion of our production operations in Central America, and distribution centers in North

America and Europe. Approximately \$21.1 million of our capital expenditures in 2014 was related to the prepared food segment, consisting principally of expansion and improvements to production facilities in Kenya, Costa Rica, Jordan and Greece. Also, included in our capital expenditures in 2014 was approximately \$4.0 million for information technology systems.

The principal capital expenditures planned for 2016 consist primarily of the expansion and improvement of production facilities in Costa Rica, the Philippines, Kenya, Nicaragua, Mexico, Jordan, Saudi Arabia and Chile. In addition, we also plan capital expenditures for expansion and improvements of our distribution and fresh-cut facilities in the United States and South Korea.

Business Overview

We are one of the world's leading vertically integrated producers, marketers and distributors of high-quality fresh and fresh-cut fruit and vegetables, as well as a leading producer and distributor of prepared fruit and vegetables, juices, beverages and

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snacks in Europe, Africa and the Middle East. We market our products worldwide under the DEL MONTE® brand, a symbol of product innovation, quality, freshness and reliability since 1892. Our global sourcing and logistics network allows us to provide consistent delivery of high-quality fresh produce, juices, beverages, processed fruit and vegetables and value-added services to our customers.

We have leading market positions in the following product categories. We believe we are:

• the largest marketer of fresh pineapples worldwide;

• the third-largest marketer of bananas worldwide;

• a leading marketer of branded fresh-cut fruit in the United States, Japan, the United Kingdom, United Arab Emirates and Saudi Arabia;

• a leading grower, re-packer and marketer of tomatoes in the United States;

• a leading year-round marketer of branded grapes in the United States;

• a leading marketer of branded non-tropical fruit in selected markets; and

• a leading marketer for branded canned fruit in the European Union (EU), other European markets, and the Middle East.

We source and distribute our fresh produce products globally. Our products are grown primarily in Central and South America, Africa and the Philippines. We also source products from North America and Europe. Our products are sourced from company-controlled farms and independent growers. At year end 2015, we transported our fresh produce to markets using our fleet of 13 owned and six chartered refrigerated vessels, and we operated four port facilities in the United States. We also operated 39 distribution centers, generally with cold storage and banana ripening facilities in our key markets worldwide, including the United States, Japan, South Korea, the United Arab Emirates, Saudi Arabia, Hong Kong, Germany and France. We also operate 16 fresh-cut facilities in the United States, the United Kingdom, Japan, the United Arab Emirates and Saudi Arabia, some of which are located within our distribution centers. Through our vertically integrated network, we manage the transportation and distribution of our products in a continuous temperature-controlled environment. This enables us to preserve quality and freshness, and to optimize product shelf life, while ensuring timely and year-round distribution. Furthermore, our position as a volume producer and shipper of bananas allows us to lower our average per-box logistics cost and to provide regular deliveries of our premium fresh fruit to meet the increasing demand for year-round supply.

We market and distribute our products to retail stores, club stores, wholesalers, distributors and foodservice operators in more than 100 countries around the world. North America is our largest market, accounting for 55% of our net sales in 2015. Europe, the Middle East and Asia regions are our other major markets, accounting for 18%, 14% and 11% of our net sales in 2015, respectively. Our distribution centers and fresh-cut facilities address the growing demand from supermarket chains, club stores, foodservice providers, mass merchandisers and independent grocers to provide value-added services, including the preparation of fresh-cut produce, ripening, customized sorting and packing, just-in-time and direct-store-delivery and in-store merchandising and promotional support. Large national chains are increasingly choosing fewer suppliers who can serve all of their needs on a national basis. We believe that there is a significant opportunity for a company like ours with a full fresh and fresh-cut produce line, a well-recognized brand, a consistent supply of quality produce and a national distribution network to become the preferred supplier to these large retail and convenience store chains, and foodservice customers. We believe that we are uniquely positioned as a preferred supplier, and our goal is to expand this status by increasing our leading position in fresh-cut produce,

expanding our banana and pineapple business and diversifying our other fresh produce selections. We are a multinational company offering a variety of fresh produce in all major markets along with fresh-cut produce in selected markets and a prepared food product line that includes prepared fruit and vegetables, juices, beverages and snacks in Europe, Africa, the Middle East and countries formerly part of the Soviet Union.

Our strategy is a combination of maximizing revenues from our existing infrastructure, entering new markets and strict cost control initiatives. We plan to continue to capitalize on the growing global demand for fresh produce and expand our reach into existing and new markets. We expect sales growth of fresh produce in key markets by increasing our sales volume and per unit sales prices as permitted by market conditions. Our strategy includes increasing volumes from existing production and distribution facilities in order to improve operating efficiencies and reduce per unit costs. We plan additional investments in production facilities in order to expand our product offering in established markets and continue with our recent expansion in

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growth markets, such as the Middle East, Africa and countries formerly part of the Soviet Union. We also plan additional investments in our North America and Asia distribution and fresh-cut fruit facilities to support our planned growth in these markets.

Products Sourcing and Production

Our products are grown and sourced primarily in Central and South America, Africa and the Philippines. We also source products from North America and Europe. In 2015, 45% of the fresh produce we sold was grown on company-controlled farms and the remaining 55% was acquired primarily through supply contracts with independent growers. Costa Rica is our most significant sourcing location representing approximately 28% of our total sales volume of fresh produce products and where 40% of our property, plant and equipment was located in 2015.

We produce, source, distribute and market a broad array of fresh produce throughout the world, primarily under the DEL MONTE® brand, as well as under other proprietary brands, such as UTC® and Rosy®. We also produce, distribute and market prepared fruits and vegetables, juices, beverages and snacks under the DEL MONTE® brand, as well as other proprietary brands, such as Fruit Express™, Just Juice® and Fruitini® and other regional trademarks in Europe, Africa, the Middle East and countries formerly part of the Soviet Union.

The following table indicates our net sales by product for the last three years:

	Year ended								
	January 1, 2016			December 26, 2014			December 27, 2013		
	(U.S. dollars in millions)								
Net sales by product category:									
Banana	\$1,867.6	46	%	\$1,804.7	46	%	\$1,692.2	46	%
Other fresh produce:									
Gold pineapples	524.8	13	%	577.2	15	%	509.7	14	%
Fresh-cut produce	467.0	12	%	381.1	10	%	408.3	11	%
Non-tropical fruit	271.1	7	%	283.9	7	%	295.6	8	%
Avocados	174.8	4	%	130.0	3	%	98.9	3	%
Melons	122.9	3	%	126.8	3	%	115.6	3	%
Tomatoes	107.3	3	%	109.9	3	%	82.4	2	%
Vegetables	52.2	1	%	52.2	1	%	55.3	1	%
Other fruit, products and services	106.2	3	%	83.6	2	%	72.7	2	%
Total other fresh produce	1,826.3	45	%	1,744.7	44	%	1,638.5	44	%
Prepared food	362.6	9	%	378.1	10	%	353.0	10	%
Total	\$4,056.5	100	%	\$3,927.5	100	%	\$3,683.7	100	%

See Note 22, "Business Segment Data", to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for further information.

Bananas

Bananas are the leading internationally traded fresh fruit in terms of volume and dollar sales and one of the best-selling fresh fruit in the United States. Europe and North America are the world's largest banana markets and the Middle East has now surpassed Asia as the third largest market. According to the latest published statistics from the FAO, in 2013, Europe, North America, the Middle East and Asia consumed 20.2, 11.2, 4.7 and 3.2 billion pounds of bananas, respectively. Bananas are a key produce department product due to its high turnover and the premium

margins obtained by retailers.

Bananas have a relatively short growing cycle and are grown in tropical locations with humid climates and heavy rainfall, such as Central and South America, the Caribbean, the Philippines and Africa. Bananas are grown throughout the year in these locations, although demand and prices fluctuate based on the relative supply of bananas and the availability of seasonal and alternative fruit.

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We believe that we are the world's third-largest marketer of bananas, based on internally generated data. Our banana sales in North America, Europe, Asia and the Middle East accounted for approximately 50%, 20%, 17% and 13% of our net sales of bananas in 2015, respectively. We produced approximately 35% of the banana volume we sold in 2015 on company-controlled farms, and we purchased the remainder from independent growers.

Bananas are one of the best-selling fresh produce items, as well as a high-margin product for many of our customers. Accordingly, our ability to provide our customers with a year-round supply of high-quality DEL MONTE® bananas is important to maintaining our existing customer relationships and attracting new customers. Our position as a volume shipper of bananas has also allowed us to make regular shipments of a wide array of other fresh produce, such as pineapples, melons and plantains, reducing our average per-box logistics costs and maintaining higher quality produce with a longer shelf life.

We produce bananas on company-controlled farms in Costa Rica, Guatemala, Brazil and the Philippines and we purchase bananas from independent growers in Costa Rica, Ecuador, Colombia, Guatemala, Cameroon and the Philippines. Although our supply contracts are primarily long-term, we also make purchases in the spot market, primarily in Ecuador. In Ecuador and Costa Rica, there are minimum export prices for the sale of bananas, which are established and reviewed on a periodic basis by the respective governments.

Due in part to limitations in the Philippines on foreign ownership of land, we purchase the majority of bananas in the Philippines through long-term contracts with independent growers. Approximately 74% of our Philippine-sourced bananas are supplied by one grower, representing 14% of the Philippines banana industry volume in 2015. In the Philippines, we have leased approximately 4,900 hectares of land where we have planted approximately 3,400 hectares of bananas for the Asia and the Middle East markets.

Gold Pineapples

Pineapples are grown in tropical and sub-tropical locations, including the Philippines, Costa Rica, Hawaii, Thailand, Malaysia, Brazil, Indonesia and various countries in Africa. In contrast to bananas, pineapples have a long growing cycle of 18 months, and require re-cultivation after one to two harvests. Pineapple growing requires a higher level of capital investment, as well as greater agricultural expertise as compared to growing bananas.

The premium pineapples, such as our Del Monte Gold® Extra Sweet pineapple, which has an enhanced taste, golden shell color, bright yellow flesh and higher vitamin C content, has replaced the Champaka and other traditional pineapple varieties in popularity and demand and has led to increased competition.

We believe that we are the leading marketer of fresh pineapples worldwide, based on internally generated data. Pineapple sales in North America, Europe, Asia and the Middle East accounted for 63%, 18%, 13% and 6%, respectively, of our net sales of pineapples in 2015. From 1996 to 2015, our volume of the Del Monte Gold® Extra Sweet pineapple increased from 2.5 million boxes to 28.6 million boxes. Based on the latest available FAO data, for the 10-year period from 2003 to 2013, the volume of pineapple sales in Europe, North America, the Middle East and Asia increased by 96%, 104%, 823% and 70%, respectively. We believe that a substantial portion of this growth is due to our introduction of the Del Monte Gold® Extra Sweet pineapple. As a result of our continued expansion and improvements of our existing pineapple operations, we expect to continue to increase the sales volume of our extra sweet pineapples in the near future with extra sweet pineapples grown in Costa Rica and the Philippines.

The principal production and procurement areas for our gold pineapples are Costa Rica and the Philippines. Given the complexity of pineapple cultivation relative to our bananas, a higher percentage of the fresh pineapples we sell (84% by volume in 2015) is produced on company-controlled farms.

Fresh-Cut Produce

Fresh-cut produce first gained prominence in many U.S. and European markets with the introduction of washed and cut vegetables. While packaged salads continue to lead the category of fresh-cut produce sales, the category has expanded significantly to include pineapples, melons, mangos, grapes, citrus and assorted vegetable produce items that are washed, cut and packaged in a ready-to-use form. Market expansion has been driven largely by consumer demand for convenient, fresh, healthy and ready-to-eat food alternatives, as well as significant demand from foodservice operators. Within this market, we believe that there has been increasing differentiation between companies active primarily in the packaged salad market and other companies, like us, that can offer a wide variety of fresh-cut fruit and vegetable items.

The majority of fresh-cut produce is sold to consumers through retail and club store settings, as well as non-conventional settings such as convenience stores, gas stations and airports. We believe that outsourcing by food retailers will increase, particularly

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as food safety regulations become more stringent and retailers demand more value-added services. We believe that this trend should benefit large branded suppliers like us, who are better positioned to invest in state of the art fresh-cut facilities and food safety systems and to service regional and national chains and foodservice operators, as well as supercenters, mass merchandisers, club stores and convenience stores. We also believe that large branded suppliers benefit from merchandising, branding and other marketing strategies for fresh-cut products, similar to those used for branded processed food products, which depend substantially on product differentiation.

We believe that the fresh-cut produce market continues to be one of the fastest-growing categories in the fresh produce segment, largely due to consumer trends favoring healthy and conveniently packaged ready-to-eat foods. We established a platform in this industry through acquisitions and by building upon our existing fresh-cut pineapple business. We believe that our experience in this market coupled with our sourcing and logistics capabilities and the DEL MONTE® brand have enabled us to achieve a leading position in this highly fragmented market. We believe that we are the leading supplier of fresh-cut fruit to the supermarket, convenience and club store channels in the United States. Our fresh-cut fruit products include Del Monte Gold® Extra Sweet pineapples, melons, grapes, citrus, apples, mangos, kiwis and other fruit items. The fruit we use in our fresh-cut operations are sourced within our integrated system of company-controlled farms and from GAP-certified (good agricultural practices) independent growers. We also offer fresh-cut vegetables for prepared salads. We purchase our vegetables for these purposes from GAP-certified independent growers principally in the United States, Europe and in the Middle East. Our purchase contracts for both fruit and vegetables are typically short-term and vary by produce item. Our fresh-cut products are sold in the United States, Canada, the United Kingdom, the Middle East and Japan. Worldwide, our fresh-cut product sales volumes have increased by 21% during the past year.

Non-Tropical Fruit

Non-tropical fruit includes grapes, apples, pears, peaches, plums, nectarines, cherries, avocados, citrus and kiwis. Generally, non-tropical fruit grows on trees, bushes or vines that shed their leaves seasonally. Approximately 39% of our non-tropical fruit net sales are from the sale of avocados. According to the latest published statistics from the USDA, for the 10-year period from 2004 to 2014, avocado imports to the United States increased by 190%. Per capita consumption of avocados in the United States also increased significantly in the last 10 years. According to the Economic Research Service of the United States Department of Agriculture (“USDA”), per capita consumption of avocados reached approximately 5.9 pounds during the 2013-2014 season, resulting in approximately 1.9 billion pounds of avocados being consumed in the United States. The Packer, an industry publication, reported that avocados were the leading item that U.S. consumers said they were buying now that they did not buy previously. As a result of this higher consumer demand, our avocado sales volumes have increased significantly in the past few years. During 2015, our avocado sales volumes increased by approximately 44% as compared to prior year.

Approximately 26% of our non-tropical fruit net sales are from grapes. Fresh grapes are a favorite quick, easy and healthy snack among consumers young and old. In addition to their taste, a growing body of research on fresh grapes suggests that grapes may offer significant health benefits as well. Fresh grapes are a well-known fruit worldwide, fitting into almost any lifestyle. For 2014, The Packer, an industry publication, reported that fresh grapes remained a top performer for food retailers, generating approximately 5.5% of retailers' total produce sales. The same publication reports that 68% of U.S. customers purchased grapes within the past 12 months. According to the USDA's Economic Research Service, the per capita consumption of fresh grapes in 2014 was 7.7 pounds. Fresh grapes are also processed for the production of wine, raisins, juices and canned products. The higher production cost and higher product value of fresh grapes result from more intensive production practices than are required for grapes grown for processing. While California supplies the majority of total grape volume, imports have made fresh grapes available year-round in the United States, with shipments mostly from South America. Most U.S. production is marketed from May to October. Chilean grapes dominate the market from December to April.

We sell a variety of non-tropical fruit, including all of the types referred to above. In 2015, non-tropical fruit sales in North America, Europe, the Middle East, Asia and South America accounted for approximately 57%, 2%, 27%, 9% and 5%, respectively, of our total net sales of non-tropical fruit. We obtain our supply of non-tropical fruit from company-owned farms in Chile and from independent growers principally in Chile, the United States and Mexico. In Chile, we purchase non-tropical fruit from independent growers and also produce a variety of non-tropical fruit on approximately 5,400 acres of company-owned or leased land. Our avocados are sourced principally from Mexico. In Mexico, we have our own sourcing operations, ensuring a consistent supply of high-quality avocados during the growing season. Purchase contracts for non-tropical fruit are typically made on an annual basis.

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Melons

According to the latest available FAO data, for the 10-year period from 2003 to 2013, the volume of imports of cantaloupes and other melons increased (decreased) in Europe, North America, Asia and the Middle East by 17%, (2%), 84% and 6%, respectively. Based on USDA Economic Research Service, during 2014, total per capita consumption of melons in the United States was approximately 23 pounds, of which seven pounds were cantaloupes. The Packer reported that cantaloupes were the 12th most popular fruit in the United States and 44% of customers purchased cantaloupes within the past 12 months. Melons are one of the highest volume fresh produce items, and this category includes many varieties, such as cantaloupe, honeydew, specialty melons and watermelon. During the summer and fall growing seasons in the United States, Canada and Europe, demand is met in large part by local suppliers of unbranded or regionally branded melons. By contrast, in North America and Europe, imports significantly increase, and melons generally command premium pricing from November to May. Melons are grown in temperate and tropical locations and have a relatively short growing cycle.

We sell a variety of melons including cantaloupe, honeydew, watermelon and specialty melons. Cantaloupes represented approximately 76% of our melon sales volume in 2015. We are a significant producer and distributor of melons from November to May in North America by sourcing melons from our company-controlled farms and independent growers in Central America, where production generally occurs during this period. Melons sold in North America and Europe from November to May generally command a higher price due to fewer operators and the lack of availability of alternative fruit. Melon sales in North America accounted for 98% of our net sales of melons in 2015. Based on volume, we produced 90% of the melons we sold in 2015 on company-controlled farms and purchased the remainder from independent growers.

We are able to provide our customers in North America with a year-round supply of melons from diverse sources. For example, we supply the North America market during its summer season with melons from Arizona, California and the East Coast of the United States. In Arizona, we have our own melon growing operation on approximately 2,500 acres of leased land.

We have devoted significant research and development efforts towards maintaining our expertise in melons, especially cantaloupes. Melon crop yields are highly sensitive to weather conditions and are adversely affected by high levels of rain during the growing period of the fruit. We have developed specialized melon growing technology that we believe has reduced our exposure to the risk of unfavorable weather conditions and significantly increased our yields.

Tomatoes

The United States is the second largest producer of tomatoes in the world, behind China. Mexico and Canada are also important suppliers of fresh tomatoes within North America. For 2015, The Packer, an industry publication, reported that tomatoes were the most purchased vegetable during the past 12 months, and that tomatoes remained a top performer for food retailers, generating approximately 5.6% of a retailers' total produce sales.

We source our tomatoes mainly from the United States, Mexico, Canada and Guatemala. The tomato category is highly fragmented with many growers, re-packers and wholesalers in various geographic regions of the United States. As a high volume item, tomatoes are important for our network of distribution and re-packing facilities. This product category allows us to add value through leveraging our purchase volumes to reduce costs and perform the sorting, packaging and custom labeling locally, in addition to delivering on a just-in-time basis to retail chains and foodservice customers. With our fresh-cut fruit and vegetable facilities, we add additional value by incorporating tomatoes into our consumer-packaged products. We have a greenhouse tomato operation in Guatemala where we source volume for the North America market. We also have tomato growing operations in Florida and Virginia on approximately 9,800 acres of owned land. In addition to tomatoes, this land is also used to grow other seasonal fresh

produce.

During the fourth quarter of 2015, we impaired 100% of the goodwill associated with the 2003 acquisition of the tomato and vegetable business in North America. This impairment was principally due to the failure of this business to meet our expectations due to underperformance. We are focused on improving this business and increasing our operational efficiencies in order to lower our costs, improve quality and increase our profitability.

Vegetables

We distribute and market a variety of vegetables including potatoes, onions, bell peppers and cucumbers. While we sell bulk product, we also use our size and distribution network to find opportunities that add value such as sorting and packaging. We source our vegetables from independent growers in North and Central America and from our own greenhouse operation in Costa Rica. We plan to use the our agricultural production land in Florida and Virginia to grow vegetables for the North America market.

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Other Fruit, Products and Services

We produce, distribute and market a variety of other fruit, including strawberries, plantains and mangos, as well as various other varieties of fruit. We source these other fruit items from company controlled farms and independent growers in Costa Rica, Colombia, Guatemala and the United States.

Included in Other Fruit, Products and Services is also our third-party ocean freight business and our third-party plastics and box manufacturing business. Our third-party ocean freight business allows us to generate incremental revenue on vessels' return voyages to our product sourcing locations and when space is available on outbound voyages to our major markets, which reduces our overall shipping costs. Our plastics and box manufacturing business produces bins, trays, bags and boxes. The box manufacturing business is intended mainly to satisfy internal packaging requirements. In the case of the plastic manufacturing business, we principally sell these products to third parties and also use a portion for our own internal packaging requirements.

Prepared Food

We have a royalty-free perpetual license to use the DEL MONTE® Trademark in connection with the production, manufacture, sale and distribution of prepared foods and beverages in over 100 countries throughout Western, Eastern and Central Europe, Africa, the Middle East and countries formerly part of the Soviet Union. In Europe, Del Monte is the premier brand with an approximate 90 year history associated with fruit-based or fruit-derived products and is the leading brand for canned fruit and pineapple in many Western European markets. The DEL MONTE® brand has had a presence in the United Kingdom, the largest market, since 1926 and is perceived to be a quality brand with high consumer awareness. The DEL MONTE® brand has a reputation with both consumers and retailers for value, quality and reliability.

We produce, distribute and market prepared pineapple, peaches, fruit cocktail, pears, tomatoes, fruit juices and other fruit and vegetables. Our prepared pineapple products are sourced from our own facility in Kenya. Our deciduous prepared food products, which include peaches, fruit cocktail, pears and apricots are principally sourced from our own facility in Greece and from independent producers. Our tomato products are sourced from our own facility in Greece and from independent producers in Europe and the Middle East. We also distribute and market beverages, including ambient juices and juice drinks as well as various snacks. Our prepared food products are sold primarily under the DEL MONTE® label and under the buyers' own label for major retailers. We also produce and market industrial products that are composed of fruit that has been processed in our production facilities in the form of purees, pulps and concentrates for further processing (juice, yogurt, cake manufacture and pizza) and for sale to the foodservice industry worldwide. We expect to continue investing in new product development to increase revenue, maintain our premium price position and market leadership in our product categories. We plan to expand our offerings in the snack category by offering multiple varieties and sizes of fruit and vegetables in plastic pots and pouches with new and improved recipes and various juices, targeting the convenience store and foodservice trade in addition to the traditional retail stores in selected European and Middle East markets. We are focusing on improving the European prepared food business and concentrating on higher growth markets in the Middle East.

Our prepared food segment also includes our Jordanian food business. This business includes a state-of-the-art vertically integrated poultry business, including poultry farms, hatcheries, a feed mill, a slaughterhouse and a meat processing plant in Jordan. Our Jordanian poultry business is the leading provider of poultry products to retail stores and foodservice operators in that country. The meat processing operation provides meat products for the Jordanian market and to other Middle East and North African markets.

Logistics Operations

We market and distribute our products to retail stores, foodservice operators, wholesalers and distributors in over 100 countries around the world. As a result, we conduct complex logistics operations on a global basis, transporting our products from the countries in which they are grown to the many markets in which they are sold worldwide. Maintaining fruit at the appropriate temperature is an important factor in preventing premature ripening and optimizing product quality and freshness. Consistent with our reputation for high-quality fresh produce, we must preserve our fresh fruit in a continuous temperature-controlled environment, beginning with the harvesting of the fruit in the field through its distribution to our end markets.

We have a fully integrated logistics network, which includes land and sea transportation through a broad range of refrigerated environments in vessels, port facilities, containers, trucks and warehouses. Our objective is to maximize utilization of our logistics network to lower our average per-box logistics cost, while remaining sufficiently flexible to redeploy capacity or shipments to meet fluctuations in demand in our key markets. We believe that our control of the logistics process is a competitive advantage because we are able to continuously monitor and maintain the quality of our produce and ensure timely and regular

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distribution to customers on a year-round basis. Because logistics costs are also our largest expense other than our cost of products, we devote substantial resources to managing the scheduling and availability of various means of reliable transportation.

We transport our fresh produce to markets worldwide using our fleet of 13 owned and six chartered refrigerated vessels. In addition, we also spot charter refrigerated vessels during the year based on seasonal requirements. The majority of our chartered vessels are chartered for terms of two to 10 years. We believe that our fleet of owned vessels, combined with longer-term charters, is effective in reducing our ocean freight costs and mitigates our exposure to the volatility of the charter market. We also operate a fleet of approximately 4,000 refrigerated containers, 14% are owned and the remaining 86% are under operating leases. Our logistics system is supported by various information systems. As a vertically integrated food company, managing the entire distribution chain from the field to the customer requires the technology and infrastructure to meet our customers' complex delivery needs.

Sales and Marketing

DEL MONTE® is a 120-year old brand that is recognized by consumers worldwide for quality, freshness and reliability. We employ a variety of marketing tools, including but not limited to advertising, public relations and promotions, to reinforce our brand equity with consumers and the trade. Depending on the product and market, we also provide technical, logistical and merchandising support aimed at safeguarding the superior quality of our products to the ultimate consumer. Our sales and marketing activities are conducted by our sales force located at our sales offices worldwide and at each of our distribution centers. Our commercial efforts are supported by marketing professionals located in key markets and regional offices. A key element of our sales and marketing strategy is to use our distribution centers and fresh-cut facilities as a means of providing value-added services to our customers.

We actively support our customers through technical training in the handling of fresh produce, in-store merchandising support, joint promotional activities, market research and inventory and other logistical support. Since most of our customers carry only one branded product for each fresh produce items, our marketing and promotional efforts for fresh produce emphasize trade advertising and in-store promotions.

We have an exclusive worldwide license to the Controlled Ripening Technology ("CRT"), one of the most recent innovations in banana packaging. CRT packaging was created for individual single-serve packages, a 10-pound institutional pack and 40-pound bulk as well as bagged banana boxes. This packaging utilizes state-of-the-art technology to help improve the ripening and handling process while helping retailers increase banana sales, reduce product losses and maximize profits by extending the product's yellow shelf life.

The level of marketing investment necessary to support the prepared food business is significantly higher than that required for the fresh produce and fresh-cut fruit and vegetable business. We have utilized a variety of promotional tools to build the DEL MONTE® brand and engage consumers in key markets in Europe, Africa and the Middle East. In certain European markets, we utilize distributors to perform product distribution, sales and marketing activities for the prepared food business. Under these distribution agreements, the sales, warehousing, logistics, marketing and promotion functions are all performed by the distributor. This strategy of utilizing independent distributors enables us to reduce distribution and sales and marketing expenses. In addition, we plan to expand our prepared food business by entering new markets in Eastern Europe, Africa and the Middle East and by expanding our offerings in the snack category, targeting the convenience store and foodservice trade in selected European and Middle East markets.

During 2015, one customer, Wal-Mart, Inc. (including its affiliates), accounted for approximately 11% of our total net sales. These sales are reported in our banana, other fresh produce and prepared food segments. No other customer accounted for 10% or more of our net sales. In 2015, the top 10 customers accounted for approximately 30% of our net sales.

Note 22, “Business Segment Data” included in Item 8. Financial Statements and Supplementary Data contains information regarding net sales to external customers attributable to each of our reportable segments and geographic regions, gross profit by each of our reportable segments, total assets attributable to each of our geographic regions, and information concerning the dependence of our reportable segments on foreign operations, for each of the years 2015, 2014 and 2013.

North America

In 2015, 55% of our net sales were in North America. In North America we have established a highly integrated sales and marketing network that builds on our ability to control transportation and distribution throughout our extensive logistics network. We operate a total of 23 distribution centers and fresh-cut facilities. Our distribution centers have ripening capabilities and/or other value-added services. We also operate four port facilities, which include cold storage facilities.

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Our logistics network provides us with a number of sales and marketing advantages. For example, because we are able to maintain the quality of our fresh produce in a continuous temperature-controlled environment, we are under less pressure to fully sell a shipment prior to its arrival at port. We are thus better able to manage the timing of our sales to optimize our margins. Our ability to off-load shipments for cold storage and distribution throughout our network also improves ship utilization by minimizing in-port docking time. Our logistics network also allows us to manage our inventory among distribution centers to effectively respond to changes in customer demand.

We have sales professionals in locations throughout the United States and Canada. We sell to leading grocery stores and other retail chains, wholesalers, mass merchandisers, supercenters, foodservice operators, club stores, convenience stores and distributors in North America. These large customers typically take delivery of our products at the port facilities, which we refer to as FOB delivery. We also service these customers, as well as an increasing number of smaller regional chains and independent grocers, through our distribution centers.

Europe

In 2015, 18% of our net sales were in Europe. We distribute our fresh produce and prepared food products throughout Europe. Our fresh produce products are distributed to leading retail chains, smaller regional customers as well as to wholesalers and distributors through direct sales and distribution centers. In the United Kingdom, we have a sales and marketing office in Staines, England and operate a fresh-cut facility in Wisbech, England. In Germany, we have a sales and marketing office in Hamburg and operate a distribution center in the Frankfurt area. In France, we recently opened a distribution center with banana ripening capabilities in the Paris area to service an expanding customer base. In the Netherlands, Spain, Portugal, Italy and Poland, we have sales and marketing entities that perform direct sales of our fresh produce products.

Our prepared food products are distributed through independent distributors throughout most of Europe. In the United Kingdom, our prepared food products are distributed using a combination of both independent distributors and our own marketing entity.

Middle East and North Africa

In 2015, 14% of our net sales were in the Middle East and North Africa. We distribute our products through independent distributors and company-operated distribution facilities. In recent years, we have increased our sales in the Middle East market through distributors and established our own direct sales initiatives. Our distribution/manufacturing center in Dubai, United Arab Emirates (“UAE”) is a state-of-the-art facility with just-in-time delivery capabilities that includes banana ripening and cold storage facilities, fresh-cut fruit and vegetable operations, an ultra-fresh juice manufacturing operation and prepared food manufacturing. We distribute these products in the UAE and export them to other Middle East countries. We also operate a distribution center in Abu-Dhabi, UAE that includes banana ripening and cold storage facilities and we operate a lettuce farm on leased land in Ras Al Khaimah, UAE. In Saudi Arabia, through our 60%-owned joint venture, we own two distribution centers with banana ripening, cold storage facilities and fresh-cut fruit and vegetable operations and prepared food manufacturing capabilities for juices, potatoes and sandwiches. One of the distribution centers is located in Riyadh, the capital city of Saudi Arabia, and the other distribution center is located in Jeddah, the second largest city in the country. In Saudi Arabia, we also operate a vegetable farm on leased land that supplies our fresh-cut operations.

These strategically located distribution centers distribute our fresh produce and prepared food products to this growing market. In addition, we market and distribute prepared food products in the UAE, Jordan, Saudi Arabia and various other Middle East and North African markets. In Jordan, we own a state-of-the-art vertically integrated poultry business including poultry farms, hatcheries, feed mill, slaughterhouse and a meat processing plant. We are the leading provider of poultry products to retail stores and foodservice operators in that country. In Jordan, we also own a

meat processing operation that provides meat products for the local market and for export to other Middle East and North African markets. In Qatar, we have sales and marketing office. In Turkey, we have two sales offices, in Mersin and in Istanbul, and we operate a lettuce farm on leased land to supply our fresh-cut products operation in the region. We also have sales and marketing offices in Russia and a leased cold storage facility in the Ukraine. We believe that the Middle East, North Africa and countries formerly part of the Soviet Union represent an area for increased sales and development of our fresh and prepared food products. Utilizing our extensive knowledge of this region, we plan to capitalize on this opportunity with increased focus and investments in these markets.

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Asia

In 2015, 11% of our net sales were in Asia. We distribute our products in Asia through direct marketing and large distributors. Our principal markets in this region are Japan, South Korea, mainland China and Hong Kong. In Japan, we distribute 100% of the products we sold in 2015 through our own direct sales and marketing organization. In Japan, we operate two fresh-cut facilities. Our products are distributed from four distribution centers located at strategic ports in Japan with cold storage and banana ripening operations.

We also engage in direct sales and marketing activities in South Korea and Hong Kong. In other Asian markets, including mainland China, we sell to local distributors. We have one distribution center and banana ripening facility in Hong Kong. In South Korea, we have two distribution centers that utilize state-of-the art ripening technology which increase our ability to offer value-added services to our customers. During 2016, we plan to open a new owned distribution center that will include our first fresh-cut fruit facility in South Korea.

South America

In South America, we have direct sales and marketing activities in Chile and also utilize local distributors in this region. Our sales in these markets focus mainly on non-tropical fruit including grapes, apples, pears, peaches, plums, cherries, kiwi and nectarines. In Brazil, we utilize local distributors for our banana operations in that country.

Competition

We compete based on a variety of factors, including the appearance, taste, size, shelf life and overall quality of our fresh produce, price and distribution terms, the timeliness of our deliveries to customers and the availability of our produce items. The fresh produce business is highly competitive, and the effect of competition is intensified because our products are perishable. Competition in the sale of bananas, pineapples, melons and the other fresh fruit and vegetables that we sell comes from competing producers and distributors. Our sales are also affected by the availability of seasonal and alternative produce. While historically our main competitors have been multinational banana and pineapple producers, our significantly increased product offering in recent years has resulted in additional competition from a variety of companies. These companies include local and regional producers and distributors in each of our fresh produce and fresh-cut product categories.

The extent of competition varies by product. In the pineapple and non-tropical fruit markets, we believe that the high degree of capital investment and cultivation expertise required, as well as the longer length of the growing cycle, makes it relatively difficult to enter the market. Increased competition in the production and sale of Del Monte Gold[®] Extra Sweet pineapples could adversely affect our results. We expect these competitive pressures to continue.

In the banana market, we continue to face competition from a limited number of large multinational companies. At times, particularly when demand is greater than supply, we also face competition from a large number of relatively small banana producers. Unlike the pineapple and non-tropical fruit markets, there are few barriers to entry into the banana market. Supplies of bananas can be increased relatively quickly due to bananas having a relatively short growing cycle and the limited capital investment required for banana growing. As a result of changes in supply and demand, as well as seasonal factors, banana prices fluctuate significantly.

In the melon market, we compete with producers and distributors of both branded and unbranded melons. From June to October, the peak North American and European melon-growing season, many growers enter the market with less expensive unbranded or regionally branded melons due to the relative ease of growing melons during this period, the short growth cycle and reduced transportation costs resulting from the proximity of the melon farms to the markets. These factors permit many smaller domestic growers to enter the market. During the offshore growing season from

November to May, we compete with growers principally in Central America.

The fresh-cut produce market is highly fragmented, and we compete with a wide variety of local and regional distributors of branded and unbranded fresh-cut produce and, in the case of certain fresh-cut vegetables, a small number of large, branded producers and distributors. However, we believe that our principal competitive challenge is to capitalize on the growing trend of retail chains and independent grocers to outsource their own on-premises fresh-cut operations. We believe that our sales strategy, which emphasizes not only our existing sources of fresh produce, but also a full range of value-added services, strict compliance with food safety standards and our national distribution capability, positions us to increase our share of this market.

The processed fruit and beverage markets are mature markets characterized by high levels of competition and consumer awareness. Consumer choices are driven by price and/or quality. Large retailers with their “buyers own label” (“BOL”) products

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appeal to price-conscious consumers, while brand names are the key differentiator for quality-focused consumers. In the processed food and beverage markets in Europe, Africa and the Middle East, we compete with various local producers, large retailers with their BOL products, as well as with large international branded companies. It is in the branded section that our processed foods products, specifically, canned fruit and pineapple in many European countries, hold a leading position in these markets. The mature state of the market in Western Europe, together with the strength and sophistication of the large retailers there, account in part for the increasing presence of BOL products in many food and beverage categories. In the past few years, we have faced increased competitive pressure, particularly in the U.K. market, for branded processed food and beverage products. At the same time, our marketing and distribution costs in these European markets have increased. In order to reduce our costs and increase our competitiveness in the processed food business, we use distributors in certain key European markets to perform product distribution and sales and marketing activities. Under these arrangements, the sales, warehousing, logistics, marketing and promotion functions are all performed by the distributor. In the United Kingdom, we have also outsourced our beverage production. This strategy takes advantage of lower cost and established marketing and distribution networks and enables us to reduce costs and increase our competitiveness in these mature markets.

Quality Assurance

To ensure the consistent high quality of our products, we have a quality assurance group that maintains detailed quality specifications for all our products so that they meet or exceed minimum regulatory requirements. Our specifications require extensive sampling of our fresh produce at each stage of the production and distribution process to ensure high quality and proper sizing, as well as to identify the primary sources of any defects. Our fresh produce is evaluated based on both external appearance and internal quality, using size, color, porosity, translucence and sweetness as criteria. Only fresh produce meeting our stringent quality specifications is sold under the DEL MONTE® brand.

We are able to maintain the high quality of our products by growing a substantial portion of our own produce and working closely with our independent growers. We insist that all produce supplied by our independent growers meet the same stringent quality requirements as the produce grown on our farms. Accordingly, we monitor our independent growers to ensure that their produce will meet our agricultural and quality control standards, offer technical assistance on certain aspects of production and packing and, in some cases, manage the farms. The quality assurance process begins on the farms and continues as harvested products enter our packing facilities. Where appropriate, we cool the fresh produce at our packing facilities to maximize quality and optimize shelf life. As an indication of our worldwide commitment to quality, food safety, and sustainability, many of our operations are third party certified in globally recognized standards developed for the safe and sustainable production and distribution of quality foods. These standards include the International Organization for Standardization's ISO 22000 and the Global Food Safety (GFS) Initiative benchmarked standards of Primus GFS, GlobalG.A.P, and Safe Quality Food Level 2 for food quality and food safety. They also include SCS Global Services' Sustainably Grown Certified and the Sustainable Agriculture Network's Rain Forest Alliance for sustainable agriculture and food production. In 2015, our Costa Rica Banana operation was certified as Carbon Neutral by SCS Global Services. All of our operations that produce or handle high risk foods (tomatoes, melons or leafy greens) achieved certification to the Hazard Analysis & Critical Control Points ("HACCP") based safe quality food standard. HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product. Taken together, these certifications reflect our commitment to quality and the strictest standards of food safety.

Government Regulation

Agriculture and the sale and distribution of fresh produce are subject to extensive regulation by government authorities in the countries where the produce is grown and the countries where it is marketed. We have internal

policies and procedures to comply with the most stringent regulations applicable to our products, as well as a technical staff to monitor pesticide usage and compliance with applicable laws and regulations. We believe we are in material compliance with these laws and regulations.

We are also subject to various government regulations in countries where we market our products. The countries in which we market a material amount of our products are the United States, Canada, the countries of the European Union (“EU”), Japan, China, South Korea, Jordan, the UAE and Saudi Arabia. These government regulations include:

•sanitary regulations, particularly in the United States and the EU;

•regulations governing pesticide use and residue levels, particularly in the United States, United Kingdom, Germany and Japan; and

•regulations governing traceability, packaging and labeling, particularly in the United States and the EU.

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Any failure to comply with applicable regulations could result in an order barring the sale of part or all of a particular shipment of our products or, in an extreme case, the sale of any of our products for a specified period. In addition, we believe there has been an increasing emphasis on the part of consumers, as well as retailers, wholesalers, distributors and foodservice operators, on food safety issues, which could result in our business and operations being subject to increasingly stringent food safety regulations or guidelines.

European Union Banana Import Regulations

In December 2007, most of the African, Caribbean and Pacific countries (ACP), including Cameroon, signed a bilateral agreement with the EU that allows ACP bananas duty free access to the EU market without quantitative limitation commencing January, 1, 2008. Our Cameroon sourced bananas fall under this agreement.

In December 2009, the EU entered into an agreement with certain Latin America banana exporting countries to settle a long running dispute over banana import tariffs. This agreement was ratified in May 2010. Under this agreement, the EU will gradually reduce import tariffs on bananas from Latin America on an annual basis from the current level of €132 per ton in 2015 to €114 per ton by 2019, except for countries under Free Trade Agreements (FTA's). Countries under FTA's that signed bilateral agreements with the EU in 2012 are benefiting from accelerated but gradual reduction of import duties. The FTA's are in effect for Central American countries, Colombia, and Peru. The duty for FTA countries was €110 per ton in 2015, and the duty is €103 per ton for 2016 and will be reduced to €75 per ton by January 1, 2020. Our Colombia and Central America sourced bananas benefit from this FTA agreement.

Environmental Proceedings

The management, use and disposal of some chemicals and pesticides are inherent aspects of our production operations. These activities and other aspects of production are subject to various environmental laws and regulations, depending upon the country of operation. In addition, in some countries of operation, environmental laws can require the investigation and, if necessary, remediation of contamination related to past or current operations. We are not a party to any dispute or legal proceeding relating to environmental matters where we believe that the risk associated with the dispute or legal proceeding would be material, except as described in Item 3. Legal Proceedings and Note 17, "Litigation" to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data in connection with the Kunia Well Site.

On May 10, 1993, the U.S. Environmental Protection Agency (the "EPA") identified a certain site at our plantation in Hawaii for potential listing on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended. See Item 3. Legal Proceedings and Note 17, "Litigation" to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Research and Development, Patents and Licenses, Etc.

Our research and development programs have led to improvements in agricultural and growing practices and product packaging technology. These programs are directed mainly at reducing the cost and risk of pesticides, using natural biological agents to control pests and diseases, testing new varieties of our principal fruit varieties for improved crop yield and resistance to wind damage and improving post-harvest handling. We have also been seeking to increase the productivity of low-grade soils for improved banana growth and experimenting with various other types of fresh produce. Our research and development efforts are conducted by our staff of professionals and include studies conducted in laboratories, as well as on-site field analysis and experiments. Our research and development professionals are located at our production facilities and in the United States, and we provide our growers with access to improved technologies and practices. We operate research and development facilities in the